2018 ANNUAL REPORT

Link to an accessible report

ISRAEL DISCOUNT BANK

Board of Directors and Management Report

Internal Control over Financial Reporting

Financial Statements

Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof

Appendices to the Annual Report

Board Of Directors

SHAUL KOBRINSKY
Chairman of the Board

IRIS AVNER

AHARON ABRAMOVICH
(External Director)

REUVEN ADLER

PROF. ASHER ELHAYANY

YODFAT HAREL-BUCHRIS

PROF. SHALOM HOCHMAN
(External Director)

PROF. BEN-ZION ZILBERFARB

MIRIAM (MIRI) KATZ

BARUCH LEDERMAN
(External Director)

YEHUDA LEVI
(External Director)

DR. YAACOV LIFSHITZ

YALI SHEFFI

Management

LILACH ASHER-TOPILSKY
President & Chief Executive Officer

YAIR AVIDAN
Senior Executive Vice President
Head of Subsidiaries Division

ORIT ALSTER
Executive Vice President
Head of Corporate Banking Division

ZIV BIRON
Executive Vice President
Head of Planning, Strategy and Finance Division

JOSEPH BERESSI
Senior Executive Vice President
Chief Accountant and Head of Accounting Division

YUVAL GAVISH
Senior Executive Vice President
Head of Banking Division

YAFIT GHERIANI
Executive Vice President
Head of Human Resource and Properties Division

ESTHER DEUTSCH
Senior Executive Vice President
Chief Legal Adviser and Head of Legal Advisory and Regulation Division

YAAKOV (YAKKI) ZANO
Executive Vice President
Head of Technologies and Operations Division

AVRAHAM (AVI) LEVI
Senior Executive Vice President
Chief Risk Officer and Head of Risk Management Division

ASSAF PASTERNAK
Executive Vice President
Head of Financial Markets Division

ARIE (ARIK) FRISHMAN
Executive Vice President
Head of the Digital and Data Division

NIR ABEL
Executive Vice President
Internal Auditor

MICHAL SOKOLOV-DANOCH
Corporate Secretary

BOARD OF DIRECTORS AND MANAGEMENT REPORT

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STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

The Discount Group concludes the year 2018 with record results reflecting the continuing drive of change and achievement, with a significant improvement in the performance of the Bank and the Group. The financial statements present the results of the focused actions performed since the introduction of the Bank's strategic plan in August 2014.

In the fourth year of the implementation of the strategic plan, the growth trend is prominent all across the Group. The Discount Group presents in 2018 improvement in all parameters (compared with the end of 2014): More than double the rate of return on equity, the net profit increased almost threefold and the efficiency ratio improved by twenty percentage points.

This year we focused on improving customer experience, including the integration of innovative technological system, aiming at providing our customers with an optimal service experience in a variety of channels. Furthermore, we have continued in the development of a line of tools and new digital services: introduction of a "Business+" website, a new and advanced Internet website adapted to the needs of our business customers as well as a digital application. In addition, we have promoted cooperation with fintech companies and expanded digital payment services through PayBox.

A survey performed by the Bank of Israel among customers of banks shows that the Discount application had been rated in first place as regards to customers' satisfaction!

The integration of these significant measures, growth alongside operational efficiency, improvement of the customer experience and assimilation of an organizational culture that supports change are intended for the further implementation of the strategic plan in the coming years, which is expected to lead to an improvement in the personal and digital service coverage provided to our customers. We believe that these improvements will enable us to provide a personal touch, as well as a high quality and more efficient service over a variety of channels, while maintaining the family character of the Bank.

The group management approach, which we adopt, sets a special focus on the optimal utilization of the synergy with the subsidiary companies. MDB has signed a merger agreement with Municipal Bank; ICC establishes its position in the off-banking market; IDB New York makes progress along the lines of the strategic plan introduced last year and is showing improvement in the business parameters.

Recently, a new wage agreement was signed for a period of three years. This agreement continues to reduce the wage differences at the Bank. The agreement marks an additional stage in changing organizational culture at Discount Bank, supports the growth drive and continues the linkage between the success of the Bank and the welfare of its employees.

Concurrently with the continuing endeavor, our sights are set on the future – and not just on the short-term. The technological revolution is rapidly changing the banking world. However, there is no consensus regarding the future banking model and banks around the world, including in Israel, are taking various approaches to implementing innovation and aligning their services to the customer's preferences and his needs. Concurrently with the measures being taken to align Internet and mobile service channels with the latest technology, which were completed in 2018, the Group is making preparations for the future of banking, including creating a unique customer experience, leveraging advanced data-usage capabilities and launching innovative banking models.

We work resolutely to attain the ambitious targets of change that we have set ourselves and to cope with the challenges still awaiting us. At the same time, are committed to maintain that same unique Discount Spirit, which enables, in cooperation with all factors, the continued growth of the Group also in the future.

Last December, I was appointed to the office of Chairman of the Board of Discount Bank, following four years in office as Director at the Bank. Dr. Yossi Bachar, my predecessor in office, who served for nine years as Chairman of the Board, acted shoulder to shoulder with the President & CEO in leading the fundamental and comprehensive change that took place in the Bank, and for that we send him our thanks and appreciation.

I am convinced that the Bank's Management, with the support and backing of the Board of Directors and in cooperation with our loyal and committed employees, will continue working to achieve our goals and to successfully face the challenges posed by the business, economic and regulatory environment.

March 10, 2019

Shaul Kobrinsky
Chairman of the Board of Directors

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

The meeting of the Board of Directors, held on March 10, 2019, resolved to approve and publish the Bank's 2018 Annual Report.

The Discount Group – Condensed Description and Principal Areas of Operation

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)"). During the eighty-four years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

Domestic Operations

The Discount Group offers its customers comprehensive banking services in all fields of financial activity, by means of a chain of 182 branches in Israel (106 branches of the Bank and 76 branches of Mercantile Discount Bank Ltd.), online banking services and digital banking.

The activities in Israel cover additional fields, including:

- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use and clears transactions made by "IsraCard" credit cards;
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd. ("Tafnit"), which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Discount Capital Ltd." is engaged in investments in companies, in private equity funds, in venture capital funds, in the investment banking field, as well as in initiating and assisting public offerings and private placements and providing underwriting and distribution services by means of a subsidiary company.

International Activity

The international activity of the Discount Group is conducted by the subsidiary company in the United States. IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida and California. This bank has representative offices in Latin America and in Israel.

The international activity is characterized as business-commercial and private banking activity.

Market share

BASED ON DATA RELATING TO THE BANKING INDUSTRY AS OF SEPTEMBER 30, 2018, PUBLISHED BY THE BANK OF ISRAEL, THE DISCOUNT BANK GROUP'S SHARE IN THE TOTAL OF THE FIVE LARGEST BANKING GROUPS IN ISRAEL WAS AS FOLLOWS

	September 30, 2018	December 31, 2017
	In %	
Total assets	15.4	14.7
Credit to the public, net	16.1	15.5
Deposits from the public	15.5	14.8
Interest income, net	17.8	17.5
Total non-interest income	18.5	19.0

Condensed Financial Information regarding Financial Position and Operating Results

CONDENSED FINANCIAL INFORMATION AND PRINCIPAL PERFORMANCE INDICES OVER A PERIOD OF TIME - CONSOLIDATED

	Year				
	2018	2017	2016	2015	2014
	In %				
Principal performance indices:					
Return on equity	9.3	8.4	6.6	5.8	4.2
Return on assets	0.66	0.57	0.41	0.34	0.23
Ratio of credit to the public, net to deposits from the public	87.2	84.9	81.7	80.6	78.3
Ratio of common equity tier 1 to risk assets	10.24	10.00	9.83	9.51	9.38
Ratio of total capital to risk assets	13.67	13.92	13.82	14.32	14.82
Leverage ratio(1)	6.9	6.8	6.6	6.5	-
Liquidity coverage ratio(1)	124.8	126.7	146.5	128.0	-
Efficiency ratio	68.2	68.3	72.6	78.7	87.1
Principal credit quality indices:					
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.36	1.40	1.50	1.59	1.68
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.24	1.68	2.37	2.60	2.69
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.26	0.40	0.28	0.12	0.24
Ratio of credit loss expenses to the average balance of credit to the public	0.34	0.39	0.34	0.15	0.14
	In NIS millions				
Principal statements of profit and loss data for the reporting period:					
Net Profit Attributed to the Bank's Shareholders	**1,505**	**1,259**	**905**	**750**	**505**
Interest income, net	5,526	4,975	4,557	4,223	4,213
Credit loss expenses	540	574	469	187	164
Non-financing income	3,494	(2)3,358	(2)3,410	3,053	3,153
Of which: commissions	2,851	(2)2,676	(2)2,556	2,611	2,586
Non-financing expenses	6,148	(2)5,694	(2)5,785	5,725	6,414
Of which: salaries and related expenses	3,385	(3)3,204	(3)3,169	(3)3,393	(3)3,458
Comprehensive income, attributed to the Bank's shareholders	**1,661**	**939**	**613**	**719**	**905**
Total earnings per share attributed to Bank's shareholders (in NIS)					
Earnings per share	1.29	1.09	0.84	0.71	0.48
Diluted earnings per share	1.29	1.09	0.84	0.71	0.48
Principal balance sheet data for the end of the reporting period:					
Total assets	**239,176**	**221,221**	**219,577**	**205,260**	**207,185**
Of which:					
Cash and deposits with banks	21,858	28,026	29,311	28,518	31,694
Securities	37,898	32,703	38,818	38,935	37,353
Credit to the public, net	164,804	148,757	140,760	127,216	120,123
Total liabilities	**221,507**	**205,153**	**204,641**	**191,626**	**194,196**
Of which:					
Deposits from the public	188,916	175,170	172,318	157,875	153,418
Deposits from banks	6,886	4,804	5,342	3,907	5,547
Bonds and Subordinated debt notes	8,476	7,639	8,498	9,570	10,638
Equity capital attributed to the Bank's shareholders	17,151	15,594	14,512	13,288	12,599
Total equity	**17,669**	**16,068**	**14,936**	**13,634**	**12,989**
Additional data:					
Share price	1,156	1,010	801	706	625
Dividend per share (in Agora)	(4)10.13	-	-	-	-
Average number of positions at the Group during the year	8,668	8,641	8,842	9,308	9,785
The number of positions at the Group at the end of the year	8,550	8,578	8,558	9,068	9,369
Ratio of commissions to total assets	1.2	1.2	1.2	1.3	1.3

Footnotes:
(1) The ratio is computed in respect of the three months ended at the end of the reporting period.
(2) Reclassified, see Note 1 C 5 to the financial statements.
(3) Reclassified, see Note 1 C 6 (3) to the financial statements.
(4) Spreads of the first nine months of 2018.

For details regarding the decision of the Bank's Board of Directors dated March 10, 2019, to distribute a dividend in the amount of 4.17 Agorot per share, see below "Dividend distribution" and Note 24 (5) to the financial statements.

DEVELOPMENTS IN THE MARKET PRICE OF THE DISCOUNT SHARES

	Closing price at end of the trading day			Rate of change in 2018 in %
	March 5, 2019	December 31, 2018	December 31, 2017	
Discount share	1,292	1,156	1,010	14.5
The TA 5 Banks index	2,209.23	2,053.45	1,959.39	4.8
The TA 35 index	1,570.23	1,463.87	1,509.78	(3.0)
Discount market value (in NIS billions)	15.04	13.46	11.76	14.5

For details regarding the consolidated statement of profit and loss for the last five years and consolidated balance as of the end of the last five years, see below in Appendices 4 and 5 to the annual report, respectively.

Discount Group Segment of Operations – Condensed Description

The report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks (hereunder: "regulatory operating segments"). The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional Bodies Segment" - activities with institutional bodies, as these are defined in the Reporting Directives (see Note 29 A to the financial statements).

"Financial management segment" – includes: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other.

For additional details, see "Activity of the Group according to regulatory segments of operations - principal quantitative data and main developments" in Chapter B hereunder, Notes 29 and 30 to the financial statements and "Activity of the Group according to Regulatory Segments of Operation - Additional Details" in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

A Summary Description of the Principal Risks

Risk environment. Risk of impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political, geopolitical and cyber threats and from internal factors and events.

Overall impact of credit risk. Risk of impairment as stated, as a result of the deterioration in the ability of borrowers to honor their obligations.

- **Quality of borrowers and collaterals risk.** Risk of impairment as stated, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- **Industry concentration risk.** Risk of impairment as stated, as a result of deterioration in the business activity of a certain economic sector.
- **Borrower/groups of Borrowers concentration risk.** Risk of impairment as stated, as a result of the considerable exposure to a single borrower and/or to several borrowers belonging to one business group, which, in the case of changes in the economic situation, might lead to increased severity in the potential impairment of the credit portfolio, inter alia, because of the risk of contagion.

Overall impact of market risks. Risk of impairment as stated, as a result from changes in the economic parameters of the financial markets, and of their volatility that affect both the economic value and also the regulatory capital ratio.

- **Interest rate risk.** Risk of impairment, as stated, due to parallel and non-parallel movements in the return graph, and the effect of the optional terms inherent in the different financial instruments.
- **Inflation and exchange rate risk.** Risk of impairment as stated, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities.
- **Share price and credit spreads risks relating to the holding of securities.** Risk of impairment as stated, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices.

Liquidity risk. Risk to the stability of the Group resulting from the inability to provide its liquidity requirements and the difficulty in honoring its liabilities, due to unexpected developments, as a result thereof, the Group would be obliged to raise funds and/or realize assets in a manner causing it material losses.

Operating risk. Risk of a loss, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, including business continuity events, human errors, fraud and embezzlements or as a result of the absence of proper control processes.

IT risk. Operational risks affecting IT systems in production, cross-organizational IT processes and new activities: project risks and risks associated with the launch of systems into production. Likewise, a risk of business harm to the value of the Group and to its ability to attain its goals, as a result of lack of technological preparedness, including in business continuity situations.

Data protection and cyber risks. Risks of harm, as a result of events during which an attack is perpetrated on the computer systems and/or on the computer-based infrastructure systems, by, or on behalf of, adversaries (from either outside or inside the corporation).

Legal and regulatory risk. Legal risk is the risk of loss, inter alia, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank, or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature, stemming, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank.

Cross-border risks. Risk of loss, as a result of a statutory or regulatory sanction, or harm to the reputation, as a result of noncompliance with foreign statutory or regulatory provisions, applicable to the cross-border activity of the Group and as result of the Group's responsibility for the cross-border activity of its customers, conducted by means of the services of the Bank.

Compliance, Money Laundering and Financing of Terror risks. Risk of loss, as a result of statutory or regulating sanction, or harm to the reputation, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror.

Reputation risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the cross-border risks, compliance risks and money laundering fields, etc.

Strategic risk. Business risk, either of action, such as misled business decisions or improper implementation of business decisions, or neglect, such as, lack of response to changes in competition which, if it materializes, could lead to impairment in the Group's value and its ability to attain its goals.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Disclosure in accordance with the 3rd Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented below in Chapter C "Risks Review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank's website together with the Bank's 2018 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2018 annual report.

Goals and business strategy

The updated strategic plan

The Bank is engaged in realizing the vision of the Bank in accordance with its multiannual strategic plan that was approved in 2014 and updated in 2016 and in 2018, in accordance with market developments.
The meticulous implementation in recent years of the strategic plan led the Bank to a consistent and continuous track of improved profitability and return on equity, in volumes that support both the very significant growth in the credit portfolio, in the targeted segments in particular, and the dividend distribution that started in the first quarter of 2018, and everything while maintaining and even improving the capital adequacy. Concurrently, the Bank has taken a quantum leap as regards its digital capabilities, which positions it at the front of technology and user experience in the banking industry.
The updated strategic plan is based on a leading goal – leading in the Bank's customer satisfaction by means of customer adapted banking, and comprises three principal layers:
- Continuation of growth and efficiency;
- a transformation in traditional banking;
- development of innovative banking models.

Continuation of growth and efficiency

This layer represents a continuation of the original strategic plan from 2014, which includes the following tiers:

A. Efficiency and stringent management of expenses, including:
- reducing the size of the Discount Group's workforce;
- merging of branches and foreign extensions, as well as making efficiencies in the Bank's head office space;
- making savings in procurement costs and other expenses.

B. Customer focused growth:
- a moderate growth in consumer credit, at the Bank and at the subsidiaries, MDB and ICC;
- considerable growth in housing credit and growth exceeding the market growth rate in credit to small businesses, to middle market banking and to corporate banking;
- nurturing the connection with the Bank's customers by means of upgrading suitable and useful value offers across the spectrum of distribution channels, while implementing technological improvements and enhancing the customer experience;
- transferring operational activities from the branches to the back-office – "the Banking Service Center", as well as assimilation of faster and more simple work processes at the branches.

C. Assimilating a change supporting organizational culture.

Strict management of ongoing expenses has continued, while striking a balance between further cost-cutting of ongoing expenses and increasing expenses that support the strategic plan and the future growth infrastructures. In this framework the adaptation of the branch network and of the tellers to the changing needs of the market continues.

Transformation in traditional banking

In order to prepare for significant changes expected in the banking field, stemming from regulation, technology, customer expectations and the competition image, the Bank, as part of refreshing its strategic plan, defined in 2018 a new retail operation model, which is to be gradually integrated in the coming years. The essence of the model refers to:

A. Upgrade of the digital experience and inducement of self-service transactions by customers;
B. Upgrade of service experience on the human channels – prearranged meetings, integration of quick bank officers and more;
C. Leveraging of the multi-channel management platform integrated in 2018, improving customer experience in all service channels;
D. Producing information-based business perceptions aimed at enabling customers to receive the value proposition that is best and most suited to them;
E. Introduction of innovative customer moves, creating competitive differentiation.

Furthermore, the Bank shall act to continue and advance the strategy in a variety of areas:

A. Integration of the new model of operation for small businesses;
B. Integration of the multi-channel management platform for corporate and middle market banking;
C. The continuing improvement of the computer and human resources infrastructure.

Development of Innovative Banking Models

The Bank is putting to the test a number of solutions and innovative banking models. This, with a view of expanding to new customer populations and to additional platforms and services, as part of the value offer by the Bank.

Strategies for the Subsidiary Companies

Concurrently with the updated strategic plan at the Bank, the Group continues to implement the unique strategies defined for the central subsidiaries – ICC, IDBNY and MDB – with the aim of aligning their modus operandi to the new competitive environment.

Goals of the Strategic Plan

Within the framework of the strategic plan, several financial goals were set, the principal of which are achieving a return on capital of approx. 10% by 2021 and achieving an efficiency ratio approx. 60% by 2021.

Forward-looking information. The main points of the strategic plan presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, return on capital, efficiency ratio, and so forth. These assessments are based on the latest information and estimates available to the Bank at date of publishing the reports. The strategic plan is based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plan are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of the future processes and their impact on profitability.

For the definition of the term "forward looking information", see "Appendix No. 8 – Glossary".

CHAPTER "B" – EXPLICATION AND ANALYSIS OF THE FINANCIAL RESULTS AND BUSINESS POSITION

Material trends, Occurrences, Developments and Changes

Management's handling of Current Material Issues

2018 was the fourth year of operation in which was implemented the strategic plan announced by the Discount Group in August 2014. The Group continued in 2018 the implementation of the multi-annual strategic plan, including its three pillars: continuation of growth and efficiency, transformation of traditional banking and development of innovative banking models and the continued strengthening of the capital, technological and human infrastructure, enabling future growth.
The data for 2018, point at the continuation of the growth momentum and the considerable improvement in the performance of the Bank and of the Group, even exceeding the outline of the multi-annual strategic plan. The credit portfolio continued to grow, inter alia, in view of the growth in the retail segment, focused on the mortgage and large business segments.
The Group's activity during 2018 formed a direct continuation of its activity in 2017, this in accordance with and within the framework of the implementation of the strategic plan of the Group. The Group's capital management is strict. The financial base of the Group continues to be stable. The ratio of equity capital Tier 1 amounts to 10.24% and the liquidity coverage ratio amounts to 124.8%. This is the capital infrastructure that allows the Group to continue growing.
The central challenges and issues in 2018 were:

Issue of Bonds (Series M and Series N)

On December 24, 2018, the Bank, by means of the subsidiary Discount Manpikim Ltd. (hereunder: "Manpikim"), has completed the issue of two new series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 1,493 million. The raising of this debt was effected within the framework of the multi-annual financing strategy, which is intended to expand and diversify the Bank's financing sources mix.

New wage agreements

A new wage agreement at the Bank. On January 9, 2019, the Bank's Board of Directors approved the wage agreement for the years 2019-2021, which had been reached following intensive negotiations conducted in recent months by the Bank's Management, heads of the employee representative committee and representatives of the Federation of Labor.
This agreement joins the previous wage agreement, signed in November 2016 (see the 2016 annual report, p.21), which together comprise a breakthrough in the area of the remuneration method in the banking sector. The wage increment mechanism in the new agreement is also based on a shekel wage increment, and not on a percentage based wage increment. This mechanism further reduces the wage differences and strengthens the future generation of the Bank's employees. The agreement was signed on February 21, 2019. For additional details, see below in "The Human capital".
A new wage agreement at MDB. A new wage agreement for the years 2019-2023 was signed in December 2018, within the framework of which, inter alia, the linkage between the wage terms, work and related benefits applying to MDB had been severed from those prevailing at Bank Leumi. See below "Human capital";

Uncompromising continuation of the strategic plan

With the refreshing of the strategy, the projects map was also updated so that at the end of 2018 the Group is managing 25 strategic projects. The Change Administration established in 2014 continues to take the lead in coordinating the change programs, assisting with their realization, monitoring and controlling progress and reporting to management and to the Board of Directors. The monitoring and control over progress of the strategic projects is performed by means of a unique implementation mechanism, which includes financial and other goals that are linked to each project. In addition, periodic monitoring is undertaken of the projects' progress in several circles – project managers, the administration head, members of management in charge of the projects, and overall management.
The strategic teams at the Bank and at the subsidiary companies have acted and continue to act vigorously, towards meticulous

implementation of the many projects stemming from the strategic plan, including the business focus on growth, mainly as regards credit the field, within the targeted populations, as defined in the strategic plan, in a change in the organizational culture, in improvement in the infrastructure, in improved customer experience and in the promotion of innovative aspects.
The implementation of efficiency measures is also continuing, including the "Lean" processes, basing the activity of the banking service center, reducing the floor space being used by the Bank, including the merger of branches and the continuing vacating and sale of buildings (used by branches and the head office), as well as additional measures leading to direct savings in Bank expenses.
From the Group point of view, the administrative focusing and improvement in the Group's management processes continues, inter alia, through strategic guidance with a cross-group view point, utilization of business and operational synergies, including from the aspect of strategic projects, preparations for computerization, preparations for regulation, etc.

”Discount Spirit”

The Discount Spirit comprises Vision, Values and the Code of Ethics. In the center of it the vision of the Bank is positioned: **We shall endeavor to become the best Bank for its customers, permitting over a period of time, growth and financial solidity by means of adapted, professional and fair banking.** In 2018, the Bank performed a far-reaching measure of assimilating the “Discount spirit” in organizational processes, in strategic projects, in managerial development programs and in intra-organizational communications, under the leadership of the Bank's Management. Included in the aforesaid, the work processes relating to human resource handling have been adapted to the “Discount spirit”. The code of ethics which was formed within the framework of the Discount Spirit and approved at the beginning of 2018 was also integrated. For additional details, see below in "The Human capital".

Fintech and Innovation

The Bank adjusts itself to the changing world and is active in creating innovative banking models, that would provide customers with advanced service modified to their needs. In this framework, the Bank continued the activities for the development and promotion of cooperation projects, signed by the Bank in 2017 with Paybox and iCount fintech companies.
The Bank is continuing to expand the payments operations among customers of all banks in Israel, under the brand name of "Paybox", by means of the cellular application and the Internet website. Furthermore, the Bank is continuing to promote the cooperation with iCount Company, based on the Application Programming Interface (API) platform, among the small business customers.
Also, the Bank is continuing to introduce and add new smart insights to "DIDI" the digital assistant in the cellular application, assisting in the intelligent conduct of the bank account. The service is based upon advanced analytics and artificial intelligence capabilities.
On February 18, 2019, the Bank signed an agreement with nsKnox Technologies Ltd., which has developed security and control solutions with respect to organizational payment systems for large and medium corporations, using cooperative cyber security technology. Within the framework of this agreement, the Bank shall be a part of the collective defense layout of the company.
For additional details, see below in "Technological improvements and innovation".

Additional Issues

- **Municipal Bank (in its former name: Dexia Bank).** For details, see below "Acquisition of Municipal Bank";
- **Change in the organizational structure.** A new Division was established - the Digital and Data Division, in order to create an overall perspective of the digital, the data and the innovation worlds in order to increase the executive focusing on the subject. In addition, the Subsidiaries Division will become the Group Management and Regulation Division and the contents of the subjects under the responsibility of the Division will be altered accordingly;
- **The "Strum Act".** Both Discount Bank and ICC have examined the ramifications of the changes in the financial system following the Increase in Competition and Reduction in Centralization in the Banking Market in Israel Act. For details regarding agreements signed between ICC and MDB and between ICC and Hapoalim Bank on the one hand and between LeumiCard on the other hand, see Note 36 B to the financial statements;
- **The signing of an agreement with LeumiCard.** As a central part of the application of the Strum Act, the Bank signed on March 29, 2018, a joint issuance agreement with LeumiCard, based on the commercial understandings reached by the parties. In accordance with this agreement, the Bank together with LeumiCard issues credit cards as from February 2019 (date of entering into effect of the duty stated in the Act to conduct the issuance operation by means of more than one operating company);

- **The 2018 retirement plan.** The Bank's Management has diligently engaged in the reported period in the preparation of an additional retirement plan. For additional details, see below "The 2018 efficiency plan" under "Efficiency of the banking industry - the regulatory expectations";
- The Bank and companies of the Group continue to devote a great deal of administrative attention in the preparations for dealing with leading and developing risks, including business model risks, manpower and capabilities risks, model risks, privacy protection and conduct risks. This alongside the continuing preparations and upgrading of the infrastructure supporting the digital preparations and preparation aspects of data protection and cyber;
- **Discount Campus.** Preparations for the construction of the Campus continued in the reported period. For additional details, see below under "Fixed assets and installations";
- **Agreement with El Al.** On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 item C.

Principal Economic Developments

Presented below are the main economic developments, that impacted the economic environment in which the Israeli banking sector, including the Bank, operated in 2018.

Growth. The global economy grew in 2018 at a rate similar to that of 2017, though the difference between the blocks became wider. The U.S. economy grew at a faster rate than that recorded in 2017 (2.9% as compared with 2.2%), while economic growth in the Eurozone slowed down (1.8% as against 2.4%). Furthermore, the world trade growth was moderated amid developments in the trade war and by concerns regarding its intensification. The International Monetary Fund estimates that the growth rate of the global product is expected to slow down from 3.7% in 2018 to 3.5% in 2019. The Bank estimates that the Israeli economy will grow in 2019 close to the growth potential (approx. 3%), lower than that of 2018 (3.3%).

Exchange rates. In the course of 2018, the U.S. dollar strengthened against most currencies in the world. The shekel was devalued by 2.8% against the effective currencies basket (of which: a steep devaluation at the rate of 8.1% against the U.S. dollar), in contrast to the trend prevailing in prior years. The nonfinancial forces continue to support the shekel and this despite the negative interest margins against the U.S. dollar.

Inflation. The inflation in Israel in 2018 amounted to 0.8% (0.4% in 2017), after staying over the lower level of the targeted range in the months of June to November (approx. 1.2% on an average). The central items contributing to the positive inflation rate in the past year were fruit and vegetables and housing. It should be noted that the inflationary expectations for a period of one year range between 1% and 1.1%. The Bank estimates that at the end of 2019 the inflation rate would reach 1.3%.

Monetary policy. In 2018, the Fed raised the interest rate in four stages, while in the Eurozone the Central Bank announced the termination of the purchase of bonds. Notwithstanding the above, the global monetary reduction is expected to slow down. In the U.S., the process of the rising interest rate is nearing exhaustion, while in the Eurozone there are growing prospects for deferment in the raising of the interest rate until after September 2019. In Israel, the interest rate was raised to 0.25% after almost four years of fixed interest at the rate of 0.1%. The Bank of Israel stresses that the outline for the future raising of the interest rate would be gradual and measured, in a way that would support a process, at the end of which, the inflation would be stabilized around the center of the targeted range and the economic activity. Based on the macro-image and the present approach by the Bank of Israel, the Bank expects that the Bank of Israel interest rate at the end of 2019 would be 0.25%.

Financial markets. High fluctuations were recorded during the first three quarters of 2018 in the equities markets of the world, which intensified in the last quarter. Steep declines were recorded towards the end of the year on stock exchanges around the world, amid concerns regarding intensification of the trade war and the economic slowdown in China, and on the background of the continued raising of the interest rate in the U.S.. In total for the year, the equities indices in Tel Aviv recorded moderate decline as compared to the rest of the world. Government bonds in Israel were characterized during the year by falling prices, being affected by the global trend and by developments in the domestic market (the rise in inflationary expectations and interest rate). At the end of the year, returns on shekel government bonds for ten years amounted to 2.32%, compared with 1.68% at the end of 2017.

The first quarter of 2019. Since the beginning of 2019, recovery was recorded in the markets, following indications by the FED that it would not hurry to continue and raise the interest rate, and optimism regarding the trade discussions between the U.S. and China. Current data in the U.S. continue to be positive, though a certain weakness is noticed in industry. At the same time, the data for the Eurozone indicate a slowdown with the lowering of the growth forecasts by the International Monetary Fund and the European Commission. In Israel, the current data continue to indicate economic growth at a pace matching the potential (approx. 3%), with the labor market under full employment and wages rising at an accelerated pace, especially in the business sector. Government budget deficit continues to deviate from target, amounting to 3.3% in the twelve months ended in January, on the background of a steep rise in expenses and weakness on the revenues side. The shekel returned to appreciate, and the inflation rate being still around the lower edge of the targeted range (an annual rate of 1.2% in January 2019). The Bank of Israel has indicated that it endeavors to bring the inflation rate to the middle of the targeted range, not being satisfied with a level near the lower edge of the range.

Forward-looking information. The aforesaid includes, inter alia, assessments of the Bank regarding the future development of primary indicators, which are deemed to be forward-looking information. The aforesaid reflects the assessment of the Bank's Management, taking account of information available to it at the time of preparing the annual report, with regard to trends in the Israeli and world economies. The aforesaid might not materialize should changes occur in the trends, in Israel and/or in the world, and as a result of various developments in the macro-economic conditions that are not under the control of the Bank.

For further details, see "Main developments in Israel and around the world in 2018" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

Material leading and developing risks

In accordance with the FSB's recommendations, a leading risk is defined as a development occurring in the bank's business environment that could have an adverse effect on its results in the coming year. A developing risk includes a risk, regarding which the timing of its materialization is uncertain, whose occurrence could have a material impact on the bank.

Following are details regarding the most material leading and developing risks.

Business model risks. Changes have taken place in recent years in the operating environment stemming, inter alia, from the acceleration in technical developments, erosion in income sources and increased competition in the banking and off-banking industry.

The Dynamics and pace of changes lead to a higher business model risk (being part of the strategic risk) and require the Bank and the Group to examine forward looking, advanced and flexible solutions, which would ensure the continued positioning of the Group as a leading banking group also in the future.

Accordingly, the Group directs significant efforts to the fields of digitalization, customer experience, innovation (Fintech) and development of alternative banking models, alongside the constant testing of changes in international and domestic banking that lead to the initiation of new projects and adjustments in the Group's preparations.

Such changes, with an emphasis on innovative and technological projects, naturally lead to an increase in third party risks, especially as regards aspects of supply chain, quality and control protection, exposure to cyber risks and information leakage. The Group acts to continuously improve tools supporting risk management, including the updating of policy documents, establishing standardization, contractual regulation and processes as well as introducing "new product" processes to new operations or products.

Furthermore, with the focus intensification on technology-based banking and expertise, so does the need develops for proper management of the transformation required in the workforce and its suitability, along with developing the ability to continue attract and retain personnel in the fields of technology, cyber, models and analysis. These aspects are managed within the framework of a designated, strategic project that is led jointly by the Planning, Strategy and Finance Division and the Human Resources and Properties Division.

Cyber risks and data protection. The level of risk regarding the realization of cyber threats and data protection is growing in recent years in Israel and around the world. The level of ingenuity, the complexity of the attack and the variety of methods are increasing and so is the involvement of organized crime factors and of government agencies. The threat is intensifying, because due to business competition, and the aspiration to achieve a position in the technological front, the scope of deployment of computer based services exposed to the cybernetic world has grown.

With the understanding of the implications of the realization of these threats on the Group's operations, the availability of its services and its reputation, the Bank's Management and Board of Directors allocate a major part of the resources for the facing of such threats, including their direct involvement.

The magnitude of the threat and its uniqueness led to the risk being defined as a separate category of risk in the current risk management processes, in the ICAAP and for reporting purposes within the framework of the annual report.

A strict approach has been applied in the risk assessment processes, and accordingly the residual risk level has been assessed at a medium-high level, but it derives primarily from systemic characteristics of the risk and the risk environment, and the need to create an inclusive, up-to-date and appropriate working framework at the level of the Bank.

Cyber defense strategy, information technology management and cyber defense and data protection policy documents have been formed, updated and approved, a cyber-defense manager has been appointed and designated professionals have been engaged.

The Group preparations continue, for regulation in accordance with instructions of the Supervisor of Banks (Proper Conduct of Banking Business Directive No. 361), on the basis of a multi-annual work plan, with an emphasis on improvement of tools for the monitoring and control of the risk.

Model risks. The ever-increasing emphasis on digital banking, along with customers' heightened expectations for value maximalization, for insights and for customized, available and immediate products leads to the fact that organizations in general and in the banking system in particular are becoming more and more data-based and model-based, including the assimilation of sophisticated, AI-based models and machine learning. These aspects create developing challenges in the field of model development, as well as in the fields of validation and model risk management. The Group is working in accordance with a multiyear work program, to develop advanced models as well as to constantly improve the tools and methodologies that support the model risk management.

Privacy protection. Privacy protection aspects are garnering ever-more attention and importance in Israel and throughout the world, against the background of greater digital and data use. Numerous changes and revisions are taking place in both local and global law (GDPR) in the field of privacy protection regulation. This field has been identified by the Group as a developing risk and the Group has conducted a comprehensive examination in order to ensure that it meets expectations and complies with regulatory guidelines, while dealing with any gaps identified. The Group is acting to maintain the proper balance between the use of information for Bank purposes and maintaining the privacy protection aspects of its customers. The privacy protection aspects constitute an important component in examining new products and/or technologies and/or services and/or models, while ensuring proper protection of sensitive information.

Conduct risk. The importance of the values of fairness, decency and transparency vis-à-vis the Bank's customer including the prevention of prohibited discrimination between customers constitutes, itself, a developing risk that is managed as an integral part of the management of compliance risk at the Bank. The Bank is constantly acting to assimilate these values in the spectrum of relevant processes and is working to raise employee awareness regarding their importance.

Cross-border risks. In previous reporting periods, cross-border risk was defined as a material developing risk. In view of the preparations and establishment, risk management processes and controls, the risk continues to be managed as a material risk field but not as a developing risk.

For additional details, see below in Chapter "C" of the Board of Directors and Management report – "Risk review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", on the MAGNA site of the Israel Securities Authority, on the MAYA site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Initiatives concerning the Banking Sector and its Operations

Increase in competition and reduction in concentration Act. The Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation Amendments) Act, 2017, was published in the Official Gazette on January 31, 2017. The Act constitutes the adoption of the recommendations of the Strum Committee, appointed in June 2015 by the Minister of Finance and by the Governor of the Bank of Israel, in order to recommend, inter alia, of ways for attracting new participants in the competition for the supply of prevalent financial services, including by way of separation from banks of the ownership of credit card companies.

In the immediate future, the separation from the banks of the ownership of credit card companies would not apply to ICC holders but only to its competitors holders (Isracard and LeumiCard). Only within a range of 4 to 6 years from date of publication of the Act, would the issue of separating the ownership of ICC be re-examined. This and more, if in the past the large banks (Poalim, Leumi and Discount) issued to their customers credit cards of the credit card companies owned by them (Isracard, LeumiCard and ICC), competition between the companies is now expected to develop. Concurrently, the banks are required, as of February 1, 2019, to move a part of the issue of new credit cards to customers to another credit card company, at least one, with which they had no previous business. From the view point of ICC, although there would be a reduction in the issue of credit cards to customers of the owner banks, ICC now has the opportunity to compete in the issue of new credit cards to customers of Poalim and Leumi. In the era of post-entry into effect of the new Act, the different participants in the credit card market, banks on the one part and credit card companies on the other part, find themselves in front of an array of moves and action possibilities of each of them and of each of the other participants.

The aforementioned could have a material effect on the banking system, including the Bank itself and on the credit card market, including on ICC. Nevertheless, at this stage, prior to clarifying the nature, character, scope and timing of all the measures that will be taken, it is not possible to assess the aforesaid effects either in terms of materiality or in terms of quantity.

The additional tax that may apply, if doubt is raised as to the continued holding of the Bank in ICC, computed in relation to the value of the holdings in ICC stated in the books of the Bank as of December 31, 2018, is estimated at NIS 57 million.

For details regarding the said Act and additional legislation initiatives concerning the banking sector, see "Legislation and Supervision" in the Chapter "Corporate governance, audit and additional details regarding the business and manner of management of a banking corporation". For details in respect of agreements between ICC and certain banks on the one hand, and between the Bank and LeumiCard on the other hand, see Note 36 B to the financial statements. For details in the matter of "Changes regarding competition in the credit card market", see "Credit Card Operations" below.

Continuation of the plan for strengthening competition in the banking market. For further details, see "Legislation and Supervision".

Parliamentary Inquiry Committee regarding the Conduct of the Financial System with respect to Credit Arrangements for Large Corporate Borrowers. On July 5, 2017, the Plenum of the Knesset has approved the decision of the Knesset Committee in the matter of the formation of a Parliamentary Inquiry Committee. The Committee is investigating the conduct of banks and institutional bodies in the matter of the granting of credit to large corporate borrowers as from the year 2003 and thereafter, as well as the conduct of the central supervisory and enforcement entities.

Representatives of the Bank appeared before the Committee on November 18, 2018.

Reduction of the cross-commission rate. The Banking Oder (Customer service)(Supervision over cross-clearing service for transactions made by charge cards and for immediate debit transactions), 2018, was published on November 2, 2018, establishing an outline with respect to the reduction of the cross-commission in deferred charge transactions, from the present rate of 0.7% to a rate of 0.5%, this in five stages during the coming years, and an outline with respect to the reduction of the cross-commission regarding immediate charge transactions, from the present rate of 0.3% to a rate of 0.25%. The Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated. For additional details, see Note 36 item A 1 to the financial statements.

For details regarding the exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expired on December 31, 2018), published by the Competition Commissioner (in her former title: Antitrust Commissioner), see the said Note.

Efficiency of the Banking Industry

Regulatory expectations. The position of the Supervisor of Banks is that the banking industry in Israel is characterized by low efficiency, as compared with banks in the developed countries. One of the key targets defined by the Supervisor of Banks is improvement in bank efficiency, namely – a reduction in bank expenses in relation to income. The object of the Supervisor is that the efficiency obtained by banks would also reach the customers, namely, would reduce the cost of bank services, lead to the shifting of resources to innovation and improvement of banking service, and to the increase in dividends to bank shareholders, who are mainly the public at large in Israel.

Efficiency regarding real estate. As an additional step in encouraging efficiency in the banking industry, the Supervisor of Banks published on June 13, 2017, a Directive which widens the definition of efficiency and encourages banks to study also possibilities for the reduction in real estate and maintenance costs of Head Office and Management units, including by a re-examination of their geographical location.

The relief stated in the instruction apply to efficiency plans was approved until June 30, 2018. Furthermore, the Supervisor of Banks extended, within the framework of the document, the period entitling to the relief stated in the letter dated January 12, 2016, also to efficiency plans that were approved until June 30, 2018.

On October 3, 2018, the Supervisor of Banks published a letter extending the validity of the letters that had been published in recent years, dealing with operational efficiency of the banking industry in Israel with respect to manpower and to real estate, by an additional eighteen months, until December 31, 2019, in order to enable the implementation of additional efficiency plans.

2016 Efficiency plan. For details, see the 2017 Annual Report (pp. 21-22). 22 employees of the Bank and MDB opted for early retirement in 2018, within the framework of the plan.

The 2018 efficiency plan. On August 14, 2018, the Bank's Board of Directors approved an efficiency plan, following the formation of an outline and following an approval in principle by the Supervisor of Banks. This, on the background the desire to maintain the efficiency drive at the Group.

Following are the principal points of the early retirement plan and its implications:

1.1 According to the plan, some 230 employees of the Bank would be offered early retirement at beneficial terms, of them – approx. 200, until the end of 2018;

1.2 The beneficial terms offered to employees will include, inter alia, increased severance compensation at a rate of up to 260%;

1.3 The program increased the liability in the Bank's books by an amount of NIS 145 million (before the tax effect; in excess of the cost of severance pay under the law and also in excess of the ex gratia fund[1] existing in the Bank's books immediately prior to approval of the program);

1.4 The impact of the efficiency plan on the ratio of equity capital to risk assets was estimated at 0.05%, which is recognized in installments over a period of five years.

1 A special reserve for individual cases of retirement under preferential terms

In 2018, approx. NIS 88 million, gross (about NIS 58 million net after tax) in respect of the efficiency plans for 2016 and 2018 would be recognized in the statement of profit and loss, and the balance in the amount of NIS 309 million will be amortized over the average maturity period of the liability, or by accelerated amortization in respect of future repayments, this in accordance with the accounting principles applying to the Bank (see Note 23 C 2.3).
Until December 31, 2018, some 134 employees had retired in the framework of the plan. 7 additional employees signed a retirement agreement in 2018 and retired at the beginning of 2019, all of whom within the framework of the plan. For additional details, see Note 23 I and K to the financial statements. For details regarding the relief approved by the Supervisor of Banks as regards the capital adequacy computations, see Note 25 1 C and D to the financial statements.

Acquisition of Municipal Bank (in its former name: Dexia Bank)

On July 8, 2018, the Bank approached the Chairman of the Board of Municipal Israel Bank Ltd. (hereinafter: "Municipal Bank") with a request for the conduct of an examination in respect of a formation of an outline for the acquisition by the Bank of all the share capital of Municipal Bank and the merger thereof with and into MDB.
On September 6, 2018, following negotiations held between the Bank and Municipal Bank, the Bank submitted to Municipal Bank an offer for the purchase of all the issued share capital of Municipal Bank, at a price of NIS 758.59 per share (adjusted for dividends distributed by Municipal Bank, if at all, until the date of consummation of the transaction), to be effected by the Bank or by a wholly owned subsidiary of the Bank, by way of the merger (hereinafter: "the offer" and "the per share consideration", respectively). The board of directors of Municipal Bank has informed the Bank that the per share consideration is acceptable by it and that Municipal Bank would enter into negotiations with the Bank with a view of reaching a binding merger agreement. It was agreed that the negotiations between Municipal Bank and the Bank shall be conducted on an exclusive basis. It has been further agreed that the merger transaction, if at all effected, shall be based upon the financial condition of Municipal Bank in effect on date of signing the merger agreement.
The offer was subject to a number of conditions, among which are the conduct of a focused due diligence review, the signing of a binding merger agreement, obtaining all approvals required by law for the execution of the merger agreement, including approvals by the Bank of Israel and the Competition Authority (in its former name: Antitrust Authority).
A merger agreement was signed by the parties on November 13, 2018. For additional details, see Note 26 C 19 to the financial statements.
The general meeting of shareholders of Municipal Bank approved on January 3, 2019, with a majority vote of 99.9%, the proposal for the merger with MDB.
Consummation of the transaction is subject, inter alia, to the materialization of different conditions precedent, certain of which are not under the control of the Bank, including obtaining approvals of regulatory authorities. Accordingly, there is no certainty that the transaction would be executed.
It should be noted that, due to Municipal Bank being a banking corporation, its financial statements are drawn up in conformity with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks. It should also be noted that the reports of Municipal Bank are available for perusal on the Magna website of the Israel Securities Authority and on the Maya website of the Tel-Aviv Stock Exchange Ltd.
Framework for issuing capital, regulatory capital instruments and bonds at MDB. Within the framework of MDB's preparations for completing the transaction for the acquisition of Municipal Bank, on February 24, 2019, the board of directors of MDB approved a framework for the issue of ordinary share capital to the parent company (Discount Bank) in a scope that will not exceed NIS 150 million, a framework for issuing subordinated debt notes that include a loss absorption mechanism ("COCO") (Discount Bank) in a scope that will not exceed NIS 400 million and a framework for raising bonds in a scope that will not exceed NIS 600 million.
The raising of the aforesaid debt instruments, in part or in their entirety, and the issuance of share capital are subject to completing the acquisition transaction and to the liquidity needs arising therefrom (in relation to the raising of debt by way of bonds).

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2018, the independent auditors drew attention to Note 26 C, item 13 regarding requests to approve certain actions as class action suits and with regard to other claims against the Bank and investee companies.

Material developments in income, expenses and other comprehensive income

Profit and Profitability

The Discount Group's Net profit in 2018 amounted to NIS 1,505 million, compared with NIS 1,259 million in 2017, an increase of 19.5%. Disregarding certain components (see table below), the profit for 2018 would amount to NIS 1,600 million, compared with NIS 1,309 million, an increase at a rate of 22.2%.

Return on equity, net, attributed to the Bank's shareholders for 2018 was 9.3%, compared with 8.4% in 2017. Disregarding certain components (see table below), the return in 2018 would have been 9.9%, compared with 8.7% in 2017.

Net earnings per one share of NIS 0.1 par value amounted in 2018 to NIS 1.29, compared with NIS 1.09 in 2017.

The main factors that had an effect on the business results of the Group in 2018, compared with 2017:

a. An increase in interest income, net, in an amount of NIS 551 million (11.1%), mainly in expenses in respect of the group allowance.
b. A decrease in credit loss expenses, in an amount of NIS 34 million (5.9%). The decrease was affected by a decrease in the group allowance, which was partly offset by an increase in the specific allowance, due to lower debt collections this year.
c. An increase in the total non-interest income, of NIS 136 million (4.1%), affected mostly by an increase of NIS 175 million in commissions (6.5%), mainly an increase in credit card commissions[2], a decrease of NIS 30 million in other income, mostly from the realization of assets (34.5%), and a decline of NIS 9 million in non-interest financing income.
d. An increase of NIS 454 million in operating and other expenses (8.0%), affected, mainly, by an increase of NIS 181 million in salaries (5.6%), and an increase of NIS 278 million in other expenses (19.2%), mostly the effect of settlement, advertising and marketing expenses, computer expenses and expenses in respect of credit card commissions in ICC[2].
e. Tax provision of NIS 789 million on earnings in 2018, compared with NIS 747 million in 2017. The provision for taxes in 2017 was impacted by a nonrecurring expense of NIS 29 million, following the effect of the tax reform in the U.S. (which is in excess of the amount complementing the tax that would have been chargeable in Israel; see Note 8 I to the financial statements).

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2018 amounted to NIS 324 million, compared with NIS 439 million in the third quarter of the year, a decrease in a rate of 26.2%, and compared with NIS 371 million in the fourth quarter of 2017, a decrease of 12.7%. With the elimination of certain components (see table below), the net profit in the fourth quarter of 2018 would have amounted to NIS 402 million, compared with a net profit of NIS 445 million in the third quarter of 2018, a decrease of 9.7%, and compared with NIS 407 million in the fourth quarter of 2017, a decrease of 1.2%.

The major factors affecting the business results of the Group in the fourth quarter of 2018, compared with the previous quarter, were:

A. An increase in interest income, net, in an amount of NIS 8 million (0.6%). The financing income for the period was affected by an expense of NIS 27 million, in respect of the premature redemption of securities loaned under repurchase agreements ("repo").
B. An increase in credit loss expenses, in an amount of NIS 53 million (43.1%). The increase was mostly affected by the increase in the specific allowance expenses due to a decline in collection of debts and an increase in accounting write-off, as well as an increase in expenses with respect to the group allowance.
C. An increase of NIS 34 million (3.8%) in non-interest income, which was affected mainly from an increase of NIS 22 million in income from the sale of investments in Discount Capital and from the growth in other income in the amount of NIS 15 million, mainly due to the realization of assets.
D. An increase in operating and other expenses, in an amount of NIS 212 million (14.2%), which was effected mostly by an increase of 77 million in salaries and related expenses (9.3%) from an increase of NIS 21 million in maintenance expenses and depreciation of buildings and equipment (8.2%) and from an increase of NIS 114 million in other expenses (27.6%), mainly an increase in the settlement effect, in professional services expenses and computer services expenses.
E. In the fourth quarter of 2018, provision for taxes on the profit was recorded, in the amount of NIS 144 million, compared with NIS 248 million in the previous quarter.

2 The increase in income and expenses regarding credit card commissions stems from the expansion in the activities of ICC, in particular in the customer clubs field.

Developments in Income and Expenses

DEVELOPMENTS IN CERTAIN PROFIT AND LOSS STATEMENT ITEMS IN 2016-2018

	For the year ended December 31			Change in %	
	2018	2017	2016	2018 compared to 2017	2017 compared to 2016
	In NIS millions				
Interest income	7,053	6,213	5,659	13.5	9.8
Interest expenses	1,527	1,238	1,102	23.3	12.3
Interest income, net	5,526	4,975	4,557	11.1	9.2
Credit loss expenses	540	574	469	(5.9)	22.4
Net interest income after credit loss expenses	**4,986**	**4,401**	**4,088**	**13.3**	**7.7**
Non-interest Income					
Non-interest financing income	586	595	754	(1.5)	(21.1)
Commissions	2,851	(2)2,676	(2)2,556	6.5	4.7
Other income	57	87	100	(34.5)	(13.0)
Total non-interest income	**3,494**	**3,358**	**3,410**	**4.1**	**(1.5)**
Operating and other Expenses					
Salaries and related expenses	3,385	(1)3,204	(1)3,169	5.6	1.1
Maintenance and depreciation of buildings and equipment	1,039	1,044	1,067	(0.5)	(2.2)
Other expenses	1,724	(1)(2)1,446	(1)(2)1,549	19.2	(6.6)
Total operating and other expenses	**6,148**	**5,694**	**5,785**	**8.0**	**(1.6)**
Profit before taxes	2,332	2,065	1,713	12.9	20.5
Provision for taxes on profit	789	747	741	5.6	0.8
Profit after taxes	1,543	1,318	972	17.1	35.6
Bank's share in profit of affiliated companies, net of tax effect	6	1	15	500.0	(93.3)
Net profit attributed to the non-controlling rights holders in consolidated companies	(44)	(60)	(82)	(26.7)	(26.8)
Net Profit attributed to Bank's shareholders	**1,505**	**1,259**	**905**	**19.5**	**39.1**
Return on equity attributed to the Bank's shareholders, in %	9.3	8.4	6.6		
Efficiency ratio in %	68.2	68.3	72.6		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**1,600**	**1,309**	**980**	**22.2**	**33.6**
Return on equity attributed to the Bank's shareholders, in %- disregarding certain components (see below)	9.9	8.7	7.2		
Efficiency ratio in % disregarding certain components (see below)	66.6	67.9	73.1		

Footnotes:
(1) Reclassified, see Note 1 C 6 (3) to the financial statements.
(2) Reclassified, see Note 1 C 5 to the financial statements.

PROFITABILITY - DISREGARDING CERTAIN COMPONENTS

		For the year ended December 31			Change in %	
		2018	2017	2016	2018 compared to 2017	2017 compared to 2016
	Notes	in NIS millions				
Net Profit Attributed to the Bank's Shareholders - as reported		1,505	1,259	905	19.5	39.1
Disregarding[1]:						
Gains on the sale of rights in Visa Europe	36 G	-	-	(178)		
One-time award at MDB		37	-	-		
Effect of settlement	23 I, K	58	21	90		
Expense in ICC for arrangement replacing criminal proceedings	36 F	-	-	54		
Effect of the change in the tax rate	8 I	-	29	109		
Net Profit Attributed to the Bank's Shareholders - disregarding the above components		**1,600**	**1,309**	**980**	**22.2**	**33.6**

Footnote:
(1) See below "Details regarding eliminated components".

DEVELOPMENTS IN CERTAIN PROFIT AND LOSS STATEMENT ITEMS IN THE FOURTH QUARTER OF 2018, COMPARED WITH THE THIRD QUARTER OF 2018 AND THE FOURTH QUARTER OF 2017

	2018		2017	Q4 2018 compared to	
	Q4	Q3	Q4	Q3 2018	Q4 2017
	In NIS millions			in %	
Interest income	1,852	1,782	1,608	3.9	15.2
Interest expenses	432	370	311	16.8	38.9
Interest income, net	1,420	1,412	1,297	0.6	9.5
Credit loss expenses	176	123	31	43.1	467.7
Net interest income after credit loss expenses	**1,244**	**1,289**	**1,266**	**(3.5)**	**(1.7)**
Non-interest Income					
Non-interest financing income	177	160	94	10.6	88.3
Commissions	732	(3)730	(3)685	0.3	6.9
Other income	28	13	37	115.4	(24.3)
Total non-interest income	**937**	**903**	**816**	**3.8**	**14.8**
Operating and other Expenses					
Salaries and related expenses	903	826	(2)824	9.3	9.6
Maintenance and depreciation of buildings and equipment	276	255	272	8.2	1.5
Other expenses	527	(3)413	(2)(3)384	27.6	37.2
Total operating and other expenses	**1,706**	**1,494**	**1,480**	**14.2**	**15.3**
Profit before taxes	475	698	602	(31.9)	(21.1)
Provision for taxes on profit	144	248	222	(41.9)	(35.1)
Profit after taxes	331	450	380	(26.4)	(12.9)
Bank’s share in profit of affiliated companies, net of tax effect	4	1	5	300.0	(20.0)
Net profit attributed to the non-controlling rights holders in consolidated companies	(11)	(12)	(14)	(8.3)	(21.4)
Net Profit attributed to Bank's shareholders	**324**	**439**	**371**	**(26.2)**	**(12.7)**
Return on equity attributed to the Bank's shareholders, in %(1)	8.0	11.1	10.0		
Efficiency ratio in %	72.4	64.5	70.0		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**402**	**445**	**407**	**(9.7)**	**(1.2)**
Return on equity attributed to the Bank's shareholders, in %(1) - disregarding certain components (see below)	10.0	11.3	11.0		
Efficiency ratio in % disregarding certain components (see below)	67.3	64.1	69.5		

Footnotes:
(1) On an annual basis.
(2) Reclassified, see Note 1 C 6 (3) to the financial statements.
(3) Reclassified, see Note 1 C 5 to the financial statements.

PROFITABILITY PER QUARTERS – DISREGARDING CERTAIN COMPONENTS

		2018	2018	2017	Q4 2018 compared to	
		Q4	Q3	Q4	Q3 2018	Q4 2017
	Notes	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported		324	439	371	(26.2)	(12.7)
Disregarding(1):						
One-time award at MDB		37	-	-		
Effect of settlement	23 I, K	41	6	7		
Effect of the change in tax rate	8 I	-	-	29		
Net income attributed to the Bank's shareholders - disregarding the above components		**402**	**445**	**407**	**(9.6)**	**(1.2)**

Footnote:
(1) See below "Details regarding eliminated components".

Details regarding Eliminated Components

Gains on the sale of rights in Visa Europe. Profit recognized by the Bank and ICC on the sale of rights in VISA Europe, following the consummation of the transaction by which VISA Inc. acquired VISA Europe (see Note 36 G to the financial statements).
One-time award at MDB. With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see "The Human Capital" below.

Effect of settlement. Acceleration of the amortization of "Actuarial profits and losses" following the retirement of employees within the framework of the implementation of the Efficiency Plans (see Note 23 I and K to the financial statements).
Expanse in ICC in respect of an arrangement in lieu of criminal proceedings. An expense recognized in 2016 (see Note 36 F (1) to the financial statements).
Effect of change in the tax rate. The reduction in the balances of deferred taxes of IDB New York (reduction in profit) in 2017, following the effect of the tax reform in the U.S. (which is in excess of the amount complementing the tax that would have been chargeable in Israel; see Note 8 I to the financial statements). The reduction in the balances of deferred taxes of the Bank and of its principal subsidiaries in Israel (reduction in profit) in 2016, following the lowering of the corporation tax rate (see Note 8 I to the financial statements).

The effect of realizing investments in Discount Capital. Income from realizations in 2018 amounted to NIS 84 million, compared with NIS 215 million in 2017 and NIS 71 million in 2016.

Following are details regarding material changes in statement of profit and loss items:
Interest income, net. In 2018, interest income, net, amounted to NIS 5,526 million compared with NIS 4,975 million in 2017, an increase of 11.1%. The rise in the interest income, net, in the amount of NIS 551 million, is explained by a positive price impact of approx. NIS 86 million, and from a positive quantitative effect in the amount of approx. NIS 465 million (see "Rates of interest income and expenses and analysis of the changes in interest income and expenses" in Appendix No.1).
The interest spread relating to balance sheet activity, reached a rate of 2.44% in 2018, compared with 2.32% in 2017.
The average balance of interest bearing assets has increased by a rate of approx. 4.2%, from an amount of NIS 198,472 million to NIS 206,710 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 3.7%, from an amount of NIS 152,253 million to NIS 157,883 million.

NET INTEREST INCOME ACCORDING TO LINKAGE SEGMENTS

DISTRIBUTION OF VOLUME OF OPERATIONS ACCORDING TO INTEREST BEARING ASSETS, NET INTEREST INCOME AND INTEREST MARGIN BY LINKAGE SEGMENTS

	2018			2017		
	Volume of activity[(1)] in %	Interest income, net in NIS millions	Interest margin in %	Volume of activity[(1)] in %	Interest income, net in NIS millions	Interest margin in %
Unlinked shekels	67.6	4,165	2.90	66.3	3,798	2.80
CPI-linked shekels	8.8	225	(0.72)	9.7	144	(0.90)
Foreign Currency	23.6	1,136	2.12	24.0	1,033	2.03
Interest income, net and the interest margin	**100.0**	**5,526**	**2.44**	**100.0**	**4,975**	**2.32**

Footnote:
(1) According to the average balance of the interest bearing assets.

In the non-linked shekel segment, net interest income increased in 2018 at a rate of 9.7%. Income from this segment constituted 75.4% of total net interest income in 2018, compared with 76.3% in 2017.
The average balance of assets in this segment increased in 2018 by 6.1% compared with 2017.
The increase in the segment's profit is due to a rise in the scope of interest-bearing assets, net, primarily credit to the public, and to a rise in the interest margin. The rise in the interest margin was affected, inter alia, by the change in the mix of assets and liabilities and the rise in the rate of unlinked interest in the Israeli economy.
The CPI-linked Shekel segment net interest income increased in 2018 at a rate of 56.3% and its proportion of total net interest income in 2018 was 4.1%, compared with 2.9% in 2017. The average asset balance in this segment in 2018 decreased by a rate of 5.1% compared with 2017.

The increase in the segment's profit is due to a rise in the interest margin which is affected, inter alia, by the increased impact of the CPI.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income increased in 2018 by a rate of 10.0%. Its proportion of all Net profit was 20.5% in 2018, compared with 20.8% in 2017.

In 2018 the average balance of assets in this segment increased at a rate of 2.5% compared to 2017.

The increase in profits of the segment stemmed from an increase in the volume of net interest bearing assets, and by an increase in the interest margin, the increase in the interest margin was, inter alia, affected by the increase in the interest rate on foreign currency, mostly on the U.S. dollar.

Non-interest financing income decreased in 2018 at a rate of 1.5%, compared with 2017.

The decline in non-interest financing income stems mostly from a decrease in profit from the realization of shares, primarily from the realization of the investments in Discount Capital, and a decrease in profit from the realization of bonds, which was offset by an increase in income from derivatives activity and from exchange rate differences.

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing profit from current activity, the net interest income and the non-interest financing income need to be aggregated.

COMPOSITION OF NET FINANCING INCOME

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2018		
Interest income	7,053	1,852	1,782	1,883	1,536
Interest expenses	1,527	432	370	463	262
Interest income, net	5,526	1,420	1,412	1,420	1,274
Non-interest financing income	586	177	160	145	104
Total net financing income	**6,112**	**1,597**	**1,572**	**1,565**	**1,378**
			2017		
Interest income	6,213	1,608	1,465	1,700	1,440
Interest expenses	1,238	311	258	396	273
Interest income, net	4,975	1,297	1,207	1,304	1,167
Non-interest financing income	595	94	197	79	225
Total net financing profit	**5,570**	**1,391**	**1,404**	**1,383**	**1,392**

ANALYSIS OF THE TOTAL NET FINANCING INCOME

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2018		
Financing Income from current operations	5,735	1,518	1,482	1,402	1,333
Effect of CPI	58	5	12	50	(9)
Net profit (loss) from realization and adjustment to fair value of bonds	20	(9)	4	(17)	42
Profit from investments in shares*	107	48	50	5	4
Adjustment to fair value of derivative instruments	36	6	(5)	70	(35)
Exchange rate differences, options and other derivatives	150	29	29	55	37
Net profit on the sale of loans	6	-	-	-	6
Total net financing income	**6,112**	**1,597**	**1,572**	**1,565**	**1,378**
*Of which: income from realizations in Discount Capital.	84	49	27	5	3
			2017		
Financing Income from current operations	5,041	1,319	1,270	1,255	1,197
Effect of CPI	15	7	(20)	35	(7)
Net profit (loss) from realization and adjustment to fair value of bonds	183	(13)	72	29	95
Profit from investments in shares*	233	32	56	66	79
Adjustment to fair value of derivative instruments	9	7	(5)	(7)	14
Exchange rate differences, options and other derivatives	69	20	31	5	13
Net income on the sale of loans	20	19	-	-	1
Total net financing profit	**5,570**	**1,391**	**1,404**	**1,383**	**1,392**
*Of which: income from realizations in Discount Capital.	215	22	56	61	76

Financing income, net, increased in 2018 at a rate of 9.7%.

The growth in financing income stemmed, mostly, from an increase of NIS 694 million in profit from current operations, from a NIS 81 million increase in profit from exchange rate differences, options and other derivatives and from a NIS 43 million increase in the impact of the CPI, which was offset by a NIS 163 million decrease in profit from investments in bonds and from a NIS 126 million decrease in profit from investments in shares.

Rates of income and expenses. In the appendices to the annual report – Appendix 1 are presented interest income, net, with respect to the balance sheet activity. In order to explain the Bank's overall interest margin, the effects of activity in ALM derivatives (excluding adjustments to fair value and exchange rate differences) needs to also be added.

The interest margin, including ALM derivatives reached 1.83% in 2018, compared to 1.68% in 2017.

Financing income, net, increased in the fourth quarter of 2018, at a rate of 14.8%, compared with the corresponding quarter last year, and at a rate of 1.6% compared with the third quarter of 2018. The net financing income was affected by an expense of NIS 27 million, in respect of the premature redemption of securities loaned under repurchase agreements ("repo").

The interest spread relating to balance sheet activity, reached in the fourth quarter of 2018 a rate of 2.47%, compared to 2.46% in the corresponding quarter last year and compared to 2.53% in the third quarter of the year.

DEVELOPMENT OF INTEREST INCOME, NET, BY REGULATORY OPERATING SEGMENTS

	For the year ended December 31,		
	2018	2017	Change in %
	In NIS millions		
Domestic operations:			
Households	1,740	1,541	12.9
Private banking	79	52	51.9
Small and minute businesses	1,451	(1)1,329	9.2
Medium businesses	297	(1)273	8.8
Large businesses	715	(1)659	8.5
Institutional bodies	34	42	(19.0)
Financial management	321	308	4.2
Total Domestic operations	**4,637**	**4,204**	**10.3**
International operations:			
Private Individuals	168	122	-
Business operations	680	603	-
Other	41	(2)46	(10.9)
Total International operations	**889**	**771**	**15.3**
Total	**5,526**	**4,975**	**11.1**

Footnotes:

(1) Reclassified - see Note 29 C to the financial statements.

(2) Reclassified – Improvement of the allocation of intercompany balances in the Group.

Credit loss expenses amounted to NIS 540 million in 2018, compared with NIS 574 million in 2017, a decrease of 5.9%. The decrease in the credit loss expense for 2018 stemmed, mostly, from a decrease in expenses in respect of the group allowance, that was partly set off by the rise in the specific allowance.

For additional details, see below "Credit to the public" and "Credit risks" in Chapter "C" hereunder. For details as to the components of the credit loss expenses, see Note 31 to the financial statements.

DETAILS OF THE ANNUAL DEVELOPMENT IN THE CREDIT LOSS EXPENSES

	2018	2017
	In NIS millions	
On a specific basis		
Change in allowance	18	(210)
Gross accounting write-offs	366	626
Collection	(307)	(391)
Total on a specific basis	**77**	**25**
On a group basis		
Change in allowance	107	202
Gross accounting write-offs	570	550
Collection	(214)	(203)
Total on a group basis	**463**	**549**
Total	**540**	**574**
Rate of credit loss expenses to the average balance of credit to the public	0.34%	0.39%

DETAILS OF THE QUARTERLY DEVELOPMENT IN THE CREDIT LOSS EXPENSES

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in allowance	14	31	(1)	(26)	(19)	(27)	(53)	(111)
Gross Accounting Write-offs	92	64	76	134	141	118	193	174
Collection	(55)	(83)	(53)	(116)	(179)	(63)	(74)	(75)
Total on a specific basis	**51**	**12**	**22**	**(8)**	**(57)**	**28**	**66**	**(12)**
On a group basis								
Change in allowance	50	15	16	26	9	65	65	63
Gross Accounting Write-offs	131	140	143	156	131	141	133	145
Collection	(56)	(44)	(52)	(62)	(52)	(47)	(53)	(51)
Total on a group basis	**125**	**111**	**107**	**120**	**88**	**159**	**145**	**157**
Total	**176**	**123**	**129**	**112**	**31**	**187**	**211**	**145**
Rate of credit loss expenses to the average balance of credit to the public[1]:								
The rate in the quarter:	0.44%	0.31%	0.33%	0.29%	0.08%	0.51%	0.58%	0.40%
Cumulative rate since the beginning of the year:	0.34%	0.31%	0.31%	0.29%	0.39%	0.49%	0.49%	0.40%

Footnote:
(1) On an annual basis.

For additional details, see below "Credit to the public" and "Credit risk" in chapter C hereunder.

Commissions amounted to NIS 2,851 million in 2018, compared with NIS 2,676 million in 2017, an increase of 6.5%. The increase in commissions was affected, primarily, from an increase in credit card commissions.

DISTRIBUTION OF COMMISSIONS

	For the year ended December 31		
	2018	2017	Change
	in NIS millions		in %
Account Management fees	480	483	(0.6)
Credit cards[1]	1,267	1,119	13.2
Operations in securities and in certain derivative instruments	336	336	-
Commissions from the distribution of financial products	149	142	4.9
Handling credit	177	154	14.9
Conversion differences	136	137	(0.7)
Foreign trade services	58	52	11.5
Net income from credit portfolio services	6	7	(14.3)
Commissions on financing activities	157	[1]157	-
Other commissions	85	89	(4.5)
Total commissions	**2,851**	**2,676**	**6.5**

Footnotes:
(1) Reclassified, see Note 1 C 5 .

Salaries and related expenses amounted to NIS 3,385 million in 2018, compared with NIS 3,204 million in 2017, an increase of 5.6% (for details as to the components of this item, see Note 6 to the financial statements). Eliminating the effect of certain components as detailed below, an increase of 3.0% would have been recorded.

DETAILS OF THE EFFECTS OF CERTAIN COMPONENTS ON SALARIES AND RELATED EXPENSES

	For the year ended December 31		
	2018	2017	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,385	[1]3,204	5.6
Awards	(299)	(231)	
One-time award at MDB[2]	(56)	-	
Reversal of excess provisions (Note 8 C 2)	31	-	
Salaries and Related Expenses - Disregarding certain components	**3,061**	**2,973**	**3.0**

Footnotes:
(1) Reclassified, see Note 1 C 6 (3) to the financial statements.
(2) With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see "The Human Capital" below.

QUARTERLY DEVELOPMENTS IN SALARIES AND RELATED EXPENSES, DETAILING THE EFFECT OF CERTAIN COMPONENTS

	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	903	826	838	818	[1]824	[1]789	[1]778	[1]813
Awards	(75)	(82)	(83)	(59)	(95)	(55)	(40)	(41)
One-time award at MDB[2]	(56)	-	-	-	-	-	-	-
Reversal of excess provisions (Note 8 C 2)	-	-	-	31	-	-	-	-
Salaries and Related Expenses - Disregarding certain components	**772**	**744**	**755**	**790**	**729**	**734**	**738**	**772**

Footnotes:
(1) Reclassified, see Note 1 C 6 (3) to the financial statements.
(2) With respect to discontinuing the linkage of the wage terms at MDB to the terms at Bank Leumi, see "The Human Capital" below.

Other expenses amounted to NIS 1,724 million in 2018, compared to NIS 1,446 million in 2017, an increase of 19.2%. The increase stems mainly from the following factors:

- An increase of NIS 56 million in the settlement effect, stemming from the acceleration of the amortization of "actuarial profits and losses", following the implementation of the efficiency plan;
- An increase of NIS 49 million in computer expenses, mostly at the Bank, stemming from the change in mix of projects and costs, which led to a decrease in amounts capitalized to fixed assets in comparison with 2017 (with no change in the volume of operations);
- An increase of NIS 69 million in advertising and marketing and an increase of NIS 66 million in commissions, affected, mostly, by the expansion in the activity of ICC, in particular in the customer club field (Shufersal);
- An increase of NIS 26 million in professional services.

For additional details, see Note 7 to the financial statements

Investments and Expenses in respect of the Information Technology System

Expenditure in respect of the information technology system includes salaries and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of salaries and related costs is based upon attribution to subunits. Allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D 12 to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

INVESTMENTS AND EXPENSES IN RESPECT OF THE INFORMATION TECHNOLOGY SYSTEM

	December 31, 2018				December 31, 2017			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
Expenses in respect of the information technology system, as included in the statement of profit and loss:								
Payroll and related expenses[1]	179	72	13	264	153	82	23	258
Acquisitions or license fees not capitalized to assets	117	3	-	120	123	4	-	127
Outsourcing expenses	47	28	23	98	38	41	12	91
Depreciation expenses	223	87	8	318	249	78	11	338
Other expenses	87	21	103	211	39	52	97	188
Total	**653**	**211**	**147**	**1,011**	**602**	**257**	**143**	**1,002**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	82	-	-	82	70	-	-	70
Outsourcing costs	198	-	-	198	219	-	-	219
Acquisition or license fee costs	66	20	-	86	69	2	-	71
Equipment, buildings and real estate costs	27	43	11	81	39	93	5	137
Total	**373**	**63**	**11**	**447**	**397**	**95**	**5**	**497**
Balances of assets in respect of the information technology system:								
Total amortized cost	**883**	**191**	**149**	**1,223**	**791**	**214**	**145**	**1,150**
Of which: in respect of salaries and related expenses	660	-	-	660	560	-	-	560

Footnote:
(1) Payroll and related expenses included in the statement of profit and loss also include, for presentation purposes in this table, costs that have been classified since January 1, 2018 as "Other expenses".

Developments in the Comprehensive Income

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31, 2018	2017	Change in %
	in NIS millions		
Net Profit attributed to the Bank's shareholders	1,505	1,259	19.5
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes[(1)]	133	(318)	
Effect of attributed taxes	23	(2)	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	156	(320)	
Comprehensive income, attributed to the Bank's shareholders	**1,661**	**939**	**76.9**

Footnote:

(1) For details regarding changes in the components of other comprehensive income, see Note 10 to the financial statements.

The other comprehensive income was affected, primarily, by profits from exchange rate differences on translation of investment in a subsidiary company and by actuarial gains, which were partly offset against unrealized losses on available-for-sale securities (see Note 10 to the financial statements).

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

Developments of Assets and Liabilities

Total assets as at December 31, 2018 amounted to NIS 239,176 million, compared with NIS 221,221 million at the end of 2017, an increase of 8.1%.

DEVELOPMENTS IN THE PRINCIPAL BALANCE SHEET ITEMS

	December 31, 2018	December 31, 2017	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	21,858	28,026	(22.0)
Securities	37,898	32,703	15.9
Credit to the public, net	164,804	148,757	10.8
Liabilities			
Deposits from the public	188,916	175,170	7.8
Deposits from banks	6,886	4,804	43.3
Securities loaned or sold under repurchase arrangements	1,126	1,943	(42.0)
Subordinated debt notes	8,476	7,639	11.0
Equity attributed to the Bank's shareholders	17,151	15,594	10.0
Total equity	17,669	16,068	10.0

Following are details regarding credit to the public, securities and deposits from the public.

Credit to the Public

General. Credit to the public, net, as at December 31, 2018, amounted to NIS 164,804 million, compared with NIS 148,757 million on December 31, 2017, an increase of 10.8%. The ratio of credit to the public, net, to total assets reached 68.9% at the end of 2018, compared with 67.2% at the end of 2017.

For details regarding credit risk management including the Credit risk in housing loans, Credit risk of private individuals and Credit risk in relation to the construction and real estate sector, at the Discount Group, see "Credit risk" in Chapter C hereunder. For details regarding the quality of credit, see Note 31 to the financial statements. Also, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

COMPOSITION OF NET CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

	December 31, 2018		December 31, 2017		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	117,621	71.4	106,269	71.4	10.7
CPI-linked shekels	16,295	9.9	15,339	10.3	6.2
Foreign currency and foreign currency-linked shekels	30,888	18.7	27,149	18.3	13.8
Total	**164,804**	**100.0**	**148,757**	**100.0**	**10.8**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 13.8% compared with December 31, 2017. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$411 million as compared to December 31, 2017, an increase of 5.2%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency computed in dollar terms, increased by 9.2% as compared to December 31, 2017.

COMPOSITION OF CREDIT TO THE PUBLIC BY REGULATORY OPERATING SEGMENTS

DEVELOPMENTS IN THE BALANCE OF NET CREDIT TO THE PUBLIC, BY REGULATORY OPERATING SEGMENTS

	December 31, 2018	December 31, 2017	change
	In NIS millions		in %
Domestic operations:			
Households*	62,042	56,129	10.5
Private banking*	200	217	(7.8)
Small and minute businesses	33,595	(1)30,825	9.0
Medium businesses	10,068	(1)9,651	4.3
Large businesses	37,156	(1)32,698	13.6
Institutional bodies	733	642	14.2
Total Domestic operations	**143,794**	**130,162**	**10.5**
International operations:			
Private Individuals*	1,375	1,333	3.2
Business operations	21,909	19,373	13.1
Total International operations	**23,284**	**20,706**	**12.5**
Total credit to the public	**167,078**	**150,868**	**10.7**
Credit loss expenses	(2,274)	(2,111)	7.7
Total credit to the public, net	**164,804**	**148,757**	**10.8**
*Of which - Mortgages	32,924	28,893	14.0

Footnote:
(1) Reclassified - see Note 29 C to the financial statements.

The attainment of the Bank's capital adequacy goals, enabled the Bank to accelerate the rate of growth in credit in the last years.
The credit to the households segment, the growth of which comprised a strategic focus in the years 2014-2018, amounted at December 31, 2018 to NIS 62,042 million, an increase of approx. NIS 5.9 billion compared with December 31, 2017, which reflects a growth of 10.5%. This, in continuation to a growth at the rate of 10.5% in 2017 and a growth at the rate of 15.6% during 2016.
Housing loans amounted at December 31, 2018 to NIS 32,924 million, an increase of NIS 4,031 million compared to December 31, 2017, reflecting a growth of 14.0%. This, in continuation to a growth at the rate of 12.1% in 2017 and a growth at the rate of 18.1% during 2016.

An increasing growth was noticed in 2018 also in the business segments, in accordance with the updated focuses of the strategic plan: an increase of NIS 4.5 billion in the large businesses segment, expressing growth of 13.6%, and an increase of NIS 2.8 billion in the small and minute businesses segment, expressing growth of 9.0%.

COMPOSITION OF CREDIT TO THE PUBLIC BY ECONOMIC SECTORS

DEVELOPMENTS OF CREDIT EXPOSURE, BY MAJOR ECONOMIC SECTORS

	December 31, 2018		December 31, 2017		
Economic Sectors	Total credit to the public risk	Rate from total credit risk	Total credit to the public risk	Rate from total credit risk	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Industry	20,012	7.7	20,005	8.6	0.0
Construction and real estate - construction	28,763	11.1	25,280	10.8	13.8
Construction and real estate - real estate activity	21,478	8.3	19,840	8.5	8.3
Commerce	26,762	10.3	26,791	11.5	(0.1)
Financial services	24,151	9.3	19,799	8.5	22.0
Private individuals - housing loans	35,889	13.9	30,780	13.2	16.6
Private individuals - other	63,541	24.6	55,901	24.0	13.7
Other sectors	38,288	14.8	34,721	14.9	10.3
Total overall credit to the public risk	**258,884**	**100.0**	**233,117**	**100.0**	**11.1**

The data presented above indicates that in 2018, the overall risk regarding credit to the public increased by 11.1% compared with the end of 2017. This growth applied mostly to credit granted to private individuals – other, private individuals - housing loans, construction and real estate – construction, and financial services.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

For details regarding "problematic credit risk and nonperforming assets", see "Credit risk" in Chapter "C" below.

Following are details on credit to the public, as specified in Note 31 to the financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing and non-accruing) amounted at December 31, 2018 to approx. NIS 1,633 million, compared to NIS 2,130 million at December 31, 2017, a decrease at the rate of 23.3% stemming mostly from collections and from the recording of Accounting write-offs.

Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2018 to approx. NIS 1,011 million, compared to NIS 1,323 million at December 31, 2017, a decrease at a rate of 23.6%, stemming mostly from collections and from the recording of Accounting write-offs.

OVERALL CREDIT RISK AND THE RATE OF PROBLEMATIC CREDIT IN PRINCIPAL ECONOMIC SECTORS

	December 31, 2018			December 31, 2017		
Economic Sectors	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industry	20,012	646	3.2	20,005	510	2.5
Construction and real estate - construction	28,763	316	1.1	25,280	344	1.4
Construction and real estate - real estate activity	21,478	584	2.7	19,840	702	3.5
Commerce	26,762	632	2.4	26,791	869	3.2
Financial services	24,151	301	1.2	19,799	422	2.1
Private individuals - housing loans	35,889	340	0.9	30,780	312	1.0
Private individuals - other	63,541	566	0.9	55,901	495	0.9
Other Sectors	38,288	643	1.7	34,721	971	2.8
Total Public	**258,884**	**4,028**	**1.6**	**233,117**	**4,625**	**2.0**
Banks	5,721	69	1.2	5,472	31	0.6
Governments	29,768	-	-	25,553	-	-
Total	**294,373**	**4,097**	**1.4**	**264,142**	**4,656**	**1.8**

In 2018 the ratio of problematic credit risk to the overall credit risk decreased, as compared with 2017. The rate of the problematic debt declined in 2018, mostly in the sectors of commerce, financial services and construction, real estate - real estate activity. On the other hand, the rate of problematic debt increased in the industry sector.

THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,274 million as of December 31, 2018. The balance of this allowance constitutes 1.36% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,111 million, constituting 1.40% of the credit to the public as of December 31, 2017.
The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 223 million on December 31, 2018, compared to NIS 188 million on December 31, 2017.
The balance of the group allowance for credit losses. The balance of the group allowance for credit losses excluding housing loans, amounted on December 31, 2018 to NIS 1,864 million, compared to NIS 1,745 million as of December 31, 2017, comprising an increase in the current allowance in the amount of NIS 119 million, a rate of approx. 6.8%. The increase stemmed, mostly, from the growth in the balance of credit, from changes in the rates of the allowance and from changes in the credit mix.

THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

THE DISTRIBUTION OF EXPENSES AND THE RATIO OF CREDIT LOSS EXPENSES IN THE DIFFERENT ECONOMIC SECTORS IN RELATION TO THE OUTSTANDING BALANCE OF CREDIT TO THE PUBLIC IN THOSE SECTORS

	For the year ended December 31			
	2018		2017	
	Credit loss expense (expense reversal)	Rate of expense (expense reversal)	Credit loss expense (expense reversal)	Rate of expense (expense reversal)
sectors	In NIS millions	%	In NIS millions	%
Agriculture	-	-	5	0.5
Mining & Quarrying	2	0.3	(1)	(0.2)
Industry	41	0.3	(104)	(0.9)
Construction and real estate - construction	26	0.2	(54)	(0.5)
Construction and real estate - real estate activity	(51)	(0.3)	-	-
Electricity and water	2	0.1	7	0.4
Commerce	(28)	(0.1)	158	0.8
Hotels, hotel services and food	2	0.1	5	0.2
Transportation and storage	-	-	15	0.3
Communications and computer services	135	6.3	211	8.9
Financial services	(1)	-	(37)	(0.4)
Other business services	54	1.0	26	0.5
Public and community services	(4)	(0.1)	12	0.2
Private Individuals - Housing Loans	23	0.1	15	0.1
Private Individuals - Other	339	1.1	315	1.1
Total credit loss expenses - public	**540**	**0.34**	**573**	**0.39**
Total Banks	**-**	**-**	**1**	**-**
Total credit loss expenses	**540**	**-**	**574**	**-**

The data shown above indicates that the decrease in the credit loss expense in 2018 was focused on the commerce, communications and computer services, and construction and real estate - real estate activity sectors. On the other hand, an increase in expenses took place in sectors of the industry, construction and real estate – construction, financial services and other business services.

DEVELOPMENTS IN CREDIT TO THE PUBLIC, INCLUDING OFF-BALANCE SHEET CREDIT RISK BY BORROWER SIZE (CONSOLIDATED)

Approx. 99.5% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 39.0% of total credit to the public as at December 31, 2018, compared with 38.4% as at December 31, 2017. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 46.0% of all credit as at December 31, 2018, compared with 47.8% as at December 31, 2017. The 68 largest borrowers, in the credit brackets between NIS 200 million and NIS 5,933 million, were granted credit constituting 15.0% of total credit to the public as at December 31, 2018, compared with 57 borrowers that were granted credit constituting 13.9% of the total credit as at December 31, 2017. For details regarding credit levels in excess of NIS 800 million, see "Appendices to the annual report" – Appendix 7, item 3.

For additional details, see "Credit risks" in Chapter "C" below, and also "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Issue of credit-linked debt notes. The Bank had issued credit-linked notes (CLN), the balance of which at December 31, 2018, amounted to approx. NIS 193 million, which is presented in the item "bonds and subordinated debt notes".

A credit-linked debt note is a financial instrument that is connected to an asset of the Bank representing a debt of a third party legal entity and which bears the credit risk inherent in that entity. The purchaser of the note accepts the risk inherent in the debt asset. The Bank commits to redeem the amount of the liability (as well as interest in accordance with the terms of the note), when the Bank's liability is contingent on the non-materialization of the risk inherent in the debt asset. The deposit shall not be refunded to the purchaser of the note if the base asset, to which it is linked, would be in an insolvency situation, and the Bank shall only pay to the holder of the note the amounts it manages to collect in respect of the debt asset.

This product is considered collateral which is deductible in calculating the indebtedness of the customer, in accordance with Proper Conduct of Banking Business Directive No.313. It is also considered a qualified financial collateral in accordance with Sections 145 to 147 of Proper Conduct of Banking Business Directive No.203.

Securities

General. Securities in the nostro portfolio amounted to NIS 37,898 million as at December 31, 2018, compared with NIS 32,703 million at the end of 2017, an increase of 15.9%. The increase reflects the management of the Bank's excess liquidity.

It is clarified that the "nostro" portfolio to the Discount Group as of December 31, 2018, did not include any security the investment in which comprised 5% or more of the value of the total portfolio, except for security of the "government variable 520" type, security of the "government variable 1121" type and “Israeli government shekel 0324” class notes, which amounted to approx. 7.1%, 7.6% and 6.1% of the total portfolio, respectively.

As of December 31, 2018, some 65.3% of the portfolio is invested in Government bonds, and 2.9% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the breakup of the investment in government bonds according to principal governments, see "Appendices to the annual report" – Appendix 7, item 4.

Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, the management of the liquidity buffer and the distribution of the credit risks among sectors and countries in which the exposure level of the banking credit portfolio is low. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.

The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments that have a credit risk component are managed within the framework of a group investment policy, which has established goals and distribution limitations and has defined areas of expertise for each company in the group.

In 2018, the Bank's securities portfolio grew by 15.9%, stemming mostly from the growth in government bonds. Investments were made in accordance with the principles detailed above.

Composition of the Securities Portfolio by Linkage Segments

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

	December 31, 2018	December 31, 2017	Rate of change in %
	In NIS millions		
Non-linked shekels	19,734	16,560	19.2
CPI-linked shekels	1,544	2,341	(34.0)
Foreign currency and foreign currency-linked shekels	15,581	12,914	20.7
Shares - non-monetary items	1,039	888	17.0
Total	**37,898**	**32,703**	**15.9**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 20.7% compared with December 31, 2017. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$432 million, an increase of 11.6% as compared with December 31, 2017. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, increased by 12.3% as compared with December 31, 2017.

Composition of the Securities Portfolio according to Portfolio Classification

In accordance with directives of the Supervisor of Banks, securities have been classified into three categories: held-to-maturity bonds portfolio, available-for-sale securities portfolio, and trading securities portfolio.

COMPOSITION OF INVESTMENTS IN SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

	December 31 ,2018			December 31 ,2017		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	6,722	6,791	6,722	5,324	5,548	5,324
Available for sale	28,167	27,950	27,950	24,964	25,073	25,073
Trading	2,194	2,187	2,187	1,417	1,418	1,418
Shares						
Available for sale	980	980	980	848	851	851
Trading	65	59	59	38	37	37
Total Securities	**38,128**	**37,967**	**37,898**	**32,591**	**32,927**	**32,703**

Corporate bonds. Discount Group's available for sale securities portfolio as of December 31, 2018, includes investments in corporate bonds in the amount of NIS 3,488 million (an amount of NIS 468 million is held by IDB New York, an amount of NIS 26 million was held by MDB, and an amount of NIS 2,991 million, directly by the Bank), compared with NIS 2,209 million as of December 31, 2017 (an amount of NIS 516 million was held at IDB New York, an amount of NIS 55 million held by MDB, and an amount of NIS 1,634 million is held directly by the Bank), an increase at a rate of 57.9%. For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 12 to the financial statements.

Data by economic sectors. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see "Appendices to the annual report" – Appendix 6, item 1.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 12 C to the financial statements.

Investments in Mortgage and Asset Backed Securities

General. Discount Group's securities portfolio as of December 31, 2018 includes investment in mortgage-backed and asset-backed bonds in an amount of NIS 7,383 million, compared with NIS 6,845 million as of December 31, 2017. The amount includes investment in mortgage backed securities in the amount of NIS 7,197 million, which are held by IDB New York, compared to an amount of NIS 6,845 million as at December 31, 2017, a decrease of 5.2%. Approx. 97.5% of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA+ rating in the U.S.. The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2018, the portfolio of mortgage and assets backed securities included unrealized net losses NIS 169 million, compared with NIS 100 million as of December 31, 2017.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

All of the GSE-MBS held by IDB New York are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

CLO. IDB New-York holds secured bonds of the CLO class in a total amount of NIS 178 million. The said securities are rated AA-AAA by at least one rating agency. In the second half of 2018, the Bank purchased secured bonds of the CLO class in a total amount of NIS 169 million. The said securities are rated AAA. For details, see Note 12 to the financial statements.

Details regarding Impairment in Value of Available for Sale Securities

General. The point in time for determining the length of the period in which the investment was in a continuous unrealized loss position, is the date of the financial statements for the reporting period during which a continuous impairment first occurred. The rate of the decline in the fair value below cost is computed as of the reporting date. This is so even if during the period in which the investment was in a continuous unrealized loss position, the rate of decline in fair value below cost was significantly different from the rate applying on the reporting date.

For details regarding the review of impairment of securities, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2018, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As at December 31, 2018 and 2017, unrealized accumulated losses in respect of available-for sale shares amounted to a negligible amount.

As of December 31, 2018 and 2017, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 159 million and NIS 94 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 12 E to the financial statements.

Customer Assets

Deposits from the public as at December 31, 2018, amounted to NIS 188,916 million, compared with NIS 175,170 million at the end of 2017, an increase of 7.8%.

COMPOSITION OF DEPOSITS FROM THE PUBLIC BY LINKAGE SEGMENTS

	December 31, 2018		December 31, 2017		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	123,985	65.6	116,288	66.4	6.6
CPI-linked shekels	4,839	2.6	4,606	2.6	5.1
Foreign currency and foreign currency-linked shekels	60,092	31.8	54,276	31.0	10.7
Total	**188,916**	**100.0**	**175,170**	**100.0**	**7.8**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 10.7%, compared with December 31, 2017. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$378 million, an increase of 2.4% compared with December 31, 2017. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency computed in U.S. Dollar terms, increased by 5.3%, as compared with December 31, 2017.

REVIEW OF DEVELOPMENTS IN THE BALANCE OF DEPOSITS FROM THE PUBLIC, BY REGULATORY SEGMENTS OF OPERATIONS

	December 31, 2018	December 31, 2017	
	In NIS millions		Change in %
Domestic operations:			
Households	73,951	68,766	7.5
Private banking	16,765	15,656	7.1
Small and minute businesses	33,994	(1)27,220	24.9
Medium businesses	5,925	(1)6,230	(4.9)
Large businesses	18,968	17,632	7.6
Institutional bodies	13,044	14,645	(10.9)
Total Domestic operations	**162,647**	**150,149**	**8.3**
International operations:			
Private Individuals	9,216	8,789	4.9
Business operations	17,053	16,232	5.1
Total International operations	**26,269**	**25,021**	**5.0**
Total deposits from the public	**188,916**	**175,170**	**7.8**

Footnote:
(1) Reclassified - see Note 29 C to the financial statements.

The ratio of total credit to the public, net, to deposits from the public was approx. 87.2% as at December 31, 2018, compared with 84.9% at the end of 2017.
Deposits from the public of the three largest depositor groups amounted as of December 31, 2018, to NIS 6,395 million.
Securities held for customers. On December 31, 2018, the balance of the securities held for customers at the Bank amounted to approx. NIS 173.41 billion, including approx. NIS 3.11 billion of non-marketable securities, compared to approx. NIS 192.96 billion as at December 31, 2017, including approx. NIS 4.66 billion of non-marketable securities, a decrease of 10.13%. For details as to income from security activities, see Note 4 to the financial statements. In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2018, amounted to NIS 9.99 billion, compared with NIS 10.40 billion in December 31, 2017, a decrease of 3.9%.

Investment portfolio management. On December 31, 2018, Tafnit was managing investment portfolios, overall valued at approx. NIS 7,459 million, as compared to approx. NIS 7,095 million as at December 31, 2017, an increase of 5.1%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2018, amounting to NIS 17.3 billion, compared with NIS 15.9 billion as of December 31, 2017, an increase of 8.8%.

Capital and Capital Adequacy

Implementation of Basel III in Israel

The instructions. Instructions regarding "Basel III guidelines", which apply as from January 1, 2014, include a requirement for maintaining a minimal common equity tier 1 ratio of 9%, and a total capital ratio of 12.5%, as well as detailed reference with respect to transitional instructions. For details regarding the requirement concerning housing loans, see Note 25 item 1(b) to the financial statements.

Issues of capital instruments. The capital instruments that are issued according to Basel III instructions, include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument.

Transitional instruction included in Proper Conduct of Banking Business Directive No. 299 ("the Directive"). Among other things, the Directive included transitional instruction, which allow, in certain of the matters, a gradual implementation over a number of years. The transitional instructions apply also to the effect of implementing the directive regarding employee rights. For additional details see Note 25 item 1 a to the financial statements.

Relief regarding the efficiency plan. The Supervisor of Banks granted the Bank relief regarding its 2016 and 2018 efficiency plans. For further details, see above "Efficiency of the banking industry – 2016 Efficiency plan" and "2018 Efficiency plan", and Note 23 I and K, and Note 25 1 C and D to the financial statements. Without the stated reliefs, the Common Equity Tier 1 ratio would have been 10.11% (instead of 10.24%). For additional details, see Note 25 1 J to the financial statements.

Effect of the change in the credit rating of Israel. The raising of the rating, announced by the S&P rating agency on August 3, 2018 (see below "Rating of liabilities of the Bank and of some of its subsidiaries") and the rating at this level has implications on capital requirements, in view of the fact that capital requirements with respect to exposure to governments, to public sector entities (e.g.: local authorities) and to banks are derived from the credit rating of the country. As a result of the said change in rating, the Common Equity Tier 1 ratio increased by approx. 0.15%.

Effect of the acquisition of Municipal Bank (in its former name: Dexia Bank). The effect of the acquisition of Municipal Bank on the Common Equity Tier 1 ratio, had the transaction been consummated by December 31, 2018, based on the data of Municipal Bank as of December 31, 2018, would have totaled to a decrease of approx. 0.18%.

Preparations made by the Bank. The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the policy of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

For details regarding the purchase of credit risk insurance, including guaranties, see "Large business segment (Domestic operations) – additional details".

For further details, see "Basel III" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Common Equity Tier 1 Goal

The policy approved by the Board of Directors, which reflects the Bank's risk appetite, is to maintain a higher capital adequacy level than the rate required by the ICAAP result and according to a system stress test.

On October 26, 2018, the Board of Directors, on the basis of ICAAP and SREP processes, adopted a minimum common equity tier 1 target level of 9.9% for the end of 2019.

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in the outline, which enables attainment of the Board of Directors' goals while maintaining a capital buffer in the event of unexpected fluctuations affecting the capital ratio, and from these the risk assets budget is derived.
The allocation of the risk assets between the business units and the subsidiaries is in line with the strategic plan, while optimizing the Group's return on equity.
The capital outline takes into consideration various parameters that have an effect on the capital ratios, such as: assumption of profitability consistent with the risk assets budget, dividend distribution, changes in the various capital reserves, regulatory adjustments and amortizations in accordance with transitional instructions. The Bank examines a number of scenarios in arriving at the prescribed capital ratios.
As part of the capital management process, the Bank routinely examines its ability to attain the internal capital targets set by the Board of Directors and included in the work plan.
Should the forecasted capital ratio differ considerably from that planned (by a predetermined rate), a Management discussion takes place to consider the measures that need to be taken in order to attain the prescribed outline – measures such as reducing risk assets, utilizing the capital buffer, and so forth.
For additional details, see "Capital adequacy" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank`s website together with the Bank's 2018 Annual Report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd..

Components of Capital

Total capital as at December 31, 2018, amounted to NIS 17,669 million, compared with NIS 16,068 million at December 31, 2017, an increase of 10.0%. The increase stems, mostly, from the profit for the year.
Equity attributed to the Bank's shareholders as at December 31, 2018, amounted to NIS 17,151 million, compared with NIS 15,594 million at December 31, 2017, an increase of 10.0%.
The change in equity attributed to the Bank's shareholders in 2018 was affected, among other things, by the net earnings during the year, by an increase NIS 252 million in financial statements translation adjustments, from net actuarial profit in an amount of NIS 173 million and from losses from adjustments for fair value of available-for-sale securities in an amount of NIS 268 million.
The ratio of total capital, to total assets as at December 31, 2018, stood at 7.4%, compared with 7.3% as of December 31, 2017.

Components of the Regulatory Capital as of December 31, 2018

General. As stated, as of January 1, 2014, the new instructions in accordance with the Basel III guidelines gradually came into effect. The data presented below reflects deductions, in accordance with the transitional instructions. The transitional instructions relating to the reductions and deductions from common equity tier 1 ceased to be in effect from January 1, 2018.
Ratio of common equity tier 1 on December 31, 2018, amounted to 10.24%, as compared with 10.00% on December 31, 2017.
Total capital ratio as of December 31, 2018, amounted to 13.67%, as compared with 13.92% on December 31, 2017.

COMPONENTS OF THE REGULATORY CAPITAL AS OF DECEMBER 31, 2018

	December 31,	
	2018	2017
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	17,504	16,003
Additional tier 1 capital after deductions	712	890
Tier 1 capital	18,216	16,893
Tier 2 capital	5,140	5,395
Total capital	**23,356**	**22,288**
2. Weighted risk assets balance		
Credit risk	(2)153,081	(2)143,176
Market risk	3,412	3,443
CVA risk	1,441	1,116
Operational risk	12,987	12,335
Total weighted risk assets balance	**170,921**	**160,070**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.24	10.00
Ratio of total capital to risk assets	13.67	13.92
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1	(1)9.19	(1)9.18
Total capital ratio	(1)12.69	(1)12.68

Footnotes:
(1) With an addition of 0.19% (December 31, 2017: 0.18%) in accordance with the additional capital requirements with respect to housing loans - see Note 25 (b) to the financial statements.
(2) The total weighted balances of the risk assets have been reduced by NIS 32 million similarly to December 31,2017 due to adjustments in respect to the efficiency plans.

Raising of Resources

Issuances of tier 2 capital. No Tier 2 capital was raised during 2018. For details regarding the CoCo bonds issue in January 2017, see Note 25 1 N to the financial statements.
Subtraction of regulatory capital instruments in 2019. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2019, in accordance with the transitional provisions, amount to NIS 522 million (in accordance with the Basel II instructions an amount of NIS 343 million would have been deducted).
Taking into consideration the deduction in 2019 of regulatory capital instruments (Tier 2 capital), the Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2019 and market conditions, in order to maintain the total capital targets for 2019.

Dividends Distribution

On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter. The said dividend policy has been adopted in view of the Bank's attainment of its capital layout, following the consistent improvement in the business results of the Group and following the approval by the Supervisor of Banks of the said dividend policy.
It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution,

inter alia, in accordance with the Companies Act and directives of the Bank of Israel. It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors.

The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

For details of the dividend distribution from the profits of the various quarters of 2018, see Note 24 E (5) to the financial statements.

For details regarding the limitations set in the Supervisor of Banks' directives, see Note 24 E (2) to the financial statements.

In accordance and in continuation with the policy, as stated, the Bank's Board of Directors decided on March 10, 2019, to distribute a dividend at the rate of 15% of the profits of the fourth quarter of 2018, in the amount of NIS 48.6 million, comprising approx. 4.18 Agora for each ordinary A share of NIS 0.1 par value. The decision of the Board of Directors to increase as from this quarter the rate of the dividend from 10% to 15% of the quarter's profits was passed in light of the consistent and continuous improvement in the Bank's business results. Additional details regarding the resolution of the Board of Directors, including the dates fixed as the ex-dividend date and the date of payment, are included in the immediate report published by the Bank together with the publication of this report.

Additional Disclosure according to the Third Pillar of Basel

Within the framework of the "Additional regulatory disclosures" document, a description is given of the principal characteristics of the issued regulatory capital instruments. Within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks" a disclosure is given of The Regulatory capital and management thereof, including the composition of the regulatory capital. The documents are available for perusal on the Magna Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank's website.

Activity of the Group according to Principal Segments of Operation – Principal Quantitative Data and Main Developments

General

The regulatory operating segments have been defined by the Supervisor of Banks, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of business customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments.

According to the instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments (ASC 280). However, in accordance with directives and clarifications of the Banking Supervision Department, the disclosure in the directors' and management report shall relate to regulatory operating segments only. Note 30 to the financial statements present a quantitative disclosure of the managerial operating segments that the Bank has identified.

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements, pp. 224-243 below.

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - Condensed description" under "The Discount Group - Condensed description and principal areas of operation".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "the human capital" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 29 D to the financial statements.

Allocation of indirect expenses. Indirect expenses are allocated to the different segments in accordance with the model, as detailed in Note 29 D Item 2. The principal variables affecting the allocation are the scope of operations of the customers and the number of employees.

Administrative Structure

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.
The Bank's business operations in 2018 were conducted by three divisions: Banking Division, Corporate Division and the Financial Markets Division.
The Banking Division conducts business with households, small businesses and medium corporations (middle market), digital banking customers and private banking customers (both Israeli and international). The Division is responsible for the operation of the investment consultants operating in branches and investment centers and for mortgage activity, by means of mortgage consultants placed at some of the branches.
The Corporate Division is responsible for conducting business with large business corporations as well as building (closed real estate projects) and infrastructure corporations, major participants in the capital market, institutional bodies and customers engaged in the diamond sector. In addition, the Division has a complex credit products wing, which incorporates under it the syndication unit and the complex foreign trade finance unit. The operational services to customers of the Corporate Division is principally provided at the Tel Aviv Main Branch. Furthermore, the Foreign Trade unit, providing foreign trade services to all Bank customers, is also subject to the Division.
The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions and in the management of deposit and securities products.
In addition, alongside the above mentioned divisions, two additional business activities divisions operate at the Bank: the Digital and Data Division, established in the course of 2018, which is responsible for the online channels area, the data, the CRM, the PayBox cellular payments application and the innovation, and the Planning, Strategy and Finance Division is responsible, among other things, for pension advisory services activity.

Household Segment (Domestic operations)

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of 182 branches located all over the country, in addition to a variety of direct channels. The customers are classified into groups according to their age, financial wealth and additional parameters.

Scale of Operations and Net Profit of the Segment

The segment's loss in 2018 amounted to NIS 170 million, compared to a loss in an amount of NIS 230 million in 2017.
The credit loss expenses in this segment amounted to NIS 363 million in 2018, compared to NIS 333 million in 2017, an increase of 9.0%. The growth stemmed from the growth in the group allowance, due to the growth in the volume of credit, an increase in write-offs and the effect of the said increase on the rate of the group allowance.

PRINCIPAL DATA REGARDING THE HOUSEHOLD SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	[(1)]2017
	in NIS millions	
Total income	3,285	[(2)]2,940
Credit loss expenses	363	333
Total Operating and other expenses	3,149	[(2)]2,925
Net Loss Attributed to the bank's shareholders	(170)	(230)

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

Developments in the segment

The Bank continued in 2018 to implement the Group strategic plan approved in 2014, which defined the household segment as one of the segments, which the Group intends to focus on in the coming years, as a central growth generator.
In 2018 the Bank continued implementing moves to achieve the multi-year targets:
- Continuing with moves to improve service and sales to customers, as a direct result of the move for the removal of operational activity from the branches;
- Continuing to expand and improve the customer communication channels with the bankers by coded mail, communicating with the banker via the mobile application and the telephone "CALL BACK" service;
- Continuing the implementation of a new CRM system at the Bank branches, which allows centralized documentation and management of customer approaches through all communication channels;
- Continuing to regulate workload at the branches in all communication channels: frontal, telephonic and digital, through a command and control center of the Banking Division;
- Continuing to expand and improve the telephone center with the aim of increasing the availability of the telephone service.

For additional details regarding the household segment (Domestic operations), including details regarding mortgage activity, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The segment's net profit in 2018 amounted to NIS 15 million, compared with a loss in the amount of NIS 3 million in 2017.

PRINCIPAL DATA REGARDING THE PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	(1)2017
	in NIS millions	
Total income	149	(2)120
Credit loss expenses	1	-
Total Operating and other expenses	125	(2)127
Net Profit (Loss) Attributed to the bank's shareholders	15	(3)

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

Developments in the Segment

The Bank continued in 2018 the actions for the intensification of activity with private banking customers, and even widened its activity with affluent customers (see below).
The private banking field focused on attracting new customers, by means of four service centers and 6 extensions in Herzliyah, Haifa, Jerusalem, Tel Aviv, Rishon LeZion and in Ashdod, as well as on intensifying the activity with existing customers and further work in aligning customers at branches and private banking centers with the service arrangements appropriate to their needs, in accordance with their profiles.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. In accordance with the service concept, focused meetings were held also in this year with customers of the centers, on financial subjects and current events, with the participation of the Bank's senior Management were conducted.

Activity in the international banking operations was focused on intensifying the operations with existing customers, while continuing the meticulous implementation of foreign residents policy adopted by the Bank, and the implementation of the directives of the Supervisor of banks regarding the obtaining signatures of foreign residents and the management of cross-border risks. In addition, as part of risk management, measures are taken to concentrate the foreign resident customers holding passive balances of US$1 million and over, in the international private banking center.

For details regarding foreign resident customer acceptance policy and the implementation of the Supervisor's instruction regarding obtaining the signatures of foreign residents, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Reorganization of service to affluent customers. Within the framework of the focusing on improving the service to affluent customers, as well as, inter alia, on the background of the efficiency measures adopted by the Bank. In 2018, the merger of the private banking unit with the investment banking was completed, and investment banking customers now come under the auspices of the private banking, which expanded its services dealing in two segments with customers having assets of over NIS 1 million: investment banking for customers holding deposits of between NIS 1-4 million receiving only consulting services. Customers holding assets with the Bank in an amount exceeding NIS 4 million, obtain an overall service with uniquely adapted service coverage.

For additional details regarding the private banking segment (Domestic operations), including details as to strategic focuses and service to customers, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Small and Minute Businesses Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

Net profit of the segment in 2018 amounted to NIS 358 million, compared with NIS 315 million in 2017, an increase of 13.7%.

The credit loss expenses in this segment amounted to NIS 111 million in 2018, compared to NIS 145 million in 2017, a decrease of 23.4%.

PRINCIPAL DATA REGARDING THE SMALL AND MINUTE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	(1)2017
	in NIS millions	
Total income	2,019	(2)1,897
Credit loss expenses	111	145
Total Operating and other expenses	1,347	(2)1,251
Net Profit Attributed to the bank's shareholders	358	315

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

For additional details regarding the Small and minute businesses segment (Domestic operations), including details as to goals and business strategy, and service to customers of this segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Medium Businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2018 amounted to NIS 127 million, compared with NIS 86 million in 2017, an increase of 47.7%.

The credit loss expenses reversal amounted to NIS 40 million in 2018, compared to expenses in the amount of NIS 21 million in 2017.

PRINCIPAL DATA REGARDING THE MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	2017[1]
Total income	417	[2]399
Credit loss expenses (expenses reversal)	(40)	21
Total Operating and other expenses	260	[2]244
Net Profit Attributed to the bank's shareholders	127	86

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

For additional details regarding the Medium businesses segment (Domestic operations), including details as to service to customers of this segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Large Businesses Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

Net profit of the segment in 2018 amounted to NIS 355 million, compared with NIS 377 million in 2017, a decrease of 5.8%.
The credit loss expenses in this segment amounted to an expense of NIS 120 million in 2018, compared NIS 23 million in 2017. The rise in credit loss expenses in 2018 was mostly affected by a decline in collection compared with 2017.

PRINCIPAL DATA REGARDING THE LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	2017[1]
	in NIS millions	
Total income	1,078	[2]975
Credit loss expenses	120	23
Total Operating and other expenses	414	[2]364
Net Profit Attributed to the bank's shareholders	355	377

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

For additional details regarding the Large Businesses Segment (Domestic operations), including Real Estate activity, see in chapter "Corporate Governance, audit, additional details regarding the business of the banking corporation and management thereof".

Institutional Bodies Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The existing and growing competition among banks and Stock Exchange members who are not banks, continued to cause erosion in commission rates also in 2018.
The segment's net profit in 2018 amounted to NIS 3 million, compared with a gain of NIS 23 million in 2017.
The credit loss expenses in this segment amounted to NIS 1 million in 2018, compared to an expense reversal of NIS 21 million in 2017. The change in the expense resulted from one particular customer.

PRINCIPAL DATA REGARDING THE INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	2017[1]
	in NIS millions	
Total income	46	[2]53
Credit loss expenses (expenses reversal)	1	(21)
Total Operating and other expenses	41	[2]39
Net Profit (Loss) Attributed to the bank's shareholders	3	23

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.

For additional details regarding the Institutional bodies segment (Domestic operations), see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Financial Management Segment (Domestic operations)

Scale of operations and Net Profit of the Segment

The segment's net profit in 2018 amounted to NIS 483 million, compared to NIS 528 million in 2017, a decrease of 8.5%. The profit in 2018 was effected, inter alia, by a decrease in the realization of investments in Discount Capital. For further details, see "Non-financial investments" below under "Activity of the Group by regulatory operating segments – additional details".

PRINCIPAL DATA REGARDING THE FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2018	2017[1]
	in NIS millions	
Total income	960	[3][2]1,043
Total Operating and other expenses	202	[2]215
Net Profit Attributed to the bank's shareholders	483	528

Footnotes:
(1) Reclassified - see Note 29 C to the financial statements.
(2) Reclassified - see Note 1 C 5 to the financial statements.
(3) Reclassified – Improvement of the allocation of intercompany balances in the Group.

Main Developments in the Segment

Negative interest environment. The Bank continues to charge institutional customers with interest on current account credit balances in Swiss Francs, in Euro and in Yen, following the transition to a negative interest environment.

For additional details regarding the financial management segment (Domestic operations), and details regarding non-financial companies activity, and details as to the dealing room activity, asset and liability management and Global Treasury, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

International Operations Segment

Scale of operations and Net Profit of the Segment

The net gain in 2018 amounted to NIS 334 million, compared to NIS 163 million in 2017, an increase of 104.9%.
The credit loss expenses reversal in this segment in 2018 amounted to NIS 16 million, compared to an expense in the amount of NIS 73 million in 2017.

PRINCIPAL DATA REGARDING THE INTERNATIONAL OPERATIONS SEGMENT

	For the year ended December 31,	
	2018	2017
	in NIS millions	
Total income	1,066	(2)906
Credit loss expenses (expenses reversal)	(16)	73
Total Operating and other expenses	610	(1)529
Net Profit Attributed to the bank's shareholders	334	163

Footnote:
(1) Reclassified - improvement in the allocation of expenses.
(2) Reclassified – Improvement of the allocation of intercompany balances in the Group.

For additional details regarding the International operations segment, see in the Chapter "Corporate governance, audit and additional details regarding the business of the banking corporation and the manner of their management".

Developments in the Segment

IDB (Swiss) Bank – in liquidation. On February 26, 2016, the transaction for the sale of the operations of customers of IDB (Swiss) Bank, as defined in the agreement, was concluded. For additional details see Note 15 E to the financial statements. Following the conclusion of the transaction, as stated, a Liquidator has been appointed for IDB (Swiss) Bank by the shareholders, and the name of the corporation has been changed to "IDB (Swiss) Bank – in liquidation". As from December 20, 2016 IDB (Swiss) Bank – in liquidation discontinued all banking activities and the Bank acted to liquidate the corporation, and this in accordance with an approval of the Swiss Financial Market Supervisory Authority (FINMA).
On November 15, 2018, an approval was received from the Commercial Register of Geneva for the removal of the company, thus concluding the company's liquidation process.
In accordance with the Swiss regulations, the records of IDB (Swiss) Bank have to be maintained for a period of ten years from date of termination of the banking activities.

MAIN INVESTEE COMPANIES

General

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2018, amounted to NIS 9,617 million, compared with NIS 8,855 million on December 31, 2017, an increase of 8.6%.

DISTRIBUTION OF NET PROFIT BY THE GROUP'S STRUCTURE

	Contribution to the Group's profit				
	2018		2017		
	In NIS millions	% of Net profit	In NIS millions	% of Net profit	Change in %
Banking Activity:					
Commercial banks:					
In Israel - the Bank	763	50.7%	574	45.6%	32.9%
- Mercantile Discount Bank	239	15.9%	220	17.5%	8.6%
Overseas - Bank offices	325	21.6%	158	12.5%	105.7%
Other Activities:					
Israel Credit Cards	95	6.3%	131	10.4%	(27.5%)
Discount Capital	70	4.6%	165	13.1%	(57.6%)
Other financial services	13	0.9%	11	0.9%	18.2%
Net profit	**1,505**	**100.0%**	**1,259**	**100.0%**	**19.5%**

At the end of 2018, 20.47% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 14.36% were assets of the overseas consolidated company. The contribution to the Net profit by the consolidated companies in Israel amounted to NIS 413 million in 2018 (NIS 526 million in 2017). The contribution to the Net profit by overseas consolidated companies amounted to NIS 325 million in 2018 (NIS 158 million in 2017), and the contribution to the Net profit by affiliated companies amounted to NIS 4 million in 2018 (NIS 1 million in 2017).

The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 742 million in 2018, compared with NIS 685 million in 2017, an increase of 8.3%.

Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York), which is the largest Israeli bank operating overseas.

Pursuant to Bancorp’s Certificate of Incorporation and By-Laws, IDB New York may not be sold by Bancorp unless the Bank has given its consent.

The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

DISCOUNT BANCORP, INC. – PRINCIPAL DATA

	In US$ millions		
Profit and loss statement items for the year ended December 31	2018	2017	Change in %
Net profit attributed to the shareholders	96	50	92.0
Return on equity	10.5%	5.5%	
Profit and loss statement items disregarding Nonrecurring tax expenses[1] for the year of	2018	2017	
Net profit attributed to the shareholders – disregarding as aforesaid	96	[1]65	47.7
Return on equity – disregarding as aforesaid	10.5%	7.1%	
Balance sheet items	December 31, 2018	December 31, 2017	Change in %
Total assets	9,229	9,322	(1.0)
Total credit[2]	6,109	5,873	4.0
Total deposits	7,460	7,744	(3.7)
Total equity	948	904	4.9
Ratio of total capital to risk assets	15.3%	14.7%	4.1

Footnotes:

(1) Expenses in the amount of US$15.5 million, effect of the U.S. Tax Reform (see Note 8 I to the financial statements).

(2) Excluding credit held for sale, stated in the item "Credit to the public" in the consolidated financial statements of the Discount Group (2018 – US$10 million, 2017 – US$8 million).

The improvement in the business results for 2018, stemmed mostly from the growth in interest income (US$55.6 million) and from the decrease in credit loss expenses (US$24.8 million). On the other hand, an increase occurred in non-interest expenses (US$29.4 million) and in interest expenses (US$18.6 million).

Distribution of dividend. In 2018, Bancorp distributed dividend to Discount Bank in a total amount of US$42.25 million (2017– US$30.6 million).

The contribution of Bancorp to the Bank's net results reached a profit of NIS 323 million (after deducting a provision for taxes of NIS 37 million) in 2018, compared with NIS 172 million in 2017.

Strategic plan. For details regarding the plan that was approved in December 2017, see above "Goals and business strategy".

The annual financial statements of Bancorp and of IDB New York are available for review on the Internet website of IDB New York (IDB Bank). Annual and quarterly financial data is available for review on the Internet website of FDIC.

Mercantile Discount Bank Ltd.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank.
In 2018, MDB celebrated the 100th anniversary of its founding.
At the end of 2018, MDB operated through 76 branches (77 branches at the end of 2017).

MERCANTILE DISCOUNT BANK LTD. – PRINCIPAL DATA

	In NIS millions		
Profit and loss statement items for the year ended December 31	2018	2017	Change in %
Net profit attributed to the shareholders	239	220	8.6
Return on equity	9.2%	9.4%	

Balance sheet items	December 31, 2018	December 31, 2017	Change in %
Total assets	36,219	34,137	6.1
Total credit to the public, net	25,675	23,939	7.3
Total deposits from the public	30,551	28,836	5.9
Total equity	2,723	2,473	10.1
Ratio of total capital to risk assets	14.0%	13.9%	-

The ratio of capital to risk assets. The Board of Directors of MDB determined the minimum rates of capital adequacy ratios, as follows: the common equity Tier I ratio shall not be lower than 9.5%; the comprehensive capital adequacy ratio shall not be lower than 13.0%.
The principal factors affecting the business results. The profit in 2018 was affected, inter alia, from an increase of NIS 61 million in interest income (6.0%); an increase of NIS 39 million in non-interest financing income (390%); from a decrease of NIS 23 million in credit loss expenses (19.3%); and from an increase of NIS 102 million in operating and other expenses (11.5%), stemming mainly from the payment of a one-time award of NIS 56 million, within the framework of signing a new wage agreement (see hereunder “the human capital”).
Distribution of dividend. During 2017-2018 Mercantile Discount Bank did not distribute dividend.
The strategic plan. The Board of Directors of the Mercantile Discount Bank approved in 2015 a strategic plan for the years 2016-2020. The program contains two main lines of action: the one – expansion of retail operations (households and small businesses), within the framework of which, Mercantile Discount Bank is intended to focus on specific sections of the population, in respect of which this bank has many years of experience in the granting of banking services matching their unique needs. The other – streamlining operations by means of strict management of operating expenses and improvement in income structure.
2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic plan, prepared by Management of this bank with the assistance of external consultants. The plan is intended to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services.
Major projects implementation. Execution of the said strategic plan involves the implementation of structural changes and changes in work processes, which are integrated at the Mercantile Discount Bank within the framework of projects, including:
- Expanding the operations of the "back-office operating unit" – within the framework of which, certain operating activities are removed from the branches to back-office operating centers, so as to increase the branch resources available to the customers, for the provision of service.
- Improvement of the computer infrastructure – including infrastructure relating to the development of activity in the retail segment, such as: enlarging the channels used for granting banking services, improving the technological infrastructure enabling the conduct of operations without the physical signature by the customer, upgrading and increasing the number of automatic devices at the branches and the development of advanced digital applications, which enable customers to obtain available information and carry-out banking operations by means of use of mobile communication devices.
- **Improvement of the communications system** – within this framework, in 2018, MDB began to deploy computerized communication systems that assist in managing the communications with the Bank’s customers, while improving human response availability and providing qualitative and detailed business information in real time. The project is expected to be completed in 2019.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits and additional proceedings filed against MDB, see Note 26 C to the financial statements, items 12.2, 12.3, 13.2, 13.4 and 13.5.

The annual and quarterly financial statements of Mercantile Discount Bank are available on the MAGNA website of the Israel Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. appearing under "Mercantile Issuance", and on the website of Mercantile Discount Bank.

Israel Credit Cards Ltd.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2018, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First International Bank held the balance of the rights in ICC.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

ISRAEL CREDIT CARDS LTD. – PRINCIPAL DATA

	In NIS millions		
Profit and loss statement items for the year ended December 31	2018	2017	Change in %
Total Income	1,698	1,511	12.4
Net profit attributed to the shareholders	157	211	(25.6)
(1)The contribution to the Bank's business results	95	131	(27.5)
Return on equity	9.0%	13.4%	

Balance sheet items	December 31, 2018	December 31, 2017	Change in %
Total assets	16,015	14,051	14.0
Total equity	1,838	1,680	9.4
Ratio of total capital to risk assets	15.9%	15.6%	

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from the recognition of current tax liability in respect of the investment in the company.

The principal factors affecting the business results. The business results of ICC for 2018 had been impacted to a large extent by the application of the joint issuance agreement signed between ICC and Shufersal Ltd. (see below Note 36 D to the financial statements), and in particular by a material increase in the marketing expenses involved in the attracting of customers and the operating expenses relating thereto, and in credit loss expenses, in respect of the group allowance.

The business results of ICC for 2018, compared with 2017, were mainly affected by a rise in income from credit card transactions (NIS 148 million, 13.8%) and net interest income (NIS 41 million; 9.5%), as a result of the growth in volume of consumer credit. On the other hand, an increase occurred in credit loss expenses (NIS 30 million; 23.0%), and an increase in operating expenses (NIS 74 million; 15.4%), and an increase in sales and marketing expenses (NIS 126 million; 40.1%) explained mostly by the growth in customer attraction and retention.

The ratio of capital to risk assets. In accordance with the requirement of the Supervisor of Banks, ICC was required to attain a capital adequacy ratio of not lower than 15% starting with December 31, 2010. On February 4, 2018, the Supervisor of Banks informed ICC of the removal of this requirement, and, accordingly, from that date forward, the minimum capital adequacy ratio required from ICC is identical to the capital adequacy ratio required from all the credit card companies in Israel. A resolution of the Board of Directors of ICC states a targeted core capital ratio of 9.6% and a targeted total capital ratio of 13.3%.

The requirement of VISA for a minimum equity capital. In April 2018, the VISA Organization informed ICC of the requirement, effective as from October 13, 2018, for a minimum equity capital of US$500 million, due to cooperation of the company with aggregators having Wide-Ranging Activity. On January 6, 2019, ICC received a permanent exemption from the aforesaid requirement, and it acts for the implementation of the recommendations made by the VISA Organization in the matter.

Distribution of dividend. In 2018, ICC did not distribute a dividend. In 2017 ICC distributed a dividend in the amount of NIS 30 million (the Bank's share amounting to approx. NIS 21.5 million).

Change in CEO. Mr. Levy Halevy took office on June 10, 2018, as CEO of ICC.

Strategic plan. On May 23, 2017, the Board of Directors of ICC approved the strategic plan for the years 2017-2021. The formed plan, with the assistance of external consultants, took into consideration the changes expected to take place in the credit card market, in view of the enactment of the Increase in Competition and the Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel Act, 2016. The plan focuses on measures to position ICC as the leading player in payment and off-banking credit activities. The strategic foci of ICC are:

- Enlarging the private and business customer base, while maintaining existing cooperation agreements and creating new collaborations with third parties;
- Upgrading digital infrastructures in its principal operations and providing customers with an optimal experience on the digital platforms;
- Using and leveraging the information in the decision-making processes;
- Operational excellence through organizational effectiveness and streamlining;
- Innovation that supports ICC's main lines of activity.

From time to time, ICC tests and validates the strategic foci and the strategic measures deriving therefrom as a result of the developments and trends in its operations and in the business and regulatory environment in which it operates.

In the opinion of Management of ICC, the implementation of the strategic plan would enable it to deal, in the best possible manner, with the challenges of the financial market in Israel in the coming years. It should be noted, that the success of the plan depends on a number of factors, the realization of which is not certain.

Changes in the organizational structure. In July 2018, ICC's Board of Directors approved a series of changes in the organizational structure with the aim of adapting it to the new competitive environment in the credit card field and in accordance with the strategic goals of ICC. Under the new organizational structure at ICC, seven divisions will operate (instead of nine).

For details regarding the sale of Visa Europe, and the consideration received, as well as additional consideration expected to be received, see Note 36 G to the financial statements.

For details regarding activity in the credit card field in Israel, see in the chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof", and in Note 36 to the financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, see Note 26 C to the financial statements, items 12.4, 13.3, 13.6 and 13.8.

The annual and quarterly financial statements of ICC are available for review on the Internet website of ICC.

Discount Capital Ltd.

Discount Capital, a fully owned and controlled subsidiary of the Bank, which is engaged in three main areas of operation:

- Investments in companies, private equity funds and in venture capital funds;
- Investment banking, including consulting and management of mergers and acquisitions (M&A), corporate finance consulting and advising in rating processes;

Initiating and advising public offerings and private placements and providing underwriting and distribution services, by means of the subsidiary Discount Capital Underwriting Ltd.

DISCOUNT CAPITAL – PRINCIPAL DATA

	In NIS millions		
Profit and loss statement items for the year ended December 31	2018	2017	Change in %
Net profit attributed to the shareholders	71.4	186.5	(61.7)
The contribution to the Bank's business results[1]	70.0	165.2	(57.6)
Balance sheet items	December 31, 2018	December 31, 2017	Change in %
Total assets	1,571.0	1,499.2	4.8
Total equity	751.9	680.6	10.5

Footnote:

(1) Differences between net income and the contribution to the Bank's business results is derived from differences in the implementation of generally accepted accounting principles and from the recognition of current tax liability in respect of the investment in the company.

The profit in the years 2017-2018 was affected mainly by different realizations.

During 2018, Discount Capital, through a subsidiary, participated in 68 public offerings (of which one public offering for the Discount Group) and in 21 private placements, with a total volume of approx. NIS 31.4 billion (in 2017 - 101 public offerings and 25 private placements with a total of approx. NIS 41.8 billion).

CHAPTER "C" – RISKS REVIEW

General Description of the Risks and Manner of Management thereof

Risk Profile of the Discount Group – Risk Environment

The Discount Group is engaged in a wide range of financial operations involving risk taking. The Group has focused the geographical distribution, and at the present time maintains international presence through the New York subsidiary only. The complexity of the risk environment (domestic and international, regulatory and internal), as well as the dynamics and pace of changes occurring in the risk environment, create challenges in the risk management field alongside the business challenges. For a wider discussion in the matter of main developments in the economic environment, see above "Principal economic developments" under "Material trends, occurrences, developments and changes".

Following are the major external effects, to which the Group is exposed, are:

- **Intensified competition, profitability risks and the business model.** The low interest environment, the numerous regulatory instructions intended to support the increase in competition, innovation and technology, and expected structural changes in the banking industry (principally as regards credit, payments and digital), lead to the continued increase in competition in the banking industry, to wider cooperation with third parties and to the transition of banking activity to financial entities that are not banks. In consequence thereof, the banking industry faces challenges in the formation of a future banking concept and in identifying additional and alternative growth generators, including initiating and developing new products and cooperation. The Group is engaged in forming and implementing the future banking concept of the Group, while emphasizing the broadening of the services coverage, the means of communication and improving customer experience. The innovation and digitization aspects are being accompanied by representatives of risk management as from the initiation stages, including the conduct of new product processes;
- **Efficiency measures** – the above stated changes in competition require the continuous implementation of efficiency measures by the banking industry. Improvement of the operating efficiency ratios comprises a central axis in the Group's strategic plan. In recent years the Group demonstrates a continuing improvement in efficiency ratios, though the challenge continues to be significant in light of major streamlining in the system too. The Group implements a multiannual efficiency plan, which includes efficiency measures regarding manpower, expenses and properties (reduction in the number of branches) and also launched strategic projects, whose aim is to support and assist the Bank in coping with the competitive environment and the future banking. Furthermore, the Bank and the Group introduce from time to time additional efficiency projects;
- **Development of digital banking.** A growing trend of transition of activity to digital is observed in recent years. This development, combined with supporting regulation (online banking, Strum Committee, etc.) that lead to wider services and growing cooperation with third parties (outsourcing of operations, acquisition of new technologies, cooperation with third parties and technology companies, combining robotics and artificial intelligence in processes and services, the development of open banking etc.). These changes comprise on the one hand business opportunities and on the other hand create new challenges with respect to risk management, with an emphasis on data protection and cyber aspects as well as the supply chain and also model development and validation aspects.

  The Group is engaged in the continuous improvement of the risk management processes and of the supporting tools, including improvements in models, updating of policy documents, forming standardization, contractual regulation and processes as well as conducting "new product" processes for new products or operations;
- **Cybernetic risks.** Intensification of the technological risks, including the increase in the means, sophistication and complexity of cyber-attacks in Israel and globally is leading to an increase of cyber risks and to the regulators and supervisory authorities, in Israel and globally, focusing on regulating such threats and on their supervision, as across the board threats, which, in addition to the technological risk, may develop also into a strategic business risk. The Group has a cyber policy and strategy as well as a multiannual work plan for improvement of cyber defense, including the strengthening of the network defense and its components, improving forestallment and monitoring tools, identification of irregular activity and upgrading infrastructure. During 2018, emphasis was placed on assimilating the Group work framework at the subsidiaries and also on establishing the second and third lines of defense in the risk management. This included: defining the risk tolerance, adopting the FFIEC methodology for assessing the maturity of cyber protection in the business processes, deploying a cyber risk management system in the business processes and so forth;

- **The households leverage level.** An upward trend in the level of leverage of household customers is observed in recent years, inter alia on the background of the low interest environment and the continuing leadership of private consumption in economic growth. In the passing year, inter alia in view of the growth in credit loss expenses, the Group has taken numerous measures to improve the models, and monitor and control tools and processes regarding credit quality, at the Bank and Group companies, including stricter underwriting thresholds and adjustments of the credit policy. The Group is continuing to advance a strategic project that will contribute to improving the retail models, so as to support controlled future growth in the retail segment;
- **Fairness and decency** – the important values of fairness, decency and transparency vis-à-vis the Bank's customers, including the prevention of prohibited discrimination between customers, are also a developing risk that is managed as an integral part of the Bank's compliance risk management. The Bank works continuously to assimilate these values across the spectrum of relevant processes and is raising employees' awareness to their importance.
- **Protection of privacy** – privacy protection considerations continue to gain force and importance both in Israel and globally, against the background of increased digital and data use. Privacy protection regulation is undergoing numerous changes and developments in both domestic and global legislation (GDPR). This area has been identified by the Group as a developing risk and the Group has performed a thorough review thereof, aimed at ensuring the meeting of expectations and compliance with regulatory guidelines, along with attending to any gaps that will be identified. The Group is working to maintain a proper balance between the use of information for the Bank's purposes and safeguarding the various aspects of protecting its customers' privacy. Privacy protection considerations constitute an important element in examining new products and/or technologies and/or services and/or models, alongside assuring proper protection of sensitive information.

The Table of risk factors below presents the principal changes that had occurred in the Group's risk profile.

Principles of Risk Management

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process.

The Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint.

The Board of Directors and Management assign great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.

High-level principles for risk management in the Discount Group:

- Risk management is performed from a Group integrated viewpoint, cross organization, along the management echelon and across the business units, using methodologies and consistent terms with reference to all types of risks to which the group is exposed;
- Group corporate governance, which supports the maintenance of an effective chain of control over the activity of the group, subject to the provisions of the law;
- Responsibility for risk management is hierarchical, where each managerial level bears responsibility for the risks existing in its scope of operation, in a manner ensuring aggregation of risk management at all management levels up to the member of Management in charge of the business line, including the maintenance of proper procedures for identification, measurement, assessment, control, monitoring and reporting of risks;
- A senior officer in the position of member of Management is in charge of each of the material risks to which the Group is exposed. He bears the overall accountability for management of the risk in the first line of defense;
- The risk management concept supports the eligibility and improvement of decision making processes and value maximization from a long-term viewpoint;
- The organizational culture encourages transparency and an effective intra-organizational communication, while allowing for a proper flow of information, including in respect of violation/failure events, to all the functions involved in the handling of risks.
- Risks are being managed while maintaining the separation of duties and controls between the defenses lines involved in the risk management;
- A dynamic and evolving over time risk management concept in accordance with changes in the requirements of the Bank and the Group, regulatory instructions, accepted practice in Israel and around the world and conditions in the inner and external environment;
- Risk management is conducted on a continuous basis, from a forward looking viewpoint, which includes processes of identification, measurement, assessment, monitoring, control and current reporting of exposure to risks, management thereof and their implications on the risk profile, alongside the identification of materializing and new risks;

- Risk management processes are being integrated as part of the current business activity, and they are integrated into material processes and projects at the Bank and the Group, including "new product" processes, where required;
- The risk management processes include proactive measures for risk management and for the formation of an effective organizational culture and the integration of control culture, with an emphasis on integration of fairness and decency values into operations and processes.

Risk Appetite

The Risk Management Division is responsible for the periodic updating of the risk appetite, in conjunction with the capital planning process, the strategic planning and liquidity planning, in a manner that these processes be integrated, complement one another and be managed congruently and interactively, with the objective being to marry the Group's return and maintain its stability in a long-term view.
The Discount Group's risk appetite declaration is in line with the requirements of Proper Conduct of Banking Business Directive No. 310 and reflects the risk preferences of the Board of Directors, through setting limits and defining clear and easily assimilated "boundaries" for activity and business directions and for ensuring compliance with regulatory requirements and limitations. The declaration includes quantitative and qualitative statements relating to each of the risk areas being managed, and these constitute the basis for drawing up risk appetite documents for the individual risk areas that include limits, goals and warning thresholds that form the outline for setting the Group's business policy.
The declaration's limits are set, inter alia, based on the use of various scenarios and stress tests, which constitute a central and important tool for assessing the risks and their potential impact on the Group's capital. The declaration includes statements and limits relating to a normal business situation and to a stress situation, and from a forward-looking perspective.
The risk appetite declaration and the individual risk appetite documents drawn up pursuant thereto constitute one of the main tools of the Board of Directors for supervising that the corporation's risk profile correlates with the set appetite, and these are monitored on an ongoing basis and reported periodically to the Board of Directors. In accordance with the declaration, any exception to these limits is reported to the Board of Directors, or to one of its committees, while prescribing an outline for reducing the level of risk and complying with the limits.
The risk appetite declarations of the Group companies correspond to the Group declaration and are in alignment therewith. In December 2018, the Board of Directors approved the risk appetite declaration of the Discount Group for 2019. During 2018 none of the limits set by the Board of Directors on this topic were exceeded.

Risk Management Policy and Tools

The risk management concept of the Group is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the definition of authority and responsibility of the functionaries taking part in the risk management processes, definition of the tools, methodologies and models used for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.
The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments. For additional details regarding the various tools used in risk management and the integration of the risk culture, see "Risk management tools" and "Risk culture and absorption of the usefulness of risk management processes" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Assessment of the Risk Profile

The Group maintains the current monitoring of changes in the risk profile of the Bank and of companies in the Group, based on the Group tools and methodologies developed for the support of the monitoring of changes in risk profile, including the implementation of identification, measurement, assessment, monitoring, control and reporting processes, which include also the follow-up of limitations, indicators and various alert limits, including in comparison with the banking industry.

The quarterly risk document summarizes material changes that had taken place in the Group risk profile, with reference to the different risk areas. This document serves as a supporting tool for the Board of Directors and the Management in the monitoring of developments in the risk profile, in line with the risk appetite and with the long-term goals of the Group, while verifying the maintenance of capital appropriateness over a period of time.
In this framework, the Bank also reviews material changes in the quality of risk management, including their impact on the quality and effectiveness of the risk management processes, and subjects and issues are brought up, allowing the focusing of discussions and the passing of risk based resolutions.

Stress Tests

One of the main tools for assessing the risks and their potential impact on the capital and the risk appetite is the use of stress tests with a forward looking view point as a complementary tool for the risk management processes.
The use of stress tests is intended to provide management with a warning of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.
The Group operates within the framework of an organized methodology, which has been developed over time, and which has been implemented at the Bank and at the Group companies for assessing the impact of the stress tests on credit risks, market risks and on certain components of the statement of profit and loss by means of internal models which enable to examine the effects of changes in macro-economic parameters on the statement of profit and loss items and on the equity and on identified vulnerability areas/specific risk centers. Noted is the increased usefulness of the results of the scenarios and the stress tests as a tool in the hands of the business factors and the risk management division, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.

Disclosure in accordance with the Third Pillar of Basel

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management. Qualitative and quantitative disclosure regarding the various risks is presented above and below in this Chapter and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks". The document is available for perusal on the Bank`s website together with the Bank's 2018 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. and is comprising an integral part of the Bank's 2018 annual report.

Credit Risks

Credit Risks and the manner of Management thereof

The credit risk management concept of the Bank and of the Group is aimed at ensuring a proper balance between the business functions, which directly create exposure to credit risk and managing it, and the functions engaged in supervision, control and the independent evaluation of risks, as well as the functions engaged in audit.

Credit Policy Documents

The core documents relating to credit include the risk appetite and credit policy document of the Discount Group, the Bank's standalone credit policy, the credit risk management policy document and the credit policy documents of each subsidiary, which serve as the infrastructure for credit risk management at the Bank and the Group, as well as the procedures and methodologies in the credit field being an integral part of the management and credit granting framework, according to which operations have to be conducted.

Credit Risks Measurement and Reporting

The Discount Group bases the credit risk concept in accordance with worldwide accepted advanced methods, using models for the assessment of risk (statistical and other) based on banking conduct, financial data and qualitative questionnaires for the assessment of borrower risk (probability of default – PD) and the loss expected there from, inter alia, in view of the scope and quality of the collateral (loss given default – LGD). The Bank and the Group makes use of several measurement and reporting systems supporting credit risk management. Further progress was made in 2018 in the development of updated models, computerizing tools and calculation processes, intensifying analysis and reporting and the sharpening of methodologies alongside the continued integration of the language at the Bank and the Group.

Structure and Organization of the Credit Risks Management Functions

The organizational structure that serves the management of credit risk at the Bank includes the definition of authority and responsibility of the functions involved in managing the risk at the Bank – the Board of Directors, Management and three separate lines of defense:

First line of defense. The business units perform on a current basis processes for mitigating credit risk by means of the economic and business analysis of applications for credit for assessing the credit risk involved in the operations of the borrower, credit rating and current monitoring and control of the credit granted and the quality of the borrower.

The control units are responsible for the credit risks management related to the operations of the business divisions, as well as for the performance of current monitoring and control processes and the writing and updating of methodologies and procedures in the credit field. Among these units may be mentioned the credit risk management department of the Corporate Division and the control, collection and compliance department of the Banking Division.

The credit committees discuss and take decisions regarding credit issues, both as regards new credit applications and as regards existing indebtedness.

Second line of defense. The risk management division is responsible for the formation and updating of core documents in the credit field, the current evaluation of the credit risk profile of the Bank and the Group, the development and implementation of internal models for credit rating and Group methodologies for the management of credit risk. In addition, the risk management division is responsible for the post factum examination of the manner of credit risk management at all its stages, providing assessments of specific credit quality and the quality of the credit portfolio as a whole, as well as the rendering of opinion regarding credit transactions, determination of credit rating, classification and allowances.

Third line of defense. The internal audit performs sample examinations of credit files, credit granting approval processes and its management, and checks whether work processes comply with the Bank's procedures. In addition, it performs cross-organization audits of credit issues.

The Otzar system (new credit and attachments management system). The system is planned to manage the whole operation of underwriting, approval and management of credit to all customers of Discount Bank and of MDB. The new system is expected to bring about a significant improvement in the work of credit officers through the introduction of standardized work procedures that are structured and shorter. The system would gradually replace the two Carmel systems used at present by the branches and Head Office unites. The Otzar system is intended for use by all employees involved in credit. Upon completion of the integration of the system, the whole process of credit in the Bank would be managed by one system.

The Otzar system joins the toolbox existing on the banker's desktop and, inter alia, is being integrated with he "Connected +" system, which is in the midst of being installed at the Bank. Absorption of the system began six months ago by the "greenhouse" teams of the corporate division of Discount Bank and by the commercial division of MDB. This process tested the system, the manner of implementing the processes and their adaption to the different business lines. A gradual installment of the system started in June 2018 in the corporate division and in several units of the Risk Management Division. Installation of the system in all branches and regional offices in the banking division and in the additional business units will be made during the year 2019.

The subject indeed is a system for the underwriting and management of credit, improving the internal processes in the organization (work procedures, documentation, controls, monitoring of decisions, availability of information, etc.). However, by means of the improvement of internal processes, an improvement in the service to customers is also expected.

Furthermore, the new infrastructure comprises a platform for reporting to the Supervisor of Banks regarding the credit field and allows the real-time mechanized monitoring of internal and regulatory restrictions.

The integration of the system is completed at this stage with respect to credit facilities, reports to the Supervisor of Banks and infrastructure for the digital monitoring of restrictions.

Adoption of updates to the generally accepted accounting principles at banks in the U. S. – allowances for credit losses – the Bank's preparations

On March 28, 2018, the Supervisor of Banks published a letter in this matter, according to which, as part of the transition of financial reporting to the full adoption of the accounting principles accepted by U.S. banks, banking corporations and credit card companies are required to make preparations for the application of the updates to accounting principles accepted by U.S. banks regarding allowances for current expected credit losses (CECL) – adoption of the update to accounting standard ASU 2016-13. The standard is to be applied as from January 1, 2022 and thereafter;

Within the framework of the preparations for implementing the standard, the banking corporations were required, inter alia:

- To appoint one or more persons, with the grade of a member of Management, to be responsible for the project;
- To report quarterly, within two months of the end of the quarter, to the Board of Directors or to a committee authorized for this purpose, regarding the status of progress in the corporation's preparations for implementing the principles. The first report was as of June 30, 2018. A copy of the report is to be sent each quarter to the Supervisor of Banks.

The Bank appointed the Chief Risk Officer to be responsible for the project and the reports to the Board of Directors and to the Supervisor of Banks are being submitted as required. The Bank has appointed a steering committee, headed by the CRO, in which different factors at the Bank participate, including the Chief Accounting Officer. In addition, internal work teams have been appointed, which duties are to examine the different aspects of the implementation of the standard.

The Bank has begun to make the necessary preparations, including having appointed the Chief Risk Officer to be responsible for the project. The first report was submitted to the Board of Directors on July 30, 2018, and a copy of which was delivered to the Supervisor of Banks soon afterwards.

With the aim of assisting the banking corporations and credit card companies in their preparations for the implementation of the new rules, the Supervisor of Bank announced in July 2018, the establishment of work teams for the implementation of the new rules. The Bank's representatives take part in the work teams.

Credit Quality and Problematic Credit Risk

Problematic Credit Risk and Non-Performing Assets

	December 31, 2018			December 31, 2017		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
Problematic Credit Risk[1]:						
Impaired credit risk	[3]1,712	67	1,779	[3]2,178	129	2,307
Substandard credit risk[2]	650	10	660	752	14	766
Special mention credit risk[2]	1,448	210	1,658	1,341	242	1,583
Total Problematic Credit Risk	**3,810**	**287**	**4,097**	**4,271**	**385**	**4,656**
Of which: Non impaired debts, in arrears for 90 days or more[2]	435			407		
Non-performing assets:						
Impaired debts - non accruing interest income	1,090			1,371		
Total Non-Performing Assets	**1,090**			**1,371**		

Footnotes:

(1) Impaired credit, substandard credit and credit under special mention risks.

(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists and in respect of housing loans that are in arrears for 90 days or more for which an allowance based on the extent of arrears does not exist.

(3) Including non accruing corporate bonds in an amount of NIS 10 million, and non accruing bank bonds of NIS 69 million (December 31, 2017- non accruing corporate bonds in an amount of NIS 17 million, and non accruing bank bonds of NIS 31 million).

Changes in Balances of Impaired Debts

	2018			2017		
	Commercial	Private	Total	Commercial	Private	Total
	In NIS millions					
Change in impaired debts (In respect of credit to the public only):						
Balance of impaired debts as of the beginning of the year	2,042	88	2,130	2,882	61	2,943
Debts classified as impaired during the period	528	274	802	843	197	(1)1,040
Debts no longer classified as impaired	(78)	(2)	(80)	(112)	(4)	(116)
Impaired debts written off	(246)	(169)	(415)	(567)	(139)	(1)(706)
Impaired debts settled	(802)	(37)	(839)	(856)	(28)	(1)(884)
Other	34	1	35	(2)(148)	1	(1)(147)
Balance of impaired debts as of end of the period	**1,478**	**155**	**1,633**	**2,042**	**88**	**2,130**
Of which: movement in restructured troubled debts						
Balance of restructured troubled debts at beginning of the period	1,546	71	1,617	2,076	48	2,124
Debt restructurings performed during the year	271	119	390	478	70	548
Debts that have again been classified to unimpaired due to a following restructuring	(54)	(1)	(55)	(5)	-	(1)(5)
Restructured troubled debt written off	(184)	(25)	(209)	(339)	(22)	(361)
Restructured troubled debt settled	(478)	(28)	(506)	(630)	(18)	(648)
Other	(7)	(5)	(12)	(34)	(7)	(41)
Balance of restructured troubled debts at the end of the period	**1,094**	**131**	**1,225**	**1,546**	**71**	**1,617**
Changes in allowances for credit losses on impaired debts:						
Balance of allowance for credit losses as of the beginning of the year	163	25	188	386	3	389
Increase in allowances	301	83	384	430	32	462
Collections and write-offs	(295)	(54)	(349)	(653)	(10)	(663)
Balance of allowance for credit losses as of end of the period	**169**	**54**	**223**	**163**	**25**	**188**

Footnotes:
(1) Reclassified - Improvement in the calculation of the data.
(2) Of which: NIS 115 million in respect of the sale of impaired credit.

SEVERAL FINANCIAL RATIOS USED TO EVALUATE THE QUALITY OF THE CREDIT PORTFOLIO

	December 31, 2018	December 31, 2017
Ratio of balance of impaired credit to the public to balance of credit to the public	0.98%	1.41%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.26%	0.27%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.36%	1.40%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	139.25%	99.15%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	1.62%	1.98%
Ratio of credit loss expenses to the average balance of credit to the public	0.34%	0.39%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.26%	0.40%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public	18.25%	27.57%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	109.96%	83.21%
Ratio of the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over, to balance of credit to the public	1.24%	1.68%
The ratio of the outstanding balance of noninterest bearing impaired credit to the public to total credit to the public	0.61%	0.88%

The rise in the ratio of the balance of the allowance for credit losses in respect of credit to the public to the balance of impaired credit to the public is mainly expressed in the decrease in the balance of impaired credit to the public compared with 2017 (as a result, primarily, of collections and recording accounting write-offs), together with a rise in the total balance of the allowance for credit losses (as a result, primarily, of increasing the group allowance). The decrease in the rate of net write-offs in respect of credit to the public from the balance of the allowance for credit losses in respect of credit to the public stems mostly from the decrease in net write-offs.

The increase in the ratio of the balance of the allowance for credit loss in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for ninety days or over, stems mainly from the reduction in the balance of impaired credit as stated.

Credit risk by economic sectors – consolidated

	December 31, 2018						
					Credit Losses(3)		
	Total Credit Risk(1)(8)(9)	Of Which : Credit Performance Rating(4)	Of Which: Problematic(5)	Of Which: Credit Risk Impaired	Credit Loss Expenses (income)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions						
Industry	14,721	13,967	447	73	23	12	241
Construction and Real Estate - Construction(6)	28,498	27,865	316	122	25	9	190
Construction and Real Estate - Real Estate Activity	10,986	10,542	314	283	(14)	(14)	98
Commerce	19,888	18,991	389	258	5	40	334
Communication and Computer Services	2,359	2,179	125	122	134	123	136
Financial Services(7)	14,144	13,780	301	298	-	(1)	98
Other Business Services	25,579	24,386	360	213	64	39	199
Total Commercial	**116,175**	**111,710**	**2,252**	**1,369**	**237**	**208**	**1,296**
Private Individuals - Housing Loans	35,676	32,906	334	-	23	14	184
Private Individuals - Other	61,588	60,265	566	155	340	249	648
Total Public	**213,439**	**204,881**	**3,152**	**1,524**	**600**	**471**	**2,128**
Banks in Israel and Government of Israel	28,439	28,428	-	-	-	-	-
Total Lending Activity in Israel	**241,878**	**233,309**	**3,152**	**1,524**	**600**	**471**	**2,128**
Total Public - Lending Activity Outside of Israel	**45,445**	**43,250**	**876**	**186**	**(60)**	**(56)**	**322**
Banks and Governments Outside of Israel	7,050	6,981	69	69	-	-	1
Total Lending Activity Outside of Israel	**52,495**	**50,231**	**945**	**255**	**(60)**	**(56)**	**323**
Total	**294,373**	**283,540**	**4,097**	**1,779**	**540**	**415**	**2,451**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts(2), bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 172,917 million, NIS 36,859 million, NIS 774 million, NIS 3,726 million, NIS 80,097 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

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

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes housing loans in the amount of NIS 59 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 5,933 million, issued by GNMA and in the amount of NIS 1,086 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,673 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Credit risk by economic sectors – consolidated (continued)

	December 31, 2017						
					Credit Losses[3]		
	Total Credit Risk[1][8][9]	Of Which : Credit Performance Rating[4]	Of Which: Problematic[5]	Of Which: Credit Risk Impaired	Credit Loss Expenses (income)	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions						
Industry	15,226	14,616	361	63	(90)	(70)	228
Construction and Real Estate - Construction[6]	25,041	24,474	344	156	(38)	(30)	174
Construction and Real Estate - Real Estate Activity	10,140	9,774	268	231	3	5	93
Commerce	20,200	19,462	569	326	140	125	371
Communication and Computer Services	2,653	2,238	430	331	193	257	126
Financial Services[7]	10,839	10,435	349	347	(36)	(7)	98
Other Business Services	23,224	22,259	374	275	60	56	178
Total Commercial	**107,323**	**103,258**	**2,695**	**1,729**	**232**	**336**	**1,268**
Private Individuals - Housing Loans	30,572	29,656	308	-	14	5	175
Private Individuals - Other	54,128	51,448	495	88	318	217	556
Total Public	**192,023**	**184,362**	**3,498**	**1,817**	**564**	**558**	**1,999**
Banks in Israel and Government of Israel	24,217	24,214	-	-	1	-	1
Total Lending Activity in Israel	**216,240**	**208,576**	**3,498**	**1,817**	**565**	**558**	**2,000**
Total Public - Lending Activity Outside of Israel	**41,094**	**38,839**	**1,127**	**459**	**9**	**24**	**305**
Banks and Governments Outside of Israel	6,808	6,776	31	31	-	-	-
Total Lending Activity Outside of Israel	**47,902**	**45,615**	**1,158**	**490**	**9**	**24**	**305**
Total	**264,142**	**254,191**	**4,656**	**2,307**	**574**	**582**	**2,305**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts[2], bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, guarantees and liabilities on account of clients in an amount of NIS 155,422 million, NIS 31,815 million, NIS 954 million, NIS 2,954 million, NIS 72,997 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale and assets in respect of Maof Market operations.

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

(4) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes housing loans in the amount of NIS 111 million, which were granted to acquisition groups, the projects being built by them are in the course of construction.

(7) Including mortgage backed securities in the amount of NIS 5,542 million, issued by GNMA and in the amount of NIS 1,251 million, issued by FNMA and FHLMC.

(8) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,194 million.

(9) The balance of commercial debts includes housing loans in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

Exposure to Foreign Countries – Consolidated

	As of December 31					
	2018			2017		
	exposure			exposure		
The Country	balance sheet[2]	Off-balance sheet[2][3]	Total	balance sheet[2]	Off-balance sheet[2][3]	Total
	In NIS millions					
United States	13,793	6,766	20,559	12,597	6,894	19,491
United Kingdom[6]	2,123	99	2,222	2,224	126	2,350
Other	5,096	[5]8,150	13,246	4,568	8,484	13,052
Total exposure to foreign countries[1]	**21,012**	**15,015**	**36,027**	**19,389**	**15,504**	**34,893**
Of which - Total exposure to the PIGS countries[4]	8	381	389	10	392	402
Of which - Total exposure to LDC countries[7]	755	250	1,005	461	202	663

Notes:

(1) Exposure to countries where the total amount of exposure to each of them exceeds 1% of the total consolidated assets or more than 20% of the equity, whichever is the lower. Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Portugal, Italy, Greece and Spain.

(5) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 3,270 million and Germany – an amount of NIS 3,116 million.

(6) As of December 31, 2018, the exposure to the United Kingdom does not meet the separate presentation criterion in this Table, though presented separately for comparison purposes.

(7) The item "Total exposure to LDC countries" includes the total exposure to countries defined as less developed countries (LDC) which are countries classified by the world bank as having low or medium income.

Credit Exposure to Foreign Financial Institutions

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

Developments in world markets. The Eurozone grew in 2018 by 1.8%, compared to 2.4% in 2017. Weakness was recorded in the German economy, which slowed down and grew by 1.4%. At the same time, Italy entered into a recession following its economy contracting in the last two quarters of the year. On the other hand, the economies of Spain and France continued to expand.

The inflation in the Eurozone in 2018, was 1.6%, near to the target of the Central Bank, accordingly, the Central Bank terminated the bond purchase plan at the end of 2018.

The Bank maintains a careful credit policy for financial institutions and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities. Moreover, the business divisions perform on an ongoing basis, a comprehensive examination with respect to customers who may be adversely affected by their operations in crisis areas.

As seen from the data presented above regarding "Exposure to foreign countries", the direct exposure of the Group to the said country is not material and in a downward trend. However, it is not possible at this stage to evaluate the indirect effect, particularly if a global crisis develops as a result of the crisis in the said countries.

The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and which have recently been validated;

- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Britain, having a rating of "BBB+" at the least;
- Close management of the volume of foreign currency deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA agreement with every financial institution with which the Bank enters into transactions of this kind;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;
- A methodical and close management utilizing upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank, change in market data and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible.

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 87% of the exposure as of December 31, 2018, is to financial institutions rated "A-"rating or higher.

The states in respect of which the Bank has exposure as stated above as of December 31, 2018, include, inter-alia, the United States, Great Britain and France.

In 2018, impairment of securities was not made with respect to the exposure to financial institutions.

PRESENT CREDIT EXPOSURE TO FOREIGN FINANCIAL INSTITUTIONS, ON A CONSOLIDATED BASIS

	Balance sheet credit risk(2)(4)(5)	Present off balance sheet credit risk(3)(4)	Present credit exposure(4)
	In NIS millions		
	As of December 31, 2018		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	709	100	809
A+ to A-	3,301	365	3,666
BBB+ to BBB-	518	3	521
BB+ to B-	3	57	60
Not rated	37	35	72
Total present credit exposure to foreign financial institutions	**4,568**	**560**	**5,128**
Balance of problematic bonds	69	-	69
	As of December 31, 2017		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	589	247	836
A+ to A-	3,581	394	3,975
BBB+ to BBB-	234	8	242
BB+ to B-	5	45	50
Not rated	50	52	102
Total present credit exposure to foreign financial institutions	**4,459**	**746**	**5,205**
Balance of problematic bonds	32	-	32

Notes:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.
(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.
(3) Mainly guarantees, including guarantees securing third party indebtedness.
(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.
(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 28 to the financial statements.
(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 12 to the financial statements).
(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

In addition to the exposure presented in the above table, as of December 31, 2018 and 2017 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 167 million and NIS 87 million, respectively.

Credit Risk in Housing Loans

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York (hereinafter will be named together as "the Group"). It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 145 million as of December 31, 2018 and NIS 127 million as of December 31, 2017).

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The growth recorded in the volume of housing loans granted by the banking industry, which exceeds the economic growth rates and the growth rates in the standard of living and in household income, together with a scenario of a rise in unemployment and in interest rates, may lead to impairment in the quality of the housing credit portfolio and may increase exposure to credit risk in the banking industry. Notwithstanding, Indications existing in the local market in recent months, point at moderation in demand for new residential units, which are not part of the "price for the housing purchaser" projects, when many "price for the housing purchaser" projects have reached the sales stage reflected in a rising demand for mortgage loans in respect of such projects.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, mix of the credit portfolio, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate in loans bearing variable interest rates) on the repayment ability of the borrower.

  Reduction in the volume of credit granted in loan lanes where the interest rates changes in accordance with the restriction determined by the Supervisor of banks;
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank’s exposure to credit risk, as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI's), and additional parameters including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Updating credit application rating model for mortgages;
- Use of computerized tools in order to mitigate credit risks and mitigate operational risks.

The volume of the Group’s housing loan portfolio as of December 31, 2018, amounted to NIS 33,159 million (December 31, 2017 - NIS 29,143 million).

CERTAIN RISK CHARACTERISTICS OF THE GROUP'S HOUSING LOANS PORTFOLIO

	December 31, 2018	December 31, 2017
	%	
Rate of housing loans financing over 75% of the value of the property	2.5	3.3
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	9.6	10.7
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	59.4	59.6

Footnote:

(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

AMOUNT OF LOANS AND AVERAGE FINANCING RATIOS

	2018	2017
Average amount of loan (in NIS thousands)	752	698
Average financing ratio for housing loans (in %)	55.1	55.0
Average financing ratio for general purpose loans (in %)	34.5	38.8

DIVISION OF HOUSING CREDIT BALANCES ACCORDING TO SIZE OF CREDIT TO BORROWERS

	December 31,			
	2018		2017	
Credit limit net(1) (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	26,345	79.9	23,337	80.5
Between 1,200 and 4,000	6,212	18.8	5,260	18.2
Over 4,000	414	1.3	367	1.3
Total	**32,971**	**100.0**	**28,964**	**100.0**
Of which:				
Housing loans that were granted abroad	147		125	
Deduction of allowance for credit losses	188		179	
Housing loans(2)	235		250	

Footnote:

(1) The balance of credit is after deduction of allowance for credit losses.

(2) The credit to the public includes housing loans which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction.

VOLUME OF PROBLEMATIC DEBTS IN HOUSING LOANS

As at	Balance of credit to the public(1)(5)	Balance of the problematic credit(1)	Balance of allowances for credit losses(2)(3	Ratio of problematic debt
December 31	In NIS millions			Change in %
2018	33,159	(4)340	72	1.0
2017	29,143	(4)312	74	1.1

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2018 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 68 million, and also an allowance over the extent of arrears in an amount of NIS 4 million (as of December 31, 2017: NIS 71 million and NIS 3 million, respectively).

(3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 116 million as at December 31, 2018.(as at December 31, 2017: NIS 105 million).

(4) Including an amount of NIS 24 million, defined as problematic credit, which is not in arrears (December 31, 2017: NIS 26 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 235 million, which are integrate in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2017:NIS 250 million).

DISTRIBUTION OF HOUSING CREDIT GRANTED, ACCORDING TO FINANCING RATIOS AND AS A RATIO OF CREDIT GRANTED

	2018		2017	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	1,979	27.1	1,774	29.7
Between 45% and 60%	2,780	38.2	2,234	37.4
Over 60%	2,531	34.7	1,965	32.9
Total	**7,290**	**100**	**5,973**	**100.0**

Footnote:
(1) The loan to value (LTV) ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

The average loan period of housing loans at the Bank in 2018, was 21.2 years, compared with 21.7 years in the industry. The amount of credit for a period of over twenty years amounted to 46% of the whole credit portfolio of housing loans.
The data regarding the distribution of extended credit as of December 31, 2018, by period of loan shows that the granting of loans in 2018 for periods of over twenty years reached a rate of 59% of the portfolio.

DEVELOPMENTS IN HOUSING CREDIT BALANCES ACCORDING TO LINKAGE SEGMENTS

	Non-linked credit			CPI linked credit			credit			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit (1)(2)
2018	8,605	13,357	66.6	4,411	6,402	32.8	2	194	0.6	32,971
2017	7,101	11,666	64.8	4,311	5,669	34.5	1	216	0.7	28,964

Footnotes:
(1) The outstanding balance of credit to the public includes housing loans in the amount of NIS 235 million, which are integrated in the transactions and security layout of the business of commercial borrowers, or which have been granted to acquisition groups, the projects being constructed by them are in stage of construction (December 31,2017:NIS 250 million).
(2) The balance of credit is after deduction of allowance for credit losses of NIS 188 million (December 31,2017: NIS 179 million).

Most of the loans are granted for an initial period of up to 25 years. The average period of the loan at the Bank is slightly lower than that of the industry.
The outstanding balance as of December 31, 2018, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 4,694 million, comprising 16.7% of the total housing loans portfolio (as of December 31, 2017, the balance amounted to NIS 3,726 million, comprising 12.9% of the total housing loans portfolio).

COMPOSITION OF LOANS GRANTED FOR HOUSING PURPOSES, DIVIDED BY THE RATIO OF REPAYMENTS TO EARNINGS

	2018		2017	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	6,670	99.9	5,334	99.9
Over 40%	6	0.1	5	0.1
Total	**6,676**	**100.0**	**5,339**	**100.0**

Footnote:
(1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

In accordance with the directives, the repayment ratio is restricted to 50%. The capital allocation required for loans with a repayment ratio in excess of 40% stands at 100%, with this not being connected to the requested financing rate. Against the background of these requirements, the granting of housing loans at a rate in excess of 40% is negligible.

Credit Risk of Private Individuals (excluding Housing Credit Risk)

General. The data presented in his item comprise data of operation in Israel, excluding housing loans, and they include the Bank and

MDB. Certain data relating to credit to private individuals at ICC is presented separately hereunder, in accordance with available data of ICC.

Definitions. Following are the definitions used in the preparation of this report:

"Amount of income per account" – average income of a recurring pattern from salaries, annuities, transfers and deposits, after elimination of exceptional amounts.

"Balance-Sheet credit upper limit" – in accordance with the reporting to the Supervisor of Banks under Reporting to the Supervisor of Banks Directive No. 836 – current account balances, credit cards and loans. Excluding non-utilized facilities of current account and credit cards.

"Financial assets portfolio" – the financial assets portfolio related to the account of the customer: financial deposits (including current account balance), securities portfolio and other financial assets.

Development in balances

DISTRIBUTION BY CUSTOMER'S FIXED INCOME AND BY FINANCIAL ASSETS PORTFOLIO RELATED TO THE ACCOUNT

	Balance Sheet Credit Risk				
	Financial assets portfolio				
	Less than NIS 50 thousand	Greater than NIS 50 thousand	Total balance credit risk	Total off-balance credit risk	Total credit risk
	Balance in NIS million				
	December 31, 2018				
Level of income to the account					
Excluding permanent income to the account	1,253	175	1,428	746	2,174
Less than NIS 10 thousand	5,320	974	6,294	3,218	9,512
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,238	1,485	5,723	3,013	8,736
Greater than NIS 20 thousand	3,305	2,183	5,488	3,569	9,057
Total	**14,116**	**4,817**	**18,933**	**10,546**	**29,478**
	December 31, 2017				
Level of income to the account					
Excluding permanent income to the account	1,186	190	1,376	694	2,070
Less than NIS 10 thousand	5,703	1,045	6,748	3,170	9,918
Greater than NIS 10 thousand, but less than NIS 20 thousand	4,036	1,446	5,482	3,083	8,565
Greater than NIS 20 thousand	2,848	2,051	4,899	3,407	8,306
Total	**13,773**	**4,732**	**18,505**	**10,354**	**28,859**

Additional quantitative characteristics

DISTRIBUTION BY THE AVERAGE REMAINING PERIOD TO MATURITY

	December 31,	
	2018	[(1)]2017
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,522	1,437
Over 1 year and up to 3 years	4,950	4,681
Over 3 years and up to 5 years	4,509	4,086
Over 5 years	2,435	2,391
Total	**13,416**	**12,595**

Footnote:
(1) Reclassified - Elimination of balances found out to be housing loans.

It is noted that the above Table presents the distribution relating only to loans, while the remaining Tables present distribution relating to the maximum balance-sheet credit, which includes also current account balances and credit cards.

DISTRIBUTION BY SIZE OF CREDIT TO THE BORROWER

	December 31,	
	2018	[(1)]2017
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	3,870	3,892
Between 40 and 150	9,638	9,404
Over 150	5,425	5,209
Total	**18,933**	**18,505**

Footnote:
(1) Reclassified - Improvement in the classification of balances in accordance with the size of credit to the borrower.

DISTRIBUTION BY EXPOSURE TO CHANGES IN INTEREST RATES

	December 31,	
	2018	2017
	in NIS million	
Fixed interest credit	5,930	5,839
Variable interest credit	13,003	12,666
Total	**18,933**	**18,505**

DISTRIBUTION OF COLLATERAL SECURING THE CREDIT

	December 31,	
	2018	2017
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,492	1,640
Other collateral	819	911
Total	**2,311**	**2,551**

DEVELOPMENT OF PROBLEMATIC CREDIT RISK IN RESPECT OF PRIVATE INDIVIDUALS

	December 31,			Rate from total balance-sheet to credit to the public December 31,	
	2018	2017	Change in	2018	2017
	in NIS million		%	%	
Problematic credit risk	566	495	14.3	1.9	1.8
Of which: impaired credit risk	155	88	76.1	0.5	0.3
Debts in arrears of 90 days or more	61	70	(12.9)	0.2	0.3
Net accounting write-offs	249	217	14.7	0.8	0.8
Balance of allowance for credit losses	648	556	16.5	2.2	2.0

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (in the Bank and MDB), pledged, amounted to NIS 720 million at December 31, 2018, compared with NIS 511 million as of December 31, 2017, an increase of 40.9%.

Quantitative data regarding credit granted to private individuals in ICC

A growth at the rate of 13.6% was recorded in 2018 in the balance of credit granted to private individuals in ICC. This credit amounted on December 31, 2018 to NIS 7,890 million, compared to NIS 6,497 million on December 31, 2017. The interest bearing credit to private individuals as of December 31, 2018, amounted to NIS 4,744 million, compared with NIS 4,176 at the end of 2017 (an increase of 13.6%), and comprises 60.1% of total credit to private individuals at the responsibility of ICC, most of which is credit carrying variable interest rates regarding credit transactions, revolving credit card transactions, loans, designated credit for the purchase of vehicles and other transactions. The remaining credit to private individuals amounted to NIS 3,146 million, as compared to NIS 2,321 million as of December 31, 2017 (an increase of approx. 35.6%). This credit does not carry interest, reflecting balances of regular transactions, installment transaction on account of the trading house and other transactions. The major part of credit losses stems from interest bearing credit.

A growth was recorded in 2018 in the volume of credit losses in respect of private individuals. Credit losses in respect of private individuals amounted in 2018 to NIS 147 million, compared to NIS 123 million in 2017, an increase of 19.5%. As estimated by the Management of ICC, the increase in credit losses in the recent years stems from the growth in the credit portfolio of ICC and from the average volume of credit granted to the individual customer in this portfolio, from a decline in the rate of debt collection, mainly through law offices, which, inter alia, resulted from heavier regulation in the field of debt collection procedures as well as from changes in market practices in relation to accepted past practices. ICC has made and continues to make arrangements to cope with these changes through various means.

Background

Credit products. The credit activity in this field is conducted in three principal channels: current account credit facilities, credit card facilities and loans. The loans comprise the major part of consumer credit balances, and are usually granted in amounts of less than NIS 50 thousand and for short periods (mostly up to five years). The market share of loan operations conducted outside the branch premises rises gradually year by year and constitutes a central layer of the total consumer credit activity.

Credit underwriting. Over the years, the Bank has developed advanced models for the assessment of risk relating to a customer seeking credit. The underwriting processes in respect of consumer credit at the Bank are accompanied by wide use of the model products and are conducted in accordance with the Bank's credit policy, carefully modifying the product to the needs of the customer.

Credit underwriting at the branches is comprised of two layers: the one – underwriting under authority, performed at the discretion of an authorized factor using indications and products of models as to the risk rating of the customer, his repayment ability, as well as additional indications required in accordance with the customer's risk and the amount of the loan. The other – automatic underwriting, being performed generally in the case of loans in relatively small amounts and in accordance with the recommendation of the model, which takes into consideration the risk level of the customer, his repayment ability and the past experience of the Bank with the borrower.

Development of the Risk

The rate of credit to households has grown significantly since the beginning of the previous decade. This growth was accompanied also by the growth in borrowers' leverage (as transpires from the Bank of Israel reviews). Most of the growth in credit to households in Israel stems from housing loans (about two thirds of credit granted to households). At the same time, the credit to households granted by off-banking entities continued to grow, though its share is still low in relation to banking credit.

Risk Mitigating Measures

Determining underwriting thresholds. Within the framework of determining the risk appetite, underwriting thresholds have been set, which reflect the maximum level of risk in which new consumer credit may be provided. Deviation from these rules is possible only in exceptional cases and in limited amounts, while ascending the authorization scale.

Models and analytical tools. The process of determining the consumer credit risk at the Bank is accompanied by statistical models, which calculate the credit risk assessments (LGD and PD) that forecast the customer's risk level and the marginal transaction. The models are based upon variables referring to the characteristics of the customer, his repayment ability, financial stability and his banking past. The models are being updated from time to time in accordance with market changes, state of the borrowers and additional factors.

Effective measurement. All business units at the Bank are being measured on a current basis by the quality of the consumer credit portfolio under their responsibility, and by their adherence to the underwriting rules. All functions related to credit underwriting have defined indices, the aim of which is maintaining the quality of the portfolio and the wide distribution of credit to the extent possible.

The Fairness Principle

In accordance with guidelines of the Supervisor of Banks, criteria for the initiation and marketing of credit to the private individual customer population were defined, in respect thereof the Bank is permitted to initiate offers for the granting of credit. The rules are based upon the risk level of the customer as well as on the advisability of accepting the loan on the part of the customer.

The approach to the customer is made according to conversation scenarios that include proper disclosure of the loan terms, needs of the customer and his characteristics as well as mention of the assets and liabilities stated in the customer's account.

It is noted that the fairness principle as regards the customer, has been defined both as part of the risk appetite of the Discount Group and as part of the credit underwriting policy regarding private customers.

The principle of fairness and decency as regards debtors is being applied both while they are being handled under the responsibility of the managing branch as well as after passing them on for legal proceedings by the law offices engaged by the Bank. The guideline is to try and reach an arrangement with each debtor in default, which meets his capabilities and his repayment ability.

The Bank is preparing for the implementation of the requirements of the Fair Credit Act. For details regarding this Act, see "Legislation and supervision" hereunder.

Monitoring and Control

The Bank performs on a current basis, control over the quality of underwriting, adherence to policy rules and proper disclosure rules. Control is performed by means of compliance officers in the business units, credit controllers and the internal audit.

Current monitoring is also performed with respect to the quality of the consumer credit portfolio at the Bank.

For details regarding loans to private individuals portfolio (excluding housing loans), see the risks report.

Credit risk in relation to the Construction and Real Estate Sector

The construction and real estate sectors are a central component in the Bank's credit portfolio, and most of the credit to these sectors is managed by the Real Estate and Infrastructure department in the Corporate Division, which possesses a high level of expertise and considerable experience in this field. The Bank's activities in this field are subject to a regulatory limit that prescribes that the weight of local real estate activities shall not exceed 20% of the total credit; in addition, the Bank has set itself a more stringent internal limit that serves as a threshold alert. The Bank complies with the said limitations.

Moreover, the credit policy for the sector focuses on financing activities in Israel, while giving priority to long-established borrowers having a high level of financial strength, with whom the Bank has positive business experience. The financing of entrepreneur residential construction projects and income generating real-estate projects is conducted by the closed loan method, under minimum requirements, including equity capital, minimal estimated profitability, compliance with stress tests (inter alia, price reduction scenarios), price reduction absorption ability, early sales and more – for a fuller explanation, see the "Construction and Real Estate Activity" under "Additional Details Regarding the Business of the Banking Corporation and Management Thereof" chapter.

TOTAL CREDIT AND PERCENTAGE OF PROBLEMATIC CREDIT IN THE CONSTRUCTION AND REAL ESTATE SECTOR

	December 31, 2018			December 31, 2017[3]		
	Credit for the public[1][2]	Of which: problematic credit[1][2]	Rate of problematic credit	Credit for the public[1][2]	Of which: problematic credit[1][2]	Rate of problematic credit
Sector	in NIS million		%	in NIS million		%
Income generating real estate	10,406	283	2.7	9,645	247	2.6
Construction – general building contracting	1,545	165	10.7	1,509	190	12.6
Residential projects financing	19,988	41	0.2	16,515	45	0.3
Acquisition of building land	4,851	19	0.4	3,933	42	1.1
Subcontracting	2,625	114	4.3	2,448	145	5.9
Civil engineering work	3,462	58	1.7	3,364	41	1.2
Other	4,921	92	1.9	4,703	88	1.9
Total[2]	**47,798**	**772**	**1.6**	**42,117**	**798**	**1.9**

Footnotes:

(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.

(2) The data in this table are more expansive than the data reported according to economic sectors, in conformity with the Bank's internal reporting, and include additional activities correlating largely with the activities in the construction and real estate sector. The data in the table include activity in Israel only.

(3) Reclassified.

As revealed by the table, most of the growth is in the financing of residential projects and acquisition of building land field, in accordance with the Bank's credit policy.

For details regarding the purchase of a policy to insure against credit risk related to Sale Act guarantees and performance guarantees, and with respect to the purchase of credit risk insurance in the real estate field, see "Large Businesses Segment (Domestic Operations) – Additional details" below under "Activity of the Group According to Principal Segments of Operation – Additional details".

Credit risk in respect of Leveraged Finance

Definition of leveraged finance. Defined as credit for the finance of capital transactions by corporations, granted at a high financing ratio and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations. According to Proper Conduct of Banking Business Directive No. 327 the definition of leveraged loans has been set, and it includes, among other things, transactions for the acquisition of another corporation, purchase of own shares and the distribution of capital.

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of capital transactions, which the Bank abides by.

Following are data regarding credit risk pertaining to leveraged finance as of December 31, 2018. Disclosure is focused on exposure leverage transactions, each of which exceeds the threshold set in the Bank's policy and subject to Proper Conduct of Banking Business Directives.

THE BANK'S EXPOSURE TO LEVERAGED FINANCE ACCORDING TO ECONOMIC SECTORS

	December 31, 2018				December 31, 2017			
	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses	Balance sheet exposure	Off-Balance sheet exposure	Total exposure	Specific allowance for credit losses
Sector	In NIS millions							
Industry	15	76	91	-	109	99	208	-
Construction and real estate	509	106	615	-	440	251	691	-
Commerce	-	-	-	-	56	-	56	-
Transportation and storage	153	20	173	-	196	20	216	-
Total	**677**	**202**	**879**	**-**	**801**	**370**	**1,171**	**-**

Exposure to leveraged finance as of December 31, 2018 amounted to NIS 677 million, compared to NIS 801 million at the end of 2017, a decrease of 15.5%. The aforesaid decrease stemmed, primarily, from a decrease in the volume of credit to existing customers and the removal from the definition of leverage financing.

The balance of exposure presented in the table above, is after accounting write-offs in accordance with the directive regarding impaired debts.

The off-balance sheet exposure in respect of leverage finance transactions as of December 31, 2018, amounted to NIS 202 million (December 31, 2017 – NIS 370 million).

For additional details, see "Credit risk" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Additional disclosure regarding credit risk in respect of significant exposure to borrower groups

With a view of assessing credit risks at the Group's level, the Bank holds an ongoing monitoring and follow-up of exposure to large borrowers/groups of borrowers with indebtedness exceeding 10% of the Bank's equity) and compliance with the Bank of Israel limitations and within internal limitations determined by the Bank. In addition, the Bank conducts surveys and holds periodic discussions with respect to the borrower groups, the largest in the Group.

The Bank complies with the Bank of Israel limitations in respect of a single borrower and in respect of the large borrower groups.

One borrower group has an indebtedness of 15.38%, as against the restriction of 25% determined in Proper Conduct of Banking Business Directives, as detailed below.

The definition of capital in this context includes the Tier 1 capital together with Tier 2 capital, as appears in the financial statements as of December 31, 2015. This addition was amortized in equal parts over a period of twelve quarters, until zeroed on December 31, 2018.

SIGNIFICANT EXPOSURE TO BORROWER GROUPS

	As of December 31, 2018						
Borrower group	Balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Of which: off-balance sheet credit risk in respect of derivative instruments	Gross indebtedness	Deductions(1)	Net indebtedness(2)	Ratio of regulatory capital
	In NIS millions						In %
A	2,053	757	-	2,810	8	2,802	15.38%

Footnotes:

(1) After deduction of the balance of accounting write-offs and the balance of allowances for credit losses computed on a specific basis.

(2) The data presented above reflects exposure to borrower groups and is stated net of deductions permitted under Directive 313, and net of the allowance for credit losses computed on a specific basis. Accordingly, such data is not comparable with the data regarding borrower indebtedness presented in other disclosures in this report.

The data for group "A" is presented in this report in view of a certain growth in the operation of this group with the Bank during 2018. It is noted that the indebtedness of this group agrees also with the internal restrictions set by the Bank's Board of Directors within the framework of credit risk management applying to borrower groups.
Credit to this group is characterized by a high level of dispersion of entities composing this group and high industry dispersion. The rating of the group (as a weighted average of the specific ratings of each of the group members, based on the Bank's internal rating model) nearly matches the average rating of the Bank's business credit portfolio.

Market Risks

Market risk is the risk of impairment in the value of the Group and its ability to attain its goals, as a result of changes in economic parameters in the financial markets and their fluctuations, which affect both its economic value and the regulatory capital ratio.

- **Interest risk.** The risk of impairment, as stated, as a result of parallel and non-parallel movements in the return graph, and the impact of the optionality embedded in different financial instruments.
- **Inflation and exchange rate risk.** The risk of impairment, as stated, as a result of the impact of changes in inflation rate or in exchange rates, including the effect of derivatives and future transactions on the difference between the assets and liabilities.
- **Share prices risk and credit margin in the holding of securities risk.** The risk of impairment, as stated, as a result of erosion in value of securities having a credit risk and in the value of non-financial assets, including funds, due to price fluctuations.

Market risks are presented in this review on a Group basis that includes the Bank, Mercantile Discount Bank, IDB New York, ICC and the severance pay fund for the Bank's employees (hereafter in this section: "the Group"). Other Group companies do not have any material market risk.

Strategy and Policy

The policy document for market risk management constitutes a framework for the management of the market risks at the Bank and the Group and defines the responsibility and authority of the parties involved in the processes for managing the market risks that the Group accepts.
Management of the risk is intended to minimize, as much as possible, the materialization of unexpected risks and harm stemming from the uncontrolled acceptance of risk.
The policy and the principles in the policy document are on a Group basis, with each of the subsidiaries, on an individual basis, adapting the policy to its own administrative structure, to local regulations and to its business environment. The risks are managed from an overall Group standpoint and within a framework of mandatory professional guidance.
As part of the updating in 2018 of the market risk management policy, the effectiveness of restrictions on market risk was examined at the Bank, at the Group and with respect to the trading portfolio, from the aspect of the completeness of the exposure population, completeness of the coverage of vulnerable areas and level of actual exposure in relation to the restriction. A number of restrictions have been updated in order to improve effectiveness, with no change in the risk appetite.

Risk Appetite

The appetite for market risks, as defined in the policy, reflects the willingness of the Bank and the subsidiaries in the Group to accept market risks for the purpose of achieving their strategic goals. The fundamental concept in managing the risk is that the balance sheet will be managed with the aim of maximizing the economic capital from a long-term perspective, given the risk appetite and subject to accounting considerations and to considerations affecting the capital planning.
The policy defines the quantitative and qualitative limitations in relation to the characteristics of the market risks exposure at the Group companies and in the markets and instruments in which they are active through the banking portfolio and the trading portfolio.
The risk appetite is determined taking into consideration the two measurement approaches – accounting and economic, as well as the various management tools – sensitivity analyses, normal business situation scenarios (intermediate testing) and stress tests, while taking into consideration different time spans – short-term and long-term.
The numerous indices could complicate the analysis and presentation for the decision-makers and for this reason two categories of risk indices have been defined – primary risk indices, which serve the first line of defense in taking ongoing or periodic decisions regarding exposure scopes, and additional risk indices, which are the remaining risk indices, in respect to some of which the Board of Directors has set limits while, in respect to others, limits are set at division head level, while others are only subject to monitoring without any limits being set.

The Bank and the subsidiaries manage and monitor compliance with the limits for both the primary risk indices and also for the additional risk indices. Details regarding the scope of the exposures and the limits set will be presented below within the framework of the quantitative disclosure.

Structure and Processes

The market risk management policy defines an organizational structure for managing the risks, which ensures a proper balance and non-dependence among the parties involved in managing the risks. Three lines of defense are defined in relation to the market risks, for the purpose of ensuring this balance, as follows:

First line of defense. The collective Group management of interest, is being conducted by means of Global Treasury at the Financial Markets Division. The Group investment risk management is conducted by the investments unit at the Financial Markets Division. The Group management refers to all market risk acceptors at the Group including the asset and liability management activity, the investment activity and the trading activity at the Bank, at IDB New York and at MDB. Within the framework of the first line of defense, measurement, control and operating units operate independently from the risk acceptors.

Second line of defense. The risk management function is an independent function and its role is to complement the risk management activity performed by the business lines. This function has the necessary standing and authority to enable it to affect decisions that impact on the risk exposure, including involvement in the main strategic processes that affect the risk appetite, risk identification, mandatory professional guidance for the subsidiaries, policy updates and validation of the principal models used in risk management.

Third line of defense. The internal audit function at the Bank and at the Group companies is responsible for conducting an independent self-assessment of the degree of effectiveness of the implementation of the risk management processes at the Bank and at the Bank Group companies, on the basis of findings from the audits conducted in accordance with a work plan that is approved by the boards of directors of the Bank Group companies.

Management supervision. Current management and supervision in the area of market risks management are performed, inter alia, by the following committees: the assets and liabilities management committee (ALM committee), the Group assets and liabilities management committee and the financial forum.

Mechanisms that enable an immediate response to exceptional market developments

The Board of Directors has approved the plan for strengthening capital adequacy in times of crisis and the plan for dealing with a liquidity crisis. In this context, the manner in which such crises are to be identified and dealt with has been defined, as has the forum authorized to deal with the crises and the powers and tools have been defined, available to it in doing so. Inter alia, it was defined that, where exceptional developments take place in the markets, a special financial forum, to be headed by the Head of the Financial Markets Division or by the Bank's President & CEO, depending upon the severity of the incident, will immediately be convened in order to discuss the market developments and the possible courses of action. The emergency plan also includes a contingency plan for fast reduction of the market risk and the scope of the risk assets.

Measurement and Reporting

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments is and is performed by the first line of defense at the Bank on a weekly basis, using a designated system for market risk management.

The second line of defense controls exposure to market risks by an independent calculation of stress tests on a monthly basis.

The risk management system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).

This system is also used by MDB in computing its exposure to market and liquidity risks.

IDB New York. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) by means of a designated system for the management of market and liquidity risks. This system is an advanced system which increases the analysis capabilities and enables a weekly monitoring of the central risk assessing factors.
The measurement results are reported on a current basis within the framework of the relevant Management and Board of Directors committees.

Models and Risk Indices

Management of market risks is performed by several models and indices. Internal measurement takes into account factors additional to those that are used for disclosure purposes in the reports published for the public. The main indices in managing market risk have been defined by the Board of Directors. Since the models on which the risk indices are based are dependent on assumptions, the Bank has established a corporate governance structure and a framework for managing model risks, including challenging and validation processes.
The main indices used in managing market risks include indices of economic value sensitivity to changes in interest in various scenarios and an index of accounting value sensitivity in intermediate scenarios.
The additional indices and models include the Value at Risk (VaR), the potential losses in Stress Tests, an analysis of anticipated interest income - the NII (Net Interest Income) and in the Earnings at Risk (EaR). In addition, there are models that express assumptions regarding customers' behavior in various scenarios, including a model for spreading credit balances having no maturity dates, and models for estimating early repayments of credits and deposits.
All the risk models and indices are regularly reviewed in an organized manner for definition purposes within the framework of cataloging the models and their validation or independent testing by risk management parties. These processes are carried out in accordance with the Bank's policy on the subject of model risk management, including the validation dates and the frequency thereof that are determined in accordance with the level of risk attributed to each model on a specific basis.

Exposure to Interest Rate Risk

The Tables presented in this Chapter have been prepared in accordance with the principles for the preparation of financial statements, and they differ from the data used for the current management of interest rate exposure.

Quantitative information regarding interest risk – sensitivity analysis

NET ADJUSTED[(1)] FAIR VALUE OF FINANCIAL INSTRUMENTS - CONSOLIDATED

	December 31 2018			December 31 2017		
	Israeli currency	Foreign currency[(2)]	Total	Israeli currency	Foreign currency[(2)]	Total
	In NIS millions					
Net adjusted fair value[(1)]	10,189	4,739	14,928	7,804	4,600	12,404
Of which: the banking book	9,855	3,604	13,459	7,085	4,352	11,437

Footnotes:
(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits. The said impact is included starting with this report, including in the comparative data.
(2) Including Israeli currency linked to foreign currency.

THE IMPACT OF SCENARIOS OF CHANGES IN INTEREST RATES ON THE NET ADJUSTED(1) FAIR VALUE - CONSOLIDATED

	December 31, 2018			December 31, 2017		
	Israeli currency	Foreign currency(4)	Total	Israeli currency	Foreign currency(4)	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	(43)	(182)	(225)	93	(54)	39
Of which: the banking book	(35)	(166)	(201)	82	(30)	52
A parallel decrease of 1%	98	88	186	56	(114)	(58)
Of which: the banking book	85	66	151	54	(132)	(78)
Non-parallel changes						
Curving(2)	(215)	(46)	(261)	(207)	(53)	(260)
Flattening(3)	188	(18)	170	220	5	225
Interest rise in the short-term	116	(70)	46	167	14	181
Interest decline in the short-term	(25)	75	50	(95)	(39)	(134)

Footnotes:

(1) Net fair value of financial instruments, excluding nonfinancial items and net of the effect of liability for employee rights and allocation to periods of on-call deposits.

(2) Curving – decline in interest in the short-term and increase in interest in the long-term.

(3) Flattening – increase in interest in the short-term and decline in interest in the long-term.

(4) Including Israeli currency linked to foreign currency.

THE IMPACT OF SCENARIOS OF CHANGES IN INTEREST RATES ON NET INTEREST INCOME AND ON NON-INTEREST FINANCING INCOME – CONSOLIDATED

	December 31 2018			December 31 2017		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	In NIS millions					
Parallel changes						
A parallel increase of 1%	507	16	523	553	75	628
Of which: the banking book	490	46	536	550	90	640
A parallel decrease of 1%	(740)	(11)	(751)	(832)	(73)	(905)
Of which: the banking book	(724)	(48)	(772)	(830)	(90)	(920)

For additional quantitative and qualitative details about the interest risks, see the “Disclosure according to the third pillar of Basel and additional information regarding risks” document, which is available for perusal on the Bank’s website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

SENSITIVITY ANALYSIS TO THE EFFECT OF CHANGES IN INTEREST RATE BASED ON THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments. Most of the Bank’s balance sheet financial instruments do not have a quoted “market price” as they are not traded on an active market. Accordingly, in accordance with the directive, the fair value is estimated using accepted pricing models, and in particular through the calculation of the present value of the discounted cash flows using a discount interest rate appropriate to the level of risk embodied in the instrument.

The determination of the discount interest rate is subjective. Thus, for most of the financial instruments, the fair value estimate presented below does not necessarily constitute an indication of the realizable value of the financial instruments on the reporting date.

The assessment of the present value of future cash flows was done in accordance with the interest rates in effect on the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value.

Furthermore, due to the broad spectrum of possible assessment techniques and estimates in implementing the reporting directives with regard to the fair value, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 34 to the financial statements.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 34 c.

The decline in the net fair value, in CPI-linked shekels, against the increase in the net fair value, in non-linked shekels, derives from the active management of the active capital and the decision to move it in accordance with the anticipated returns in the different linkage segments.

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

SENSITIVITY ANALYSIS ACCORDING TO DATA USED FOR INTEREST EXPOSURE MANAGEMENT (HEREINAFTER: "ECONOMIC EXPOSURE")

The data presented above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the calculation of the table "Exposure to interest rate changes", which is presented within the framework of the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and the managed economic exposure are as follows:

(a) Items relating to liabilities for employee rights are included in the economic measurement in the CPI-linked segment, while in the accounting measurement they are presented in the unlinked segment;

(b) Economic exposure takes into consideration expected future cash flows, such as deposits in savings schemes, in contrast to the calculation on the fair value basis, which does not take into account such future deposits;

(c) An impaired non-interest bearing debt is related in economic exposure to the non-linked segment, as it does not carry interest, while in fair value calculations, it is presented in its original segment;

(d) Optional savings schemes are presented at fair value in their principal linkage segment, while in economic exposure each component is presented in its related linkage segment.;

(e) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the transfer prices.

EFFECT OF HYPOTHETICAL CHANGES IN INTEREST RATES OF 100 BASE POINTS ON THE GROUP'S ECONOMIC VALUE

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2018		
An increase of 100BP in interest rates	(223)	(137)	(212)	-	(572)
A decrease of 100BP in interest rates	293	137	77	(5)	501
			December 31, 2017		
An increase of 100BP in interest rates	(120)	(43)	(73)	(1)	(237)
A decrease of 100BP in interest rates	279	34	(126)	(6)	181

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

Inflation and exchange rate risk

Exposure to base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency). For details regarding assets and liabilities according to linkage terms, see Note 32 to the financial statements.
Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 2018.
Effect of hedging relations and transactions in derivative instruments on the exposure. The exposure in the CPI-linked segment is created due to an excess of applications in relation to sources in this segment. In order to hedge the exposure in the CPI-linked segment, the Bank makes use of contracts on the consumer price index. As a general rule, the Bank's policy is not to create an exposure to foreign currency exchange rates in its ongoing activity. Coverage of the built-in foreign currency position, which arises from the investment in IDBNY, was canceled several years ago, in order to reduce the sensitivity of the capital ratio to changes in exchange rates.

THE BANK'S CAPITAL SENSITIVITY OF CHANGES IN EXCHANGE RATES

	As of December 31, 2018 in NIS millions			
Segment	10%	5%	-5%	-10%
USD	340	173	(179)	(363)
EUR	1	2	(7)	(18)
Other Foreign Currencies	5	3	(6)	(13)

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks.
Sensitivity of the capital to changes in the CPI. The sensitivity of the capital to changes in the CPI is presented in the following Table, which details the effect of a 3% change on the capital as of December 31, 2018.

SENSITIVITY OF THE CAPITAL TO CHANGES IN THE CPI

As of December 31, 2018 In NIS millions	
Increase of 3%	Decrease of 3%
74	(74)

This effect has been computed as the difference between the net fair value based on the "known" CPI, including off-balance sheet items, and the net fair value after raising/reducing the CPI by 3%.

Share Price Risk

Shares Position in the Banking Book

STRATEGY AND PROCESSES

Within the framework of the policy for the diversification of investments, the Bank acts in two principal areas:
- Private equity funds, venture capital funds and a fund of hedge funds;
- Direct investments in companies considered as non-financial investments.

For details as to the investment policy and the entities in which the Bank invests, see below "Investments in non-financial companies " under "Activity of the group according to regulatory segments of operation – additional details".

INVESTMENTS IN SHARES

	December 31	
	2018	2017
	In NIS millions	
Investments in shares of affiliated companies[1]:		
Non marketable shares	135	153
Shares in the available-for-sale portfolio:		
Marketable shares	57	37
Non marketable shares	923	814
Total shares in the available for sale portfolio	**980**	**851**
Total investment in shares	**1,115**	**1,004**

Footnote:

(1) For additional information, see Note 15 to the Financial Statements.

CAPITAL REQUIREMENT REGARDING SHARE POSITION

	December 31	
	2018	2017
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	181	160
In respect of investments in other shares[3]	61	59
Total capital requirement regarding share position[1]	**242**	**219**

Footnotes:

(1) The capital requirement was computed according to 12.7% and does not include capital requirement in respect of investment in shares in the trading portfolio.

(2) These investments are weighted at risk weight of 150%.

(3) These investments are weighted at risk weight of 100% and 250%.

For additional quantitative and qualitative details about share price risk, see the “Disclosure according to the third pillar of Basel and additional information regarding risks” document, which is available for perusal on the Bank’s website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd.

Management of Positions in the Trading Portfolio

The Group distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. Generally, trading exposures exist only at the parent company and they are the result of the Bank’s activity as a market maker and are concentrated mostly in the dealing room as part of the activity of the Bank as a "market maker" and the dynamic management of the liquid financial assets portfolio. Occasional trading exposures occur at the subsidiaries in immaterial volume. The trading activity is intended at creating income while creating exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.

As stated, trading activity is mainly focused on the dealing room, which both conducts trading with customers and transactions hedging the risks, and operations to generate profit as part of the management of market risks. In addition, a non-significant trading portfolio exist at the investments unit.

In this connection, it should be noted that the Group investment policy prescribes that the Group should not invest in entities most of whose business is transactions in derivative financial instruments and short selling, such as hedge funds.

The Board of Directors has determined additional sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activities were determined in terms of scope of activity, and in terms of sensitivity to risk factors including the VaR and the theoretical loss involved in stress tests. The limitations are monitored on a daily and intra-day basis by the control units of the Financial Markets Division. The Head of the Division has set a series of internal limits, within the framework of the limits set by the Board of Directors, aimed at providing advance warning when the Board of Directors’ limits are approached and thereby preventing such limits being exceeded.

In 2018, no material deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

Liquidity risk is a risk to the stability of the Group, stemming from the inability to provide for its liquidity needs and the difficulty to honor its obligations, due to unexpected developments, as a result of which, the Group would be forced to raise funds and/or dispose of assets in a manner that would cause it a material loss. The Bank has determined the limitation of maximum exposure to liquidity risk.

Liquidity risk is perceived as one of the material risks for any financial institution. The objective in managing this risk is to avoid a situation in which the Bank will have difficulty in meeting its obligations as a result of unavailability of liquid resources. The underlying assumption is that the materialization of liquidity risk, in most cases, will cause losses because of the need to raise funds at high prices or to realize non-liquid assets at a loss. Accordingly, the Discount Group has formulated a liquidity risk management policy that, inter alia, meets the requirements as set forth in Proper Conduct of Banking Business Directives No. 342 (The Internal Liquidity Model) and No. 221 (Liquidity Coverage Ratio).

The "Liquidity Risk Management Policy" document is updated and approved once each year by the Management and the Board of Directors.

Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event.

As part of the routine management, the liquidity risk is estimated using an internal model for different periods, from one day to one year. The internal model computes the liquidity ratio and the liquidity gaps under various stress scenarios. These scenarios simulate specific liquidity events for the Bank/the Group and various systemic events. In addition, the liquidity risk is also measured by means of the uniform regulatory model (LCR).

The internal model, over its various scenarios, constitutes core of the liquidity management, although the Bank makes use of additional indices and tools to monitor the liquidity risk:

- The mix and concentration of the sources, the mix and concentration of the assets, supplementary scenarios for the internal model and a comparison with other banks;
- Within the framework of the current management of the liquidity risk, the Risk Management Division measures a large number of indicators for the purpose identification of and warning against changes in trends of liquidity risk (KRI's; "Red lights"). This being an additional tool for the identification and warning against possible changes in the liquidity position.

Plan for dealing with a Liquidity Crisis

In Principle 11 of the Basel Core Principles document from 2008, it is prescribed that a banking corporation should have a formal contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. According to the document, the plan should outline policies to manage a range of scenarios, establish clear lines of responsibility, include reporting procedures, including reporting in the event of escalation, and should be regularly tested and updated to ensure its operational validity.

From the aspect of the Directive, materialization of the liquidity risk occurs in a situation where a banking corporation is compelled to raise funds at high prices or to realize assets at a loss in order to meet its liabilities.

The establishment of an orderly process to deal with possible crisis situations raises the level of awareness and readiness of the various parties in the organization, and hence its importance and contribution in mitigating the risk of crises occurring and in their correct management should a crisis occur. The Bank's Management conducts exercises from time to time to test the contingency plan, while drawing conclusions.

The Bank's CFP clearly describes the range of practical measures required to be implemented in times of emergency. The plan describes the processes and the parties that will be responsible for identifying a crisis situation, for managing the crisis, including prescribing spheres of responsibility and authority, for reporting processes and frequency of reporting, for Group management and coordination, for declaring the restoration of a normal business situation, and for establishing processes for lesson learning. In addition, the plan presents at every level a variety of alternatives for action which require great consideration before their activation, through examining their implications.

The plan for managing a liquidity crisis constitutes a set of defaults and focal points that the organization will activate when a liquidity crisis develops. Nevertheless, it does not constitute an alternative to exercising judgment and taking real time decisions– at the various levels of the Bank's management and which are obligatory given the reality of a volatile and unexpected crisis situation, such as a liquidity crisis.

The main focal points to which the plan provides a solution are:

- Identifying and announcing a liquidity crisis;
- Measures to improve the liquidity level;
- Measurement and monitoring of the liquidity level;
- Announcements;
- Group management.

The plan differentiates between different types of liquidity crises, including systemic crisis, a specific crisis and a crisis combining different levels of intensity of each type. In addition, the plan needs to address a situation defined as a pre-crisis situation, a situation of higher specific/systemic liquidity risk prior to an event being defined as a crisis event, as well as the transition between different levels of stress or transition between different types of crises. In addition, it provides a response to a liquidity crisis that materializes in a Group subsidiary and risk that impacts on the subsidiaries/the Group as a whole.

The plan is reviewed and approved each year within the framework of approving the liquidity risk management policy document.

Group management

The policy document also regulates the management of the Group liquidity risk. In general, the guiding principle is that the material subsidiaries of the Group will independently manage their liquidity risk with the aid of mandatory professional guidance and in accordance with models approved by the parent company. The internal model of the parent company requires maintaining liquidity in case the subsidiaries' models exceed the thresholds defined in the policy document. The model does not include reliance on the transfer of liquidity from the subsidiaries to the parent company. Most of the liquidity surpluses in the Group are currently concentrated in the parent company.

Reporting

Daily –Measurement of liquidity risk is performed on a daily basis by an internal liquidity model and by a regulatory model (LCR), by means of the Bank's market and liquidity risks management system. Measurement results are reported to the risk managers and control parties. As from January 1, 2017, the Group has a daily Group LCR computing and reporting capabilities.

Weekly – a special purpose liquidity forum convenes once a week and discusses current liquidity topics. Material effects are reported once a week to the financial forum, headed by the Head of the Financial Markets Division.

Monthly – the Bank's Management reports within the framework of the ALM Committee on the liquidity position of the Bank, the subsidiaries and the Group as a whole.

Quarterly – Managements of the Bank and of the subsidiary companies report to the Group's asset and liability management committee (GALCO) once in every quarter, the liquidity condition of each company, as well as trends and the status of the Group's liquidity situation.

Liquidity Coverage Ratio

As of December 31, 2018, the liquidity coverage ratio of the Discount Group, on the basis of 77 observations average, stood at 124.8%, compared with 126.7% as of December 31, 2017, higher than the minimum requirements according to the instructions. For additional details, see Note 25 to the financial statements, item 3.

Liquidity and the Raising of Resources in the Bank

During 2018, the Bank continued to maintain liquid assets at a high level in relation to its liquid liabilities and, accordingly the results of the Bank's internal liquidity model showed substantial reserves of liquidity. The following trends were observed during the year:

- An increase of approx. NIS 8.3 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of approx. 8.4%, of which an increase in retail deposits of approx. NIS 5.9 billion and an increase in corporate deposits of approx. NIS 1.3 billion, and the raising of debt amounting to approx. NIS 1.5 billion, which was issued by Discount Manpikim and deposited with the Bank. On the other hand, redemption of debt notes totaling approx. NIS 400 million;
- A transfer of approx. NIS 4.7 billion from fixed term deposits to on-call deposits, in the shekel segment, as a result of the low interest environment;
- The amount of foreign currency deposits increased by approx. US$ 370 million, comprising a rate of approx. 4.6%, of which retail deposits in the amount of approx. US$ 115 million. Including the exchange rate effect, foreign currency deposits rose by approx. NIS 3.5 billion.

Transferability of liquidity within the Group is conducted on the basis of transfer prices mechanism and in accordance with market prices. Group companies may not rely in their liquidity model on the transfer of funds from other group companies where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty.

DEPOSITS FROM THE PUBLIC

	December 31, 2018	December 31, 2017	Change compared to December 31, 2017	
	In NIS millions		In NIS millions	in %
Non-linked shekels	101,146	92,937	8,209	8.8
CPI-linked shekels	4,631	4,611	20	0.4
Foreign currency and foreign currency linked shekels	30,623	27,104	3,519	13.0
Total	**136,400**	**124,652**	**11,748**	**9.4**
Foreign currency and foreign currency linked shekels - In US$ millions	**8,170**	**7,818**	**352**	**4.5**

DEPOSITS FROM BANKS

	December 31, 2018	December 31, 2017	Change compared to December 31, 2017	
	In NIS millions		In NIS millions	in %
Non-linked shekels	1,235	446	789	176.9
CPI-linked shekels	40	207	(167)	(80.7)
Foreign currency and foreign currency linked shekels	605	837	(232)	(27.7)
Total	**1,880**	**1,490**	**390**	**26.2**

For additional details regarding liquidity risks and the management thereof, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document, which is available for perusal on the Bank's website, on the MAGNA site of the Israel Securities Authority and on the MAYA site of the Tel Aviv Stock Exchange Ltd., and also Note 33 regarding Assets and liabilities according to linkage terms and maturity periods.

For additional details regarding financial risk, see the "Disclosure according to the third pillar of Basel and additional information regarding risks" document.

Operational Risks

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

The framework for the management of operational risk includes the policy document for risk management, which is approved once in

each year by the Management and by the Board of Directors, and adopted by the subsidiary companies, and the risk tolerance statement, which determines qualitative and quantitative limitations regarding material risks existing at the Bank Group. The Board of Directors recently approved updates to the operational risk tolerance and, within the framework thereof, reducing some of the risk limits. The Group operates an automated system for managing the risk, which measures and assesses the overall operational risks and reports operating failure events in all risk centers.
Operational risks are being managed on the basis of the current identification of processes, risks and controls, as well as on the basis of failure events data base, the monitoring thereof and the drawing of conclusions there from and identification of the factors causing the failure. Moreover, material risks are being reduced by means of the formation of recommended controls, monitoring or transfer to a third party (by purchase of different insurance policies).
Once every three years (or during the three years) a comprehensive operational risks survey is conducted that includes, inter alia, relating to fraud and embezzlement risks, outsourcing and supplier risks, cyber risks and business continuity risks. In 2017, a new survey, as stated, begun.
During 2018, no material changes were observed in the number of reports on the realization of risks and the resulting amounts of damage caused in their respect, which might affect the overall operational risk profile.
The year 2018 has been characterized by a growing trend of fraud and impersonation attempts, both in the traditional and online service channels, inter alia, as a result of expanding the digital services that the Bank provides to its customers. Moreover, the trend is continuing of implementation of changes in work procedures stemming from the realization of the strategic plan. All these increase the risk, partly in the short term and partly comprising continuous trends. The quality of management is improving at the same time by the promotion of the operational risk survey, the growth in and integration of awareness to the reporting of events and the strengthening of interfaces and controls and automation of processes.
No deviations were recorded during the year from the limitations on operational risks.
Business continuity. The issue of business continuity is managed by means of the policy for the management of business continuity, which defines the solution concept for facing a crisis, by means of the business continuity management program (BCM), which is designed to ensure the continuation of the regular functioning of the Bank as regards its business transactions and as regards services defined as essential.
At the base of the assessments for business continuity stands the backup for the vital technological infrastructure established by the Bank, and the providing to customers of supporting layouts and services. Mapping of the business continuity risks and the assessment and monitoring thereof is performed as part of the identification and evaluation of operational risks, and is managed by the operational risk management system.

Outsourcing and Supplier Risk

This risk is managed as part of the operational risk. Against the background of activities being outsourced and due to collaborations that are occurring with non-banking entities in relation to core banking activities, outsourcing and supplier risks require that the monitoring and control processes be upgraded. The Bank’s preparations for managing the risk, preparations made by the Bank for risk management in accordance with the new Proper Conduct of Banking Business Directive in the matter of the outsourcing and suppliers risk management policy, includes improving the work process relating to essential outsourcing (in routine and in emergency) has been improved, including upgrading the monitoring and control processes relating to such activities, taking a risk-based approach.

For additional details regarding operational risks and the manner of management thereof, see the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available on the Bank's Internet website, on the MAGNA website of the Israel Securities Authority and the MAYA website of the Tel Aviv Stock Exchange Ltd.

Other Risks

Cross-border Risks

The Group's activity with customers in Israel and abroad involves risks stemming, among other things, from exposure to liability for evasion by any of the Group's customers from reporting and payment of taxes in Israel or abroad, made incidentally to using the Bank's services, as well as the violation of the provisions of foreign laws applicable to the services and products provided by the Group to its customers.

Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, alongside enhanced enforcement in Israel and abroad, applying to financial institutions and their customers, as part of the increased efforts of the authorities in the fight against tax evasion.
Realization of this risk may have considerable implications on the Bank's operations and image. Therefore, as part of the current risk management, this risk has been defined as a separate risk category in the ICAAP process and within the framework of the risk review contained in the Annual Report, and the risk level thereof has been assessed as "medium-high".
Further to the activity carried out in recent years in the Bank and the Group with respect to U.S. customers and other foreign resident customers, concurrently with the developments in regulation and enforcement regarding cross-border risks in Israel and around the world, a Group policy on this matter has been formulated, the risk appetite has been determined and identification, monitoring, control and reporting processes have been added. Moreover, the action for reducing the Group's international presence, taken as part of the implementation of the strategic program of the Bank, also contributed to the reduction of cross-border risks exposure. In addition, in view of the intensification of regulation and enforcement trend, led by the Tax Authority, relating to funds of Israeli resident customers, the origin of which may be in tax evasion or in income not reported to the Tax Authority in Israel, as required, amendment of the Money Laundering Prohibition Act to include tax offences as a predicate offence, as well as for the purpose of reducing money laundering risks, also in circumstances of a voluntary disclosure process, the Group acts towards the integration of a risk-based approach, for identifying and monitoring accounts and activities of Israeli resident customers, in response to that stated above.

Legislation Amendments in Israel

FATCA. On July 14, 2016, the Income Tax Ordinance Amendment Act (No. 227), 2016, was published, as well as an indirect amendment of the Prohibition of Money Laundering Act, 2000 (No. 16). The aim of the amendment to the Income Tax Ordinance is to establish the implementation of the inter-state FATCA agreement between Israel and the United States dated June 30, 2014, and the implementation of the AEOI/CRS information exchange agreements of the OECD. The Income Tax Ordinance Amendment Act became effective on August 4, 2016, upon the publication of the regulations required under it.
The Act and the regulations detail the identification, regularization and reporting required regarding existing and new customers, including the duty of informing those customers included in the reports, delivery to the Tax Authorities of information which the Authority is required to deliver to the tax authorities of a foreign country. The Act prohibits use of the said information by the Tax Authority for the purpose of enforcing the tax laws, otherwise than the delivery of which to foreign tax authorities for the purpose of implementing the agreement. In addition, the Acts determines monetary sanctions in respect of non-requirement of information, the non-examination thereof as required, or in respect of deficiencies in the complete delivery thereof.
The indirect amendment of the Prohibition of Money Laundering Act, amends the definition of "controlling interest" in accordance with the global standards in this respect. The amendment took effect six months after the effective date of the Act and Regulations under it.
The FATCA regulations require the closing up of bank accounts of those customers who refuse to cooperate with the financial institutions and which had been opened in the transitional period between date of signature of the State of Israel on the FATCA agreement and date of entry into effect of the regulations. A draft of the regulations regarding the closing down of accounts of American customers who refuse to cooperate, was distributed in June 2018.
The Bank is continuing with the FATCA implementation, incorporating the requirements arising from the legislation at the same time. The Bank has completed the annual report to the Israeli tax authorities in the matter of FATCA for 2017.
Automatic exchange of information (CRS). The Bank acts to identify customers in tax residence countries as from 2015, while implementing the guidelines of the Supervisor of Banks in the matter, and is preparing for the automatic exchange of information regarding financial accounts of foreign residents, for the purpose of tax enforcement in accordance with a uniform standard developed by the OECD, in accordance with the Income Tax Regulations (Implementation of a uniform standard for reporting and examination of the appropriateness of information regarding financial accounts), 2019, published on February 6, 2019.

Information Technology Risks

The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.
Core processes for risk management. The core processes are based on the risk management principles, with adjustments required with respect to the IT world, with a view of enabling efficient focusing on areas and systems identified as having higher risk of disrupting the

business activity, maintenance of the fitting of the technological development to the business strategy and to changes in the operational environment, as well as the adequacy of the ability of the technology to recover from crisis situations to the Bank's needs and to the regulation to which the Bank is committed.

Strategic Risk

The strategic risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense, and the Head of the Planning, Strategy and Finance Division acts a manager of this risk. Challenges of the competitive environment, development of digital banking and expected changes in the concept of operation of the banking industry, constitute a challenge in the management of this risk.

The Bank and the Group continue in promoting a multi-annual strategic plan which includes different projects that are expected to provide solutions for the principal challenges. At the beginning of 2017, an update of the plan was approved placing emphasis on changes in the local and global competitive environment. In this context, several important new projects have been launched, mainly in the fields of innovation, digital, data and customer experience, with the aim of formulating the future banking concept of the Group and maintaining the position of the Group as a leading banking group, also from the forward-looking aspect.

During the year, updated strategic plans were approved also at the subsidiaries (MDB, CAL and IDB New York).

Reputation Risk

The reputation risk is being managed by the Discount Group in accordance with the risk management concept of three lines of defense. Due to its importance and complexity, this risk is being managed by the highest echelons in the organization. The President & CEO is responsible for the risk management in times of crisis, and the Head of the Planning, Strategy and Finance Division is responsible for its management in normal times. This, in addition to the responsibility of each member of Management for the field under his control and the functions that support risk management (spokesperson, investor relations, etc.).

As support for risk management, a reputation forum that includes representatives from the principal subsidiaries, operates, which meets on a quarterly basis, discusses internal and external risk issues and monitors indices and indicators regarding various risk areas, which might have possible relation to the reputation risk.

Data and cyber protection risks

The principal risks involved in the impairment of data and cyber protection may lead to impairment of the privacy and confidentiality of the information of the Bank, its customers and employees, the realization of cyber threats, hostile use of information by users of the system, distortion of data in the systems, impaired availability and survivability of systems and data, impairment of the Bank's business and its reputation.

For additional details, see above under "Leading and developing risks" and under "Data protection and cyber defense risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Environmental Risks

The Bank has an organized credit methodology regarding environmental risks that is intended to monitor the risk of credit losses that might be caused as a result of provisions pertaining to environmental quality hazards and the enforcement of such provisions (such as a deterioration in a customer's business position due to penalties resulting from non-compliance with the provisions of the law). Within the framework of the methodology, the Bank has defined an evaluation process for the environmental risk level of customers in economic sectors that might be exposed to environmental risks and for the quality of risk management conducted by these customers. This process is conducted upon the granting the credit and at the time of the periodic assessment of the quality of customers and the quality of the collateral and in accordance with the level of materiality.

Legal Risks

A legal risk is the risk of loss, loss of income or damage to the business caused, inter alia, by the absence of power to legally enforce execution of a contract, by ignorance of the provisions of the law, by a mistaken interpretation of the provisions of the law, including principal or secondary legislation, directives of supervisory authorities, etc., requiring the Bank to act in accordance therewith, or from exposure to legal proceedings against the Bank or any of its employees or officers within the framework of their work at the Bank or on its behalf, on the criminal, administrative or civil plain.
The legal risk includes, inter alia, exposure to penalties, fines or other punitive damages, as a result of supervisory enforcement actions as well as private settlements.
According to Proper Conduct of Banking Business Directive No. 350, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events.
The principal risk factors for legal risk exposure are: absence of knowledge of the law, whether local or foreign, applying to the operations of the Bank and the Group, mistaken legal advice, activity without legal support, mismatch of standard documents and procedures to changes in the law, non-compliance with the law and/or regulations.
The Bank's operations are regularized by various regulatory directives and by legislative instructions, regulations and rules imposing on the Bank various duties and restrictions on the part of the supervisory authorities to which the Bank is subject in its operations, this, inter alia, due to its status of a "banking corporation". Any action in contravention of these provisions, or the non-implementation thereof, may expose the Bank to legal risks. An operation in contradiction to these instructions, or the non-implementation thereof, might expose the Bank to regulation risk.
The Chief Legal Adviser is the chief legal risks manager at the Bank and at the Group.
The Bank maintains a Group legal risk management policy, which is being reviewed and approved once a year by the Bank's Board of Directors. This policy was recently updated and approved by the Board of Directors in March 2018. The policy has been adopted by the principal subsidiaries in Israel and by the Bank's extensions abroad, mutatis mutandis.

Compliance Risks

Compliance risk is the risk of the imposition of legal or regulatory sanctions, of a material financial loss or of reputational harm, which the banking corporation might sustain as a result of failing to comply with the laws, the regulations, the regulatory directives, the internal procedures and the ethics code that apply to its banking operations.

Prohibition of Money Laundering and Terror Financing

Discount Group’s activities with banks acting in the Palestinian Authority. During 2017, different meetings were held between the Bank and the Ministry of Finance, the Ministry of Justice and the Supervisor of Banks with a view of forming tools for the hedge of the risk involved in the provision of services to the Palestinian banks, through the granting of a letter of commitment not to institute criminal charges and by providing a letter of indemnity in respect of possible monetary claims.
During the second quarter of 2018, the Bank received immunity and indemnity letters signed by the State of Israel. In the letter of immunity, the State of Israel undertook not to file an indictment against the Bank, Mercantile Discount Bank, its officers and employees for certain offenses in the area of the prohibition of money laundering and the financing of terror, in connection with the provision of services to the Palestinian banks during the period from March 28, 2016, until May 31, 2019 ("the period of immunity and indemnity"). In the letter of indemnification, the state of Israel has undertaken to indemnify the Bank and MDB in an amount of up to NIS 1.5 billion for the expenses (liability under a peremptory ruling and court costs), which will be incurred by the banks in connection with the conduct of civil proceedings or criminal proceedings (that had not concluded with a conviction), which will be brought against the banks, their officers or their employees, in connection with the provision of services to Palestinian banks in the period of immunity and indemnity.
The aforesaid immunity and indemnity undertaking from the state is subject to reservations and conditions with which the banks need to comply, and which are specified in the letters of immunity and indemnity.
In continuation, the Bank has approached the Ministry of Finance and the Supervisor of Banks in the matter of its position with respect to the continuation of providing services to the Palestinian banks at the end of the immunity and indemnity period, and the need to find a long-term governmental solution to this matter.

On June 26, 2018, the Supervisor of Banks informed the Bank and MDB that she would not take any enforcement measures in respect of everything relating to the operation of the banks regarding the correspondence services provided by them to which the immunity letter applies.
On October 21, 2018, the Government Secretariat published an announcement stating that the government had decided to establish a government company, wholly-owned by the State of Israel, which will provide correspondence services to the Palestinian banking system via the Palestinian Monetary Authority, using the payments array in Israel, with this replacing to a certain extent the service that some of the commercial banks are currently providing, and in light of their having announced their intention to cease providing such service.
On February 20, 2019, the Director-General of the Ministry of Finance contacted the Bank and informed it, inter alia, that the earliest that the government company would be able to provide services to banks operating in the Palestinian Authority territories would be the first half of 2021, with this being a cautious assessment. The Director-General at the Ministry of Finance emphasized the supreme importance of the Bank continuing to provide – during the interim period until the government company begins its operations –the correspondent services to the Palestinian banks, with this, taking into consideration the possibility of extending the letters of indemnification and immunity, at the discretion of the Accountant-General and the Attorney-General. On February 28, 2019, the Bank was informed of the Attorney-General's position, according to which the Attorney-General expressed his willingness to consider extending the letter of immunity granted to the Bank that is due to expire on May 31, 2019, with this being for an additional one-year term and under the same conditions. The Bank was also informed that the Attorney-General would consider extending the letter of immunity after the State Security Cabinet's approval, and after a decision has been taken by the Accountant-General at the Ministry of Finance regarding extending the letter of indemnification for the aforesaid period. The Bank has not yet formulated its position in this matter.
Petition to the High Court of Justice. A petition was filed on December 14, 2016, with the Supreme Court, sitting as a High Court of Justice, requesting the Court to instruct the Minister of Finance and the Director General of the Ministry to provide reasons for not refraining from the granting of a commitment to indemnify the Bank and another bank appearing as a Respondent (hereinafter: "the respondent banks"), and/or refraining from granting a commitment to defend these banks in case the respondent banks are sued or indicted in respect of the financing of terror, all that, due to their business relations with banks in the Palestinian Authority. Furthermore, it is proposed to instruct the cancellation of guarantees or letters of indemnity, in as far as these had been granted to banks.
The hearing of the appeal was heard on July 4, 2018, following which the Court ruled that the appeal be deleted while maintaining the rights and arguments of the Appellants that may be raised in the future.

Conduct Risk

Conduct risk is the risk created by violation of fairness, decency and transparency values vis-à-vis the Bank's customers, including forbidden discrimination of customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. The conduct risk, including fairness, decency and nondiscrimination values, is an integral part of the definition of compliance risk at the Bank, as integrated in the policy document on the matter. The Bank acts constantly to integrate these values within the array of relevant processes and increases the awareness of its employees to their importance.

Risk Factors Table

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor. The Group uses a five grade evaluation scale for the rating of the impact of each risk (High, Medium-High, Medium, Low-Medium and Low).
Within the framework of risk management processes at the Discount Group and in accordance with regulatory requirements in the matter, mapping, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with an orderly Group methodology for the evaluation of the risk profile as part of the capital adequacy assessment process. At the base of the assessment, the Bank tests the implications of changes in the risk environment, in the inherent risk, in risk centers, in the quality and effectiveness of the risk management processes and in the control environment, the examination of implications from a forward looking view and more.
All these, as well as the methodology that had been formed for the internal capital adequacy assessment process, comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.
Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools,

including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table. It is also noted that each risk factor is tested independently of other risk factors, which are detailed in the Table.
In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank's Management, of the material risk factors and their impact, in accordance with the unique characteristics of operations of the Discount Group, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

Risk Factors Table

Risk factor	Risk Factor Impact	Basing the assessment
1. Risk environment[3]	Medium-High	The competitive environment and in the regulatory environment continue to be dynamic and complex. Technological developments, the growing interest in digital services and developments in customer expectations result in an increase in competition and lead to expected changes in the activity model, while expanding cooperation with third parties. The continuation of regulatory moves, increased enforcement (both domestic and international) and focusing on fairness, transparency and privacy protection requirements. Cyber and data protection risks continue to present a significant threat on the financial system, and require a continuous investment of resources and inputs. A continuous improvement in the Group's performance, beyond the strategic outline took place in the internal risk environment, while reducing the gaps existing in relation to the industry and increasing the Group's market share as regards credit. Notwithstanding, similar efficiency measures taken by the industry create a continuous challenge regarding the reduction of the gap.
2. Overall impact of credit risk	Medium	A continuing growth in credit in all Group companies in accordance with the strategic plan, with a parallel growth in market share of the targeted business sectors as well as actions taken to improve the quality of the portfolio. Improvements are being made in the supporting tools and models, including promotion of integrating a Group project for the development of advanced models and risk adapted pricing. All this alongside improvements in underwriting processes and in monitoring and control tools.
2.1 Quality of borrowers and collaterals risk	Medium	In view of the business and regulatory environment, which might impact the growth in risk, and the accelerated growth in credit at the Group, the Bank is acting to reduce the credit risk by preparing for regulation, improving models, updating its credit policy, tightening of controls while maintaining the quality of the portfolio and proper processes for the management of the credit portfolio.
2.2 Industry concentration risk	Medium	The Group complies with the regulatory restrictions.
2.3 Borrower/groups of Borrowers concentration risk	Medium	The Group complies with the regulatory restrictions.
3. Overall impact of market risks	Low-Medium	A rise in the level of exposure reflected in the results of sensitivity tests and stress tests conducted by the Group. Among its causes, a managed decision for the reduction in exposure to financing income (by extending the portfolio period). Also continuing is the establishment of the Group's global treasury management and the continuous improvement of the tool, models and infrastructure supporting risk management.
3.1 Interest rate risk	Low-Medium	A low exposure level and the risk management quality is in a continuous improvement trend.
3.2 Inflation and exchange rate risk	Low	Maintaining a low exposure level alongside the strict monitoring of its effect.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	The assessment of the risk rose during the past year, mainly against the background of the changes that occurred in the equity and bond markets, both in Israel and overseas, the increase recorded in prices volatility and the developments that the markets experienced during the last quarter of 2018.
4. Liquidity risk	Low	The risk profile remains low, as is revealed by the level of the risk indices (the liquidity coverage ratio, the liquidity gap, the internal model, etc.), and this despite the implementation of the Group credit growth strategy. The Group continues to enjoy robust liquidity, is implementing a clear funding strategy and is taking further measures to improve the tools that support risk management.

3 Relates to the evaluation of the risk environment impacts: domestic, global, the local and international competition environment and the regulatory risk environment.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
5. Operating risk	Medium	The strategic plan is continuing in a proper manner and current and qualitative management exists regarding the risks stemming from the different activities (the risk management of project and new product processes). The realization and progress of the projects leads to the reduction in exposure as a result of improvement and mechanization of processes and controls. Notwithstanding the above, from a forward looking standpoint, the risk horizon grows as a derivative of changes in the risk environment and in the regulatory environment, alongside the implementation of complex Group projects, at the Bank and at the subsidiary companies.
6. IT risk	Medium	The computerization plan is compatible with the strategic plan and progresses with no particular delays. On the background of the competitive environment, accelerated development is conducted, integrating new technologies and the development of complex applications. The Bank is acting to integrate the agile methodology[4] with respect to project development and management processes, alongside towards the adaptation and improvement of monitoring and control processes. In addition, continuing improvement is being made as regards infrastructure and redundancy and significant steps are taken for the positioning of the digital operations of the Group. The combining of activities by means of cloud computing and outsourcing, and cooperations with entrepreneurs and startup companies that form financial products and/or innovative mechanisms that support digital banking operations, create new challenges in the field of risk management, in order to secure a continuous and reliable technological activity, while maintaining privacy protection and data protection aspects. The regulatory reliefs in the world of online banking, including the accessibility of additional digital services to customers, expose the banks to additional risks and require the implementation of tight risk management processes.
7. Data protection and cyber risks	Medium-High[5]	The growth in threats and the increase in power, ingenuity, complexity and level of probability of cyber risks continue. The Group continues to allocate significant resources for the reduction of exposure, which includes: the focusing on stronger protection of the network and its components, improvement of forestallment and monitoring tools, improving the ability to contain and manage events, management of cyber risk applying to the supply chain, reducing exposure applying to money outflow routes, central management of authorization concepts, and more. At the same time, the Bank continues to develop aspects of policy and risk appetite, including determination of indicators and thresholds in qualitative and quantitative terms, alongside the conduct of exercises and improvements in the security layout and data protection at the Bank and at the Group. The establishment continues of risk management operations in the second and third lines of defense.
8. Legal risk	Medium	A trend of basic changes in banking is being noticed, both in aspects of regulation and in business aspects, which require close legal assistance. Continuation of a trend of increase in volume and in frequency of publication of matters regarding legislation and regulation applying to the Bank, inter alia, on the background of a number of conspicuous trends (competition, innovation, efficiency and decency), alongside the increased enforcement in Israel and abroad. The quality of management is at an ever increasing improvement, while maintaining orderly processes for risk management.
9. Cross-border risks	Medium-High	The evaluation reflects the level of risk of the system in the light of the risk's dynamics and the increased enforcement. The continuation of regulation development requires investment in the continuation of mechanization and the adaptation thereof to the domestic and global regulation. Management and monitoring is conducted with respect to operations of the Group focused on controls, improvement and organization of customers, training and integration as well as the continuing mechanization of the requirements into systems and processes. The Group is preparing for the implementation of the CRS regulations and for the reporting to the Tax Authority within the framework of domestic regulations.

4 Iterative software development methodology in a flexible production process conducted by small teams, while focusing on efficiency, agility and maintaining product quality in a controlled manner.

5 Evaluation of the risk impact derives mostly from the identification of risk as developing and system risk and as a derivative of an increase in their risk environment, and not on the background of identification of risks that are singular to the Group.

Risk Factors Table (continued)

Risk factor	Risk Factor Impact	Basing the assessment
10. Compliance, Money Laundering and Financing of Terror risks	Medium	An increase in the structured risk in view of the growth in regulation and changes in activity, alongside the continuing efficiency measures and development of new products. On the other hand, continuous improvement exists in the quality of management and in the integration of the compliance culture. Within the framework of the policy, the following subjects are prescribed: the liquidity risk appetite, including a set of limits, the organizational structure for managing the risk and the core processes both in routine circumstances and on the occurrence of a liquidity event, which are granted a high managerial focus and allocation of resources under various stress scenarios. In this framework, the integration of fairness and decency aspects is being emphasized with respect to credit sale and collection processes, at all Group companies. The Bank continues to implement Proper Conduct of Banking Business Directive No. 308, with respect to each new regulation. From the standpoint of prohibition on money laundering, an increase exists in the structured risk, both due to the reasons mentioned above and in view of the expanded activity in areas such as hi-tech and complex credit transactions, facing the challenges existing in the opening and management of accounts for companies engaged in the fintech field, the cryptographic coins field and such like. The Group has acted to assemble operations involving risk (foreign residents, currency converting services, loan charity organizations, etc.) in branches specializing in these fields.
11. Reputation risk	Low-Medium	Significant actions taken by the Group have won investor confidence and enabled raising the rating of the Group, in the center of which is the improvement in all focus points of the strategic plan, improvement in the rating of the Group, strengthening the capital, firmness of the leverage and liquidity ratios, reverting to accelerated growth, digital improvements, efficiency measures, formation of a dividend policy, and improvement in administrative flexibility. Current processes for the management of the risk are in place, including of a quarterly Group forum and the monitoring of supporting indicators.
12. Strategic risk (including risk of the business model)	Medium	The increased competition and the entry of new players (off-banking entities and technology and fintech entities) into the traditional banking market, alongside changes in public preferences and in customer needs, lead to expected structural changes in the banking industry and raise the business model risk in the industry. The Group acts for the formation and implementation of the future banking concept for the Group, as part of the realization of the strategic plan and periodic initiation of new projects in the fields of innovation, digital and technology. The Group presents a continuing improvement in the strategic focus points and improvement is noticed in efficiency ratios and in the return on equity, yet the challenges continue to be significant. Challenging strategic plans exist in ICC and in IDB New York, which are being managed under Group methodology and supervision.

CHAPTER "D" – ACCOUNTING POLICY AND CRITICAL ACCOUNTING ESTIMATES, CONTROL AND PROCEDURES

Critical Accounting Policies and Critical Accounting Estimates

General

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) and according to instructions and guidelines of the Supervisor of Banks.

The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.

Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.

Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.

Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its information and professional judgment.

Following is a summary review of evaluations and assessments made as regards "critical" matters.

Allowances for Credit Losses

The process of assessing the loss inherent in the credit portfolio, as described in Note 1D 4 regarding the accounting policy, is based on significant assessments involving uncertainty, and on subjective assessments, both at the stage of identifying and classifying the debts and at the stage of measuring the allowance for credit losses. A change in assessments or in estimates may have a material effect on the allowance for credit losses as presented in the Bank's financial statements.

The Bank examines the overall adequacy of the allowance for credit losses. The adequacy evaluation, as stated, is based on the judgment of Management, which takes into consideration the risks inherent in the credit portfolio and in the evaluation methods applied in the determination of the allowance.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 31 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Structure and Developments of Assets, Liabilities, Capital and Capital Adequacy". For details regarding the credit risk management at the Bank, including the Bank's preparations for the adoption of updates to the generally accepted accounting principles at banks in the U.S. – allowances for credit losses (CECL), see "Credit risks" above in Chapter C – "Risks review" and in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

Contingent Liabilities

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard ASC 450 and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating an allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits.
Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.
The Bank is exposed to unasserted claims. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made the actual outcome may differ from assessment conducted prior to filing of the claim.
It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.
See Note 26 C to the financial statements for details of material legal actions pending against the Bank and against other companies in the Group. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" in Chapter "Corporate governance, audit and additional details regarding the business of the Banking corporation and management thereof". For details regarding the criteria relating to the disclosure of legal actions and the accounting treatment adopted in their respect, see Note 1 D 16 to the financial statements. For additional details, see the 2016 annual report (pp. 104-106).

Impairment of Available for Sale Securities

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale securities, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the statement of profit and loss in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses (OTTI) are taken directly to the statement of profit and loss.
The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said securities.
For the purpose of determining the nature of losses accumulated in respect of securities as above, managements of the Bank and/or of the relevant subsidiaries, base themselves on the security's various characteristics on which losses have been accumulated and on the company that had issued this security, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the security was lower than its cost, the credit rating of the security and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc.
The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments, assumptions and features upon which they are based may have a significant effect upon the financial statements.
For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

Measurement of Financial Instruments according to their Fair Value

Directives of the Supervisor of Banks. The Bank implements the directive of the Supervisor of Banks regarding Measurement of fair value based on the U.S. financial accounting standard ASC 820. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

ASC 820 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 34 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions, corporations and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

For details regarding transfers between levels of fair value hierarchies, see Note 34 G to the financial statements.

As seen from the data presented in Note 34 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 14.1% at December 31, 2018, compared with 15.2% at December 31, 2017.

The income on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 140 million in 2018, compared to an expense of NIS 104 million for 2017.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions, corporations and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and as the case may be, also to broker quotations that are not the issuers of the securities (in the case of a material change in the monthly level), which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank’s dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model, and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank’s dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc. Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Division in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Division, in which a representative of the Accounting Division also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within the framework of the same program, the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Notes 28 and 34 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

The adjustment of credit risk relating to assets and liabilities in respect of derivative did not have an effect on the results for 2018, compared to a loss of NIS 3 million in 2017.

DETAILS REGARDING THE ADJUSTMENT OF THE ASSETS AND LIABILITIES IN RESPECT OF DERIVATIVE INSTRUMENTS

	December 31, 2018	December 31, 2017
	in NIS millions	
Assets in respect of derivative instruments	3,738	2,975
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(12)	(16)
Liabilities in respect of derivative instruments	3,282	3,263
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(3)	(7)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

Employee Rights

The Bank applies U.S. accounting principles as regards employee rights. For additional details, see Note 1 D 15.1. The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions.

Certain aspects regarding the implementation of the accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and is based on past experience and on the limitations determined in this respect by the Bank's Management. The limitations determined by the Management, which are being implemented with effect from the financial statements as of December 31, 2016, are detailed in Note 1 D 15.7 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age of employees prior to the retirement date, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated and the discount rate. These parameters were determined, inter-alia, based on forecasts prepared by the actuary and the experience accumulated in the Bank. The actuarial computation was based on a computed discount rate, in accordance with instructions of the Supervisor of Banks.

Furthermore, implementation of the accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities in respect of which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction;
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of profit and loss in accordance with the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual profit, including in respect of changes in the assessment of the average service period).

Updated actuarial opinion. The Bank has ordered an updated actuarial assessment as of December 31, 2018.

It should be noted that, in the framework of the actuarial computation performed and the computation of the cost of the efficiency plan, a retirement was assumed in accordance with the retirement plan that had been approved. It is further noted, that the new wage agreement (see "The Human Capital" below) has been taken into account in the framework of the actuarial calculation.

The actuarial opinion also includes a computation of the actuarial provision amount that would have been required were the cap rate to be determined in accordance with the Israeli Securities Authority’s “deep market” guideline.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[6] is available for perusal on the MAGNA website of the Israeli Securities Authority, on the MAYA website of the Tel Aviv Stock Exchange Ltd. and on the Bank's website, together with the Bank’s 2018 Annual Report (This Report).

6 The English translation of the Opinion is available for perusal at the Bank's website.

Possible impact of changes in parameters and in assumptions. For details regarding the effect of a change of one percentage point, in the capitalization rate, in the rate of retirement and in the rate of increase in remuneration, on the liability for the forecasted benefit, before the tax effect, see Note 23 C to the financial statements, item 3.2.
MDB. For details regarding the voluntary retirement plan at MDB, see Note 23 J to the financial statements.
2018 efficiency plan. For details, see “Efficiency of the banking industry – 2018 efficiency plan” above and Note 23 K to the financial statements.

Deferred Taxes

Deferred taxes are recorded in respect of temporary differences between the value of assets and liabilities in the balance sheet and their value for tax purposes. Deferred tax assets in respect of timing differences are recorded only if it is probable that tax savings will accrue upon reversal of the difference and deferred tax assets in respect of carry forward losses for tax purposes are recorded only if the realization of the tax asset in the foreseeable future is more likely than not. Accordingly, when deferred tax assets are being recorded, the Bank is required to perform assessments and estimates as to the probability and timing of realization of these assets in the future. For further details, see Note 1 D 18 and Note 8 to the financial statements.

Examination of impairment in value of non-financial assets

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.
Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States. For additional details regarding the said indicators, see Note 1 D 13 to the financial statements.
The written down balance of in-house software development costs amounted at December 31, 2018 to NIS 735 million (December 31, 2017: NIS 622 million).

Controls and Procedures

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.
In order to establish these declarations, the Bank has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.
Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.
During 2018, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Division.
Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Changes in Internal Control

During the fourth quarter ended on December 31, 2018, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably to materially affect, the Bank's internal control over financial reporting.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank's employees and employees of the Group's companies and their management for their work towards the advancement of the Bank and the Group.

March 10, 2019	Shaul Kobrinsky Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer

INTERNAL CONTROL OVER FINANCIAL REPORTING

Certification

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2018 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

March 10, 2019

Lilach Asher-Topilsky,
President & Chief Executive
Officer

Certification

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2018 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors and to the audit committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

March 10, 2019

Joseph Beressi
Senior Executive Vice President
Chief Accountant

Report of the Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 2013. Based on that assessment, Management believes that as of 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 of December 31, 2018 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 106, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2018.

Shaul Kobrinsky Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 10, 2019

FINANCIAL STATEMENTS

Somekh Chaikin

Report of the independent auditors to the shareholders of Israel Discount Bank Ltd. – In accordance with the public reporting directive of the Supervisor of Banks regarding internal control over financial reporting

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a bank over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a bank over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We have also audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2018 and 2017, and the statements of profit and loss, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2018, and our report dated March 10, 2019, expressed an unqualified opinion on these financial statements as well as calling attention to Note 26 C item 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 10, 2019

Auditor's report to the Shareholders' of Israel Discount Bank Ltd. - Annual Financial Statements

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and consolidated: Balance sheets as at December 31, 2018 and December 31, 2017, statements of profit and loss, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended 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 on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2018 and 2017, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2018, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 26 C item 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report of March 10, 2019, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 10, 2019

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2018	2017	2016
		in NIS millions		
Interest income		7,053	6,213	5,659
Interest expenses		1,527	1,238	1,102
Interest income, net	2	5,526	4,975	4,557
Credit loss expenses	13,31	540	574	469
Net interest income after credit loss expenses		**4,986**	**4,401**	**4,088**
Non-interest Income				
Non-interest financing income	3	586	595	754
Commissions	4	2,851	(2)2,676	(2)2,556
Other income	5	57	87	100
Total non-interest income		**3,494**	**3,358**	**3,410**
Operating and other Expenses				
Salaries and related expenses	6	3,385	(1)3,204	(1)3,169
Maintenance and depreciation of buildings and equipment	16	1,039	1,044	1,067
Other expenses	7	1,724	(1)(2)1,446	(1)(2)1,549
Total operating and other expenses		**6,148**	**5,694**	**5,785**
Profit before taxes		2,332	2,065	1,713
Provision for taxes on profit	8	789	747	741
Profit after taxes		1,543	1,318	972
Bank's share in profit of affiliated companies, net of tax effect	15	6	1	15
Net profit:				
Before attribution to non-controlling rights holders		1,549	1,319	987
Attributed to the non-controlling rights holders		(44)	(60)	(82)
Net Profit Attributed to the Bank's Shareholders		**1,505**	**1,259**	**905**
Basic earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9,24**	**1.29**	**1.09**	**0.84**
Diluted earnings per share of NIS 0.1 par value attributed to the Bank's shareholders (in NIS)	**9,24**	**1.29**	**1.09**	**0.84**

Footnotes:

(1) Reclassified, see Note 1 C 6 (3) .

(2) Reclassified, see Note 1 C 5 .

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

Date of approval of the financial statements:	Shaul Kobrinsky	Lilach Asher-Topilsky	Joseph Beressi
	Chairman of the Board of Directors	President & Chief Executive Officer	Senior Executive Vice President, Chief Accountant
March 10, 2019			

Statement of Profit and Loss for the year ended December 31 (continued)

		The Bank		
	Notes	2018	2017	2016
		in NIS millions		
Interest income		3,996	3,521	3,176
Interest expenses		907	764	669
Interest income, net	2	3,089	2,757	2,507
Credit loss expenses	13,31	300	258	232
Net interest income after credit loss expenses		**2,789**	**2,499**	**2,275**
Non-interest Income				
Non-interest financing income	3	403	371	321
Commissions	4	1,246	(2)1,193	(2)1,160
Other income	5	115	131	135
Total non-interest income		**1,764**	**1,695**	**1,616**
Operating and other Expenses				
Salaries and related expenses	6	2,015	(1)1,998	(1)1,937
Maintenance and depreciation of buildings and equipment	16	698	726	751
Other expenses	7	662	(1)(2)586	(1)(2)678
Total operating and other expenses		**3,375**	**3,310**	**3,366**
Profit before taxes		1,178	884	525
Provision for taxes on profit	8	415	310	285
Profit after taxes		763	574	240
Bank's share in profit of affiliated companies, net of tax effect	15	742	685	665
Net profit attributed to bank's shareholders		**1,505**	**1,259**	**905**

Footnotes:
(1) Reclassified, see Note 1 C 6 (3) .
(2) Reclassified, see Note 1 C 5 .
The notes to the financial statements form an integral part thereof.

Consolidated Statement of Comprehensive Income for the year ended December 31

	For the year ended December 31,		
	2018	2017	2016
	in NIS millions		
Net profit before attribution to non-controlling rights holders	1,549	1,319	987
Net profit attributed to non-controlling rights holders	(44)	(60)	(82)
Net profit attributed to the Bank's shareholders	**1,505**	**1,259**	**905**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale securities at fair value	(377)	33	(126)
Financial statements translation adjustments, net	252	(335)	(44)
Adjustments of liabilities in respect of employee benefits[2]	259	(17)	(239)
Net income (loss) in respect of cash flows hedge	(1)	(1)	2
Other comprehensive income (loss), before taxes	**133**	**(320)**	**(407)**
Effect of attributed taxes	23	(2)	111
Other comprehensive income (loss), before attribution to non-controlling rights holders, after taxes	156	(322)	(296)
Other comprehensive loss, attributed to non-controlling rights holders	-	(2)	(4)
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	**156**	**(320)**	**(292)**
Comprehensive income, before attribution to non-controlling interests holders	1,705	997	691
Comprehensive income, attributed to non-controlling interests holders	(44)	(58)	(78)
Comprehensive income, attributed to the Bank's shareholders[1]	**1,661**	**939**	**613**

Footnotes:
(1) See Note 10.
(2) Reflects mostly adjustments in respect of actuarial assessments as of the end of the period of defined benefits pension plans and amortization of amounts recorded in the past in other comprehensive income.
The notes to the financial statements are an integral part thereof.

Balance sheet as at December 31

		Consolidated		The Bank	
	Notes	2018	2017	2018	2017
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	21,858	28,026	18,499	22,723
Securities (of which: 4,767, 5,088, 4,105, 4,461 respectively, pledged to lenders)	12,27	37,898	32,703	21,442	18,130
Securities borrowed or purchased under resale agreements		774	954	774	954
Credit to the public	13,31	167,078	150,868	109,825	99,056
Provision for credit loss	13,31	(2,274)	(2,111)	(1,377)	(1,302)
Credit to the public, net		164,804	148,757	108,448	97,754
Credit to Governments	14	3,336	1,493	3,336	1,493
Investment in investee companies (consolidated – affiliated companies)	15	135	153	9,617	8,855
Buildings and equipment	16	2,437	2,366	1,671	1,676
Intangible assets and goodwill	17	160	160	-	-
Assets in respect of derivative instruments	28	3,726	2,953	3,501	2,850
Other assets	18	4,048	3,656	2,531	2,032
Total Assets		**239,176**	**221,221**	**169,819**	**156,467**
Liabilities and Equity					
Deposits from the public	19	188,916	175,170	136,400	124,652
Deposits from banks	20	6,886	4,804	1,880	1,490
Deposits from the Government		257	267	28	50
Securities loaned or sold under repurchase agreements		1,126	1,943	-	-
Bonds and Subordinated debt notes	21	8,476	7,639	4,131	4,232
Liabilities in respect of derivative instruments	28	3,249	3,232	3,027	3,075
Other liabilities[(1)]	22	12,597	12,098	7,202	7,374
Total liabilities		221,507	205,153	152,668	140,873
Equity capital attributed to the Bank's shareholders	24	17,151	15,594	17,151	15,594
Non-controlling rights in consolidated companies		518	474	-	-
Total equity		17,669	16,068	17,151	15,594
Total Liabilities and Equity		**239,176**	**221,221**	**169,819**	**156,467**

Footnote:

(1) Of which NIS 176 million and NIS 193 million in the consolidated, and NIS126 million and NIS 147 million in the bank, as of December 31, 2018, and December 31, 2017, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 E.

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

Statement of Changes in Shareholders' Equity

	Capital reserves								
	Paid up share capital	Share premium	Other reserves	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling rights holders	Total equity
	in NIS millions								
Balance at December 31, 2015	665	3,434	212	4,311	(105)	9,082	13,288	346	13,634
Net Profit for the year	-	-	-	-	-	905	905	82	987
Transactions with controlling shareholders	-	-	3	3	-	-	3	-	3
Issue of Shares(1)	7	465	-	472	-	-	472	-	472
Receipts on account of option warrants(1)	-	-	97	97	-	-	97	-	97
Exercise of options to Shares(1)	1	59	(21)	39	-	-	39	-	39
Other comprehensive loss after tax effect	-	-	-	-	(292)	-	(292)	(4)	(296)
Balance at December 31, 2016	**673**	**3,958**	**291**	**4,922**	**(397)**	**9,987**	**14,512**	**424**	**14,936**
Net Profit for the year	-	-	-	-	-	1,259	1,259	60	1,319
Dividend to non-controlling interests holders	-	-	-	-	-	-	-	(8)	(8)
Exercise of options to Shares(1)	3	216	(76)	143	-	-	143	-	143
Other comprehensive loss after tax effect	-	-	-	-	(320)	-	(320)	(2)	(322)
Balance at December 31, 2017	**676**	**4,174**	**215**	**5,065**	**(717)**	**11,246**	**15,594**	**474**	**16,068**
Changes in 2018:									
Net Profit for the year	-	-	-	-	-	1,505	1,505	44	1,549
Dividend paid	-	-	-	-	-	(118)	(118)	-	(118)
Other comprehensive income, net after tax effect(2)	-	-	-	-	156	14	170	-	170
Balance at December 31, 2018	**676**	**4,174**	**215**	**5,065**	**(561)**	**12,647**	**17,151**	**518**	**17,669**

Footnotes:

(1) As discussed in Note 24 D to the financial statement as of December 31, 2017.

(2) Including the effect of adopting ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" and the adoption of ASU 2014-09, "Recognition of Revenue from Contracts with Customers" - IDB New York, in negligible amounts.

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

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	1,549	1,319	987	1,505	1,259	905
Adjustments necessary to present cash flows from current operations:						
Bank's share in profits of investee companies (consolidated - affiliated)	(7)	(5)	(17)	(802)	(740)	(725)
Depreciation of buildings and equipment (including impairment in value)	424	433	426	273	298	296
Provision for impairment of securities	14	11	18	8	2	16
Credit loss expenses	540	(2)574	(2)469	300	(2)258	(2)232
Gain on sale of credit portfolio, net	(6)	(20)	(14)	(6)	(19)	(12)
Gain on sale of available-for-sale and held to maturity securities, net	(154)	(369)	(219)	(64)	(162)	(119)
Gain on the sale of rights in Visa Europe	-	-	(360)	-	-	(97)
Realized and non realized loss (gain) from adjustment to fair value of trading securities, net	(63)	18	9	(64)	17	9
Gain from realization at an investment in investee companies	-	(5)	-	-	-	-
Gain on realization of buildings and equipment	(46)	(64)	(80)	(46)	(68)	(72)
Net deferred taxes	34	(84)	4	77	(85)	19
Severance pay – increase (decrease) in excess of provision over the deposits	(151)	81	198	(32)	43	159
Net change in current assets:						
Assets in respect of derivative instruments	(771)	330	(75)	(651)	290	(72)
Trading securities	(659)	1,406	33	(251)	1,362	(790)
Other assets	(374)	9	237	(554)	152	144
Effect of changes in exchange rate on cash and cash equivalent balances	188	(181)	(110)	186	(169)	(88)
Accrual differences included in investment and financing activities	(1,161)	1,957	844	9	501	379
Net change in current liabilities:						
Liabilities in respect of derivative instruments	16	(338)	95	(48)	(326)	127
Other liabilities	873	911	(447)	26	658	293
Adjustments in respect of exchange rate differences on current assets and liabilities	239	(185)	(18)	-	-	-
Dividends received from investee companies (consolidated - affiliated)	37	(1)3	(1)7	191	(1)148	(1)69
Net Cash Flows from Operating Activities	**522**	**5,801**	**1,987**	**57**	**3,419**	**673**

Footnotes:

(1) Reclassified - see Note 1 E 2.

(2) Reclassified – classification between "credit loss expenses" and "net change in credit to the public", for the purpose of matching with the parallel items in the statement of profit and loss.

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

Statement of Cash Flows for the year ended December 31 (continued)

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Cash Flows from Investing Activities						
Net change in Deposits with banks	(45)	[1]228	[1]140	(57)	[1]70	[1]466
Net change in Credit to the public, net	(13,798)	[1,2,3](8,925)	[1,2,3](12,015)	(8,250)	[1,2,3](7,301)	[1,2,3](8,942)
Net change in Credit to the Governments	(393)	[1](756)	[1](222)	(393)	[1](761)	[1](230)
Net change in Securities borrowed or purchased under resale agreements	180	[1](514)	[1](161)	180	[1](514)	[1](161)
Acquisition of held-to-maturity bonds	(2,676)	(91)	(184)	(2,485)	-	-
Proceeds from redemption of held-to-maturity bonds	1,333	648	794	973	[3]191	[3]265
Acquisition of available-for-sale securities	(14,240)	(10,271)	(14,608)	(8,821)	(6,367)	(7,486)
Proceeds from sale of available-for-sale securities	5,794	9,195	6,557	3,725	6,565	4,975
Proceeds from sale of rights in Visa Europe	-	-	286	-	-	77
purchased credit portfolios	(3,838)	[3](1,104)	[3](515)	(3,838)	[3](1,104)	[3](515)
Gain on sale of credit portfolio	254	1,149	847	137	866	839
Proceeds from redemption of available-for-sale securities	5,576	4,029	5,071	2,866	[3]1,235	[3]2,831
Reduction of (additional) investment in an activity in an investee company	(12)	-	-	-	-	-
Business combinations - see Annex A	-	-	9	-	-	-
Proceeds of the sale of investments in investee companies (consolidated - affiliated) and dividend	-	[1]9	[1]-	-	[1]-	[1]-
Dividend from a subsidiary in liquidation	-	-	-	-	154	-
Investment in deferred debt notes of a subsidiary company	-	-	-	-	(100)	-
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	63	6	-
The sale of operations of an investee company	-	-	(1,272)	-	-	-
Acquisition of buildings and equipment	(473)	(521)	(533)	(266)	(347)	(343)
Proceeds from sale of buildings and equipment	59	125	113	59	114	96
Net Cash Flows to Investing Activities	**(22,279)**	**(6,799)**	**(15,693)**	**(16,107)**	**(7,293)**	**(8,128)**
Cash Flows from Financing Activities						
Net change in Deposits from banks	2,082	[1](538)	[1]1,435	390	[1](216)	[1]33
Net change in Deposits from the public	13,867	[1]2,883	[1]13,881	11,869	[1]1,330	[1]10,126
Net change in Deposits from the Government	(10)	[1](36)	[1](3)	(22)	[1](18)	[1](29)
Net change in Securities borrowed or purchased under resale agreements	(817)	[1](1,600)	[1](290)	-	[1]-	[1]-
Issuance of subordinated debt notes	1,493	811	282	-	811	29
Redemption of subordinated debt notes	(773)	(1,753)	(1,355)	(164)	(147)	(162)
Issue of Shares	-	-	472	-	-	472
Receipts on account of option warrants	-	-	97	-	-	97
Receipts from conversion of options to shares	-	143	39	-	143	39
Dividend paid to the shareholders	(118)	-	-	(118)	-	-
Dividend to non-controlling rights holders	-	(8)	(3)	-	-	-
Net cash flows from (to) Financing Activities	**15,724**	**(98)**	**14,555**	**11,955**	**1,903**	**10,605**
Increase (decrease) in cash	(6,033)	(1,096)	849	(4,095)	(1,971)	3,150
Cash balance at beginning of period	27,762	28,819	27,886	22,499	24,301	21,063
Effect of changes in exchange rate on cash and cash equivalent balances	(180)	39	84	(186)	169	88
Cash balance at end of period	**21,549**	**27,762**	**28,819**	**18,218**	**22,499**	**24,301**
Interest and taxes paid and/or received						
Interest received	7,477	6,275	5,646	4,016	3,690	3,472
Interest paid	(1,966)	(1,212)	(1,231)	(1,049)	(863)	(897)
Dividends received	37	27	19	193	149	62
Taxes on income paid	(927)	(926)	(776)	(563)	(526)	(366)
Taxes on income received	280	90	302	213	38	262

Footnotes:
(1) Reclassified - see Note 1 E 2.
(2) Reclassified – classification between "credit loss expenses" and "net change in credit to the public", for the purpose of matching with the parallel items in the statement of profit and loss.
(3) Reclassified - Improvement in the calculation of the data.

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

Appendix A – Business Combinations[1]

	2018	2017	2016
	in NIS millions		
Net assets	-	-	(22)
Goodwill	-	-	(18)
Disregarding non-controlling rights	-	-	49
Business combinations	**-**	**-**	**9**

Footnote:
(1) The merger of Clal Finance Underwriting Ltd. With and into Discount Capital Underwriting.

Appendix B - Non-cash Asset and Liability Activity during the Reported year

	2018	2017	2016
	in NIS millions		
The Bank:			
Income from sale of rights in Visa Europe	-	-	20
Purchase of fixed assets	16	14	42
Lending of securities	486	(241)	2,073
Consolidated:			
Income from sale of rights in Visa Europe	-	-	74
Purchase of fixed assets	30	26	45
Lending of securities	648	(328)	2,315

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

Notes to the Financial Statements

1. Significant Accounting Policies

A. GENERAL

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 10, 2019.

B. DEFINITIONS

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including

interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt according to a hierarchy determined by the U.S. Financial Accounting Standard ASC 105-10 (FAS 168). In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S. (U.S. GAAP), shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" and "Related party" - within their meaning in section 80 of the Reporting to the Public Directives.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Affiliated companies" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and affiliated companies.

"CPI" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

C. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1. Principles of financial reporting

   The Bank's financial statements are prepared according to Generally Accepted Accounting Principles in Israel (Israeli GAAP) and according to the instructions of the Reporting to the Public Directive of the Supervisor of Banks. In most of the subjects, these instructions are based on accounting principles accepted by U.S. banks. As regards other matters, of lesser materiality, the instructions are based on International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles in Israel (Israeli GAAP).

   Where the International Financial Reporting Standards (IFRS) allow several alternatives, or where they do not include a specific reference to a particular situation, these instructions state specific implementation guidelines, based mostly on accounting principles accepted by U.S. banks.

2. Functional Currency and Presentation Currency

   The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see item D 1, below.

3. Basis of measurement

   The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

   - Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
   - Financial instruments classified as available for sale;
   - Non-current assets held for sale and a group of assets held for sale;
   - Deferred tax assets and liabilities;

1. Significant Accounting Policies (continued)

- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in affiliated companies.

4. Use of estimates

In preparing the financial statements, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such estimates. Upon the formation of accounting estimates applied in the preparation of financial statements, the Management of the Bank and of the investee companies are required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Managements of the Bank and of the investee companies base their selves upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate. The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

5. Reclassification. The commissions on purchase of credit and guaranty insurance, which in the past had been presented in the item "Other expenses" – "Insurance", were reclassified in the reported period as deduction from "Non-interest income" – "Commissions on financing activities", in order to create a more proper matching of income to expenses. The comparative data has been reclassified accordingly.

6. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

Starting with the period beginning January 1, 2018, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Recognition of income from contracts with customers (see item 1 below);

(2) Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated November 1, 2016 (see item 2 below);

(3) Circular regarding Improving the Presentation of Pension Cost and Postretirement Benefit Cost (see item 3 below).

Following is a description of the nature of changes in the accounting policy and a description of the manner of initial implementation and its effect, if at all:

1. Recognition of income from contracts with customers. A circular was published on January 14, 2015, in the matter of adoption of the update for accounting principles regarding income from contracts with customers. The circular updates the Reporting to the Public Directives in view of the publication of update ASU 2014-09, which adopts in U.S. GAAP a new standard in the matter of income recognition. The Standard contains a single model that applies to contracts with customers. The model includes five stages required to determine the timing of the recognition of income and its amount

   The new standard does not apply, among other things, to financial instruments and to contractual rights or liabilities under Chapter 310 of the Codification.

   The initial implementation and its effect. The implementation of the Standard did not have material effect. Disclosure regarding income from contract with customers has been expanded (see Note 4 below).

2. Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated October 13, 2016. A circular was published on October 13, 2016, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP. The circular revises the Reporting to the Public Directives and adopts U.S. accepted accounting standards with respect to the following matters:

   - Accounting principles accepted by U.S. banks regarding topic 205-20 of the Codification in the matter of "Discontinued operations";
   - Accounting principles accepted by U.S. banks regarding topic 360 of the Codification in the matter of "Fixed assets";
   - Accounting principles accepted by U.S. banks regarding topic 260 of the Codification in the matter of "Earnings per share";
   - Accounting principles accepted by U.S. banks regarding topic 230-10 of the Codification in the matter of "Statement of cash flows";
   - Accounting principles accepted by U.S. banks regarding topic 270 of the Codification in the matter of "Interim period reporting";
   - Capitalization of interest costs in accordance with Topic 835-20 of the Codification regarding "Capitalization of interest";
   - Accounting principles accepted by U.S. banks regarding topic 460 of the Codification in the matter of "Guarantees".

1. Significant Accounting Policies (continued)

The initial implementation and its effect. The implementation of the circular did not have material effect. The reporting format regarding the statement of cash flows, including the comparative data, has been adjusted to agree with the updated reporting format. Moreover, the disclosure regarding guaranties has been expanded (see Note 31 F below).

3. **Circular regarding Improving the Presentation of Pension Cost and Postretirement Benefit Cost.** On January 1, 2018, the Supervisor of Banks issued a circular regarding Amendment No. 2017-07 of the Codification in the matter of improving the presentation of pension cost and postretirement benefit cost.

   The Amendment clarifies that cost components of the benefit included in payroll expenses in the statement of profit and loss should be separated so that only the cost of service would remain in payroll expenses, while remaining costs should be recognized in other expenses. Furthermore, it is clarified that only the cost of service may be capitalized in cases where capitalization of payroll expenses is permitted, while capitalization of the remaining costs of the benefit may not be capitalized.

   The initial implementation and its effect. The implementation of the circular did not have material effect, excluding the presentation format, including the reclassification of the comparative data.

D. ACCOUNTING POLICY APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

1. Foreign currency and linkage

Foreign currency transactions. At date of recognition of a transaction in foreign currency, any asset, liability, income, expense, profit or loss deriving from such transaction are translated, at date of initial recognition, to the Bank's functional currency in accordance with the exchange rate in effect on date of the transaction. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Profits or losses on translation of transactions in foreign currency, which stem from fluctuations of the currencies in the period between the date of the transactions and the date of settlement/balance sheet date, are recognized in the statement of profit and loss as translation differences profits or losses (non-interest financing income), excluding:

- The effective part of the profit or loss in respect of a hedge instrument hedging a net investment in foreign operations or hedging cash flows;
- Exchange rate differences in respect of items comprising a part of a net investment;
- Exchange rate differences in respect of capital financial instruments classified as available-for-sale (excluding the event of impairment when translation difference that had been recognized in other comprehensive income are reclassified to profit and loss).

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses as well as the profits and losses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions. Exchange rate differences on translation are recognized in other comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in other comprehensive income, are reclassified to the statement of profit and loss in the period in which the profit or loss from the realization of the foreign operation is recognized.

Foreign banking extensions. The banking extension Bancorp is classified as foreign operations the functional currency of which is different from the shekel.

1. Significant Accounting Policies (continued)

REPRESENTATIVE RATES OF EXCHANGE AND THE CPI AND THEIR ANNUAL RATES OF CHANGE

				Annual rate of change		
	2018	2017	2016	2018	2017	2016
CPI (in points):						
Known at balance sheet month	100.4	99.3	98.9	1.1	0.4	(0.3)
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.748	3.467	3.845	8.1	(9.8)	(1.5)
Euro	4.292	4.153	4.044	3.3	2.7	(4.8)

2. Principles of consolidation and the implementation of the equity method

2.1 **Goodwill.** The Bank recognizes goodwill at acquisition date on the basis of the fair value of the consideration given, including amounts recognized in respect of any rights that do not confer control in the acquired entity, as well as the fair value at acquisition date of capital rights in the acquired entity held previously by the purchaser, after deduction of the net amount attributed at acquisition date to identifiable acquired assets and accepted liabilities.

2.2 **Subsidiary companies.** These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

Non-controlling rights. These are rights representing the equity capital of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include additional components, to the extent existing which are classified to equity. Non-controlling rights are measured at fair value at date of the business combination.

Allocation of comprehensive income to shareholders. Profit or losses and any component of other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the Bank's shareholders and to the non-controlling right holders therein even if, as a result, the outstanding balance of the non-controlling rights will be negative.

Transactions with non-controlling right holders while maintaining control. Transactions with non-controlling right holders while maintaining control are being treated as capital transactions. The difference between the consideration received or paid and the change in the non-controlling rights in consolidated subsidiaries is charged to the owners' share of the Bank, directly to capital.

2.3 **Investments in affiliated companies.** Affiliated companies are entities in which the Bank has a material influence over their financial and operational policies, though not control. Investments in affiliated companies are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the profit or loss and in other comprehensive income of affiliated companies treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies adopted by the public reporting directives implemented by a non-financial affiliate, which applies the IFRS rules.

2.4 **Transactions eliminated upon consolidation.** Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with affiliated companies were eliminated against the investment according to the rights of the Group in the affiliated companies. Unrealized losses were eliminated in the same manner in which profits have been eliminated, as long as no evidence of impairment exists.

2.5 **The treatment in the Bank's standalone financial statements.** In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks. The Bank’s standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. The basis of recognition of income and expenses

3.1 Income and interest expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts which is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

1. Significant Accounting Policies (continued)

3.2 Commission income in respect of the granting of services are recognized in the Statement of profit and loss upon accrual of the Bank's entitlement to such income. Certain commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.5 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.6 Other income and expenses are recognized on an accrual basis.

3.7 Measurement of interest income (ASC-310-20)

Commissions regarding the setting-up of credit facilities. Commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

Credit allocation commissions. Credit allocation commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines the materiality of the changes in terms of the loan. Accordingly, the Bank examines whether the present value of future cash flows under the revised terms of the loan differs by at least 10% from the present value of the remaining cash flows under the original terms. In such cases, the outstanding commissions not yet amortized as well as early repayment commissions collected from the customer in respect of the change in the terms of credit are recognized in the statement of profit and loss. Otherwise, the said commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

Early repayment commission. Commissions charged in respect of early repayments are recognized immediately as part of interest income.

4. Impaired debts, credit risk and allowance for credit loss

General. In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, the Bank is implementing the guidelines of the Supervisor of Banks regarding "Dealing with problematic debts".

Credit to the public and other debt balances. The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under resale agreements, credit to the public, credit to the government, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date.

1. Significant Accounting Policies (continued)

Identification and classification of impaired debts. The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, evaluation of the primary repayment source of the debt, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

Definition of the primary source of repayment upon the classification of a problematic debt. Determination of the proper classification of a debt, until a default event occurs or until expectation for such an event becomes highly probable, is based on the repayment ability of the borrower, namely: the expected strength of the primary repayment source (a sustainable source of cash over a period of time that must be under the control of the borrower and which must be explicitly or in substance separated for the repayment of the debt), and this, despite the support of second and third place repayment sources (such as: collateral, guarantor support, refinancing by a third party).

Reinstatement of an impaired debt as an unimpaired debt. An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest. A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as an impaired debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

Allowance for credit losses. The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses. The allowance covering credit losses anticipated is assessed in one of two ways: "specific allowance" or "group allowance".

The said examination of debts for the purpose of determining the allowance and the treatment of the debt, is consistently applied in respect of all debts in accordance with the quantitative level and the Bank's credit management policy, and no changes are being made between the specific examination track and the group basis examination track during the life of the debt, unless a restructure of a troubled debt had been made as stated below.

1. Significant Accounting Policies (continued)

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 500 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

A collateral-dependent debt is defined as a debt, the recovery of which is expected to be exclusively effected by the collateral pledged in favor of the Bank, or when it is expected that an asset held by the borrower would serve to repay the debt, even if no specific pledge exists on the asset, and everything when the borrower has no other material available and reliable repayment sources.

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", and in accordance with instructions of the Supervisor of Banks, based on historical loss ratios in various economic sectors, differentiating between problematic and non-problematic credit, within the range of years in the period beginning on January 1, 2011 and ending on the reporting date. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the proper amount of the allowance, the Bank takes into account relevant environmental factors, including trends in the scope of credit in each sector and conditions in the sector, macro-economic data, assessment of the general quality of the credit to an economic sector, changes in volume and trends of balances in arrears and impaired balances and the effect of changes in the credit concentration.

In accordance with the directives of the Supervisor of Banks, the Bank has formed a measurement method for the allowance on a group basis, which takes into account both the rate of past losses and the adjustments in respect of the relevant environmental factors. With respect to credit granted to private individuals, the rate of adjustment in respect of environmental factors shall not be less than 0.75% of the outstanding balance of the non-problematic credit at each reporting date, with reference to the average rates of loss in the range of the years. Excluded from the above is credit created by bank credit card transactions bearing no interest charge.

Starting with January 1, 2011, the Bank is not required to maintain general, supplemental and special allowances for doubtful debts, though it continues to calculate the supplemental allowance and verifies that in any event the amount of the allowance on a group basis at the end of each reporting period is not lower than the amount of the general and supplemental allowances that would have been required at that date, gross before tax.

The Supervisor of Banks published a circular on July 10, 2017 amending Proper Conduct of Banking Business Directives No. 314 and 315, intended, inter alia, to abolish the mechanism of the supplementary provision in respect of credit concentration limitations, absence of up-to-date financial information and other characteristics expressed in other directives. Upon cancellation of the supplementary provision, it is required to take into account risk characteristics concerning the absence of up-to-date financial statements in forming the method of determining the allowance for credit losses. The Bank applies the instruction as from January 1, 2018.

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach".

1. Significant Accounting Policies (continued)

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears. Calculation of the allowance based on the extent of arrears applies to all housing loans, excluding loans that are not repayable in periodic installments and loans that finance operations of a business nature.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank verifies that the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Recognition of interest income. On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of profit and loss but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt that has formally undergone troubled debt restructuring and following the restructure it is reasonably certain that the debt would be repaid and would perform in accordance with its new terms, shall be treated as an impaired debt that accrues interest income. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see item 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over. These debts are subject to assessment methods of an allowance for credit losses, which ensure that the Bank's profit is not inclined upwards. Commission charged on arrears in these debts are recognized as income on date on which the Bank is entitled to receive it, on condition that collection thereof is reasonably certain.

Accounting write-off. The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (defined in most cases as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral.

With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases over 150 consecutive days in arrear) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Notwithstanding that stated above, the need for an immediate write-off is examined in respect of loans examined on a group basis and classified as impaired due to the restructuring of a troubled debt. In any event, the accounting write-off of such debts is made no later than the date on which the debt was sixty days or over in arrear, with reference to the restructuring terms.

Troubled debt restructurings. A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

The Bank does not classify a debt as a restructured troubled debt if within the framework of the arrangement the borrower has been granted an immaterial deferment in repayments, considering the frequency of the installments during the contractual maturity period and the expected average maturity of the original debt. In this respect, where several arrangements have been made involving changes in the terms of the debt, the Bank takes into consideration the cumulative effect of prior arrangements for the purpose of determining whether the deferment in repayments is not material.

1. Significant Accounting Policies (continued)

The treatment of structured debts and of following debt restructuring. Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, are classified as troubled debts and assessed on a specific basis for the purpose of performing the allowance for credit losses.

As a general rule, a restructured troubled debt continues to be measured and classified as an impaired debt until repaid in full. Notwithstanding, under certain circumstances, when a debt had undergone troubled debt restructuring, and at a later date the banking corporation and the debtor enter into an additional restructuring agreement, the banking corporation is not required to treat the debt as a restructured troubled debt if the following two conditions apply:

- The debtor is no longer in financial difficulties at date of the following restructure;
- According to the terms of the following restructure, no waiver had been granted to the debtor (including no waiver of principal amounts on a cumulative basis since the original date of the loan).

A debt as above, that has undergone a following restructure and the classification thereof as an impaired debt has been removed, is to be assessed on a group basis for the purpose of determining the allowance for credit losses, and the recorded amount of the debt has not changed upon the following restructure (except where cash had been received or paid).

If in following periods, a debt as above has been examined on a specific basis and is found to require the recognition of impairment in value or where the restructure of a troubled debt is applied, the bank reclassifies the debt as impaired and treats it as a restructured troubled debt.

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified into three portfolios, as follows:

(a) Held to maturity bonds - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) Trading securities - securities which are held with the intention of selling them in the short term except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. Gains or losses due to adjustments to fair value are recorded in the statement of profit and loss.

(c) Available for sale securities - securities not classified under one of the two previous categories. Securities available for sale are stated at their fair value on the balance sheet date, except for shares the fair value of which is not readily available, which are stated at cost less a provision for impairment in value not of a temporary nature which is recorded in the statement of profit and loss. Unrealized gains or losses resulting from the adjustment to fair value, net of the related tax effect, are recorded as a separate line item in the equity within the framework of other accumulated comprehensive income.

5.2 The cost of realized securities is recognized in the statement of profit and loss on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the statement of profit and loss.

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 Investments in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the statement of profit and loss upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, whether the impairment of securities classified to the available-for-sale portfolio and to the held to maturity portfolio is of an other than temporary nature.

1. Significant Accounting Policies (continued)

The review is based on the following considerations:

- The ratio of loss to cost/depreciated cost (while examining developments subsequent to balance sheet date);
- Duration of the period in which the fair value of the security is lower than its cost;
- The rate of yield to redemption in the case of bonds;
- The credit rating of the security, including changes in its rating;
- In the case of shares - events of reduction due to the distribution of dividends or its cancellation;
- In the case of bonds - Events of default in the payment of periodic interest in accordance with the terms of the bond, forecast of changes in the expected cash flow from the bond;
- Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;
- The intent and ability of the Bank and its relevant subsidiary to continue holding the securities until such time that the expected recovery of the fair value of the securities occurs or until redemption thereof;
- Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates.

The Bank recognizes impairment of a nature other than temporary, at least in each of the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.

  "Significantly lower" –

  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;

  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;

  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization;
- A security that had been sold prior to the date of publication of the financial report for the period;
- A security, which near the date of publication of the financial report for the period, is intended to be sold within a short period;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least four notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase.

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of profit and loss when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the statement of profit and loss (the new cost base).

6. **Derivative financial instruments and hedge transactions.** The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of profit and loss, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

   Hedge of fair value - The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of profit and loss on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

1. Significant Accounting Policies (continued)

Hedge of cash flows - The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the effective part of the change in the fair value of a derivative designated to hedge a cash flow risk, is reported as a component of "other comprehensive income", and thereafter, in the period in which cash flows have an effect on the statement of profit and loss, it is reclassified to the statement of profit and loss.

For further details, see Note 28 hereunder.

7. **Determination of fair value of financial instruments.** Fair value is defined as the price that would have been received on a sale of an asset or the price that would have been paid upon the transfer of a liability, in an ordinary transaction between participants in the market at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the Bank.

Sub-Topic 820-10 of the Codification details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, to which the Bank has access at date of measurement;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

Securities. The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price at the most beneficial market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. The quoted price used for the determination of the fair value, is not adjusted in respect of the size of the position of the Bank in relation to the volume of trade (size of holding factor). Where no quoted market price is unavailable, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted at the most beneficial market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard (ASC 820) requires to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by the Bank and measured according to fair value. Nonperformance risk includes the credit risk of the Bank but is not limited to that risk only.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 34 below regarding balances and fair value assessments of financial instruments.

8. **Offsetting assets and liabilities.** The Bank offsets assets and liabilities deriving from the same counterparty and presents in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the Bank and the counterparty owe to one another determinable amounts.

When assets and liabilities derive from two different counterparties, they are presented in the balance sheet at the net amount, upon meeting all the conditions detailed above and on condition that there is an agreement between the three parties that establish in a clear manner the Bank's right of set-off with respect to said liabilities.

The Bank does not offset the exposures in respect of derivative instruments in the balance sheet.

1. Significant Accounting Policies (continued)

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

9. **Transfers and services relating to financial assets and settlement of liabilities.** The Bank applies the measurement and disclosure rules determined in accordance with Topic 860 of the Codification, for the accounting treatment of financial asset transfers and extinguishments of liabilities.

   According to the said rules, the transfer of certain financial assets shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset may pledge or exchange the transferred asset, and no conditions exist which also restrict the transferee from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, does not retain effective control over the financial assets.

   In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights, in addition to the conditions noted above.

   In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. The differences between the amount of consideration received and the amount of the disposed assets are recognized in the statement of profit and loss. Accordingly, where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continues to be stated in the Bank's balance sheet and the proceeds of sale are recognized as a liability of the Bank.

   Transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

   The Bank removes a liability if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

   An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under resale agreements terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the item "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the item "Securities loaned or sold under repurchase agreements". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the item "Securities borrowed or purchased under resale agreements".

10. Fixed assets (buildings and equipment)

    Recognition and measurement. Fixed asset items are measured at cost less depreciation and accumulated losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset, necessary costs involved in bringing the asset to the condition and location required for the asset to operate in accordance with its designated use.

    The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see item 1 D sub item 12 below.

    Depreciation. An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by Management.

    Depreciation is charged to the Statement of profit and loss by the straight-line method over the assessed useful life span of each part of the fixed asset items, since this system reflects in the best manner, the forecasted consumption format of the future economic benefits embedded in the asset. Assets leased by way of a financial lease are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not amortized.

1. Significant Accounting Policies (continued)

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined when events or changes in circumstances indicate that the present assessments are no longer appropriate, and are adjusted where required

For details as to the depreciation rates in the current period and the comparative periods, see Note 16 below.

11. **Leases.** Leases, including the lease of land from the Israel Land Administration or from other third parties in respect of which the Group essentially bears all risk and yield pertaining to the asset, are classified as financial leases. Upon initial recognition, the leased assets are measured and a liability is recognized at an amount equal to the lower of its fair value or the present value of the future minimum lease fees. Future payments to the Israel Land Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and the related liability, since they constitute conditional lease fees derived from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accepted accounting policy in respect of such an asset.

    All other leases are classified as operational leases, and the leased assets are not recognized in the balance sheet of the Group. The Bank recognizes lease payments in respect of operating leases as an expense in the statement of profit and loss, on the straight-line basis over the period of the lease, including the option period, where on date of signing the lease it is reasonably certain that the option would be exercised.

    Where the lease includes components of land and buildings, the Bank assesses the classification of each component separately as an operating lease or a financial lease, in accordance with the classification instructions of IAS 17. In determining whether the land component comprises an operating lease or a financial lease, the Bank takes into consideration that normally land has an indeterminate economic lifespan.

12. **Intangible assets**

    Goodwill. Goodwill is measured at cost less accumulated impairment losses.

    Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

    Capitalization of software costs for internal use. The Bank capitalizes costs related to the development of software for internal use only when: (1) the first stage of the project has been completed; and (2) Management has approved and has committed to, directly or indirectly, finance the software development project, and that it is expected that the project would be completed. The Bank capitalizes the following costs: direct cost of materials and services consumed, payroll cost of workers directly engaged in the development work or in obtaining the software. Other costs in respect of the development operations and costs incurred in the first stage of the project are recognized in profit and loss as incurred.

    Amortization. Amortization is charged to the Statement of profit and loss by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

    Subsequent costs. The cost of upgrades and improvement of software for in-house use are capitalized only if it is expected that the costs incurred would lead to additional functionality. Other consecutive costs are recognized as an expense as incurred.

    Guidelines in the matter of capitalization of in-house software development costs. Due to the accounting complexity involved in the process of capitalizing in-house software development costs, and in view of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has determined guidelines in the matter of capitalization of software costs, as follows:

    - A minimum materiality level of between NIS 450 thousand and NIS 600 thousand, shall be determined for each software development project, in respect of which software development costs are capitalized. Any software development project, the total cost of which is lower than the determined materiality level, shall be recognized as an expense in the statement of income (the materiality thresholds determined by the Bank: minimum costs per project – NIS 600 thousand, minimum improvements and upgrading costs – NIS 450 thousand);
    - The period of amortization of software development costs shall not exceed five years;
    - Capitalization coefficients of lower that 1, shall be determined for hours worked, taking into consideration the potential for deviation in computing the hours worked and the lack of economic efficiency;
    - The grade of employees whose employment costs are capitalized to assets shall be restricted, so that the uppermost grade would be that of a manager, demonstrably occupied for most of his time in actual development, is responsible for a small number of employees, and it is possible to accurately measure the number of hours actually invested by him in each development project;
    - Costs, which are not attributed to a project according to specific reported hours, where the employee declares, on the basis of a daily report, that the costs were specifically invested in the project, shall be recognized as an expense.

1. Significant Accounting Policies (continued)

13. Impairment of non-financial assets

Recognition of loss on impairment. Nonfinancial assets held for use are subject to review for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The carrying amount is not recoverable if it exceeds the amount of the undiscounted cash flows expected to be derived from use of the asset and its sale. Loss on impairment is measured as the amount by which the carrying amount of the asset (group of assets) exceeds its fair value.

Impairment of costs of internal development of computer software. Examining the existence of impairment with respect to the own development of computer software shall be made where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, the Bank examines impairment in accordance with the rules of ASC 360.

14. **Non-current assets and disposal groups held for sale.** The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount is settled primarily through a sale and not by way of continued use, in a period in which all the following terms are fulfilled: (1) Management is committed to the planning of a sale of the asset (or the disposal group); (2) the asset (or the disposal group) is available for immediate sale in its present condition; (3) an active plan has been initiated to locate a buyer and other actions have been taken to complete the planning to sell the asset; (4) the sale of the asset (or the disposal group) is probable and the transfer of the asset (or the disposal group) is expected to be classified as a sale completed within one year; (5) the asset (or the disposal group) is being actively marketed for sale at a price reasonable in relation to its present fair value; (6) actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Bank measures the held for sale assets (or the disposal group) at the lower of the carrying amount or the fair value less costs to sell. Depreciable assets that are classified as held for sale are not subject to periodic depreciation.

An impairment loss recognized at the time of the initial classification of an asset (or a disposal group) as held for sale, as well as subsequent remeasurement profits or losses are carried to profit or loss. Profits from an increase in value are recognized up to the cumulative amounts of the impairment losses that were recognized from the time of the asset (or the disposal group) being classified as held for sale.

15. Employee rights

15.1 Post retirement benefits – pension, severance pay and other benefits – defined benefits plans

- The Bank recognizes amounts relating to pension and severance plans and other post retirement plans on the basis of computations that include actuarial and other assumptions, including: discount rates, mortality rates, early retirement rates, forecasted long-term return rates on assets of the plan, remuneration increases and employee turnover;
- The Bank reviews its assumptions on a periodic basis and updates these assumptions where required. As a general rule, the actuarial estimates are made once a year, unless material changes occur in the actuarial assumptions in the interim period, which materially impact the actuarial liabilities. The Bank has decided to perform a quarterly actuarial assessment of the severance pay liability;
- Changes in assumptions are in general recognized, subject to the instructions stated above, firstly in accumulated other comprehensive income, and are amortized to the statement of profit and loss in following periods;
- The liability is accumulated over the relevant period determined in accordance with the rules detailed in item 715 of the codification;
- The Bank implements the guidelines issued by the Supervisor of Banks with respect to internal control over the financial reporting process in the matter of employee rights, including with respect to examining the "liability in substance" of the Bank to grant its employees benefits comprising increased severance pay and/or early pension.

15.2 Post retirement benefits – defined deposits plans

- A defined deposit plan is a plan that provides post-retirement benefits in consideration for services provided, maintains a personal account for each participant in the plan, defines how deposits to the account of the employee should be determined instead of determining the amount of the benefits that the employee would receive. The Bank's commitment to deposit in the defined deposit plan, are recognized as an expense in the statement of profit and loss in the periods during which the employees have provided the relevant services.

1. Significant Accounting Policies (continued)

15.3 Other long-term benefits to active employees: long-service (jubilee) awards

- The liability accrues over the period entitling to the benefit;
- For the purpose of computing the liability, the rates of discount and actuarial assumptions are taken into consideration;
- The whole cost component of the benefit for the period, including actuarial profits and losses, are recognized immediately in the statement of profit and loss.

15.4 Absence from work entitling compensation – vacation and sick leave

- The liability in respect of vacation pay is measured on a current basis, without the use of discount rates and actuarial assumptions;
- The Bank does not accrue a liability for sick-leave that may materialize during the employee's current service.

15.5 In accordance with instructions of the Supervisor of Banks, the discount rates are determined in accordance with the rates of return to maturity, according to the maturity periods of Israeli government bonds at date of reporting, with the addition of an average margin of corporate bonds rated "AA" (international) and above at date of reporting. For practical reasons, the spread has been determined in accordance with the difference between the rates of return to maturity, according to maturity periods, on U.S. corporate bonds rated "AA" and higher, and the rates of return to maturity, for the same maturity periods, on U.S. government Bonds, and everything at date of reporting.

15.6 The accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the rules, as stated above (hereinafter: "the loss"), was included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, are recognized in accumulated other comprehensive income, and reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, are amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases;
- Other actuarial profits and losses (which are not the result of changes in the rate of discount) as at January 1, 2013, and for periods thereafter, are included in accumulated other comprehensive income and amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan, except in certain exceptional cases.

15.7 The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank’s Management (see hereunder).

The limitations determined by the Management, in connection with the 2016 retirement plan, which have been implemented as from the financial statements as of December 31, 2016, are as follows:

- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund for exceptional retirement cases;
- In the years 2017-2021, the retirements vector will stand at 0.25%, in the years 2022-2027, it will stand at 2% and from 2028 and thereafter in accordance with research conducted by the actuary.

The change in the assumptions in accordance with the aforesaid limitations in 2016, has resulted in an “actuarial gain” of NIS 125 million, which was recorded in other comprehensive income.

16. **Contingent liabilities.** The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard ASC 450 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.

1. Significant Accounting Policies (continued)

2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 26 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to similar claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome objective difficulties exist, which may result in the impossibility of making an assessment. Even if an assessment is made may differ from assessment conducted prior to filing of the claim.

17. **Guarantees.** Guarantees are contingent contracts that require the guarantor to make payments to the guaranteed party on the occurrence of the conditions that require the realization of the guarantee. A liability with respect to a guarantee is recognized in the books in the amount of its fair value, as assessed based on commission fees received, even if it is not expected that the payments will be made in the future. In instances where, at the time of the initial recognition, the Bank was required to recognize a provision for a loss contingency with respect to the guarantee, in accordance with the provisions of Topic 450 of the Codification, the liability with respect to the guarantee is measured at the time of the initial recognition at the higher of the fair value and the amount of the provision in accordance with the provisions of Topic 450 of the Codification.

    The liability is subtracted from the books at the time when the Bank is released from the risk, in accordance with the nature of the guarantee, usually at the time of settling the liability. When the guarantee is measured at the time of its initial recognition in accordance with the provisions of Topic 450 of the Codification, its subsequent measurement is also performed in accordance with these provisions.

18. **Income tax expense.** The Bank's financial statements include current taxes and deferred taxes. The provision for taxes on income of the Bank and of its consolidated subsidiaries comprising financial institutions for VAT purposes, include profit tax levied on income under the Value Added Tax Act. VAT levied on payroll of financial institutions is included in the statement of profit and loss in the item "Salaries and related expenses".

    The Bank allocates the tax expense or the tax benefits on income to continuing operations to other comprehensive income and to items directly recognized in equity.

    The Bank recognizes differed tax liabilities in respect of all temporary differences chargeable to tax, except for the following temporary differences: undistributed profits of a domestic subsidiary which in substance are for an indefinite period of time; an excess of the amount for purposes of financial reporting above the tax base of an investment in a foreign subsidiary, which in substance are for an indefinite period of time; differences related to goodwill (or part thereof) for which goodwill amortization is not deductible for tax purposes; differences stemming from intercompany transactions.

1. Significant Accounting Policies (continued)

The Bank recognizes deferred tax assets in respect of all temporary differences available for deduction as well as in respect of carry forward losses, and concurrently recognizes a valuation allowance in respect of that amount included in the asset, which more likely than not, would not be realized. The Bank reduces the amount of deferred tax assessed by the amount of tax benefits that are not expected to be realized based on available evidence – both the positive evidence supporting the recognition of a deferred tax assets and the negative evidence supporting the creation of a valuation allowance in respect of the deferred tax asset, in order to determine whether a net deferred tax asset should be recognized.

- Deferred tax liabilities or deferred tax assets are measured by the enacted legal tax rates expected to apply to sufficient taxable income in the periods in which it is expected that the deferred tax liability would be settled or the deferred tax asset would be realized.
- The Bank classifies interest income or expenses in respect of taxes on income to the item "Taxes on income". Penalties payable to the tax authorities are also classified by the Bank to the item "Taxes on income".

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Netting of deferred tax assets and liabilities. The Bank nets all deferred tax liabilities and tax assets, as well as all related valuation allowances in respect of a certain taxable component and within the boundaries of a certain tax jurisdiction area.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of profits involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. **Earnings per share.** The Bank presents basic earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are determined by the adjustment of the profit or loss attributable to the ordinary shareholders of the Bank and the adjustment of the weighted average number of outstanding ordinary shares, after adjustment in respect of the effect of all potentially diluting shares, including share option warrants.

20. Operating segments reporting

Regulatory operating segments. A regulatory operating segment is a component of a banking corporation which is engaged in specific operations or which serves particular classes of customers, as defined by the Supervisor of Banks. The reporting format for the Bank's regulatory operating segments has been determined in the Reporting to the Public Directives of the Supervisor of Banks.

A regulatory operating segment is mainly defined on the basis of the classification of customers. Private customers are classified to the household segment and to the private banking segment based on the scope of their financial assets. Customers other than private individuals are classified to business segments, mainly on the basis of their business turnover (distinguishing between minute and small businesses, medium businesses and large businesses), to institutional bodies segment and to the financial management segment. In addition, the Bank is required to apply the operating segments reporting requirements in accordance with Management's approach, when these are materially different from the regulatory operating segments.

Operating Segments according to Management's approach. In addition to the uniform reporting according to regulatory operating segments, the Reporting to the Public Directives require disclosure of operating segments in accordance with Management's approach, and according to accounting principles accepted by U.S. banks in the matter of operating segments (included in ASC 280, see Note 30 below).

An operating segment defined in accordance with Management's approach is a component of a banking corporation that is engaged in operations which are expected to produce income and bear expenses; the results thereof are being regularly reviewed by Management and the Board of Directors for the purpose of making decisions regarding the allocation of resources and evaluation of its performance; and that separate financial information exists in respect thereof.

The classification of segments at the Bank is based upon the characterization of customer segments. These segments include also banking products. The results of the product segment that cannot be attributed to the relevant customer segments, are included in the item "Non-allocated amounts and adjustments".

1. Significant Accounting Policies (continued)

21. **Amortization of deferred expenses.** Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.
22. **Debtors and creditors regarding credit card activity.** At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.
Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.
23. **Issuance agreements with customer clubs.** The issuance agreements of ICC with different customer clubs regularize, inter alia, the manner of distribution of income between the parties, as well as aspects relating to expenses, including marketing and advertising budgets provided by the parties and the distribution of costs.
With respect to engagements of ICC with customer clubs, the income of ICC in respect of the cross-commission on transactions made by use of the club charge cards and interest income on transactions made with these cards, are included in the income in the consolidated financial statements (in the item "income from credit card commission" and in the item "net interest income" respectively). Amounts to which the customer clubs are entitled as well as the share of ICC in expenses are included in the item "other expenses". Furthermore, certain of the agreements of ICC with customer clubs include an award component depending on reaching certain milestones, in respect of which, ICC assesses in each period the entitlement to such award, and accordingly recognizes an expense in the financial statements (which is spread over the relevant period).

E. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

Adoption of updates to accounting principles accepted by U.S. banks – allowances for credit losses and other instructions. On March 28, 2018, the Supervisor of Banks published a letter in this matter, according to which, as part of the transition of financial reporting to the full adoption of the accounting principles accepted by U.S. banks, banking corporations and credit card companies are required to make preparations for the application of the updates to accounting principles accepted by U.S. banks regarding the following matters:

Allowances for current expected credit losses (CECL), financial instruments including derivative instruments and hedge operations, and leasing.

The letter stated only general outlines and the initial application dates.

1. **Allowances for current expected credit losses (CECL).** Adoption of the update to accounting standard ASU 2016-13. The object of the new rules is to improve the quality of reporting the financial condition of the banking corporation, by means of the early recording of the allowances for credit losses, in a manner which strengthens the anti-recurrence regarding the conduct of the allowances for credit losses, supports a faster response of banks to the deterioration in the quality of credit extended to borrowers, and strengthens the bond between credit risks management and the way in which these risks are reflected in the financial statements, while being based on existing systems and processes.
The standard is to be adopted from January 1, 2022, and thereafter. As a general rule, the new principles are to be applied by way of recognition in retained earnings, at date of initial implementation, of the cumulative effect of the implementation of these principles. The Bank has begun preparations for the implementation of the standard. At this stage, the Bank is unable to assess its impact.
2. **Financial instruments including derivative instruments and hedge operations**
   (a) **Recognition and measurement of financial instruments.** Adoption of updated standard ASU 2016-01. The principal objects of the new rules are to simplify the model of reporting financial instruments and to provide users of these reports more practical information for the purpose of decision making.
   The Standard will be implemented as from January 1, 2019, and thereafter. At date of initial implementation, the net unrealized gains on shares classified today as available-for-sale shares, which are recorded in other comprehensive income, shall be reclassified to retained earnings.
   The Bank estimates that the implementation of the Standard is not expected to have a material effect.
   (b) **Derivatives and hedging.** Adoption of the updated standard ASU 2017-12. The object of the new rules is to improve the financial reporting of hedge relations, in a way that would reflect in a better form the economic results of the risk management activity of a banking corporation, by means of changes in the purpose, measurement and presentation of hedge results.

1. Significant Accounting Policies (continued)

The standard is to be implemented as from January 1, 2019 and thereafter. Upon initial implementation, a banking corporation has to act in accordance with the transitional instructions determined in the U.S. to such matters, mutatis mutandis. The above stated includes a retroactive restatement of the comparative data, if required in accordance with these matters.

The Bank estimates that the main effect expected as a result of the implementation of the Standard, is the reclassification of the securities of IDB New York.

Earlier adoption of the rules. Where made possible by the update of the U.S. Standards, the subsidiary, IDB New York has adopted the updated rule by earlier application, starting with the interim financial statements as of June 30, 2018 (see also Note 12 D).

Following the said letter, on August 30, 2018, the Supervisor of Banks issued a circular in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with the U.S. GAAP regarding derivative instruments and hedge, classification and measurement of financial instruments, cash flows reports and additional issues". Within the framework of the said circular are included, inter alia, amendments to directives, which adopt in the public reporting directives the said updates to the U.S. GAAP.

3. **Leasing.** Following the said letter, a circular was published on July 1, 2018, in the matter of the reporting of leases by banking corporations and credit card companies in accordance with U.S. GAAP. The circular adopts the U.S. GAAP on this subject, and inter alia, the relating presentation, measurement and disclosure rules determined in Topic 842 of the Codification regarding leases.

   The provisions of the circular apply as from January 1, 2021, and thereafter. Upon initial application, a banking corporation shall act in accordance with the transitional instructions determined in the accounting principles accepted by U.S. banks regarding this matter, mutatis mutandis, including the retroactive restatement of the comparative data, where required by the U.S. rules. At this stage, the Bank is unable to assess its impact.

4. **Employee benefits and measurement of fair value.** The U.S. Financial accounting Standards Board ("FASB") published on August 28, 2018, Standards ASU 2018-13 and ASU 2018-14, regarding disclosure framework – changes in disclosure requirements for fair value measurements, comprising an update of Topic 820 of the Codification regarding fair value measurement and defined benefit plans, being an update of subtopic 715-20 of the Codification regarding Compensation—Retirement Benefits—Defined Benefit Plans, respectively. These updates were published as part of the framework project for the review of disclosures of the FASB, which mainly focuses on the improvement of effectiveness of disclosure in notes to financial statements, including the reduction in costs involved in the preparation of the required notes. The provisions of the amendments shall be implemented as from January 1, 2020 and 2021, respectively. The Bank estimates that the implementation of the said provisions is not expected to have a material impact, except for changes in disclosure.

5. **Receivables.** In March 2017, U.S. Financial Accounting Standards Board (FASB) published an update (2017-08) regarding the amortization of the premium paid on the purchase of debt instruments having a premature redemption option, which comprises an amendment of Item 310-20 of the Codification regarding receivables – nonrefundable fees and other costs (hereinafter: "the Amendment"). According to the Amendment, the period of amortization of the premium paid on debt instruments having a premature redemption option by the issuer, shall be shortened and computed in accordance with the earliest premature redemption date.

   The provision shall apply as from the annual and interim financial statements for periods beginning after December 15, 2018. The implementation of the provision is not expected to have a material impact.

2. Interest Income and Expenses

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
A. Interest Income[(2)]						
Credit to the public	6,324	5,565	5,024	3,578	3,175	2,858
Credit to the Governments	63	28	18	63	28	18
Deposits with the Bank of Israel and cash	24	28	23	13	16	13
Deposits with Banks	28	30	19	39	31	15
Bonds[(1)]	594	542	555	303	271	272
Other assets	20	20	20	-	-	-
Total interest income	**7,053**	**6,213**	**5,659**	**3,996**	**3,521**	**3,176**
B. Interest Expenses						
Deposits from the public	(941)	(643)	(504)	(666)	(538)	(480)
Deposits from the Government	(3)	(3)	(3)	-	-	-
Deposits from banks	(52)	(33)	(30)	(5)	(5)	(6)
Securities loaned or sold under repurchase agreements	(96)	(127)	(146)	-	-	-
Bonds and subordinated debt notes	(433)	(428)	(415)	(234)	(217)	(179)
Other liabilities	(2)	(4)	(4)	(2)	(4)	(4)
Total interest expenses	**(1,527)**	**(1,238)**	**(1,102)**	**(907)**	**(764)**	**(669)**
Interest Income, Net	**5,526**	**4,975**	**4,557**	**3,089**	**2,757**	**2,507**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest expenses[(3)]	(6)	(11)	(36)	(6)	(11)	(36)
D. Accrual basis, interest income from bonds:						
Held-to-maturity	173	178	202	107	103	101
Available-for-sale	386	340	341	163	146	160
Trading	35	24	12	33	22	11
Total included in interest income	594	542	555	303	271	272

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	47	44	42	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	170	157	161	-	-	-

(2) Including the effective component of hedging relationships.

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

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
A. Non-interest financing income (expenses) from operations not for trading purposes						
From operations in derivative instruments						
Net income (expenses) in respect of ALM derivative instruments[4]	860	[9](855)	(333)	807	[9](804)	(321)
Total from operations in derivative instruments	860	(855)	(333)	807	(804)	(321)
From investments in bonds[3]:						
Gains on sale of available-for-sale bonds	59	180	163	48	165	133
Losses on sale of available-for-sale bonds	(13)	(20)	(3)	(2)	(4)	(2)
Provision for impairment of available-for-sale bonds	(8)	-	(14)	(7)	-	(14)
Total from investments in bonds	38	160	146	39	161	117
Net exchange rate differences	(900)	1,107	449	(907)	1,079	430
Net profit (losses) from investments in shares:						
Gains on sale of available-for-sale shares[3]	109	211	71	18	1	-
Gains on sale of rights in Visa Europe[8]	-	-	360	-	-	97
Losses on sale of available-for-sale shares	(1)	(2)	(12)	-	-	(12)
Provision for impairment of available-for-sale shares	(6)	(11)	(4)	(1)	(2)	(2)
Dividends from available-for-sale shares	11	24	11	1	1	1
Profit on sale of shares and activities of affiliated companies	1	8	19	1	3	1
Total from investment in shares	114	230	445	19	3	85
Net profit in respect of loans sold[(7)]	6	20	14	6	19	12
Total non-interest financing income (expenses) from operations not for trading purposes	**118**	**662**	**721**	**(36)**	**458**	**323**
B. Non-interest financing income (expenses) from operations for trading purposes[5]:						
Net income (expenses) in respect of other derivative instruments	405	[9](49)	42	375	[9](70)	7
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	70	(21)	(8)	70	(21)	(8)
Net realized and non-realized profit (losses) on adjustment of trading shares to fair value[2]	(7)	3	(1)	(6)	4	(1)
Total from trading operations[6]	**468**	**(67)**	**33**	**439**	**(87)**	**(2)**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	60	15	11	44	6	(11)
Foreign currency exposure	415	[9](101)	12	402	[9](111)	-
Share exposure	(7)	19	10	(7)	18	9
Total according to risk exposure	468	(67)	33	439	(87)	(2)
Total non-interest financing income	**586**	**595**	**754**	**403**	**371**	**321**

Footnotes:

(1) Of which, a part of the profit (loss) relating to trading bonds that are still on hand at balance sheet date	(7)	1	(5)	(2)	2	(3)
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	(6)	(2)	-	(5)	(2)	-
(3) Reclassified from accumulated other comprehensive income, see Note 10:						
Of which, profit, from investments in bonds, net	38	160	146	39	161	117
Of which, from investment in shares	(1)	1	-	(1)	1	-

(4) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.

(5) Including exchange rate differences from trading operations.

(6) For interest income on investments in trading bonds, see Note 2, above.

(7) For details , see Note 31.

(8) The consideration has been calculated in accordance with the cash consideration received in June 2016, with the addition of the fair value of the special preferred shares in VISA Inc. received in June 2016 (the market value of the VISA shares to be received upon conversion of the said preferred shares, discounted by a coefficient of 50%, in accordance with the Bank's assessment of the share blockage impact and the effect of certain .uncertainties inherent in the conversion mechanism) and of the future cash consideration expected to be received in the year 2019. Additional details have been brought in Note 36 F of the financial statements as of December 31,2016.

(9) Reclassified – improving the classification of derivatives activity.

4. Commissions

A. COMPOSITION

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Account Management fees	480	483	489	295	301	306
Credit cards	1,267	1,119	1,024	157	149	137
Operations in securities and in certain derivative instruments	336	336	322	226	203	208
Commissions from the distribution of financial products	149	142	136	136	130	124
Handling credit	177	154	136	135	113	90
Conversion differences	136	137	138	105	107	108
Foreign trade services	58	52	53	48	41	42
Net income from credit portfolio services	6	7	11	6	7	11
Commissions on financing activities	157	(1)157	(1)152	105	(1)101	(1)93
Other commissions	85	89	95	33	41	41
Total fees	**2,851**	**2,676**	**2,556**	**1,246**	**1,193**	**1,160**

Footnote:
(1) Reclassified, see Note 1 C 5 .

B. INCOME FROM CONTRACTS WITH CUSTOMERS

FOLLOWING IS THE DISTRIBUTION OF INCOME FROM COMMISSIONS ACCORDING TO REGULATORY SEGMENTS OF OPERATION

	consolidated											
	2018											
	Domestic operations								Total International operations			
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Total International operations	Total
	in NIS millions											
Account Management	209	4	195	18	21	1	-	448	11	21	32	480
Credit cards	1,027	-	130	28	82	-	-	1,267	-	-	-	1,267
Operations in securities and in certain derivative instruments	106	36	55	9	58	11	29	304	32	-	32	336
Commissions from the distribution of financial products	102	18	21	1	7	-	-	149	-	-	-	149
Handling credit	10	5	29	16	84	-	11	155	1	21	22	177
Conversion differences	39	7	76	10	4	-	-	136	-	-	-	136
Foreign trade services	-	-	23	11	11	-	13	58	-	-	-	58
Net income from credit portfolio services	5	-	-	1	-	-	-	6	-	-	-	6
Commissions on financing activities	6	-	31	25	76	-	5	143	-	14	14	157
Other commissions	25	-	7	-	12	-	-	44	-	41	41	85
Total fees	**1,529**	**70**	**567**	**119**	**355**	**12**	**58**	**2,710**	**44**	**97**	**141**	**2,851**

5. Other Income

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	4	5	5
Capital gain on sale of buildings and equipment	46	72	83	46	68	75
Capital loss on sale of buildings and equipment	-	-	(3)	-	-	(3)
Other income	11	15	20	65	58	58
Total other income	**57**	**87**	**100**	**115**	**131**	**135**

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Salaries	2,382	2,259	2,239	1,377	1,372	1,331
Other related expenses including further education fund, vacation and sick leave	128	(2)123	(2)131	54	52	61
Long-term benefits	16	(2)17	(2)22	16	(2)17	(2)16
National Insurance and payroll taxes	525	500	493	377	371	360
Pension expenses (including severance pay and provident fund contributions)(1):						
Defined Benefits - Cost of service	92	(2)81	(2)89	52	(2)51	(2)50
Defined deposits	189	181	153	130	126	110
Other post-retirement benefits and non-pension post retirement benefits - Cost of service (1)	6	(2)6	(2)7	5	(2)5	(2)5
Special benefits in respect of dismissal	6	-	-	-	-	-
Expenses regarding other employee benefits	41	(2)37	(2)35	4	4	4
Total salaries and related expenses	**3,385**	**3,204**	**3,169**	**2,015**	**1,998**	**1,937**
Of which: overseas salaries and related expenses	386	(2)340	(2)346	-	-	-

Footnotes:

(1) See Note 23.

(2) Reclassified - see Note 1 C 6 (3).

7. Other Expenses

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	In NIS millions					
Expenses in respect of pension (including contributions for severance pay and provident funds), defined benefit (excluding cost of service)	81	(2)77	(2)70	61	(2)58	(2)55
Other post employment benefits and post retirement benefits that do not comprise pension (excluding cost of service)	28	(2)30	(2)39	25	(2)28	(2)36
Long-term benefits (excluding cost of service)	(14)	(2)23	(2)(4)	(14)	(2)23	(2)10
Reductions, settlements - defined benefit	88	(2)32	(2)(3)143	88	(2)32	(2)125
Reductions, settlements - other post employment benefits and post retirement benefits that do not comprise pension	(1)	-	(2)(1)	-	-	-
Marketing and advertising	260	191	183	55	56	48
Communications	119	117	125	53	58	64
Computer services	180	131	149	89	50	69
Office expenses	28	28	34	14	17	19
Insurance	28	(4)31	(4)33	6	(4)6	(4)6
Professional services	186	160	155	89	82	82
Directors' fees	14	14	14	5	6	6
Instruction and training	14	12	11	9	9	7
Fees(5)	349	283	233	30	28	28
Other	364	317	280	152	133	123
Provision in ICC(1)	-	-	85	-	-	-
Total other expenses	**1,724**	**1,446**	**1,549**	**662**	**586**	**678**

Footnotes:

(1) See Note 36 F 1 .

(2) Reclassified - see Note 1 C 6 (3) .

(3) Of which settlement NIS 141 million.

(4) Reclassified - see Note 1 C 5 .

(5) Including (consolidated) royalties that ICC pays to customer clubs with which it is engaged in joint issuance agreements.

8. Provisions for Taxes on Profit

A. COMPOSITION

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Taxes for current year	844	852	649	467	468	221
Taxes for previous years	(42)	(14)	13	(47)	(19)	1
Total current taxes	**802**	**838**	**662**	**420**	**449**	**222**
Addition (deduction):						
Deferred taxes for current year	(75)	(114)	76	(67)	(159)	51
Deferred taxes for previous years	62	23	3	62	20	12
Total deferred taxes(1)	**(13)**	**(91)**	**79**	**(5)**	**(139)**	**63**
Total provision for taxes on profit	**789**	**747**	**741**	**415**	**310**	**285**
Of which: tax provision abroad	138	141	118	-	-	-

Footnote:

(1) Composition of deferred tax expense (income):

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Deferred tax expense (income) before the effect of the following items:	(13)	(149)	(48)	(5)	(142)	(40)
Decrease in tax carryforwards deductions	-	-	18	-	-	18
Effect of changes in tax laws	-	58	109	-	3	85
Total deferred taxes	**(13)**	**(91)**	**79**	**(5)**	**(139)**	**63**
The above table does not include the tax effect of certain items that are recognized directly in capital in each period:						
The total tax expense (income) in respect of items recognized in other comprehensive income	(58)	29	(114)	(54)	45	(104)

8. Provisions for Taxes on Profit (continued)

B. RECONCILIATION BETWEEN THE THEORETICAL TAX WHICH WOULD APPLY HAD THE PROFIT BEEN TAXED AT THE STATUTORY TAX RATE APPLYING TO THE BANKING CORPORATIONS IN ISRAEL, TO THE PROVISION OF TAXES ON PROFIT AS CHARGED IN THE STATEMENT OF PROFIT AND LOSS:

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
Profit before taxes	2,332	2,065	1,713	1,178	884	525
Statutory tax rate on banks in Israel	34.19%	35.04%	35.90%	34.19%	35.04%	35.90%
Income tax at the statutory tax rate	797	724	615	403	310	188
Income tax (tax savings) on:						
Income of foreign subsidiaries	(22)	(22)	10	-	-	-
Income exempt from tax or taxed at preferred rates	(6)	(8)	(2)	(2)	(3)	(1)
Adjustment differences on depreciation and capital gains	(9)	(9)	(6)	(8)	(7)	(4)
Other non-deductible expenses	11	9	27	8	6	4
Additional amounts payable with respect to problematic debts	27	14	28	23	10	22
Taxes for prior years	3	(10)	(4)	-	(16)	(3)
Income of Israeli subsidiaries	(3)	(1)	(22)	(1)	(1)	(1)
Change in the balance of deferred taxes resulting from the change in tax rates	-	58	109	-	3	85
Change in the balance of the provision for deferred tax asset	1	(13)	(6)	-	1	1
Net interest expense (income) for income tax	(10)	5	(8)	(8)	7	(6)
Total provision for taxes on profit	**789**	**747**	**741**	**415**	**310**	**285**

C. (1) The Bank has received final tax assessments for the tax years up to and including 2015. An agreed tax assessment was issued to the Bank in respect of the year 2010, with the exception of a dispute regarding the issue of the chargeability to profit tax on a dividend received from a trader ("the dividend issue"), in respect of which the Bank filed an appeal with the District Court. On January 30, 2017, the Court ruled for the rejection of the Bank's appeal. On May 15, 2017, the Bank filed an appeal with the Supreme Court against the decision of the District Court in the matter. At the recommendation of the Court, the Bank withdrew the appeal on November 7, 2018.

Agreed tax assessments have also been issued to the Bank for the tax years 2011-2015, with the exception of the dispute regarding the dividend issue, in respect of which appeals were filed with the District Court. In view of the withdrawal of the appeal, as stated, the appeals in respect of the years 2011-2015 have been deleted by mutual consent.

(2) During the first quarter of 2018, the Bank was issued with agreed withholding tax assessments for years up to and including 2015. Accordingly, excess provisions in the amount of NIS 31 million, before the tax effect, had been reversed, which reduced the payroll expenses for the reported period.

(3) The major consolidated subsidiaries have received final tax assessments, or assessments deemed final, for tax years between 2012 to 2014.

D. On December 14, 2016, the Director of Value Added Tax ("the Director") issued to ICC assessments for periods from January 2012 to August 2016. The amount charged in these assessments, including interest and linkage, totals NIS 48 million. ICC disputed the position of the Director, and is of the opinion that it has good arguments in support of its position. Accordingly, ICC filed on March 9, 2017, an appeal. On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal submitted, as stated, as well as increasing the charge of the tax assessment to NIS 75 million (including interest and linkage increments). To the extent that the position of ICC would not be admitted by the Court, it might be liable with respect to the issues contained in the assessment, also for periods following the date of the assessment. On January 31, 2019, ICC filed an appeal against the said decision with the Central Region District Court.

E. On February 9, 2000, the Bank's shares in IDB New York were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Tax Authority with a guarantee as to the payment of such taxes.

8. Provisions for Taxes on Profit (continued)

F. **Deferred tax liabilities not recognized.** As of December 31, 2018, deferred tax liabilities in the amount of approx. NIS 418 million, in respect of temporary differences in the amount of approx. NIS 2,095 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future.

G. MOVEMENT IN DEFERRED TAXES

1. CONSOLIDATED

	Opening balance	Changes recognized in the statement of income	Effect of change in the tax rate recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions					in %
	For the year of 2018					
Deferred tax asset						
On provision for credit losses	802	65	-	5	872	33.6
On provision for vacation pay, jubilee awards and provision of retirees	538	(5)	-	(55)	478	33.9
From excess liabilities in respect of employee benefits over the assets of the plan	469	14	-	(40)	443	34.1
On securities	25	(17)	-	39	47	28.6
On income tax carry- forward deductions	4	2	-	-	6	23.0
Other	59	(20)	-	2	41	28.4
Balance of deferred tax assets, gross	**1,897**	**39**	**-**	**(49)**	**1,887**	**33.4**
Provision for deferred tax asset	(4)	(1)	-	-	(5)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,893**	**38**	**-**	**(49)**	**1,882**	**33.5**
Deferred tax liability						
On securities	2	-	-	(2)	-	-
Fixed assets and leasing	88	6	-	1	95	26.5
In respect of investment in investee companies	100	17	-	2	119	14.6
Other	6	(2)	-	1	5	28.5
Balance of deferred tax liabilities, gross	**196**	**21**	**-**	**2**	**219**	**18.3**
Balance of deferred tax assets, net	**1,697**	**17**	**-**	**(51)**	**1,663**	**30.8**
Of which: in respect of foreign operations	114				139	28.5
	For the year of 2017					
Deferred tax asset						
On provision for credit losses	700	142	(32)	(8)	802	33.5
On provision for vacation pay, jubilee awards and provision of retirees	520	11	-	7	538	33.9
From excess liabilities in respect of employee benefits over the assets of the plan	452	22	(3)	(2)	469	34.2
On securities	27	(2)	(12)	12	25	27.5
On income tax carry- forward deductions	20	(16)	-	-	4	23.0
Other	72	4	(11)	(6)	59	29.1
Balance of deferred tax assets, gross	**1,791**	**161**	**(58)**	**3**	**1,897**	**33.5**
Provision for deferred tax asset	(17)	13	-	-	-4	23
Balance of deferred tax assets deduction deferred tax liabilities	**1,774**	**174**	**(58)**	**3**	**1,893**	**33.5**
Deferred tax liability						
On securities	3	(8)	-	7	2	34.2
Fixed assets and leasing	99	(9)	(2)	-	88	26.3
In respect of investment in investee companies	50	49	-	1	100	14.6
Other	9	1	(2)	(2)	6	27.5
Balance of deferred tax liabilities, gross	**161**	**33**	**(4)**	**6**	**196**	**18.7**
Balance of deferred tax assets, net	**1,613**	**141**	**(54)**	**(3)**	**1,697**	**31.2**
Of which: in respect of foreign operations	172				114	27.5

8. Provisions for Taxes on Profit (continued)

G. MOVEMENT IN DEFERRED TAXES (CONTINUED)

2. THE BANK

	Opening balance	Changes recognized in the statement of income	Effect of change in the tax rate recognized in the statement of income	Changes recognized in other comprehensive income	Closing balance	The average tax
	in NIS millions					in %
	For the year of 2018					
Deferred tax asset						
On provision for credit losses	510	31	-	-	541	34.2
On provision for vacation pay, jubilee awards and provision of retirees	496	(10)	-	(48)	438	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	325	3	-	(15)	313	34.2
On income tax carry- forward deductions	2	1	-	-	3	23.0
Other	24	(15)	-	-	9	34.2
Balance of deferred tax assets, gross	**1,357**	**10**	**-**	**(63)**	**1,304**	**34.2**
Provision for deferred tax asset	(3)	-	-	-	(3)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,354**	**10**	**-**	**(63)**	**1,301**	**34.2**
Deferred tax liability						
On securities	1	-	-	(1)	-	34.2
Fixed assets and leasing	66	5	-	-	71	25.9
In respect of investment in investee companies	98	18	-	2	118	14.5
Balance of deferred tax liabilities, gross	**165**	**23**	**-**	**1**	**189**	**17.4**
Balance of deferred tax assets, net	**1,189**	**(13)**	**-**	**(64)**	**1,112**	**30.4**
	For the year of 2017					
On provision for credit losses	418	92	-	-	510	34.2
On provision for vacation pay, jubilee awards and provision of retirees	475	16	-	5	496	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	310	22	-	(7)	325	34.2
On income tax carry- forward deductions	3	(1)	-	-	2	23.0
Other	24	-	-	-	24	34.2
Balance of deferred tax assets, gross	**1,230**	**129**	**-**	**(2)**	**1,357**	**34.2**
Provision for deferred tax asset	(2)	(1)	-	-	(3)	23.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,228**	**128**	**-**	**(2)**	**1,354**	**34.2**
Deferred tax liability						
On securities	2	-	-	(1)	1	34.2
Fixed assets and leasing	77	(11)	-	-	66	25.8
In respect of investment in investee companies	45	52	-	1	98	14.5
Balance of deferred tax liabilities, gross	**124**	**41**	**-**	**-**	**165**	**17.7**
Balance of deferred tax assets, net	**1,104**	**87**	**-**	**(2)**	**1,189**	**31.0**

8. Provisions for Taxes on Profit (continued)

H. BROUGHT FORWARD LOSSES AND CREDITS FOR TAX PURPOSES

	Deferred tax assets	Provision for deferred tax asset	Deferred tax assets, net	Balance of loss[1]
	in NIS millions			
	For the year ended December 31, 2018			
Losses for tax purposes:				
The Bank	3	3	-	12
Subsidiaries in Israel	2	2	-	9
	For the year ended December 31, 2017			
Losses for tax purposes:				
The Bank	2	2	-	10
Subsidiaries in Israel	2	2	-	9

Footnote:
(1) The first year of expiry cannot be estimated

I. Tax legislation changes

2016. The Income Tax Ordinance Amendment Act (Amendment No. 216), 2016, was published on January 5, 2016, which, among other things reduced the company tax rate from 26.5% to 25%, with effect from January 1, 2016. Following the reduction in the tax rate, as stated, the statutory tax rate for 2016 was reduced from 37.18% to 35.9%.

The decrease in the rate of tax reduced the deferred tax balance of the Bank, MDB and ICC, in an amount of NIS 50 million (reduction in profit).

The Economic Efficiency Act (Legislation amendments for the implementation of the economic policy for the budget years 2017 and 2018), 2017, was published on the Official Gazette on December 29, 2016. The Act reduced the corporation tax to a rate of 24% as from January 1, 2017, and to a rate of 23% as from January 1, 2018. As a result thereof, the statutory tax rate for 2017 was reduced to 35.04% and the rate for 2018 and thereafter was reduced to 34.19%

The reduction in the tax rate has reduced the balance of deferred taxes of the Bank, MDB and ICC by an amount of NIS 59 million (a reduction in profits). The impact on the comprehensive income amounted to NIS 20 million (decrease in tax).

2017 - The U.S. tax reform. On December 22, 2017, the President of the United States signed a comprehensive tax reform (Tax Cuts and Jobs Act). Among other things within the framework of this Reform, the corporation tax rate is to be reduced to 21% in respect of tax years beginning with 2018 and thereafter. The lowering of the tax rate has reduced the deferred taxes balance of IDB New York by an amount of US$15.5 million (reduction in profit).

J. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Tax Authority, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the tax recorded abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of tax that would have been paid in Israel on such profit based on the tax rate applicable to the Bank in Israel.

9. Earnings Per Share

	For the year ended December 31		
	2018	2017	2016
	in NIS millions		
Basic and diluted earnings Per share			
Total net income, attributed to bank's shareholders	1,505	1,259	905
	In Thousand		
Basic earnings:			
Weighted average of shares of NIS 0.1 par value:			
Balance to January 1	1,164,017	1,132,125	1,053,869
In addition - Option warrants exercised into shares	-	25,102	1,332
Shares issued during the period	-	-	17,898
Weighted average of shares of NIS 0.1 par value, used for the Basic earnings	**1,164,017**	**1,157,227**	**1,073,099**
Basic earnings Per share of NIS 0.1 (in NIS)	**1.29**	**1.09**	**0.84**
Diluted earnings Per share:			
Weighted average of shares of NIS 0.1 par value:			
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	1,164,017	1,157,227	1,073,099
In addition - The effect of option warrants	-	[1]1,041	[1]1,386
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	**1,164,017**	**1,158,268**	**1,074,485**
Diluted earnings Per share of NIS 0.1 (in NIS)	**1.29**	**1.09**	**0.84**

Footnote:

(1) As from January 1, 2018, the number of shares used in the calculation has been amended following adoption of the U.S. standard in this matter (see Note 1 C 6 (2) above).

10. Accumulated Other Comprehensive Income (Loss)

A. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) AFTER TAX EFFECT

	Other comprehensive income, before attribution to non-controlling rights holders					Other comprehensive income attributed to non-controlling rights holders	Other comprehensive income attributed to the Bank's shareholders
	Adjustments, net, for presentation of available-for- sale securities at fair value	Financial statements translation adjustments[1]	Net loss in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
	in NIS millions						
Balance at December 31, 2015	**162**	**66**	**-**	**(334)**	**(106)**	**(1)**	**(105)**
Net change during the year	(76)	(44)	1	(177)	(296)	(4)	(292)
Balance at December 31, 2016	**86**	**22**	**1**	**(511)**	**(402)**	**(5)**	**(397)**
Net change during the year	25	(335)	(1)	(11)	(322)	(2)	(320)
Balance at December 31, 2017	**111**	**(313)**	**-**	**(522)**	**(724)**	**(7)**	**(717)**
Net change during the year	[2](268)	252	(1)	[2]173	156	-	156
Balance at December 31, 2018	**(157)**	**(61)**	**(1)**	**(349)**	**(568)**	**(7)**	**(561)**

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(2) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

10. Accumulated Other Comprehensive Income (Loss) (continued)

B. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) COMPONENT BEFORE TAX EFFEXT AND AFTER TAX EFFECT

	2018			2017			2016		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Changes in components of accumulated other comprehensive income (loss), before attribution to non-controlling rights holders:									
Adjustments for presentation of available-for- sale securities at fair value									
Net unrealized income (loss) from adjustments to fair value	(340)	[4]96	(244)	194	(64)	130	20	(3)	17
income on available-for-sale securities reclassified to the statement of income[2]	(37)	13	(24)	(161)	56	(105)	(146)	53	(93)
Net change during the year	**(377)**	**109**	**(268)**	**33**	**(8)**	**25**	**(126)**	**50**	**(76)**
Translation adjustments									
Financial statements translation adjustments[1]	252	-	252	(335)	-	(335)	(44)	-	(44)
Net change during the year	**252**	**-**	**252**	**(335)**	**-**	**(335)**	**(44)**	**-**	**(44)**
Cash flow hedging									
Net loss in respect of cash flow hedging	(2)	-	(2)	-	-	-	-	-	-
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	1	-	1	(1)	-	(1)	2	(1)	1
Net change during the year	**(1)**	**-**	**(1)**	**(1)**	**-**	**(1)**	**2**	**(1)**	**1**
Employee benefits									
Net actuarial profit (loss)	117	[4](38)	79	(102)	35	(67)	(430)	117	(313)
loss reclassified to the statement of income[3]	142	(48)	94	85	(29)	56	191	(55)	136
Net change during the year	**259**	**(86)**	**173**	**(17)**	**6**	**(11)**	**(239)**	**62**	**(177)**
Total net change during the year	**133**	**23**	**156**	**(320)**	**(2)**	**(322)**	**(407)**	**111**	**(296)**
Changes in components of accumulated other comprehensive loss attributed to non-controlling rights holders:									
Total net change during the year	**-**	**-**	**-**	**(2)**	**-**	**(2)**	**(5)**	**1**	**(4)**
Changes in components of accumulated other comprehensive (loss) profit attributed to the Bank's shareholders:									
Total net change during the year	**133**	**23**	**156**	**(318)**	**(2)**	**(320)**	**(402)**	**110**	**(292)**

Footnotes:

(1) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.
(2) The pre-tax amount is reported in the of statement of profit and loss in the item "non-interest financing income". For further details see the note on non-interest financing income.
(3) The pre-tax amount has been classified to "Other Expenses".
(4) Including the effect of adoption of new standards – see the Statement of Changes in Shareholders' Equity.

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	in NIS millions			
Cash and deposits with central banks	19,355	24,965	15,795	19,437
Deposits with commercial banks	2,503	3,061	2,704	3,286
Total cash and deposits with banks[1]	**21,858**	**28,026**	**18,499**	**22,723**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	21,549	27,762	18,218	22,499

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. COMPOSITION OF THIS ITEM - CONSOLIDATED[1]

	December 31 ,2018				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	5,118	5,118	89	20	5,187
Of foreign governments	19	19	-	-	19
Of Israeli financial institutions	27	27	-	-	27
Of foreign financial institutions	34	34	-	-	34
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	451	451	1	13	439
Of others abroad[7]	1,073	1,073	15	3	1,085
Total held-to-maturity bonds	**6,722**	**[3]6,722**	**105**	**36**	**6,791**

	December 31 ,2018				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	16,858	16,861	52	55	16,858
Of foreign governments	749	758	-	9	749
Of Israeli financial institutions	61	61	-	-	61
Of foreign financial institutions	1,314	1,336	3	25	1,314
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	6,855	7,010	4	159	6,855
Of others in Israel	148	150	1	3	148
Of others abroad	1,965	1,991	3	29	1,965
Total bonds	27,950	28,167	63	280	[3]27,950
Shares	980	980	3	3	[5]980
Total available-for-sale securities	**28,930**	**29,147**	**[4]66**	**[4]283**	**28,930**

For footnotes see next page.

12. Securities (continued)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED[1] (CONTINUED)

	December 31 ,2018				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,013	2,013	3	3	2,013
Of Israeli financial institutions	19	20	-	1	19
Of foreign financial institutions	8	8	-	-	8
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	77	79	-	2	77
Of others in Israel	62	66	-	4	62
Of others abroad	8	8	-	-	8
Total bonds	2,187	2,194	3	10	2,187
Shares	59	65	-	6	59
Total trading securities	**2,246**	**2,259**	**[6]3**	**[6]16**	**2,246**
Total securities	**37,898**	**38,128**	**174**	**335**	**37,967**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Including securities sold by overseas consolidated subsidiary under repurchase terms from held to maturity portfolio at an amortized cost of NIS 124 million (approx. US$ 33 million) and from the available for sale portfolio with a market value of NIS 1,168 million (approx. US$ 312 million).

(4) Included in "Accumulated other comprehensive income".

(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 923 million.

(6) Recorded in the statement of profit and loss.

(7) Municipal bonds and bonds of states in the U.S.A.

	December 31, 2017				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,465	3,465	192	-	3,657
Of foreign governments	17	17	-	-	17
Of Israeli financial institutions	55	55	2	-	57
Of foreign financial institutions	31	31	-	-	31
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	528	528	3	11	520
Of others abroad[7]	1,228	1,228	39	1	1,266
Total held-to-maturity bonds	**5,324**	**[3]5,324**	**236**	**12**	**5,548**

For footnotes see next page.

12. Securities (continued)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED[1] (CONTINUED)

	December 31, 2017				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available- for- sale securities					
Bonds and loans:					
Of the Israeli Government	16,031	15,870	164	3	16,031
Of foreign governments	571	573	1	3	571
Of Israeli financial institutions	43	43	-	-	43
Of foreign financial institutions	584	576	9	1	584
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	6,262	6,353	3	94	6,262
Of others in Israel	155	145	10	-	155
Of others abroad	1,427	1,404	24	1	1,427
Total bonds	25,073	24,964	211	102	(3)25,073
Shares	851	848	4	1	(5)851
Total available-for-sale securities	**25,924**	**25,812**	**(4)215**	**(4)103**	**25,924**

	December 31, 2017				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,240	1,240	5	5	1,240
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	55	56	-	1	55
Of others in Israel	77	75	2	-	77
Of others abroad	46	46	-	-	46
Total bonds	1,418	1,417	7	6	1,418
Shares	37	38	1	2	37
Total trading securities	**1,455**	**1,455**	**(6)8**	**(6)8**	**1,455**
Total securities	**32,703**	**32,591**	**459**	**123**	**32,927**

Footnotes:
(1) See Note 27 for pledges.
(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.
(3) Including securities sold by overseas consolidated subsidiary under repurchase terms from held-to-maturity portfolio at an amortized cost of NIS 361 million (approx. US$ 104 million) and from the available-for-sale portfolio with a market value of NIS 1,843 million (approx. US$ 532 million).
(4) Included in "Accumulated other comprehensive income".
(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 814 million.
(6) Recorded in the statement of profit and loss.
(7) Municipal bonds and bonds of states in the U.S.A.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

B. COMPOSITION OF THIS ITEM - THE BANK[1]

	December 31,2018				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	4,705	4,705	74	11	4,768
Total held-to-maturity bonds and bills	**4,705**	**4,705**	**74**	**11**	**4,768**

	December 31,2018				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	11,513	11,480	45	12	11,513
Of foreign governments	237	239	-	2	237
Of Israeli financial institutions	61	61	-	-	61
Of foreign financial institutions	1,289	1,310	3	24	1,289
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	186	190	-	4	186
Of others in Israel	119	121	1	3	119
Of others abroad	1,522	1,541	3	22	1,522
Total bonds and bills	14,927	14,942	52	67	14,927
Shares	39	40	1	2	[4]39
Total available-for-sale securities	**14,966**	**14,982**	**[3]53**	**[3]69**	**14,966**

	December 31,2018				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,630	1,628	3	1	1,630
Of Israeli financial institutions	19	20	-	1	19
Of foreign financial institutions	7	7	-	-	7
Of others in Israel	51	54	-	3	51
Of others abroad	8	8	-	-	8
Total bonds and bills	1,715	1,717	3	5	1,715
Shares	56	61	-	5	56
Total trading securities	**1,771**	**1,778**	**[5]3**	**[5]10**	**1,771**
Total securities	**21,442**	**21,465**	**130**	**90**	**21,505**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

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

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 2 million.

(5) Recorded in the statement of profit and loss.

12. Securities (continued)

B. COMPOSITION OF THIS ITEM - THE BANK[1] (CONTINUED)

	December 31,2017				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,246	3,246	169	-	3,415
Total held-to-maturity bonds and bills	**3,246**	**3,246**	**169**	**-**	**3,415**

	December 31,2017				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	11,727	11,589	140	2	11,727
Of foreign governments	118	117	1	-	118
Of Israeli financial institutions	42	42	-	-	42
Of foreign financial institutions	439	430	9	-	439
Of others in Israel	97	94	3	-	97
Of others abroad	1,056	1,035	22	1	1,056
Total bonds and bills	13,479	13,307	175	3	13,479
Shares	20	18	2	-	[4]20
Total available-for-sale securities	**13,499**	**13,325**	**[3]177**	**[3]3**	**13,499**

	December 31,2017				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,235	1,234	5	4	1,235
Of others in Israel	68	66	2	-	68
Of others abroad	46	46	-	-	46
Total bonds and bills	1,349	1,346	7	4	1,349
Shares	36	38	1	3	36
Total trading securities	**1,385**	**1,384**	**[5]8**	**[5]7**	**1,385**
Total securities	**18,130**	**17,955**	**354**	**10**	**18,299**

Footnotes:

(1) See Note 27 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

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

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 2 million.

(5) Recorded in the statement of profit and loss.

For details as to the results of investment activity in bonds and shares, see Notes 2 and 3.

12. Securities (continued)

C. AMORTIZED COST AND UNREALIZED LOSSES, ACCORDING TO THE LENGTH OF THE PERIOD AND RATE OF IMPAIRMENT OF HELD-TO-MATURITY BONDS WHICH ARE IN AN UNREALIZED LOSS POSITION - CONSOLIDATED

	December 31, 2018							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of the Israeli Government	1,570	20	-	20	-	-	-	-
Of foreign governments	-	-	-	-	19	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	25	(1)-	-	-	377	13	-	13
Of others abroad	246	2	-	2	38	1	-	1
Total held-to-maturity bonds	**1,841**	**22**	**-**	**22**	**434**	**14**	**-**	**14**

	December 31, 2017							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	95	1	-	1	350	10	-	10
Of others abroad	56	1	-	1	-	-	-	-
Total held-to-maturity bonds	**151**	**2**	**-**	**2**	**350**	**10**	**-**	**10**

Footnote:
(1) An amount lower than NIS 1 million.

D. As part of the earlier adoption of the updated U.S. Standard in the matter derivatives and hedge transactions (see Note 1 E 2 above), the subsidiary IDB Bank has reclassified securities from the "held to maturity" portfolio to the "available-for-sale" portfolio, in an amount of US$252 million. At this stage, the Bank continues to present the said securities in the consolidated financial statements as securities held to maturity.

12. Securities (continued)

E. FAIR VALUE AND UNREALIZED LOSSES, ACCORDING TO THE LENGTH OF THE PERIOD AND RATE OF IMPAIRMENT OF AVAILABLE-FOR-SALE SECURITIES WHICH ARE IN AN UNREALIZED LOSS POSITION- CONSOLIDATED

	December 31, 2018							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available- for-sale securities								
Bonds and loans:								
Of the Israeli Government	6,844	49	-	49	667	6	-	6
Of foreign governments	230	4	-	4	319	5	-	5
Of Israeli financial institutions	47	(1)-	-	-	-	-	-	-
Of foreign financial institutions	1,119	25	-	25	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	1,853	20	-	20	4,436	139	-	139
Of others in Israel	84	3	-	3	-	-	-	-
Of others abroad	1,378	27	-	27	71	2	-	2
Total bonds	11,555	128	-	128	5,493	152	-	152
Shares	31	2	-	2	16	1	-	1
Total available-for-sale securities	**11,586**	**130**	**-**	**130**	**5,509**	**153**	**-**	**153**

	December 31, 2017							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available-for-sale securities								
Bonds and loans:								
Of the Israeli Government	1,114	3	-	3	92	(1)-	-	-
Of foreign governments	341	2	-	2	137	1	-	1
Of Israeli financial institutions	31	(1)-	-	-	-	-	-	-
Of foreign financial institutions	108	1	-	1	69	(1)-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	3,381	40	-	40	2,122	54	-	54
Of others in Israel	-	-	-	-	15	(1)-	-	-
Of others abroad	252	1	-	1	56	(1)-	-	-
Total bonds	5,227	47	-	47	2,491	55	-	55
Shares	1	(1)-	-	-	15	1	-	1
Total available-for-sale securities	**5,228**	**47**	**-**	**47**	**2,506**	**56**	**-**	**56**

Footnote:

(1) An amount lower than NIS 1 million.

12. Securities (continued)

F. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2018, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB New York.

Mortgage-backed Securities - MBS. A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

The Board of Directors of IDB New York has determined restrictions on the volume of investment in mortgage backed bonds (MBS) except for Ginni Mae.

The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

A real estate mortgage investment conduit (REMIC) is a complex pool of mortgage securities created to acquire investment income for its creators and investors. REMICs consist of a fixed pool of mortgages broken apart into tranches, repackaged, and marketed to investors as individual securities.

A stripped MBS, or stripped mortgage-backed security (MBS), is a type of mortgage-backed security that is split into principal-only strips and interest-only strips. Stripped MBS derive their cash flows either from principal payments or interest payments on the underlying mortgages, unlike conventional MBS where cash flows are based on both principal and interest payments.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae, a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investors have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

	December 31, 2018			
	Amortized cost	Unrealized gains from adjustment to fair value[(1)]	Unrealized losses from adjustment to fair value[(1)]	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
Mortgage pass-through securities:	1,288	-	22	1,266
of which:				
Securities guaranteed by GNMA	901	-	14	887
Securities issued by FHLMC and FNMA	387	-	8	379
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	5,353	4	132	5,225
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,353	4	132	5,225
Total available-for-sale MBS	**6,641**	**4**	**154**	**6,491**
Held-to-maturity securities				
Mortgage pass-through securities:	32	1	-	33
of which:				
Securities guaranteed by GNMA	21	1	-	22
Securities issued by FHLMC and FNMA	11	-	-	11
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	419	-	13	406
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	419	-	13	406
Total held-to-maturity MBS	**451**	**1**	**13**	**439**
Trading securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	79	-	2	77
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	79	-	2	77
Total mortgage-backed trading securities (MBS)	**79**	**-**	**2**	**77**
Total mortgage-backed securities (MBS)	**7,171**	**5**	**169**	**7,007**
2.Total Asset-backed available-for-sale securities (ABS)	369	-	5	364
Of which collaterized bonds CLO	351	-	4	347
Of which Asset-backed bond (ABS)	18	-	1	17
Total mortgage and asset-backed securities	**7,540**	**5**	**174**	**7,371**

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

	December 31, 2017			
	Amortized cost	Unrealized gains from adjustment to fair value(1)	Unrealized losses from adjustment to fair value(1)	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
Mortgage pass-through securities:	1,331	2	13	1,320
of which:				
Securities guaranteed by GNMA	904	1	11	894
Securities issued by FHLMC and FNMA	427	1	2	426
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	4,969	1	81	4,889
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,969	1	81	4,889
Total available-for-sale MBS	**6,300**	**3**	**94**	**6,209**
Held-to-maturity securities				
Mortgage pass-through securities:	36	2	-	38
of which:				
Securities guaranteed by GNMA	23	1	-	24
Securities issued by FHLMC and FNMA	13	1	-	14
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	492	1	11	482
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	492	1	11	482
Total held-to-maturity MBS	**528**	**3**	**11**	**520**
Trading securities				
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	56	-	1	55
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	56	-	1	55
Total mortgage-backed trading securities (MBS)	**56**	**-**	**1**	**55**
Total mortgage-backed securities (MBS)	**6,884**	**6**	**106**	**6,784**
2.Total Asset-backed available-for-sale securities (ABS)	53	-	-	53
Of which collaterized bonds CLO	53	-	-	53
Total mortgage and asset-backed securities	**6,937**	**6**	**106**	**6,837**

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION

	December 31 ,2018			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	363	3	437	11
Securities issued by FHLMC and FNMA	145	1	234	7
Total mortgage-backed pass-through securities	**508**	**4**	**671**	**18**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,009	11	3,765	121
Total other mortgage-backed securities	**1,009**	**11**	**3,765**	**121**
Total available-for-sale MBS	**1,517**	**15**	**4,436**	**139**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	2	(1)-	-	-
Total mortgage-backed pass-through securities	**2**	**-**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	23	(1)-	364	13
Total other mortgage-backed securities	**23**	**-**	**364**	**13**
Total held-to-maturity MBS	**25**	**-**	**364**	**13**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	21	(1)-	38	2
Total mortgage-backed trading securities (MBS)	**21**	**-**	**38**	**2**
Total mortgage-backed securities (MBS)	**1,563**	**15**	**4,838**	**154**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	318	4	-	-
Of which Asset-backed bond (ABS)	18	1	-	-
Total asset-backed available-for-sale securities (ABS)	**336**	**5**	**-**	**-**
Total mortgage and asset-backed securities	**1,899**	**20**	**4,838**	**154**

Footnote:
(1) Amount lower than NIS 1 million

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION (CONTINUED)

	December 31 ,2017			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
Mortgage-Backed Securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	505	6	293	5
Securities issued by FHLMC and FNMA	171	1	92	1
Total mortgage-backed pass through securities	**676**	**7**	**385**	**6**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,705	33	1,737	48
Total other mortgage-backed securities	**2,705**	**33**	**1,737**	**48**
Total available-for-sale MBS	**3,381**	**40**	**2,122**	**54**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	94	1	340	10
Total other mortgage-backed securities	**94**	**1**	**340**	**10**
Total held-to-maturity MBS	**94**	**1**	**340**	**10**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	25	(1)-	19	1
Total mortgage-backed trading securities (MBS)	**25**	**-**	**19**	**1**
Total mortgage-backed securities (MBS)	**3,500**	**41**	**2,481**	**65**

Footnote:
(1) Amount lower than NIS 1 million

H. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of approx. NIS 3,488 million (December 31, 2017: NIS 2,209 million). The balance of the said bonds included as of December 31, 2018, unrealized losses in the amount of approx. NIS 57 million (December 31, 2017: approx. NIS 2 million).

I. Most of the unrealized losses as at December 31, 2018 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts.

Since the Bank and the relevant consolidated subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for bonds, may not be until maturity), the Bank and the relevant consolidated subsidiaries do not consider the impairment in value of these investments to be other than temporarily impaired at December 31, 2018 except for certain securities, in respect of which a provision for impairment in value has been included.

In 2018, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 28 million (2017: NIS 33 million; 2016: NIS 33 million).

J. **Fair value presentation.** The balances of securities as of December 31, 2018, and December 31, 2017, include securities amounting to NIS 30,253 million and NIS 26,565 million, respectively, that are presented at fair value.

K. DATA REGARDING IMPAIRED BONDS - CONSOLIDATED

	December 31, 2018	December 31, 2017
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	79	48

13. Credit Risk, Credit to the Public and Allowance for Credit Losses

General. Debts – in this Note: credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under resale agreements and assets in respect of the "MAOF" market activity.

It is noted, that Note 31 presents the details included in this Note, as well as an extended discussion thereof.

1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

	December 31, 2018					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis(1)	75,208	-	539	75,747	5,389	81,136
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)231	32,779	-	33,010	-	33,010
Group - other	(2)28,054	145	30,122	58,321	450	58,771
Total debts*	**103,493**	**32,924**	**30,661**	**167,078**	**5,839**	**172,917**
* Of which:						
Restructured troubled debts	1,094	-	131	1,225	-	1,225
Other Impaired debts	384	-	24	408	-	408
Total balance of impaired debts	**1,478**	**-**	**155**	**1,633**	**-**	**1,633**
Debts in arrears of 90 days or more	58	316	61	435	-	435
Other problematic debts	1,294	24	345	1,663	-	1,663
Total Problematic debts	**2,830**	**340**	**561**	**3,731**	**-**	**3,731**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	1,096	-	64	1,160	-	1,160
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(3)1	(3)185	-	186	-	186
Group - other	384	2	542	928	1	929
Total allowance for Credit Losses	**1,481**	**187**	**606**	**2,274**	**1**	**2,275**
Of which: in respect of impaired debts	169	-	54	223	-	223

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 79,503 million and the allowance in its respect in an amount of NIS 937 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million, computed on a group basis, in amount of NIS 116 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED (CONTINUED)

	December 31, 2017					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Recorded amount of debts:						
Examined on a specific basis[1]	67,477	-	483	67,960	4,325	72,285
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]250	28,766	-	29,016	-	29,016
Group - other	25,524	127	28,241	53,892	229	54,121
Total debts*	**93,251**	**28,893**	**28,724**	**150,868**	**4,554**	**155,422**
* Of which:						
Restructured troubled debts	1,546	-	71	1,617	-	1,617
Other Impaired debts	496	-	17	513	-	513
Total balance of impaired debts	**2,042**	**-**	**88**	**2,130**	**-**	**2,130**
Debts in arrears of 90 days or more	50	287	70	407	-	407
Other problematic debts	1,328	26	332	1,686	-	1,686
Total Problematic debts	**3,420**	**313**	**490**	**4,223**	**-**	**4,223**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,043	-	34	1,077	-	1,077
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]176	-	177	-	177
Group - other	361	2	494	857	1	858
Total allowance for Credit Losses	**1,405**	**178**	**528**	**2,111**	**1**	**2,112**
Of which: in respect of impaired debts	163	-	25	188	-	188

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 70,155 million and the allowance in its respect in an amount of NIS 889 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 250 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction.

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million, computed on a group basis, in amount of NIS 103 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2018					
Recorded amount of debts:						
Examined on a specific basis[1]	60,027	-	275	60,302	6,039	66,341
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	209	27,989	-	28,198	-	28,198
Group - other	7,203	-	14,122	21,325	-	21,325
Total debts*	**67,439**	**27,989**	**14,397**	**109,825**	**6,039**	**115,864**
* Of which:						
Restructured troubled debts	845	-	80	925	-	925
Other Impaired debts	269	-	1	270	-	270
Total balance of impaired debts	**1,114**	**-**	**81**	**1,195**	**-**	**1,195**
Debts in arrears of 90 days or more	34	267	42	343	-	343
Other problematic debts	523	-	56	579	-	579
Total Problematic debts	**1,671**	**267**	**179**	**2,117**	**-**	**2,117**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	821	-	51	872	-	872
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]1	[2]164	-	165	-	165
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**922**	**164**	**291**	**1,377**	**1**	**1,378**
Of which: in respect of impaired debts	126	-	43	169	-	169

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 65,146 million and the allowance in its respect in an amount of NIS 703 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million, computed on a group basis, in amount of NIS 98 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

1. DEBTS, CREDIT TO THE PUBLIC AND THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - THE BANK (CONTINUED)

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2017					
Recorded amount of debts:						
Examined on a specific basis(1)	53,178	-	208	53,386	4,778	58,164
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	200	24,568	-	24,768	-	24,768
Group - other	6,887	-	14,015	20,902	-	20,902
Total debts*	**60,265**	**24,568**	**14,223**	**99,056**	**4,778**	**103,834**
* Of which:						
Restructured troubled debts	1,146	-	43	1,189	-	1,189
Other Impaired debts	300	-	2	302	-	302
Total balance of impaired debts	**1,446**	**-**	**45**	**1,491**	**-**	**1,491**
Debts in arrears of 90 days or more	34	238	52	324	-	324
Other problematic debts	558	-	56	614	-	614
Total Problematic debts	**2,038**	**238**	**153**	**2,429**	**-**	**2,429**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis(1)	777	-	27	804	-	804
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	(2)1	(2)157	-	158	-	158
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**878**	**157**	**267**	**1,302**	**1**	**1,303**
Of which: in respect of impaired debts	121	-	21	142	-	142

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 56,673 million and the allowance in its respect in an amount of NIS 662 million computed on a group basis.

(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 2 million, computed on a group basis, in amount of NIS 87 million.

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. MOVEMENT IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2015	1,675	176	407	2,258	3	2,261
Credit loss expenses (expenses reversal)	255	8	209	472	(3)	469
Accounting write-offs	(569)	(16)	(327)	(912)	-	(912)
Collection of debts written-off in previous years	345	-	180	525	-	525
Net accounting write-offs	(224)	(16)	(147)	(387)	-	(387)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at December 31, 2016	**1,702**	**168**	**469**	**2,339**	**-**	**2,339**
Credit loss expenses	243	15	315	573	1	574
Accounting write-offs	(761)	(5)	(410)	(1,176)	-	(1,176)
Collection of debts written-off in previous years	401	-	193	594	-	594
Net accounting write-offs	(360)	(5)	(217)	(582)	-	(582)
Financial statements translation adjustments	(25)	-	(1)	(26)	-	(26)
Balance of allowance for credit losses, as at December 31, 2017	**1,560**	**178**	**566**	**2,304**	**1**	**2,305**
Credit loss expenses	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Financial statements translation adjustments	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
Of which: in respect of off-balance sheet credit instruments						
As at December 31, 2016	161	-	34	195	-	195
As at December 31, 2017	155	-	38	193	-	193
As at December 31, 2018	125	-	51	176	-	176

13. Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

2. MOVEMENT IN THE BALANCE OF ALLOWANCE FOR CREDIT LOSSES - THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
Balance of allowance for credit losses, as at December 31, 2015	1,112	160	198	1,470	-	1,470
Credit loss expenses	99	7	126	232	-	232
Accounting write-offs	(348)	(16)	(182)	(546)	-	(546)
Collection of debts written-off in previous years	280	-	89	369	-	369
Net accounting write-offs	(68)	(16)	(93)	(177)	-	(177)
Balance of allowance for credit losses, as at December 31, 2016	**1,143**	**151**	**231**	**1,525**	**-**	**1,525**
Credit loss expenses	65	11	181	257	1	258
Accounting write-offs	(537)	(5)	(231)	(773)	-	(773)
Collection of debts written-off in previous years	339	-	101	440	-	440
Net accounting write-offs	(198)	(5)	(130)	(333)	-	(333)
Balance of allowance for credit losses, as at December 31, 2017	**1,010**	**157**	**282**	**1,449**	**1**	**1,450**
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at September 30, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Of which: in respect of off-balance sheet credit instruments						
As at December 31, 2016	134	-	14	148	-	148
As at December 31, 2017	132	-	15	147	-	147
As at December 31, 2018	108	-	18	126	-	126

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	in NIS millions			
Credit to Israel government	2,167	770	2,167	770
Credit to foreign governments	1,169	723	1,169	723
Total credit granted to Governments	**3,336**	**1,493**	**3,336**	**1,493**

15. Investment in Investee Companies and Details Regarding These Companies

A. CONSOLIDATED

	December 31, 2018			December 31, 2017		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[1]	**135**	**-**	**135**	**153**	**-**	**153**
Of which:	Of which:	Of which:	Of which:	Of which:	Of which:	Of which:
Earnings accumulated since January 1, 1992	69	-	69	98	-	98
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for Employee benefits	(1)	-	(1)	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	301	301	-	301	301
Book value[2]	-	160	160	-	160	160

Footnotes:
(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency (formerly defined as "autonomous units") accumulated from the acquisition date up to December 31, 1991.
(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

15. Investment in Investee Companies and Details Regarding These Companies (continued)

B. THE BANK

	December 31, 2018			December 31, 2017		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[1]	54	8,607	8,661	83	7,752	7,835
Other investments:						
Subordinated debt notes and Capital notes	-	956	956	-	1,020	1,020
Total investments	**54**	**9,563**	**9,617**	**83**	**8,772**	**8,855**
Of which:						
Earnings accumulated since January 1, 1992	53	6,120	6,173	81	5,467	5,548
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	-	(140)	(140)	-	(29)	(29)
Financial statements translation adjustments	-	(62)	(62)	-	(315)	(315)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	(1)	(1)	-	-	-
Adjustment for Employee benefits, net	-	(46)	(46)	-	(107)	(107)
Transactions with controlling shareholders	-	3	3	-	3	3
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142

Footnote:
(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency (formerly defined as "autonomous units") accumulated from the acquisition date up to December 31, 1991.

THE BANK'S SHARE OF PROFIT OR LOSS OF INVESTEE COMPANIES

	Consolidated			The Bank		
	2018	2017	2016	2018	2017	2016
	In NIS millions					
Bank's share in profit of investee companies (consolidated - affiliated companies)	7	5	17	802	740	725
Provision for taxes:						
Current taxes	5	-	-	42	3	[1]37
Deferred taxes	(4)	4	2	18	52	23
Total provision for taxes	1	4	2	60	55	60
Bank's share in profit net of tax effect of investee companies (consolidated - affiliated companies)	**6**	**1**	**15**	**742**	**685**	**665**

Footnote:
(1) Current taxes in respect of IDB New York, in accordance with an agreement with the Tax Authorities – see Note 8 J hereunder.

15. Investment in Investee Companies and Details Regarding These Companies (continued)

C. INFORMATION ON PRINCIPAL INVESTEE COMPANIES

Name of Company	Details of the company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Investment in shares Equity basis[1]	
		2018	2017	2018	2017	2018	2017
		In %				In NIS millions	
1. Consolidated Subsidiaries:							
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	24	24
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,521	3,111
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	2,723	2,472
Israel Credit Cards Ltd.[4]	Credit card service	[10]71.83	[10]71.83	79.00	79.00	1,110	1,043
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	738	664
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	63	63
Companies held by Israel Discount Bank of New York:							
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	1,413	2,677
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	4,917	5,579
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[7]	Credit card service	100.00	100.00	100.00	100.00	249	220
C.A.L (financing) Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	103	87

Footnotes:

(1) Including allocated excess of cost over book value and goodwill.

(2) A holding company, wholly-owned by the Bank, which fully owns and controls Israel Discount Bank of New York.

(3) The company is owned by Discount Bancorp, Inc.

(4) For details regarding a guarantee unlimited in amount in favor of International VISA Organization, securing all of ICC's liabilities, see Note 26 C 10 below.

(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of Israel Discount Bank of New York

(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net profit are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc.

(7) For details regarding the holding of a controlling interest in Diners, see Note 36 H below.

(8) For details, see Note 10 A.

(9) Goodwill.

(10) In respect of the period until the date loss of material influence in FIBI.

	Of which: excess of cost balance[9]		Other capital investments		Contribution to Net Profit attributed to Bank's shareholders		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	In NIS millions											
	-	-	-	-	-	1	-	-	-	-	-	-
	-	-	-	-	324	172	154	109	(146)	(350)	-	-
	-	-	185	184	239	220	-	-	(77)	(89)	-	-
	142	142	(42)	23	50	65	-	22	(13)	(14)	11	10
	18	18	721	721	70	165	-	-	3	3	80	73
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	41	(15)	1,544	-	97	(137)	-	-
	-	-	-	-	60	56	1,169	-	(173)	(613)	-	-
	-	-	-	-	30	35	-	-	-	-	-	-
	-	-	84	84	16	31	-	-	-	-	-	-

D. **Discount Bank Latin America (hereinafter: "DBLA").** An agreement for the sale of the operations of DBLA was signed on December 18, 2014. The transaction was consummated on November 1, 2015. The consideration in respect of the transaction has been received. The liquidation proceedings have begun upon completion of the transaction of the legal entity remaining in the wake of the transaction. Following the consummation of the transaction, the legal entity remained with assets and liabilities of negligible amounts and the conclusion of their sale and/or settlement, as the case may be, has not yet been completed.

In June 2016, DBLA distributed a dividend in the amount of US$63.8 million to IDB New York. This amount, representing the consideration in respect of the transaction, had been deposited with IDB New York prior to the dividend distribution and had no effect on the results of the Bank.

The agreement includes indemnification of the purchaser in respect of various representations.

E. **IDB (Swiss) Bank in liquidation.** On November 23, 2015, IDB (Swiss) Bank, a subsidiary of the Bank, entered into an agreement pursuant to which it will sell its customer operations, as defined in the agreement. The transaction was consummated on February 26, 2016. The consideration was received on the three dates stipulated in the agreement: On date of completion, an amount of CHF 5.3 million; a second payment, in an amount of CHF 0.7 million was received in September 2017; the last payment (a negligible amount) in respect of the sale of the operations was received on March 15, 2018, thus concluding the sale transaction.

Expenses and allowance for expenses in the amount of 10 million Swiss francs (NIS 41 million) were recorded in the financial statements as of December 31, 2015, as a result of this move, an amount of NIS 33 million after the tax effect. Part of the consideration for the sale was recognized in the first quarter of 2016 and the balance on the date of receiving the second and third payment, respectively.

The transaction includes indemnification of the purchaser, limited in amount and time, in respect of different representations.

Following the conclusion of the transaction, as stated, a Liquidator has been appointed for IDB (Swiss) Bank by the shareholders, and the name of the corporation has been changed to "IDB (Swiss) Bank – in liquidation". As from December 20, 2016 IDB (Swiss) Bank – in liquidation discontinued all banking activities and the Bank acted to liquidate the corporation and this in accordance with an approval of the Swiss Financial Market Supervisory Authority (FINMA). On November 15, 2018, an approval was received from the Commercial Register of Geneva for the removal of the company, thus concluding the company's liquidation process.

In accordance with the Swiss regulations, the records of IDB (Swiss) Bank have to be maintained for a period of ten years from date of termination of the banking activities.

15. Investment in Investee Companies and Details Regarding These Companies (continued)

F. **Agreement of shareholders of Discount Capital Underwriting Ltd.** At date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting, an agreement between the shareholders of Discount Capital Underwriting, which regulates the relations between the shareholders of the Company, entered into effect. Within the framework of which were determined, among other things, limitation on the transferability of the shares held, and a CALL option was granted to Discount Capital and a PUT option to the minority shareholders of Discount Underwriting, which may be exercised starting with November 15, 2019.

16. Buildings and Equipment

A. COMPOSITION

	Consolidated				
	Buildings and land[1]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2016	2,381	864	1,004	3,861	8,110
Additions	62	43	118	324	547
Translation adjustments	(10)	(4)	(4)	(13)	(31)
Disposals	(142)	(46)	(164)	(124)	(476)
Balance as at December 31, 2017	**2,291**	**857**	**954**	**4,048**	**8,150**
Additions	60	54	59	330	503
Translation adjustments	8	3	3	11	25
Disposals	(41)	(29)	(59)	(34)	(163)
Balance as at December 31, 2018	**2,318**	**885**	**957**	**4,355**	**8,515**
Depreciation and impairment loss:					
Balance as at December 31, 2016	1,219	606	810	3,153	5,788
Depreciation for the year	68	40	79	249	436
Reversal of impairment loss	(3)	-	-	-	(3)
Translation adjustments	(7)	(4)	(4)	(9)	(24)
Disposals	(94)	(40)	(164)	(115)	(413)
Balance as at December 31, 2017	**1,183**	**602**	**721**	**3,278**	**5,784**
Depreciation for the year	64	40	87	223	414
Impairment loss	1	-	-	-	1
Translation adjustments	6	3	3	8	20
Disposals	(39)	(28)	(47)	(27)	(141)
Balance as at December 31, 2018	**1,215**	**617**	**764**	**3,482**	**6,078**
Carrying amount:					
Balance as at December 31, 2016	**1,162**	**258**	**194**	**708**	**2,322**
Balance as at December 31, 2017	**1,108**	**255**	**233**	**770**	**2,366**
Balance as at December 31, 2018	**1,103**	**268**	**193**	**873**	**2,437**
Average weighted depreciation rate for year 2017	4.5%	9.3%	21.0%	20.3%	12.0%
Average weighted depreciation rate for year 2018	4.2%	9.6%	21.1%	20.8%	12.1%

Footnote:

(1)Includes installations and leasehold improvements.

16. Buildings and Equipment (continued)

A. COMPOSITION (CONTINUED)

	The Bank				
	Buildings and land[(1)]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2016	1,756	444	742	2,867	5,809
Additions	31	29	89	212	361
Disposals	(128)	(43)	(139)	(96)	(406)
Balance as at December 31, 2017	**1,659**	**430**	**692**	**2,983**	**5,764**
Additions	39	32	30	181	282
Disposals	(36)	(26)	(45)	(5)	(112)
Balance as at December 31, 2018	**1,662**	**436**	**677**	**3,159**	**5,934**
Depreciation and impairment loss:					
Balance as at December 31, 2016	899	279	580	2,390	4,148
Depreciation for the year	43	25	59	174	301
Reversal of impairment loss	(3)	-	-	-	(3)
Disposals	(87)	(37)	(138)	(96)	(358)
Balance as at December 31, 2017	**852**	**267**	**501**	**2,468**	**4,088**
Depreciation for the year	38	26	62	144	270
An impairment loss	1	-	-	-	1
Disposals	(34)	(24)	(33)	(5)	(96)
Balance as at December 31, 2018	**857**	**269**	**530**	**2,607**	**4,263**
Carrying amount:					
Balance as at December 31, 2016	**857**	**165**	**162**	**477**	**1,661**
Balance as at December 31, 2017	**807**	**163**	**191**	**515**	**1,676**
Balance as at December 31, 2018	**805**	**167**	**147**	**552**	**1,671**
Average weighted depreciation rate for year 2017	3.4%	9.1%	20.3%	20.0%	11.3%
Average weighted depreciation rate for year 2018	3.2%	9.7%	20.0%	20.0%	10.9%

Footnote:
(1)Includes installations and leasehold improvements.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2019-2066.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31			
	2018	2017	2018	2017
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	132	127	38	41
Balance of provision for impairment loss	10	10	8	8
D. Financial leasing rights:				
Balance of non-capitalized leasehold	5	7	3	5
Balance of capitalized leasehold	215	217	69	76
E. Depreciated balance of not yet registered buildings	245	244	133	131
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	4	11	4	10
G. Depreciated balance of buildings and equipment designated for sale [(3)]	20	15	15	14
Impairment loss recognized in the current year	1	-	1	-
Reversal of impairment loss during the year	-	3	-	3
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,369	3,101	2,897	2,718
Accumulated depreciation	(2,765)	(2,617)	(2,415)	(2,316)
Depreciable amount	**604**	**484**	**482**	**402**
Accumulated costs in respect of software under development	131	138	31	61
Total cost of in-house development of computer software	**735**	**622**	**513**	**463**
I. Gross value of fully depreciated fixed assets still in use	3,578	3,198	2,575	2,282
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	145	126	106	111
Cost of equipment	11	37	10	37

	for the year ended December 31		
	2018	2017	2016
	in NIS millions		
K. Detail of operating lease contracts[(1)]:			
Recognized operating lease expenses [(2)]			
Consolidated	123	129	138
The Bank	81	86	89

Footnotes:

(1) Details of future non-cancellable lese expenses, see note 26 C 1.

(2) Includes minimum lease payment and contingent rent.

(3) No loss on the sale of buildings and equipment held for sale is expected, in excess of the provisions created therefore.

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31,2016 , 2017 and 2018	**301**
Amortization and losses on impairment	
Balance as at December 31,2016 , 2017 and 2018	**141**
Book value	
Balance as at December 31,2016 , 2017 and 2018	**160**

Footnote:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an affiliated company, included in the item "investment in affiliated companies").

18. Other Assets

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	In NIS millions			
Net deferred tax assets (see Note 8 G)	1,679	1,712	1,128	1,203
Excess advance tax payments over current provisions	181	144	135	83
Excess assets of the plan over liabilities in respect of employee benefits (see Note 23 B)	19	-	-	-
Issue costs and discount expenses of subordinated capital notes	17	11	19	12
Income receivable	159	175	87	82
Surrender value of life assurance policies owned by a consolidated subsidiary	715	656	-	-
Assets in respect of the "Maof" market operations	309	138	309	138
Gold deposit	431	336	431	336
Other debtors and debit balances	538	484	422	178
Total other assets	**4,048**	**3,656**	**2,531**	**2,032**

19. Deposits from the Public

A. TYPE OF DEPOSITS ACCORDING TO LOCATION OF RAISING THE DEPOSIT AND TYPE OF DEPOSITOR

	Consolidated		The Bank	
	December 31			
	2018	2017	2018	2017
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	34,166	33,753	26,691	27,088
Interest bearing	38,588	32,027	36,476	30,146
Total demand deposits	**72,754**	**65,780**	**63,167**	**57,234**
Time deposits	89,893	84,369	73,233	67,418
Total deposits in Israel*	**162,647**	**150,149**	**136,400**	**124,652**
* Of which:				
Private individuals deposits	90,716	84,422	77,455	72,152
Institutional bodies deposits	13,044	14,645	8,010	10,325
Corporations and others deposits	58,887	51,082	50,935	42,175
Outside Israel				
Demand deposits:				
Non-interest bearing	4,804	4,538	-	-
Interest bearing	11,845	12,419	-	-
Total demand deposits	**16,649**	**16,957**	**-**	**-**
Time deposits	9,620	8,064	-	-
Total deposits outside Israel	**26,269**	**25,021**	**-**	**-**
Total deposits from the public	**188,916**	**175,170**	**136,400**	**124,652**

B. DEPOSITS FROM THE PUBLIC ACCORDING TO SIZE, ON A CONSOLIDATED BASIS

	December 31	
	2018	2017
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	71,912	67,768
Over 1 up to 10	53,005	47,938
Over 10 up to 100	29,719	25,703
Over 100 up to 500	18,976	17,886
Over 500	15,304	15,875
Total	**188,916**	**175,170**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	2,954	2,539	289	203
Time deposits	4	4	61	207
Outside Israel				
Commercial banks:				
Deposits on demand	1,327	816	1,297	809
Time deposits	1,651	1,226	140	133
Acceptances	144	195	93	138
Central banks:				
Time deposits	806	24	-	-
Total deposits from banks	**6,886**	**4,804**	**1,880**	**1,490**

21. Bonds and Subordinated Capital Notes

	Consolidated				The Bank	
	Average maturity(1)	Internal rate of return(1)	December 31		December 31	
	years	%	2018	2017	2018	2017
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	5.88	2.40	3,047	1,710	1,138	1,138
In Israeli currency, linked to CPI	2.77	5.41	3,532	3,852	1,096	1,017
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI(2)	3.09	5.77	1,704	1,793	1,704	1,793
Credit-linked notes (CLN):						
In non-linked Israeli currency	1.55	2.64	121	207	121	207
In foreign currency, Euro	2.33	3.86	72	77	72	77
Total bonds and capital notes(3)(4)			**8,476**	**7,639**	**4,131**	**4,232**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Average period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the average period to maturity relates to the consolidated statements as of December 31, 2018.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 6,851 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2017: NIS 5,804 million).

(4) Of which: NIS 6,725 million in the consolidated, are subordinated capital notes (2017: NIS 7,381 million).

Issue of Bonds (Series M and Series N). On December 24, 2018, the Bank, by means of Manpikim Company, has completed the issue of two new series of bonds carrying a fixed non-linked shekel interest in a total amount of NIS 1,493 million.

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	16	15	16	14
Excess of current tax provisions over advance payments	90	65	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 B)	2,333	2,637	1,821	2,055
Deferred income	197	199	136	139
Payables for credit card activity	7,075	6,528	3,490	3,319
Allowance for credit losses in respect of guarantees and facilities	176	193	126	147
Expenses payable	793	673	374	338
Liabilities in respect of "Maof" market operations	309	138	309	138
Liabilities stemming from "Market making" activity	475	824	475	824
Other payables and receivables	1,133	826	455	400
Total other liabilities	**12,597**	**12,098**	**7,202**	**7,374**

23. Employee Benefits

A. Following is a description of the main benefits granted to employees of the group

(1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month’s salary for each year of employment, is mainly covered by deposits with severance pay funds and by insurance policies and pension funds, and the balance is recorded as a provision in the Bank's books. Most of the amounts accumulated in insurance policies and pension funds are not included in the balance sheet since they are not controlled by the Bank or its subsidiaries.

(2) Members of the Bank’s Management are entitled to the customary severance payments, while several of whom are entitled also to an "adjustment" bonus of between 4 to 8 months’ salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see item E below, in the matter of the approved remuneration policy). The pension liability of foreign subsidiaries, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(3) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months’ salaries, and in respect of which adequate provisions have been included.

(4) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

(5) A number of the Bank’s employees are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year in real terms.

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation", according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of tenured employees as from January 1, 2012, shall not be entitled to a "jubilee award".

(6) Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Act - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments.

(7) Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period.

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees who were engaged as or converted to the status of tenured employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

23. Employee Benefits (continued)

The wage agreement dated February 21, 2019, reduces the benefits granted to pensioners and to all tenured employees – cancellation of reimbursement of medical expenses and of a daily newspaper.

(8) Several of the companies have adopted employee remuneration plans, according to which the General Managers and/or other employees of these companies are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

(9) **"Annuity" type retirement plan.** A number of retirees in the period from 2007 to 2011 (31 employees as of December 31, 2018) have chosen the full or combined annuity option, within the framework of which, the capital payment is converted into a series of monthly payments or into a combination of a capital payment and a series of monthly payments. The plan is limited in advance to a number of payments predetermined by the retiree (in the range of a minimum of 120 payments and the maximum of 300 payments).

(10) **2011 retirement plan.** A part of the retirees within the framework of the 2011 retirement plan (122 employees as of December 31, 2018), have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

(11) **2014 retirement plan.** A part of the retirees under the 2014 retirement plan (13 employees as of December 31, 2018), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment.

With respect to pension payments due to a retiree who was sixty years of age or over at retirement date, or upon reaching the age of sixty, the Bank had purchased (or will purchase when the employee reaches the age of sixty) an insurance coverage that ensures the payment of the said pension, which would be payable directly by the insurance company. Pension payments due until the retiree reaches the age of sixty, are payable directly by the Bank.

The terms of the monthly pension are as follows:

- A monthly pension for the life of the retiree since date of retirement, linked to the CPI until the employee reaches sixty years of age, and linked to the terms of the policy after the age of sixty;
- The employee may elect a pension option with or without next of kin;
- The employee may elect a pension option with or without ensuring a minimum pension payment for 240 months, with the addition of the number of months up to the age of sixty (for employees who have not yet reached the age of sixty at retirement date).

The capital payment, the pension payments by the Bank and the cost of the purchased insurance policy, are limited to the amount that would have been paid to the retiree had he elected the full capital payment option.

(12) **2016 retirement plan.** A part of the retirees under the 2016 retirement plan (36 employees as of December 31, 2018), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment in identical terms to the terms of the 2014 retirement plan.

(13) **2018 retirement plan.** A part of the retirees under the 2018 retirement plan (25 employees as of December 31, 2018), have elected the monthly pension option covering the life of the retiree and/or his/her spouse, or the option combining a monthly pension with a one-off capital payment in identical terms to the terms of the 2014 and 2016 retirement plans.

(14) IDB New York has a liability for the payment of pensions to its employees, in respect of which it has established a pension fund, in which contributions by the employer were deposited. The annual deposits with the fund were based on calculations made by an independent actuary. During the third quarter of 2016, the Board of Directors of IDB New York amended the pension plan in a way that freezes the accumulated benefits of the employees under the plan as from December 31, 2016. The average remuneration and the number of entitling employment years of the covered employee are considered as if the employee terminated his work on December 31, 2016. No additional benefit rights have been accumulated after December 31, 2016. This move led to the reduction in the actuarial liability by approx. US$13.5 million (approx. NIS 51 million).

23. Employee Benefits (continued)

On September 5, 2018, the Board of Directors of IDB New York decided to terminate the plan with effect as from December 31, 2018. All participants in the plan on that date or prior to it will receive the full amount of benefits accumulated in their favor under the plan as of termination date, except for certain participants.

FOLLOWING ARE PRINCIPAL DETAILS CONCERNING THE SAID LIABILITY:

	As at December 31	
	2018	2017
	in US$ millions	
The liability amount	49	51
Fair value of the plan's assets	54	45
Excess liabilities over the plan's assets included in the item "Other liabilities"	**-**	**6**
Excess assets over the plan's liabilities included in the item "other assets"	**5**	**-**
	%	%
The annual discount rate	3.19	3.64
The anticipated annual rate of return on the funds assets	2.44	4.58

(15) Until September 30, 2017, the Bank had discounted the liability in respect of severance pay and jubilee awards on the basis of a specific discount rate determined according to the average period to maturity of liabilities. Starting with the financial statements as of December 31, 2017, the said discounting is made on the basis of a continuous interest graph and in accordance with the period in which cash flows are expected to be produced. The said change reduced the liabilities as of December 31, 2017 by an amount of NIS 63 million. The sum of NIS 51 million out of the profit stemming from the reduction in liabilities, as stated, has been treated as actuarial gains stemming from a change in discount rates, and as such reduced the capital reserve in respect of actuarial losses, the balance being recognized in profit and loss.

B. DETAILS REGARDING THE BENEFITS

	Consolidated		The Bank	
	December 31			
	2018	2017	2018	2017
	in NIS millions			
Severance pay:				
The liability amount	3,093	3,430	2,181	2,472
Fair value of the plan's assets	1,815	2,034	1,268	1,526
Excess liabilities over the plan's assets	**1,278**	**1,396**	**913**	**946**
Excess liabilities included in the item "other liabilities"	**1,297**	**1,396**	**913**	**946**
Excess assets of the plan included in the item "other assets"	**19**	**-**	**-**	**-**
Amounts included in the other liabilities item:				
Long-service ("jubilee") awards	317	362	315	361
Post retirement benefits to retirees	577	734	500	652
Vacation	135	137	93	96
Illness	7	8	-	-
Total Excess liabilities included in the "other liabilities" item (Note 22)	**2,333**	**2,637**	**1,821**	**2,055**
Of which – in respect of benefits to employees abroad	31	53	-	-
Total Excess assets of the plan included in the item "other assets" (Note 18)	**19**	**-**	**-**	**-**
Of which – in respect of benefits to employees abroad	18	-	-	-

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN - CONSOLIDATED

1. COMMITMENT AND FINANCING STATUS

1.1 CHANGE IN COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS

	For the year ended December 31			
	2018	2017	2018	2017
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,430	3,367	734	715
Cost of service	92	81	6	6
Cost of interest	101	100	25	27
Actuarial loss (profit)	(110)	135	(144)	23
Changes in foreign currency exchange rates	15	(18)	2	(3)
Benefits paid	(435)	(235)	(46)	(34)
Commitment at the end of the year in respect of anticipated benefits	**3,093**	**3,430**	**577**	**734**
Commitment at the end of the year in respect of accumulated benefits[1]	**2,886**	**2,926**	**577**	**734**

Footnote:
(1) The commitment in respect of a cumulative benefit differs from the commitment in respect of an anticipated benefit in that it does not include any assumptions with regard to the future remuneration levels.

1.2 CHANGE IN FAIR VALUE OF THE PLAN'S ASSETS AND FINANCING STATUS OF THE PLAN

	For the year ended December 31	
	2018	2017
	Severance pay, retirement and pension payments	
	in NIS millions	
Fair value of the plan's assets at the beginning of the year	2,034	2,052
Actual return on the plan's assets	(51)	132
Changes in foreign currency exchange rates	12	(16)
Deposits to the plan	63	25
Benefits paid	(243)	(159)
Fair value of the plan's assets at the end of the year	**1,815**	**2,034**
Financing status - liability, net, recognized at the end of the year	**(1,278)**	**(1,396)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2018	2017	2018	2017
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Amounts recognized in the item "other assets"	19	-	-	-
Amounts recognized in the item "other liabilities"	(1,297)	(1,396)	(577)	(734)
Net liability recognized at the end of the year	**(1,278)**	**(1,396)**	**(577)**	**(734)**

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN – CONSOLIDATED (CONTINUED)

1. COMMITMENT AND FINANCING STATUS (CONTINUED)

1.4 AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME, BEFORE TAX EFFECT

	December 31			
	2018	2017	2018	2017
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
	in NIS millions			
Actuarial profit (loss), net	(580)	(667)	59	(88)
Net liability in respect of the transition[1]	-	(41)	-	-
Net cost in respect of prior service	-	-	4	5
Closing balances of accumulated other comprehensive income	**(580)**	**(708)**	**63**	**(83)**

Footnote:
(1) Stems from the change in the discount rate used in calculating the provisions in respect of employee rights, at date of the initial implementation of the directives.

1.5 PLANS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE PLAN'S ASSETS

	December 31	
	2018	2017
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	2,749	3,274
Commitment in respect of cumulative benefits	2,569	2,802
Fair value of the plan's assets	1,455	1,887

1.6 PLANS IN WHICH THE COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS EXCEEDS THE PLAN'S ASSETS

	December 31	
	2018	2017
	Severance pay, retirement and pension payments	
	in NIS millions	
Commitment in respect of anticipated benefits	2,910	3,430
Fair value of the plan's assets	1,612	2,034

23. Employee Benefits (continued)

2. EXPENSE FOR THE YEAR

2.1 COMPONENTS OF NET BENEFIT COSTS RECOGNIZED IN THE STATEMENT OF PROFIT AND LOSS IN RESPECT OF DEFINED BENEFITS PENSION PLANS AND A DEFINED DEPOSIT

	For the year ended December 31		
	2018	2017	2016
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	92	81	89
Cost of interest	101	100	106
Anticipated return on assets of the plan	(71)	(73)	(77)
Amortization of unrecognized amounts:			
Net actuarial loss	51	50	40
Cost of prior service	-	-	1
Total amortization of unrecognized amounts	**51**	**50**	**41**
Other, including loss from reduction or settlement	88	32	(1)143
Total net cost of benefits	**261**	**190**	**302**
Total expense regarding defined deposits pension plans	**189**	**181**	**153**
Total expenses in respect severance pay, retirement and pension payments	**450**	**371**	**455**
Of which: expenses included in salaries and related expenses	281	262	242
Of which: expenses included in other expenses	169	109	213
Post retirement retiree benefits			
Cost of service	6	6	7
Cost of interest	25	27	31
Amortization of unrecognized amounts:			
Net actuarial loss	4	4	9
Cost of prior service	(1)	(1)	(1)
Total amortization of unrecognized amounts	**3**	**3**	**8**
Other, including income from reduction or settlement	(1)	-	(1)
Total net cost of benefits	**33**	**36**	**45**
Of which: expenses included in salaries and related expenses	6	6	7
Of which: expenses included in other expenses	27	30	38

Footnote:

(1) Of which settlement NIS 141 million.

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

2. EXPENSE FOR THE YEAR (CONTINUED)

2.2 CHANGES IN ASSETS OF THE PLAN AND IN THE COMMITMENT FOR BENEFITS RECOGNIZED IN OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX EFFECT

	For the year ended December 31					
	2018	2017	2016	2018	2017	2016
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (profit) for the year	53	87	542	(144)	23	(29)
Amortization of actuarial loss	(51)	(50)	(40)	(4)	(4)	(9)
Amortization of credit (cost) in respect of prior service	-	-	(1)	1	1	1
Amortization of net liability in respect of the transition	(41)	(11)	(73)	-	-	(10)
Changes in foreign currency exchange rates	(1)	4	-	-	1	-
Other, including loss (profit) from reduction or settlement	(88)	(32)	(143)	1	-	1
Total recognized in other comprehensive loss (income)	**(128)**	**(2)**	**285**	**(146)**	**21**	**(46)**
Total net cost of benefits[1]	**261**	**190**	**302**	**33**	**36**	**45**
Total amount recognized in net cost of benefits and in other comprehensive income	**133**	**188**	**587**	**(113)**	**57**	**(1)**

Footnote:
(1) See item 2.1 above.

2.3 ESTIMATE OF AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME EXPECTED TO BE AMORTIZED FROM ACCUMULATED OTHER COMPREHENSIVE INCOME TO THE STATEMENT OF PROFIT AND LOSS IN 2019 AS AN EXPENSE (INCOME), BEFORE TAX EFFECT

	Severance pay, retirement and pension payments	Post retirement retiree benefits
	in NIS millions	
Net actuarial profit (loss)	45	(6)
Settlements	39	-
Total amount expected to be amortized from other comprehensive income	**84**	**(6)**

3. ASSUMPTIONS

3.1 ASSUMPTIONS ON THE BASIS OF A WEIGHTED AVERAGE USED IN DETERMINING THE COMMITMENT IN RESPECT OF THE BENEFIT AND IN MEASURING THE NET COST OF THE BENEFIT

3.1.1 Principal assumptions used in determining the commitment in respect of the benefit

	December 31			
	2018	2017	2018	2017
	Severance pay, retirement and pension payments		Post retirement retiree benefits	
Discount rate	1.83%-2.54%	1.06%-1.87%	1.32%-2.70%	0.66%-1.99%
Retirement rate	0.31%-19.78%	0.36%-19.78%		
Remuneration growth rate	1.70%	1.78%		

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

	December 31					
	2018	2017	2016	2018	2017	2016
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
Discount rate	1.06%-2.23%	1.32%-2.36%	1.32%-2.49%	0.66%-2.35%	0.91%-2.52%	1.07%-2.59%
Anticipated long-term return on the plan's assets	3.41%	3.43%	3.37%			
Remuneration growth rate	1.88%	1.91%	2.11%			

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

3. ASSUMPTIONS (CONTINUED)

3.2 EFFECT OF A ONE PERCENTAGE POINT CHANGE ON THE COMMITMENT FOR ANTICIPATED BENEFITS, BEFORE THE TAX EFFECT

	Increase of one percentage point				Decrease of one percentage point			
	Severance pay, retirement and pension payments		Post retirement retiree benefits		Severance pay, retirement and pension payments		Post retirement retiree benefits	
	December 31							
	2018	2017	2018	2017	2018	2017	2018	2017
	in NIS millions							
Discount rate	(270)	(313)	(30)	(50)	282	325	31	51
Retirement rate	89	109	72	(1)	(96)	(109)	(71)	(1)
Remuneration growth rate	202	333	253	-	(180)	(298)	(223)	-

4. THE PLAN'S ASSETS

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2018			December 31, 2017		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	21	-	21	79	7	86
Shares	587	31	618	706	14	720
Bonds:						
Government	375	27	402	507	18	525
Corporate	655	82	737	570	89	659
Total bonds	1,030	109	1,139	1,077	107	1,184
Other	9	28	37	10	34	44
Total	**1,647**	**168**	**1,815**	**1,872**	**162**	**2,034**

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2019

	Allocation target	% of the plan's assets	
	Year 2019	December 31, 2018	December 31, 2017
	in percentage		
Type of asset			
Cash and deposits with banks	0.5 - 16.7	1.2	4.2
Shares	28.8 – 37.2	34.0	35.4
Bonds:			
Government	17.5 - 25.7	22.2	25.8
Corporate	35.9 - 45.4	40.6	32.4
Total bonds	53.4 - 71.1	62.8	58.2
Other	1.0 - 1.0	2.0	2.2
Total		**100.0**	**100.0**

5. CASH FLOW

5.1 DEPOSITS

	Forecast[1]	Actual deposits	
		For the year ended December, 31	
	2019	2018	2017
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	24	63	25

Footnote:

(1) Assessment of expected deposits with defined benefit pension plans during 2019.

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN - CONSOLIDATED (CONTINUED)

5.2 BENEFITS EXPECTED TO BE PAID BY THE BANK IN THE FUTURE

	Severance pay and retirement
Year	In NIS millions
2019	383
2020	135
2021	131
2022	175
2023	156
2024-2028	788
2029 and thereafter	1,274
Total	**3,042**

D. **Remuneration policy for officers of the Bank (2017-2019).** The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank for 2017-2019, in accordance with Section 267A of the Companies Act. The remuneration policy is effective for a period of three years since date of approval by the General Meeting. The formation of a remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in the Directive of the Supervisor and to the provisions of the Remuneration Act.

The Bank's remuneration policy is, inter alia, subject to the provisions of the Companies Act, to Proper Conduct of Banking Business Directive No. 301A in the matter of the remuneration policy of a banking corporation (hereinafter: "Directive of the Supervisor" or "Directive 301A"), as amended from time to time, and to the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (hereinafter: "the Remuneration Act"), published on April 12, 2016.

Among other things, the plan includes the following components: the maximum monthly salary and the considerations in determining it; thirteen's month salary; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total amount of up to four monthly salaries; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; reimbursement of expenses in respect of relocation between countries incurred by an officer following appointment; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers was based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank on a discretionary award component. Special instructions have been determined, within the framework of the policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to each one of the officers has been determined and also included is the possibility for the distribution of an award for special contribution and a discretionary award payable out of a budget at the disposal of the President & CEO. In the framework of the policy arrangements for the spreading of the annual award, instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO were determined.

The Remuneration Committee and to the Board of Directors are authorized to approve an award to an officer who is subject to the President & CEO, not on the basis of measurable criteria up to a maximum of three monthly salaries to an officer as above, and subject to the award budget, by use of discretion as stated in the remuneration policy.

The President & CEO is authorized to approve immaterial changes in the terms of office of officers subject to her, without requiring approval of the Remuneration Committee, in accordance with the Companies Regulations (Relief regarding transactions with interested parties), 2000.

Within the framework of the policy, Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable the existence of criteria determined in the remuneration policy, in accordance with the terms of Directive 301A.

The policy includes limitations regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act.

The policy includes instructions allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

23. Employee Benefits (continued)

The principles detailed in the remuneration plan applied to the terms of office and employment of officers of the Bank, approved as from the date of approval of the remuneration policy. In no way did the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, which existed at date of approval of the policy.

The approved remuneration policy did not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries. Notwithstanding, the principles of the Bank`s remuneration policy were adopted as part of the Group's remuneration policy, which applied, with the required adjustments, to officers of the Bank`s subsidiaries in Israel.

Amendment of remuneration policy for the Bank’s officers. At the general meeting held on June 7, 2018, it was resolved to approve an amendment to the remuneration policy for the Bank’s officers, in accordance with Section 267A of the Companies Law, whereby the Remuneration Committee and the Board of Directors will be granted the power to approve, in special circumstances justifying such action, special payments, such as an award for an exceptional contribution, in excess of the amount of NIS 2.25 million (the maximum amount specified for a vice president’s total annual remuneration, not including payments and deposits for pension and redundancy payments pursuant to the law), provided that the special payment does not exceed the maximum amount under Section 2(a) of the Remuneration for Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016.

E. **Remuneration policy for officers of the Bank (2014-2016)** was described in Note 23 D to the financial statements as of December 31, 2017.

F. **Award plan for members of Bank's Management and for the Internal Auditor (2015-2016)**

1. **General**

   On February 2, 2015, the Bank's Board of Directors accepted the recommendation of the remuneration committee and approved the award plan for members of Management and for the Internal Auditor for the years 2015-2016 ("the plan"). The Board of Directors accepted the recommendations of the remuneration committee and approved also the targets for the purpose of the awards at the Bank for the said years.

   A comprehensive description of the award plan for members of the Bank’s Management and for the Internal Auditor for 2015–2016 is presented in Note 23 F of the financial statements as of December 31, 2016.

2. **The annual award to Executive Vice Presidents**

   A. **General.** The annual award to Executive Vice Presidents (including the Internal Auditor) included four components:
   - Award computed according to indices based on the Bank's results ("the collective award");
   - Award computed according to the Executive Vice President's attainment of the personal indices determined for him ("the personal award");
   - Additional award, to be distributed on the basis of recommendations by the Bank's President & CEO ("the qualitative award") out of the annual award budget ("the qualitative award budget");
   - Award equal to one monthly salary conditional upon complying with entitlement terms ("the basic award").

3. **The basic award**

   The basic award was equal one monthly salary of the Executive Vice President.

   Entitlement terms to the basic award. Entitlement to the basic award in respect of a particular award year was conditional upon fulfillment, in that award year, on a cumulative basis of all entitlement terms detailed below:

   (1) The core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, shall not be lower than the ratio determined in the work plan for that year;

   (2) The actual efficiency ratio, as computed on the basis of the Bank's standalone financial statements for the award year, net of extraordinary profit or losses, did not exceed the goal of that standalone efficiency ratio, determined by the Board of Directors at the beginning of an award year, in accordance with the Bank's work plans;

   (3) The Executive Vice President has been awarded a "pass" mark as regards the qualitative index, which includes the contribution of the Executive Vice President towards the implementation of processes regarding corporate governance.

4. **Special awards**

   (a) **Award in respect of extraordinary profit or losses.** The Bank's remuneration committee and Board of Directors were entitled to grant to all Executive Vice Presidents or to any one of them, a special award, whether positive or negative, in respect of extraordinary profit or losses ("award for extraordinary profit or losses").

23. Employee Benefits (continued)

(b) **Award in respect of a special contribution.** The remuneration committee and the Board of Directors were entitled to grant to all Executive Vice Presidents or to any one of them a special award, in respect of extraordinary performance or special contribution to reaching the goals of the Bank, including in respect of attaining measurable criteria determined in advance by the Board of Directors, provided that the total award in respect of the special contribution shall not exceed NIS 500 thousand and subject to the upper limit determined for the awards.

(c) **Award under special circumstances.** The remuneration committee and the Board of Directors were entitled to grant an annual award in a cumulative amount not exceeding the product of multiplying the number of Executive Vice Presidents by the amount of one average monthly salary of an Executive Vice President, in case the Bank has not attained all minimum terms for the payment of an annual award, provided that the following cumulative terms are fulfilled ("special circumstances award"):

(1) The remuneration committee and the Board of Directors have found that in that year special circumstances occurred at the Bank or in the banking industry in Israel or in the macro-economic situation;

(2) The Bank's overall capital adequacy ratio and the core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, are not below the minimum ratios determined in the directives of the Supervisor of Banks, with the addition of 0.15%;

(3) The total said annual award granted to a single Executive Vice President shall not exceed an amount of two monthly salaries of that Executive Vice President.

5. **Awards in respect of 2016.** The entitlement to an annual award did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a basic award in an amount equivalent to one month’s basic salary for each of the Executive Vice Presidents, in a total amount of NIS 998 thousand for all the Executive Vice Presidents (see item 3 above); a special circumstances award package in an amount of NIS 988 thousand for the Executive Vice Presidents (see item 4 (c) above; granted by the President & CEO, differentially); and a special contribution award, for three Vice Presidents, in a total amount of NIS 500 thousand (see item 4 (b) above).

The approved awards totaled NIS 2,496 thousand. The Remuneration Committee and the Board of Directors has approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC’s expense in respect to the arrangement in lieu of criminal proceedings; the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the awards.

G. Award plan for members of the Bank’s Management and for the Internal Auditor (2017–2019)

1. **General.** On December 26, 2016, the Bank's Board of Directors adopted the recommendation of the Remuneration Committee and approved the award plan for members of the Bank's Management and for the Internal Auditor for the years 2017–2019 ("the plan"), in accordance with the remuneration policy for an officer at the Bank (“the Remuneration Policy”).

2. The annual award to Executive Vice Presidents

(a) **General.** The annual award to Executive Vice Presidents (including the Internal Auditor) is composed of an award that shall be based on attaining collective indices (“collective award”), and an award that shall be based on indices derived from attaining goals of the division/operation over which the Executive Vice President is in charge (“a personal award”).

(b) The total award to the Executive Vice President in respect of the collective indices and the personal indices shall not exceed six (6) monthly salaries (or five (5) monthly salaries for a supervision and control Executive Vice President).

(c) The threshold terms for the payment of the annual award shall be the attainment of the threshold goals of the following cumulative indices:

1. The rate of return on equity in the award year shall not be less than 6% (six percent), after eliminating extraordinary profits or losses (as defined in the Remuneration Policy);
2. The total capital adequacy ratio and the common equity tier 1 ratio, in accordance with the Bank’s annual consolidated financial statements for the same award year, shall not be less than the minimum ratios specified in the directives of the Supervisor of Banks;
3. The actual efficiency ratio, as calculated on the basis of the Bank’s consolidated financial statements for the award year, and after eliminating extraordinary profits or losses (as defined in the Remuneration Policy), shall not be more than two percentage points (2%) above the efficiency ratio goal, as set by the Board of Directors in the Bank’s work plan for the award year;
4. Attaining the threshold score in the qualitative index, which shall include the Executive Vice President's contribution in implementing corporate governance processes, attaining general goals of the Bank in the risk management fields, complying with laws (including internal enforcement in the securities field and/or in other fields), regulatory directives and the Bank's procedures.

23. Employee Benefits (continued)

If, in the award year, any of the Executive Vice Presidents should fail to meet the threshold terms referred to in this subparagraph, that Executive Vice President shall not be entitled to an annual award for that year. However, such an occurrence will not prejudice the entitlement of the other Executive Vice Presidents to an annual award.

(d) The collective award – the collective award for each Executive Vice President will be restricted to an amount that shall not exceed three monthly salaries of the Executive Vice President, and two monthly salaries of a supervision and control Executive Vice President. The collective indices shall include the return on equity (with a weighting of 50%) and the efficiency ratio (with a weighting of 50%). For every collective index, a target goal shall be specified; according to which a minimum and maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.

(e) The personal award – the personal award shall be restricted to an amount not exceeding three monthly salaries for each Executive Vice President and shall be computed on the basis of indices that focus on the goals set for the division over which the Executive Vice President is in charge in the said year, as set by the President & CEO. For every index, a target goal shall be specified; according to which a minimum and a maximum goal for that index will be computed, attainment of which confers entitlement at the percentages determined in the plan out of the upper limit of the award relating to that index.

(f) Remuneration for officers engaged in risk management, control and audit

In relation to the Bank's risk management, control and audit functions (the Internal Auditor, the Chief Accountant and the Chief Risk Officer) (hereinafter: "the supervision and control functions"), particular provisions were included as part of the plan that take into consideration the importance and sensitivity of the duties entrusted with these functions;

In accordance with the directives of the Supervisor of Banks, the ratio between the fixed remuneration and the variable remuneration of the supervision and control functions shall lean more in favor of the fixed remuneration, including in relation to officers not included among the supervision and control functions.

Accordingly, the Bank established that the part of the annual award attributable to the collective indices shall be lower for the supervision and control functions than that for the other officers.

The President & CEO's duties relating to recommending the personal indices and their weightings and to exercising judgment in connection with the components of the annual award shall be performed by the Audit Committee in relation to the Bank's Internal Auditor and by the Risk Management Committee, in consultation with the Bank's President & CEO, in relation to the Bank's Chief Risk Officer.

3. Award in respect of a special contribution and discretionary award

(a) Award in respect of a special contribution – The Remuneration Committee and the Board of Directors are authorized to grant to all Executive Vice Presidents or any one of them (also during the award year and also if the threshold terms were not fulfilled in the award year) a special award in respect of exceptional performance or special contribution towards the attainment of the Bank's goals, including in respect of fulfillment of measurable criteria determined in advance by the Board of Directors, on condition that the total amount of the awards in respect of special contribution shall not exceed an amount of NIS 500,000 per annum and subject to the upper limit of all awards as stated in item 4 below.

(b) Discretionary award – a discretionary awards budget shall be placed at the disposition of the Bank's President & CEO. The said budget shall not exceed an amount arrived at by multiplying the number of Executive Vice Presidents entitled to such awards by two average monthly salaries of said Executive Vice Presidents, and this shall be divided between them at the discretion of the Bank's President & CEO, even if the threshold terms in that year have not been fulfilled, if in the opinion of the President & CEO, reasons existed that justified it, or if an annual award was distributed in the award year. The total amount of the discretionary award shall not exceed an amount equal to three monthly salaries in respect of a single Executive Vice President, and subject to the upper limit of all awards as stated in item 4 below.

4. Upper limits of the awards

The total amount of the awards to all officers (including the President & CEO) for the award year shall not exceed 2.5% of the net profit attributed to the Bank's shareholders, in accordance with the annual financial statements for the award year.

The total amount of awards to which any one Executive Vice President shall be entitled to in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed eight monthly salaries of that Executive Vice President.

The total amount of the awards for the supervision and control functions in respect of an award year, including discretionary awards and an award in respect of a special contribution, shall not exceed seven monthly salaries of that Executive Vice President.

23. Employee Benefits (continued)

5. Spreading the award
   (a) 50% of the total amount of the awards in respect of the award year shall be paid shortly after the publication of the Bank's financial statements for the award year.
   (b) 50% of the total amount of the awards shall be linked to the increase in the CPI, shall be deferred and shall be spread over three equal installments over the three years following the date of becoming entitled to the amount of the awards (hereinafter: "the deferred award" and "the deferred award installment").
   (c) Payment of the deferred award installment shall be contingent on the Bank not recording a loss in its consolidated financial statements for the award year that preceded the date of paying the deferred award installment.
   (d) Notwithstanding the aforesaid, if in any award year the variable remuneration to which an officer is entitled in respect of that year did not exceed 40% of the officer's fixed remuneration, he shall be paid 100% of the total amount of the awards in respect of the award year, without the spreading and deferral mechanism being activated.
6. The plan adopts also the instructions of the remuneration policy for officers in respect of the authority of the Board of Directors to reduce the total amount of awards, the annual remuneration upper limit for an Executive Vice President, instructions regarding the clawback of amounts of awards paid to an Executive Vice President and the circumstances in which the total award amount would be denied.
7. **Awards in respect of 2017.** The Remuneration Committee and the Board of Directors approved the distribution of a collective award in accordance with the upper limits of the award, in light of the Bank's attainment of the maximum goals set in the remuneration plan (see item 2 (d) above), and the distribution of a personal award in accordance with the attainment of the goals set for the Division over which the Executive Vice President is in charge (see item 2 (e) above). A discretionary award portion was distributed by the President & CEO on a differential basis (see item 3 (b) above). It should be noted that the actual distribution of the portion was affected by the limits determined in the remuneration plan, and in particular the upper remuneration limit for an Executive Vice President. The total of the awards for 2017 amounted to NIS 7,017 thousand. In calculating the awards, no extraordinary profits or losses were approved.

   The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the new remuneration policy that was approved by the general meeting on November 8, 2016, in relation to the 2017 awards. Accordingly, the spreading mechanism has been applied to three members of Management, in whose case the variable remuneration exceeded 40% of the fixed remuneration.
8. **Awards in respect of 2018.** In View of the Bank conforming to the threshold conditions for the annual award, the Remuneration Committee and the Board of Directors approved the allocation of a collective award in accordance with the attaining of the collective indices stated in the remuneration plan (see item 2 (d) above) and the allocation of a personal award in accordance with attainment of the goals set for the Division under responsibility of the respective Executive Vice President (see item 2 (e) above). The Remuneration Committee and the Board of Directors approved that three members of Management, who were appointed or retired during the year 2018, and who acted as members of Management for a period of less than six months, would be entitled to a proportional part of the annual award in respect to their period of office during this year. The discretionary award portion was allocated by the President & CEO on a differential basis (see item 3 (b) above). It is noted that the actual allocation of the award portion was affected by the limitations determined in the remuneration plan, and in particular, the maximum remuneration for each Executive Vice President. The total amount of the awards granted in respect of the year 2018 totaled NIS 7,421 thousand. In the framework for computing the awards no extraordinary profits or losses were approved.

   In accordance with the remuneration plan, the mechanism for the spreading of the award applied in 2018 to two members of Management, where in their case, the total amount of the award to which a member of Management is entitled exceeded 40% of the fixed award of that member of Management.

   The remuneration committee confirmed the fulfillment of the conditions for the payment of the first installment of the deferred award for 2017 in respect of three members of Management, in accordance with the policy for the remuneration of Officers.

   In addition, in April 2018, the Remuneration Committee and the Board of Directors approved the payment of an award for special contribution to one member of Management in the amount of NIS 150 thousand.

23. Employee Benefits (continued)

H. **Employees having a long service period and earning a high salary.** At the end of May 2016, the Bank approached a defined group of employees, who are not officers of the Bank but having a long service period and earning a high salary, and which may be affected by the limitations determined in the Act. This group was offered early retirement and enlarged severance pay. The Bank's Management estimated that following approval of the Act, there will be an increase in number of cases of early retirement, with the use of the special fund for exceptional retirement cases of employees belonging to the said group. In accordance with the said estimate, in the interim financial statements as of March 31 2016, an additional amount of NIS 50 million has been allocated to the fund (NIS 60 million, including payroll tax). The said employees were included in the 2016 efficiency plan (see below), upon its approval, and respectively, the said increase is included in the cost of the plan.

I. **2016 Efficiency plan.** The Bank's Board of Directors approved on September 13, 2016, an efficiency plan, according to which approx. 500 employees of the Group shall be entitled to early retirement at beneficial terms, most of whom, by the end of 2016.

The total cost of the plan was estimated at NIS 511 million (in excess of the cost of severance pay payable under the law), of which an amount of NIS 60 million was already recognized in the financial statements for the first quarter of 2016, as stated in Note 1 D 15.7 above. The updated cost of the plan amounts to NIS 497 million.

The cost of updating the actuarial liability to employees in respect of the efficiency plan has been treated as an actuarial loss and recognized in other comprehensive income.

Starting with the third quarter of 2016, the costs of the plan are amortized to the statement of profit and loss as part of the balance of "actuarial profits and losses", by the straight-line method, over the remaining average period of service of the employees.

In reporting periods in which a "settlement" occurs (as defined in U.S. GAAP), an additional amount of the balances of "actuarial profits and losses" would be amortized over and above the said amortization, at the rates of settlement costs borne by the Bank (actual payments, whether in respect of natural retirement or in respect of early retirement) out of the balance of the liability for severance pay.

The Bank approached those employees to whom the defined criteria apply, and offered them an early retirement under preferential terms. The employees were offered the option of a capital track, a pension track, or a combination of the two.

Preferential terms for employees below the age of 61 years included, inter alia, increased severance pay at the rate of 165%. Employees over the age of 61 years at the determining date have been offered 70% of the balance of salary for severance pay purposes in respect of the period until their retirement. All employees have been granted a salary increase at the rate of 2%. All employees who retired at the end of December 2016 were also granted a seniority increment of 0.1%. Employees earning a monthly salary for severance pay purposes of up to NIS 20 thousand were given in addition a one-off award of NIS 50 thousand.

J. **Voluntary retirement plan at MDB (2016).** On September 11, 2016, the Board of Directors of MDB approved an efficiency plan formed by the Management of this bank, which includes a voluntary retirement plan at beneficial terms of approx. 50 employees. The cost of the plan is approx. NIS 43 million (this amount is included in the cost of the 2016 efficiency plan, as mentioned above). In actual fact, 30 employees had retired until December 31, 2016. Some 9 additional employees retired in 2017. One additional employee retired at the beginning of 2018.

In view of the retirement terms offered to employees under this plan, MDB has updated in 2016 the provisions in respect of its liabilities for the payment of severance pay for other employee groups, in the amount of NIS 37 million (before taxes).

K. **2018 efficiency plan**

(1) The Bank's Board of Directors approved on August 14, 2018, an efficiency plan, according to which approx. 230 employees of the Bank shall be entitled to early retirement at beneficial terms, most of whom, by the end of 2018.

The plan increased the liability in the Bank's books by an amount of NIS 145 million (before the tax effect; in excess of the cost of severance pay under the law and also in excess of the ex gratia fund existing in the Bank's books prior to approval of the plan).

The cost of updating the actuarial liability to employees in respect of the efficiency plan has been treated as an actuarial loss and recognized in other comprehensive income.

The costs of the plan would be amortized to the statement of profit and loss in future reporting periods as part of the balance of "actuarial profits and losses", by the straight-line method, over the remaining average period of service of the employees.

In reporting periods in which a "settlement" occurs (as defined in U.S. GAAP), an additional amount of the balances of "actuarial profits and losses" would be amortized over and above the said amortization, at the rates of settlement costs borne by the Bank (actual payments, whether in respect of natural retirement or in respect of early retirement) out of the balance of the liability for severance pay.

23. Employee Benefits (continued)

(2) The board of directors of MDB approved on November 13, 2018, an efficiency plan which, inter alia, includes voluntary retirement at preferential terms of approx. 20 employees, at a total cost of NIS 25 million. The increase in the liability for payment of severance pay in respect of implementing this plan amounted to approx. NIS 12 million. The plan was largely implemented in the last quarter of 2018.

24. Shareholders' Equity, Preferred Shares and Dividends

A. THE AUTHORIZED, ISSUED AND PAID-UP NOMINAL CAPITAL (IN NEW ISRAELI SHEKELS):

	December 31,2018		December 31, 2017	
	Authorized	Issued and Fully Paid-Up	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	260,515,000	116,401,699	260,515,000	116,401,699
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202	202	202
Total shareholders' equity	**260,515,202**	**116,401,901**	**260,515,202**	**116,401,901**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to 10 pounds sterling, is entitled to an annual dividend in an amount of NIS 2.83, and at the time of liquidation to a distribution in an amount of NIS 47.25. According to Israeli accounting principles, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the item "other liabilities".

C. (1) **Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B".** The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details, see Note 25 below).

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 25 L (2) hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes (Series "B") (see Note 25 L (3) hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) **Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital.** The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank's shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes. In December 2010 the bank completed a share offer to the public as well as a rights issue.

D. **Issuance of shares and option warrants.** On September 28, 2016, the Bank completed a public offering, in the framework of which 69,497,700 ordinary A shares and 40,650,000 option warrants (Series 1) were issued, for a total immediate gross consideration of NIS 580 million. Each option warrant will be exercisable into one ordinary share having a par value of NIS 0.1, subject to the adjustments specified in the shelf offering report. A total of 8,757,870 option warrants were exercised until December 31, 2016, with additional consideration received in the amount of NIS 39 million. The balance of the option warrants was exercised April 2, 2017, with additional consideration received in the amount of NIS 143 million.

24. Shareholders' Equity, Preferred Shares and Dividends (continued)

E. Dividend

(1) **General.** The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) **Restrictions established in instructions of the Supervisor of Banks.** Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) **Distribution of a dividend in respect of preferred shares.** The annual general meeting of shareholders, held on June 7, 2018, resolved to approve a dividend for the year 2018, at the rate of 6%, payable to the holders of 40,000 6% preferred, cumulative shares of a par value of NIS 0.00504 each. The dividend amounts to £24,000, and was paid on December 31, 2018.

(4) **Dividend policy.** On December 26, 2017 the Bank's Board of directors approved a dividend policy, according to which, starting with the first quarter of 2018, the Bank will distribute in each quarter a dividend at the rate of up to 15% of the net distributable earnings, as reflected in the consolidated financial statements for the preceding quarter.

The said dividend policy has been adopted in view of the Bank's attainment of its capital layout, following the consistent improvement in the business results of the Group and following the approval by the Supervisor of Banks of the said dividend policy.

It is clarified that this policy should not be deemed a commitment by the Bank for a dividend distribution, and that each dividend distribution in practice shall be subject to approvals required by the law, including a specific approval by the Board of Directors for a dividend distribution based on its judgment and subject to compliance with the provisions of the law applying to dividend distribution, inter alia, in accordance with the Companies Act and directives of the Bank of Israel.

It is further noted that the actual distribution of a dividend is subject to compliance with the capital adequacy goals prescribed by the Bank of Israel and the internal capital goals, as determined or would be determined by the Bank's Board of Directors.

The Board of Directors may examine from time to time the dividend distribution policy and decide at any time, taking into account business considerations and the provisions of the law and regulation applying to the Bank, on changes in the dividend policy, including in the rate of dividend to be distributed. The Board may also decide that no dividend should be distributed at all.

(5) DETAILS REGARDING THE DIVIDEND PAID

Declaration date	Payment date	Total dividend paid	Dividend per share
		In NIS million	In Agorot
May 17, 2018	June 6, 2018	32	2.75
August 15, 2018	September 2, 2018	42	3.61
November 15, 2018	December 4, 2018	44	3.77

Distribution of a dividend out of profits of the fourth quarter of 2018. In accordance and in continuation with the policy, as stated, the Bank's Board of Directors decided on March 10, 2019, to distribute a dividend at the rate of 15% of the profits of the fourth quarter of 2018, in the amount of NIS 48.6 million, comprising approx. 4.18 Agora for each ordinary share of NIS 0.1 par value.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS

Computed according to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy".

A. **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of December 31, 2018 and December 31, 2017) reflects deductions, in accordance with the transitional instructions. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank is required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

The Bank prepared a detailed plan for attaining the capital targets, and is acting toward its implementation.

Implementation effects of the instructions regarding employee rights. Starting with January 1, 2015, the Bank implements the instruction regarding employee rights. The Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of four years. Respectively, an amount comprising 40% was deducted on January 1, 2015, an additional amount was deducted on January 1, 2016, comprising 20%, an additional amount was deducted on January 1, 2017, comprising 20%, and the balance was deducted in 2018.

B. **Additional capital requirements in respect of housing loans.** On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and the total capital target by a rate which expresses 1% of the outstanding housing loans.

The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.19%.

C. **Relief regarding the efficiency plan 2016.** The Supervisor of Banks granted the Bank relief regarding its 2016 efficiency plan. Costs in a total amount of NIS 372 million (before taxes; on a consolidated basis including an increase in the special reserve for exceptional retirement cases – see Note 1 D 15.7; an amount of NIS 245 million net of tax; net of the reduction in the plan at MDB – see Note 23 I and net of the effect of changes in actuarial assumptions – see Note 1 D 15.7) have been eliminated in computing capital adequacy in the report for the third quarter of 2016, and are gradually amortized, as from the fourth quarter of 2016, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 110 million have been amortized to December 31, 2018. For additional details regarding the Bank's efficiency plan, see Note 23 I.

D. **Relief regarding the efficiency plan 2018.** The Supervisor of Banks granted the Bank a relief regarding its 2018 efficiency plan. Costs in a total amount of approx. NIS 145 million (before taxes; an amount of NIS 95 million net of tax) have been eliminated in computing capital adequacy in the report for the second quarter of 2018, and are gradually amortized, as from the third quarter of 2018, on a quarterly straight-line basis (5% per quarter) over a period of five years. Costs in the amount of NIS 10 million have been amortized to December 31, 2018. For additional details regarding the Bank's efficiency plan, see Note 23 K.

E. **Capital components subject to fluctuations.** The Bank manages its capital adequacy with the intent of complying with the requirements of the Supervisor of Banks and with the targets set by the Board of Directors. The capital adequacy of the Bank is subject to changes, inter alia, in respect of a change in the volume of risk assets and deductions from capital, in respect of changes in market return, which affect the profits of the available-for-sale portfolio and are recognized in the capital reserve, and in respect of actuarial changes recognized in capital, as a result of changes in the interest rate used for the computation of the Bank's liabilities or other actuarial assumptions, such as mortality rates, retirement, etc.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

F. CAPITAL FOR CALCULATING RATIO OF CAPITAL

	December 31,	
	2018	2017
	in NIS millions	
Common equity tier 1 after deductions	(1)(2)17,504	(1)16,003
Additional tier 1 capital after deductions	712	890
Tier 1 capital	18,216	16,893
Tier 2 capital after deductions	5,140	5,395
Total capital	**23,356**	**22,288**

Footnotes:
(1) See item "D" above.
(2) See item "E" above.

G. WEIGHTED RISK ASSETS BALANCE

	December 31,	
	2018	2017
	in NIS millions	
Credit risk	(1)153,081	(1)143,176
Market Risk	3,412	3,443
CVA risk	1,441	1,116
Operational risk	12,987	12,335
Total weighted risk assets balance	**170,921**	**160,070**

Footnote:
(1) The total weighted balances of the risk assets have been reduced by NIS 32 million similarly to December 31,2017 due to adjustments in respect to the efficiency plans.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

H. RATIO OF CAPITAL TO RISK ASSETS

	December 31,	
	2018	2017
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.24	10.00
Ratio of total capital to risk assets	13.67	13.92
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.19	(4)9.18
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.69	(4)12.68
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	11.4	10.9
Ratio of total capital to risk assets	14.0	13.9
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(5)9.2	(5)9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	(5)12.7	(5)12.7
2. Discount Bancorp Inc. (1)		
Ratio of common equity tier 1 to risk assets	14.3	13.6
Ratio of total capital to risk assets	15.3	14.7
Ratio of minimum common equity tier 1 required in accordance with local regulation	(2)4.5	(2)4.5
Minimum total capital adequacy ratio required in accordance with local regulation	(2)8.0	(2)8.0
3. Israel Credit Cards LTD.		
Ratio of common equity tier 1 to risk assets	14.8	14.4
Ratio of total capital to risk assets	15.9	15.6
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	8.0	8.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	(3)11.5	(3)11.5

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York is subject to the new Basel III capital rules based on the final rules published by the FRB. Capital ratios are as follows: 4.5% CET1 to risk-weighted assets; 6.0% Tier 1 capital to risk-weighted assets; and 8.0% Total capital to risk-weighted assets.

(3) In accordance with of the approach by the Supervisor of Banks, ICC was required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010. The Supervisor of banks announced the cancellation of the restriction on February 4, 2018.

(4) With an addition of 0.19% (December 31, 2017: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.20% (December 31, 2017: 0.18%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

I. CAPITAL COMPONENTS FOR CALCULATING RATIO OF CAPITAL

	December 31,	
	2018	2017
	in NIS millions	
A. Common Equity Tier 1		
Common equity	17,669	16,068
Difference between common equity and common equity tier 1	(222)	(59)
Total common equity tier 1 before supervisory adjustments and deductions	17,447	16,009
Supervisory adjustments and deductions		
Goodwill and other intangible assets	160	160
Supervisory adjustments and other deductions	3	6
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	163	166
Total adjustments in respect to the efficiency plan	220	160
Total common equity tier 1 after supervisory adjustments and deductions	**17,504**	**16,003**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	712	890
Total additional tier 1 capital after deductions	**712**	**890**
C. Tier 2 capital		
Instruments before deductions	3,135	3,543
Allowance for credit losses before deductions	1,932	1,804
Minority interests in a subsidiary	73	48
Total tier 2 capital before deductions	5,140	5,395
Deductions	-	-
Total tier 2 capital	**5,140**	**5,395**

J. THE EFFECT OF THE TRANSITIONAL INSTRUCTIONS ON THE RATIO OF COMMON EQUITY TIER 1

	December 31,	
	2018	2017
	In %	
Ratio of common equity tier 1 to risk assets before applying the effect of the transitional provisions in Directive 299[1] and before the effect of the adjustments in respect to the efficiency plan	10.11	9.80
Effect of the transitional Provisions	--	0.10
Ratio of common equity tier 1 to risk assets after applying the effect of the transitional provisions in Directive 299 and before the effect of the adjustments in respect to the efficiency plan	10.11	9.90
Effect of the adjustments in respect to the efficiency plan	0.13	0.10
Ratio of common equity tier 1 to risk assets after applying the effect of the transitional provisions in Directive 299 and after the effect of the adjustments in respect to the efficiency plan	10.24	10.00

Footnote:
(1) Including the effect of adopting the U.S. GAAP in the matter of employee rights.

K. Clarification regarding the recognition of hybrid capital instruments

(1) Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections L and M hereunder.

(2) On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

L. The issue of hybrid tier 1 capital

(1) General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in items (2) and (3) below have been recognized as hybrid tier 1 capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

(2) Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank’s tier 1 capital (see item (1) "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (2) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank’s assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as hybrid tier 1 capital. The Governor of the Bank of Israel approved the Bank’s inclusion of the capital notes as hybrid tier 1 capital (see item (1) "General" above), subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K (2) to the financial statements as of December 31, 2015).

Following are part of the basic conditions for recognition of the capital notes as upper tier 1 capital:

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

(1) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank’s inability to fulfill its obligations, as stated above;

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank’s annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued Net profit (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank’s financial statements, for six consecutive quarters, constituted a negative amount);

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(2) Allotment of shares in respect of interest - In the case of erasure of interest the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(3) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) According to the Bank's financial statements, the Bank’s retained earnings become negative;

(f) The Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

(4) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

(3) Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank’s Tier 1 capital (see item (1) "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the established conditions. The Bank complies with the established conditions (the said terms were described in Note 25 J (3) to the financial statements as of December 31, 2015).

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes will be paid four times a year. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see item L "General" above) are identical to the terms determined for Series "A" (as detailed in Section L (2) above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

M. The issue of upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Terms of the subordinated capital notes (Series 1). The principal sum of the subordinate capital notes (Series 1) shall be repaid in one amount on April 20, 2058, subject to the right of Discount Manpikim Ltd. for the early redemption in full, as described below. The principal sum and interest of the subordinate capital notes (Series 1) are linked to the CPI. The subordinate capital notes carry an annual interest of 6.4% during the initial period (as defined below), payable four times per year.

Subject to the terms detailed in the trust deed signed in respect of the subordinate capital notes (Series 1) and subject to the approval of the Supervisor of Banks, Discount Manpikim would be entitled, at its discretion, to announce the early redemption in full of the subordinate capital notes, as from April 20, 2020 (hereinafter: "the initial period"). In the event that the capital notes are not prematurely redeemed at the end of the initial period, then in the period beginning with the end of the initial period, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate to be determined by the Trustee for the subordinate capital notes, on April 20, 2020 (hereinafter: "the scaled interest"); thereafter, the Trustee shall determine a scaled interest rate every five years. The scaled interest rate, which the Trustee determines in respect of each period of five years, as described above, shall be the rate of return that equals the simple arithmetical average of the rates of return on all government bonds linked to the CPI traded on the Stock Exchange at that time, having an average maturity exceeding 4.5 years, with the addition of 6.73% over the said rate of return

The rights of the holders of the subordinated capital notes shall be deferred as regards claims by all other creditors of Discount Manpikim and of the Bank of any class, with the exception of holders of capital notes which constitute and/or will constitute from time to time the hybrid tier 1 capital issued by the Bank.

Terms for the recognition of the subordinated capital notes as upper tier 2 capital. The Supervisor of Banks permitted the Bank to include the subordinated capital notes as upper tier 2 capital (see "General" above) subject to adherence to basic terms, with which the Bank had complied (the terms were detailed in Note 25 K to the financial statements as of December 31, 2015). Following are details of a part of the terms for the recognition of the capital notes as upper tier 2 capital.

(1) Suspension of interest payments - Interest payments shall not be made if on their due date "suspending circumstances" prevail, as the term is defined below, and the payment thereof shall be deferred for unlimited periods. The suspending circumstances are:

   a. The Bank's Board of Directors has determined that the Bank is not able to honor on their due dates its liabilities that have preference over or that are equal to the subordinated capital notes, or where the Bank's independent auditor in his opinion or review report appended to the Bank's financial statements or the interim financial statements, as the case may be, has drawn attention to notes to the financial statements concerning the Bank's inability to honor its liabilities, as above.

   b. The Bank's Board of Directors has determined that reasonable concern exists that the payment of interest will cause a situation where the Bank will not be able to meet its existing and/or expected liabilities, or where the Bank's independent auditor in his opinion or review report appended to the financial statements or the Bank's interim financial statements, as the case may be, has drawn attention to notes to the financial statements mentioning the existence of such reasonable concern.

   c. Where according to the Bank's financial statements last issued prior to the interest payment date, the Bank has no distributable earnings.

   d. The Supervisor of Banks has ordered the suspension of interest payments after realizing that real concern exists that the payment of interest will cause a situation where the Bank would not be able to meet its liabilities.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

(2) Settlement of suspended interest payments - if at the date determined for the settlement of whatever interest payment it becomes clear that a change has taken place in the Bank's financial stability in a manner that suspending circumstances, as described in Section 10 above, exist, then payment of such interest would be suspended until such time as one or more of the conditions detailed hereunder exist, and provided that none of the suspending circumstances is still in existence and/or has ceased to exist.

These are the circumstances where upon the first coming into existence any of which, and subject to a determination by the Bank's Board of Directors that suspending circumstances no longer exist at that time, the suspended interest payments may be paid together with interest and linkage increments thereon:

a. The Bank has declared the payment of dividend to the holders of any class of its shares.

b. The Bank has announced a premature redemption, in full or in part, of the principal sum of the subordinated capital notes, or has redeemed the principal sum of the subordinated capital notes, in full or in part.

c. A liquidation order has been issued against the Bank, however in such a case, settlement of the suspended interest payments is subject to the settlement of all the Bank’s liabilities that take precedence over the principal and interest of the subordinated capital notes, or subject to another arrangement reached with the Bank's creditors that are preferable to the holders of the subordinated capital notes.

(3) Non-payment of dividends - the Bank shall not pay a dividend to its shareholders so long as all the suspended interest payments have not been settled in full, this whether the declaration of the dividend had been made prior to the announcement by the Bank that suspending circumstances emerged or made after such an announcement.

(4) Premature redemption by the holder - the holder may not redeem the subordinated capital notes prematurely.

(5) Premature redemption by the Bank - subject to restrictions detailed hereunder, the Bank may decide, based upon its judgment with no option to the holders of the subordinated capital notes, to prematurely redeem the principal of the subordinated capital notes, in full or in part, as the case may be, as well as the linkage increments and interest accrued in respect of the subordinated capital notes to date of the actual premature redemption, in respect of the principle of the subordinated capital notes this upon all the following conditions being materialized cumulatively:

a. At least ten years have elapsed since the date of issue of the subordinated capital notes and the actual date of premature redemption.

b. Premature redemption may only be made after receiving the prior approval of the Supervisor of Banks and on condition that the instrument shall be replaced by other capital of an identical or higher caliber, unless the Supervisor has determined that the capital adequacy of the corporation is adequate in relation to its risks.

c. Effecting the premature redemption will not bring about any of the suspending circumstances, as defined in section 10 above, immediately after execution of the resolution for the premature redemption, and the Bank's Board of Directors has determined that even considering the premature redemption it does not expect suspending circumstances to emerge in the course of the twelve months following the date of the premature redemption.

(6) Change in terms, premature redemption and/or determination of an interest mechanism - the capital notes are issued for a period of 49 years.

The terms of the capital notes may not be altered without the prior approval in writing of the Supervisor of Banks. Without derogating from this provision, and following at least ten years from date of issue (hereinafter: "the initial period"), a step-up of interest is permitted only once in the instrument's life time. The rate of increase in the interest shall not exceed 100 basis points less the swap spread between the initial index base of the increased interest and the stepped-up index basis, or - 50% of the initial credit margin less the swap spread between the initial index base and the stepped-up index base.

Following the end of the initial period and if the subordinated capital notes are not prematurely redeemed at the end of the initial period, the capital notes shall bear interest at a variable rate in accordance with a predetermined and fixed basis to be established by the Trustee for the notes.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

1. CAPITAL ADEQUACY ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

(7) Subordination - The Bank's obligation for the payment of principal and interest of the capital notes shall be subordinate to all its other liabilities of whatever class, including liabilities towards the holders of subordinated capital notes issued or to be issued in the future by the Bank, and shall only take precedence over the rights of the Bank's shareholders to the reimbursement of the Bank's surplus assets upon liquidation, and over the rights of holders of other securities, the Bank’s obligation in respect of which is recognized as the Bank's tier 1 capital, if and when the Bank will issue such securities. The status of the Bank’s obligations, as stated above, shall not be altered as a result of the fact that the capital notes shall no longer be considered the Bank's tier 2 capital, for whatever reason. The Bank's obligation to pay the principal of the capital notes and the interest thereon stands parri passu with additional securities and/or additional securities that may be issued by the Bank or its subsidiaries and approved by the Supervisor of Banks as "hybrid capital instruments".

For details regarding clarifications in the matter of hybrid capital instruments, see item K above.

N. Issuance of subordinate debt notes which include a loss absorption mechanism (Series "L")

On January 10, 2017, the Bank issued an amount of approx. NIS 784 million par value of subordinate debt notes (series "L"), which were listed for trade on the Stock Exchange. The subordinate debt notes (Series "L") include a loss absorption mechanism through the elimination of the principal sum of the subordinate debt notes (Series "L") either in full or in part, in the case of certain circumstances occurring, as detailed below. The subordinate debt notes (Series "L") comprise capital instruments, classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital and comply with the qualifying terms contained in the Basel III rules.

The principal sum of the subordinate debt notes (Series "L") will be repaid in one amount on January 10, 2027, unless the Bank has previously used its right for the early redemption if the subordinate debt notes after five years, subject to approval of the Supervisor of Banks.

The outstanding balance of the subordinate debt notes (Series "L"), carries a fixed annual interest of 3.60% payable once a year.

Upon occurrence of circumstances comprising a constitutive event for non-viability, as described below, the Bank shall write-off (fully or partly) the subordinate debt notes. A constitutive event for non-viability of a banking corporation is the earlier of the two following events:

- Announcement of the Supervisor to the Banks that the conversion of the capital instrument or its write-off is imperative, and that, in the opinion of the Supervisor, without it the bank would reach the point of non-viability;
- Decision to arrange an inflow of capital from the public sector, or other support of equal value, without it the bank would reach the non-viability point, as stated by the Supervisor of Banks.

In the event that following the write-off of the principal sum and up to a period of fifteen years from the initial date of issue of the subordinate debt notes (namely, until January 10, 2032), in accordance with the above, the Bank's Common Equity Tier 1 ratio would rise above the minimum capital ratio determined for the Bank by the Supervisor of Banks, then the Bank, at its discretion, would be entitled to announce the reversal, in part or in full, of the principal's write-off.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

2. LEVERAGE RATIO ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS

Computed according to Proper Conduct of Banking Business Directive No. 218 in the matter of leverage ratio.

	December 31,	
	2018	2017
	in NIS millions	
A. Consolidated		
Tier 1 capital	[(1)]18,216	[(1)]16,893
Total exposures	264,000	248,020
	In %	
Leverage ratio	6.9	6.8
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Leverage ratio	7.1	6.8
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0
2. Discount Bakcorp Inc.		
Leverage ratio	10.8	10.0
Minimal Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	9.5	10.0
Minimal Leverage ratio required by the Supervisor of Banks	5.0	5.0

Footnote:

(1) For the effect of the transitional provisions and the effect of the adjustments in respect to the efficiency plans, see items 1 I and J.

Factors which may materially affect the leverage ratio. The changes in the scope of exposure and the Tier I capital of the Bank may lead to changes in the Bank's leverage ratio. For possible changes in the regulatory capital, see item 1 E above.

3. LIQUIDITY COVERAGE RATIO ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS

Computed according to Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio.

General. As from April 1, 2015, the Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking industry in Israel. The liquidity coverage ratio tests a 30-day horizon in the stress test and is intended to ensure that a banking corporation maintains an inventory of high quality liquid assets covering the liquidity requirements of the banking corporation within that time horizon. The Directive determines the manner of calculation of the liquidity coverage ratio, including the definition of characteristics and operating requirements as to the "inventory of high quality liquid assets" (the numerator) and the haircuts in their respect as well as the net cash outflow expected in the stress test as defined in the Directive for the 30 calendar days (the denominator).

The stress test determined in the Directive includes a shock combining a shock specific to the corporation as well as a market-wide shock, within the framework of which standard withdrawal rates have been determined for the cash outflows and rates of deposits of cash inflows in accordance with the categories of the different balances.

The computation is based on the average of daily observations in the period of ninety days prior to the date of the report (with the exception of ICC, where the computation was based on the average of monthly observations).

Revision of the FAQ file for the implementation of Proper Conduct of Banking Business Directive (No. 221) regarding the liquidity coverage ratio. The revised file clarifies, inter alia, that debit balances arising from credit card operations may be recognized as cash inflows at the rate of 100% instead of the previous rate of 50%. The Bank implements the said clarification as from October 1, 2016.

25. Capital Adequacy, Leverage and Liquidity in accordance with Directives of the Supervisor of Banks (continued)

3. LIQUIDITY COVERAGE RATIO ACCORDING TO DIRECTIVES OF THE SUPERVISOR OF BANKS (CONTINUED)

Factors which may materially affect the liquidity coverage ratio. The Bank manages the liquidity risk with the aim of ensuring the ability to honor its liabilities in different variable situations. This, in accordance with requirements and restrictions determined by the Board of Directors in the matter of liquidity risk management and in accordance with guidelines of the Supervisor of Banks.

Factors that may materially impact the liquidity situation and in respect of which the Bank has made preparations, include different situations, local and international, which may affect the cost of raising resources and their availability, the value of liquid assets and the repayment ability of the Bank's customers.

	For the three months ended	
	December 31,	
	2018	2017
	In %	
A. Consolidated		
Liquidity coverage ratio	124.8	126.7
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	136.4	143.7
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
C. Significant subsidiaries[1]		
Mercantile Discount Bank LTD. and its consolidated companies		
Liquidity coverage ratio	133.1	139.6
Minimal Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0

Footnotes:

(1) The new directive does not apply to credit card companies and thus data relating to ICC are not presented. Likewise, the directive does not apply to IDB New York.

26. Contingent Liabilities and Special Commitments

A. OFF-BALANCE SHEET COMMITMENT AT YEAR-END REGARDING ACTIVITY BASED[1] ON LOAN PAYMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[2]				
Israeli currency - non linked	285	451	285	451
Israeli currency - linked to the CPI	362	393	338	373
Foreign currency	38	46	38	46
Total	**685**	**890**	**661**	**870**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits),with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 22 million (2017: NIS 21 million), have not been included in the table.

26. Contingent Liabilities and Special Commitments (continued)

B. CASH FLOWS IN RESPECT OF COLLECTION COMMISSIONS AND INTEREST MARGINS OF ACTIVITY BASED ON LOAN REQUIREMENTS - CONSOLIDATED

	December 31							
	2018							2017
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	-	-	1	5	-	6	6
Expected future flows based on Management's estimates of early repayments	-	-	-	1	5	-	6	6
Discounted expected future flows based on Management's estimates of early repayments[(1)]	-	-	-	3	3	-	6	5
In Israeli currency, CPI-linked:								
Future contractual flows	4	6	2	2	1	-	15	20
Expected future flows based on Management's estimates of early repayments	4	5	2	1	-	-	12	14
Discounted expected future flows based on Management's estimates of early repayments[(2)]	4	5	2	1	-	-	12	14
In foreign currency:[(3)]	-	-	-	-	-	-	-	-

Footnotes:

(1) The capitalization was performed according to weighted rate of 2.61% (1.97% :2017)

(2) The capitalization was performed according to weighted rate of 0.59% (0.40% :2017)

(3) There were no cash flows in foreign currency during the reported periods.

INFORMATION AS TO THE GRANTING OF LOANS DURING THE YEAR BY THE MORTGAGE BANKS - CONSOLIDATED

	December 31	
	2018	2017
Loans out of deposits repayable according to the repayment of loans	38	[(1)]24
Standing loans	8	[(1)]5

Footnote:

(1) Reclassified – following improvement of data.

C. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	158	110	70	44
Second year	123	94	62	33
Third year	103	72	49	26
Fourth year	78	56	46	21
Fifth year	64	49	37	20
Sixth year and thereafter	248	215	139	83
Total	**774**	**596**	**403**	**227**
2. Commitment to acquire buildings and equipment	154	101	143	65
3. Commitment to invest in private investment funds and in venture capital funds	583	466	-	-

26. Contingent Liabilities and Special Commitments (continued)

4. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Maof Clearing House Ltd., are responsible towards the Maof Clearing House, together with the members of the Maof Clearing House, to any financial indebtedness arising from Maof Clearing House transactions (transactions regarding options and future contracts settled by the Maof Clearing House) made at the Stock Exchange. For this purpose, the Maof Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2018, amounts to approx. NIS 196 million, comprising 27.66% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2018, amounted to NIS 5 million, comprising 0.71% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Maof Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 27 E). Each of the banks is also committed to pay the Maof Clearing House any monetary charge that may result from its operations and from the operation of their customers in respect of performing Maof transactions cleared at the Clearing House.
5. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at the Bank of Israel (in which cash is deposited). (See Note 27 H).
6. Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues ETN's, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its ETN's.

   Regarding Tafnit's commitments as stated, it should also be noted that as part of the transaction for the sale of the ETN's operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the ETN's operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two ETN companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the ETN companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.
7. The subsidiary of the Bank was engaged in providing a full array of trust and custodianship services and served, inter alia, as a trustee for certain bonds that were issued to the public pursuant to a prospectus and traded on the Tel-Aviv Stock Exchange. The company is preparing to close down its operations and it is left with only a small amount of activity.
8. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank’s request in other companies held, directly or indirectly, by the Bank (see hereunder).

   b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

   c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

26. Contingent Liabilities and Special Commitments (continued)

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

g) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in items (d) to (g) above, the Bank has granted an indemnity to Manpikim.

h) In April 2013, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim, within the framework of which, the Bank had granted indemnification also in respect of prospectuses that Manpikim would publish in the future. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

i) **Liability Insurance of Officers.** On December 2, 2015, the Bank's annual general meeting resolved to grant approval in advance for the Bank to purchase a policy for directors' and other officers' liability insurance, as they were and shall be from time to time, at the Bank and at the Bank Group, to be valid during their service with the Bank, including in respect to their service, on behalf of the Bank, as officers of any other company in which the Bank has a holding, directly or indirectly, and to amend accordingly the Bank's remuneration policy.

The main points of the engagement include the following: the Bank's purchase of a policy for directors' and other officers' liability insurance shall be made for insurance periods, the first of which shall begin at the end of the current insurance period, and shall end at the conclusion of the policy period that shall be renewed in 2019; the purchase of the group policy may be made by extending or renewing the existing policy, or by way of purchasing a new policy, where required; the group policy's liability coverage shall not exceed US$250 million per event and per insurance period; the annual premium in respect to the group policy shall not exceed US$1 million with an increase of up to 20% per year; in the event of a claim against any of the officers, they shall not be subject to any deductible.

26. Contingent Liabilities and Special Commitments (continued)

The Bank shall be responsible for the deductible in an amount that is to be determined in the group policy, and which shall not exceed US$250 thousand per event; engaging in the purchase of such a group policy from time to time is subject to the approval of the Remuneration Committee and the Bank's Board of Directors, and in doing so they shall confirm that the group policy is in accordance with the Bank's remuneration policy valid at the time of approving the Policy and/or in accordance with the terms of the proposed resolution at the time of calling the general meeting referred to above, that the purchase is for the benefit of the Bank and that the terms of the Policy are reasonable, taking into account the exposure of the officers and the Bank, the scope of the coverage and the market terms on the date of making their decision.

j) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), subject to exceptions detailed in the decision, deriving from the Bank's articles regarding liability exemption.

In addition, the abovementioned special General Meeting approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with raising of tier 1 capital implemented in the Bank in December 2006 and May 2007.

The General Meeting of Shareholders from August 27, 2009 approved the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007.

k) At the general meeting held on September 9, 2013, it was resolved to amend the advance indemnification undertaking for directors and other officers of the Bank, including directors or other officers as they shall be from time to time, inter alia, in accordance with the Improvement of Enforcement Measures at the Israel Securities Authority (Legislative Amendments), 2011 and the Antitrust Law (Amendment No. 13), 2012.

l) On December 2, 2015, the Bank's annual general meeting resolved to approve the updating of the resolution regarding the grant of an indemnification undertaking to the directors and officers serving with the Bank, including those who shall serve with the Bank from time to time, and to amend the Bank's articles and the remuneration policy accordingly.

Within the framework of the amendment of the indemnification commitment, the maximum amount of indemnification was fixed at 25% of the equity value, as reflected in the last financial statements published prior to the date of the actual indemnification; the limit on the maximum indemnification amount, and also the requirement that the indemnification shall be given in connection with the events set forth in the appendix of the indemnification undertaking, shall apply only to a monetary obligation imposed on the officers and not in respect to reasonable litigation expenses; the amended wording of the indemnification undertaking shall supersede the previous undertakings or other previous agreements between the Bank and the officers; however, if the terms of this undertaking worsen the terms of indemnification for the officer, or if this undertaking shall not be valid, the previous undertakings or the previous agreement shall apply.

m) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. The general meeting of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law. The General Meeting of Shareholders of MDB approved on January 31, 2016 amendments to the indemnification resolution which was granted to officers of MDB, in order to agree with the indemnification terms granted to officers of Discount Bank.

26. Contingent Liabilities and Special Commitments (continued)

n) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009. The indemnification letters of ICC and Diners have been amended to agree with the indemnification terms granted to officers of Discount Bank.

o) **Indemnification of officers of subsidiary companies.** In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, Discount Capital, Discount Capital Underwriting Ltd. and Discount Leasing, under terms parallel to the terms granted to officers of the Bank. In December 2016, the Bank's Board of Directors approved amendments to the Group policy decisions regarding exemption and indemnification to officers of the Group, following the amendments approved in the resolution regarding indemnification of officers of Discount Bank.

p) For details regarding the indemnity granted to the acquirers of the activity of DBLA, see Note 15 D above.

q) For details regarding the indemnity granted to the acquirers of the activity of IDB (Swiss) Bank, see Note 15 E above.

9. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc.; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

10. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

11. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.

12. **Various actions against the Bank and its consolidated subsidiaries.** Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, unlawful charges of commission, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounted to approx. NIS 502 million as of December 31, 2018.

12.1 A lawsuit against the Bank and additional banks as well as a motion for the approval of the lawsuit as a class action suit, were filed on August 28, 2013, with the Tel Aviv District Court. The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a restrictive arrangement in contradiction to the provisions of the Economic Competition Act, 1988 (its former name: Antitrust Act, 1988). The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 10.5 billion.

26. Contingent Liabilities and Special Commitments (continued)

On May 4, 2014, the Court decided that this case will be heard together with the motion described in item 12.3 below.

In accordance with the decision of the Court, the Appellant filed on April 23, 2015, a summary motion for approval of the suit as a class action suit and placed the amount of the claim for all the defendant banks at NIS 7.7 billion, of which, the part attributed to the Bank amounts to NIS 929 million. On March 1, 2018, a verdict was given rejecting the motion for approval of the action as a class action suit. An appeal against the said verdict was filed with the Supreme Court on March 18, 2018. The hearing of the appeal for the oral completion of arguments was fixed for April 1, 2019.

12.2 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit was filed with the Tel Aviv District Court on January 5, 2014. The Appellant claims that following the entry into effect of Proper Conduct of Banking Business Directive No. 325, MDB has unilaterally raised the interest rate on credit granted to its customers within the approved credit facility that had been agreed with the customers, and this after the customer had already borrowed funds from MDB within the framework of the credit facility allotted to him and on its basis. The Appellant states the amount of the claim at NIS 139 million.

A verdict approving the amended compromise arrangement, which the parties have reached was given on January 15, 2019.

12.3 A lawsuit against MDB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on March 2, 2014, with the Tel Aviv Jaffa District Court. The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers.

Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a restrictive arrangement in contradiction to the provisions of the Economic Competition Act, 1988 (its former name: Antitrust Act, 1988). The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 2.07 billion.

On March 1, 2018, a verdict was given rejecting the motion for approval of the action as a class action suit. An appeal against the said verdict was filed with the Supreme Court on March 18, 2018. The hearing of the appeal is fixed for April 1, 2019.

12.4 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and other credit card companies. The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre-paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies.

The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre-paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses, in respect of transactions made by debit cards and pre-paid cards, for a period of twenty days, following the date of collection of the money by the credit card companies.

On February 24, 2015, a motion for withdrawal from the claim was filed. On July 1, 2015, the Court approved the motion for withdrawal. Concurrently, in accordance with the approval of the Court, alternative Appellant and representative have been found, who undertook the conduct of the proceedings on behalf of the class. A new motion was filed on June 8, 2016, which assessed the damage in respect of all defendants at approx. NIS 7 billion.

An action requesting declaratory relief was filed with the Antitrust Tribunal on October 16, 2017, in which the Tribunal is requested to state that upon submission of the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and rechargeable cards. The credit card companies, including ICC, have filed a motion for the dismissal in limine of the claim, together with a motion for a deferment of the date for submission of the response brief to the matter itself, in the event that the motion for dismissal is dismissed.

On October 16, 2018, the Court admitted the motions for the in limine dismissal of the motion for the granting of declaratory relief. An appeal against the decision of the Competition Tribunal (its former name: Antitrust Tribunal) was filed on December 4, 2018. The appeal was fixed for a preliminary hearing on June 18, 2019. On December 23, 2018, the Appellants submitted a motion to the Supreme Court, sitting as a High Court of Justice, against the Competition Commissioner (in her former title: Antitrust Commissioner). It is requested in the motion that the Court instructs the Competition Commissioner to act in order to clarify, or annul, or change the verdict of the Competition Court.

12.5 A lawsuit was filed against the Bank on October 19, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit.

The Claimant argues that in violation of the law, the Bank charges its customers an excessive early repayment commission in respect of loans which are not housing loans. It is being argued that the Bank acts in contravention of Proper Conduct of Banking Business Directive No. 454. The Claimant stated that it is unable to estimate the amount of the damage caused.

The Bank submitted a response to the motion for approval on July 21, 2016. Following evidence proceedings conducted in the case, the parties submitted their summing-up briefs. A decision in the motion has not yet been given.

26. Contingent Liabilities and Special Commitments (continued)

12.6 On January 26, 2016, a lawsuit together with a motion for its approval as a class action suit, were filed against the Bank with the Tel Aviv District Court. The subject matter of the motion is the alleged incorrect entries and the non-rectification thereof according to the correct entries. According to the Plaintiff, the Bank does not restate the entries in the account in order to correct them and for it to show the position it should have been in, if the incorrect entries had not been made. This practice, as argued, is in contradiction to the directives of the Supervisor of Banks, the law and Court decisions. The Plaintiff is unable to assess his claim and estimates the total damage at between tens and hundreds of million shekels. The Plaintiff stated the amount of the claim upon its submission at NIS 100 million.

The response of the Bank was filed on June 15, 2016. The parties submitted their summing up briefs in November 2017.

12.7 On February 21, 2017, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, filed with the Tel Aviv- Jaffa District Court against the Bank. The motion claims that the Bank charges customers entitled to be defined as a "small business", with commissions that are not in agreement with the small business pricelist. It is further claimed that the Bank did not disclose to its business customers the option of being classified as a small business and the practical significance of such classification, a conduct that led to the charging of excess commissions. The Claimants stated the amount of the claim at NIS 261 million.

A preliminary hearing was held on December 19, 2018, in the presence of all the parties regarding additional motions for approval filed in this matter against additional banks.

13. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and requests to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which in the opinion of the Bank’s, which is based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries which is based on legal opinions, respectively, it is not possible at this stage to evaluate their prospects of success, and therefore no provision has been included in respect therewith.

13.1 A lawsuit against the Bank and against two additional defendants was filed on April 3, 2016, with the Jerusalem District Court, together with a motion for partial exemption from Court fees. The lawsuit was filed by a trustee in bankruptcy of a former CEO and shareholder of a group of companies who personally was also a guarantor for the debts of the group. According to the Plaintiff, the Bank, which had supported the group during its years of business operations, cancelled suddenly, with no prior notice, the credit facilities of the group with everything involved therein. The Plaintiff alleges that these actions taken by the Bank brought about the collapse of the group of companies, and as a result the economic and personal collapse of the bankrupt. It is further claimed that due to the conduct of the Bank, an investor pulled back from investing in the company. The total amount of the claim against all defendants, jointly and severally, is NIS 105 million.

On January 26, 2017, a ruling was given rejecting the motion seeking exemption from the fee. On February 4, 2018, the Supreme Court rejected a motion for leave to appeal the ruling that rejected the motion seeking exemption from the fee.

A deferment until February 28, 2019, was granted for the payment of Court fees.

On February 28, 2019, a motion was filed to amend the amount of the claim and to set it in an amount of NIS 36 million, as well as to grant an extension of three business days for the payment of the fee. In accordance with the Court’s decision on March 6, 2019, the Bank is to file its response to the motion by March 26, 2019.

13.2 (a) On December 4, 2016, the Bank received a claim brief which had been filed with the Federal Court in Australia against the Bank and against twelve additional respondents (hereinafter: "the claim"). The claim was filed by the Liquidator of three Australian corporations (that maintained accounts at the Bank). As argued in the claim brief, the Bank had provided banking services to the said corporations and their owners, which assisted them to evade the payment of taxes as well as conceal and hide income in Australia. The claim relates to various transactions in the aforesaid accounts in the years 1992 through 2009. The claim is stated by the Claimant at Australian dollar 100 million. A hearing was held on September 29, 2017, in which the Bank stated its preliminary arguments against the decision to approve service outside jurisdiction. No decision has yet been handed as regards these arguments.

26. Contingent Liabilities and Special Commitments (continued)

In a hearing held on November 1, 2018, the Court instructed the Claimants to submit an amended claim brief, that would include the claims against Discount Bank only, and this in view of the fact that certain of the other Defendants had reached an arrangement and would be removed from the claim brief. In addition, the Court ordered delivery of a copy of the arrangements reached by the Plaintiffs with the other Defendants. The Bank is entitled to file a renewed motion for the in limine dismissal of the claim on ground of lack of authority to approve execution of delivery. Hearing of the new motion filed by the Bank is fixed for February 6, 2019. The said hearing was cancelled and a new date has not yet been fixed. A hearing was held on February 11, 2019, in the motion by the Plaintiffs requesting confidentiality for the documents of the arrangement, as well as regarding the motion by the Liquidator for submission of an amended claim brief. The Court admitted the motion for amendment of the claim brief. A decision in the request for confidentiality of the arrangement documents has not yet been given. An amended claim brief was filed on February 13, 2019.

(b) In September 2017, the Bank and MDB were served with notice of an action filed against them and against other Respondents with a Federal Court in Australia, in respect of the accounts of two companies in liquidation, related to companies being the subject matter of the action described in Section (a) above. The action had been filed by the Liquidator of the two companies, claiming, inter alia, that the said banks provided banking services to these companies during the years 1997 to 2005, which assisted them in evading the payment of taxes. The Liquidator claims an amount of Australian $11 million, and of an amount of Australian $ 9.3 million from the Bank. A preliminary argument brief was submitted on behalf of the Bank on October 16, 2017, including objection to the performance of delivery. A hearing of the preliminary arguments was held on March 1, 2018. A ruling dismissing the preliminary arguments of the banks was given on June 22, 2018. An application for permission to appeal the decision was submitted on July 19, 2018. A hearing was held on February 28, 2019, in the motion for permission to appeal. A decision in the matter is still pending.

A preliminary hearing was held on December 21, 2018. An additional preliminary hearing was fixed for May 10, 2019.

(c) The Bank obtained information that on June 15, 2017, following a motion filed with the Court in Australia, as part of the proceedings being conducted between the Australian Tax Authorities and a company related to the companies mentioned in items (a) and (b) above, the Magistrate Court in Tel Aviv issued an Order permitting an Israeli counsel to obtain testimony and evidence from three employees of MDB (some of whom in retirement), this in accordance with an inter-state request for legal relief. The hearing of evidence was postponed at this stage to an unknown date.

In the same matter, on November 14, 2017, the Court issued an Order for submission of documents addressed to MDB. MDB has filed a notice of appeal against the decision to issue such Order, and alternatively also filed a motion for permission to appeal (for reasons of care) and a motion requesting the stay of execution of the Order. On February 12, 2018, the consent of the parties was granted the power of a Court verdict, according to which, without prejudice, the appeal shall be struck-off, and a stay of execution order shall be issued regarding the order for submission of documents, which would remain in effect until after seven days following the date of which a new ruling of the lower Court shall be delivered to the Bank, which would be given after the lower Court hears the position of the Bank and decides upon.

On October 24, 2018, the Court gave a ruling whereby MDB must submit the documents detailed in the motions for judicial inquiry. It was also determined that the arrangement with the witnesses, whereby the witnesses will testify after the documents have been received, remains unchanged. On October 31, 2018, MDB filed an appeal against the ruling and the petition for a stay of execution. In a plea for permission to appeal submitted by MDB, the Supreme Court determined that the documents are to be delivered into the trust of the petitioners' representative without him being permitted to peruse them or to make any use of them. The appeal was fixed for November 28, 2019.

13.3 A lawsuit against Diners Club Israel Ltd. (hereinafter: "Diners") together with a request for its approval as a class action suit was filed on October 15, 2017 with the Haifa District Court.

The subject matter of the request is a claim that Diners, together with the other defendant company, intentionally mislead in their publications the members of the Frequent Flyer Club who hold credit cards of the Diners Fly Card class (hereinafter: "the card"), with respect to the manner of calculation of the flight points that might be accumulated when using the card for payments made to Government agencies. The definition of the claimant class is "all holders of credit cards of the Diners Fly Card class who had used the credit card for payments to Government agencies in amounts exceeding NIS 30,000 per month".

The Claimants fixed the amount of the claim for all class members at NIS 66 million, and alternatively at NIS 300 million.

On March 20, 2018, Diners filed its response to the motion for approval. The hearing of proof is fixed for May 19, 2019.

26. Contingent Liabilities and Special Commitments (continued)

13.4 On December 12, 2017, a claim against MDB and additional banks, together with a motion for approval and management of the action as a class action suit was filed with the Jerusalem District Court. The Claimants argue that MDB, which had been successful in a State tender for providing loans guaranteed by the Small and Medium Size Businesses Fund, requires the borrowers to deposit a fictitious deposit out of the loan funds, comprising the tying of a service to another service which is prohibited by law. The Claimants further argue that in practice the interest charged on the loans is 2.3 times higher than the interest that the Bank is permitted to charge in accordance with the agreement with the State. The Claimants assessed their claim against MDB at NIS 124 million.

On November 28, 2018, the Appellants filed an amended motion for approval of the action as a class action suit. The respondents' responses will be filed after having received a ruling on the motion for the dismissal in limine of the claim and the motion to approve it as a class action which were filed by one of the respondent banks.

13.5 An action together with a motion for approval of the action as a class action suit was filed on May 3, 2018, with the Tel Aviv-Jaffa District Court against MDB. The Claimants argue that MDB does not attach details of its procedures to the general terms form, which is signed by customers, and does not disclose to them that it is possible that the bank may require additional confirmations during the course of operating the account, as a condition for continuing the activity. The Claimants stated the amount of their claim at NIS 139 million, for all members of the class, as defined in the claim brief, in respect of non-monetary damage caused by "impairment of autonomy".

On November 1, 2018, MDB filed its response and on November 29, 2018, the Appellants filed their response. A preliminary hearing of the case was fixed for September 25, 2019.

13.6 An action together with a motion for approval of the action as a class action suit was filed on May 6, 2018, with the Tel Aviv-Jaffa District Court against ICC and two additional Respondents. The subject of the motion is the claim that the Respondents had not provided proper disclosure regarding the charging of interest by them. The Claimants stated the amount of their claim in respect of all class members, and against all respondents, at NIS 181 million.

ICC submitted on March 5, 2019, its response to the motion for approval.

13.7 An action together with a motion for approval of the action as a class action suit was filed against the Bank on June 21, 2018, with the Central District Court in Lod. As alleged by the Appellant, the Bank violates the provisions of the Custodian General Act, 1978, and the provisions of the Protection of Deposited Assets Act, 1964, in that it does not report to the Custodian General its holding of an "abandoned asset". It is claimed that the Bank does not make reasonable efforts to locate the owners of the "abandoned asset", does not report on time and causes damage to members of the class in that the Custodian General would have invested these funds in a most beneficial fashion suitable to the type of the abandoned asset, and would have made real efforts to locate the owners. The Appellant stated the amount of the claim for all class members at NIS 300 million.

The response of the Bank was filed in February 10, 2019. The case is fixed for a preliminary hearing on July 14, 2019.

13.8 On July 22, 2018, a claim and a petition for the claim's approval as a class action were filed in the Tel Aviv District Court against ICC and two other credit card companies. The subject of the petition is paperless transactions (mainly telephone transactions) with companies engaged in direct marketing. It is alleged in the petition that the credit card companies have not prevented the companies engaged in direct marketing from exploiting the elderly and stealing their money in respect to illegal transactions, with this being done by charging their credit cards. It is also alleged in the petition that the credit card companies should have prevented this phenomenon at the outset and, prior to entering into an engagement with the direct marketing companies, they should have checked the nature of these companies and their activity and should have verified that they were in full compliance with the law. The petitioners have assessed the amount of their claim in the sum of NIS 900 million for all the members of the group.

A preliminary hearing of the case was fixed for May 7, 2019.

13.9 An action against the Bank together with a motion for approval of the action as a class action suit was filed on August 2, 2018 with the Central Region-Lod District Court. The Claimant argues that the practice of the Bank is to charge variable commission fees in respect of foreign currency transfers between accounts in Israel of the same customer, instead of charging a fixed commission in US dollars, according to the Bank's pricelists. The Claimant states the amount of the claim in respect of all members of the class at NIS 112 million.

On February 6, 2019, the Bank filed its response. The hearing of the case is fixed for October 23, 2019.

26. Contingent Liabilities and Special Commitments (continued)

14. **Agreement between the Swiss Authorities and the U.S. Department of Justice.** On August 29, 2013, an agreement between the Swiss Authorities and the U.S. Department of Justice regarding the program for the settlement of disputes was published regarding deposits of U.S. citizens with Swiss banks (Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks). Following an examination of the plan and relying, among other things, on outside legal advice rendered to IDB (Swiss) Bank, IDB (Swiss) Bank decided not to join the plan. Additional details are presented in Note 26 C 15 to the financial statements as of December 31, 2015.

    It should be noted that, on February 26, 2016, the transaction for the sale of the customer operations of IDB (Swiss) Bank was concluded and, on December 20, 2016, IDB (Swiss) Bank ceased activity as a banking corporation (see Note 15 E above).

    Examination and investigation actions by the U.S. Authorities. According to publications and reports, certain Israeli banks are under different stages of examination and investigation on the part of the U.S. authorities or in the arrangement resulting from the aforesaid proceedings.

    The Bank has no knowledge of investigative actions taken against the Bank or against any of its extensions by the U.S. authorities, as regards U.S. customers who had not complied with their obligations according to U.S. tax laws. The Bank is continuing to adopt a series of measures for the management of the risk involved in its operations with its U.S. customers. However, in view of the said enforcement actions and due to the uncertainty existing in this matter, it is not possible to assess the risk involved in these operations.

15. (a) Discount Capital company invests in private equity funds, in venture capital funds and in nonfinancial corporations. As of December 31, 2018, the outstanding balance of investment commitments made by Discount Capital amounted in total to US$165 million (as of December 31, 2017: US$134 million).

    (b) Discount Capital owns approx. 19.6% of the equity of Menif. As of December 31, 2018, the facility for granting guarantees to projects of Menif, amounted to a maximum amount of NIS 80 million, (subsequent to balance sheet date, a temporary increase in the investment facility, as stated, to an amount of NIS 100 million has been approved). As of December 31, 2018, guaranties have been provided in the amount of NIS 79 million (December 31, 2017: NIS 72.2 million).

16. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008. The agreement with the State terminated on December 31, 2014. At the end of each calendar year, the Bank is required to provide an unconditional self-obligation to the sum of 10% of the balance of the loans or NIS 20 million, whichever is lower, until the full settlement of the loans provided within the framework of this engagement. The balance of loans amounted on December 31, 2018, to NIS 162 million.

17. **An agreement for provision of services to teaching staff employees.** On September 26, 2007, the Bank signed an agreement for the granting of subsidized loans to teachers and of conditional loans to education students. The engagement with the Accountant General was terminated on June 30, 2014. At the end of each calendar year the Bank is required to forward an unconditional self-commitment in an amount of 10% of the balance of loans or NIS 10 million, whichever is lower, until the repayment in full of all loans granted within the framework of the said engagement. The balance of loans amounted on December 31, 2018, to NIS 24 million.

18. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC.

    The investment in the project amounted at March 31, 2018, to NIS 137 million. Discount Leasing has entered into agreements with suppliers with respect to the construction of the "Discount Campus", in a total amount of NIS 74 million. The balance of the commitment in respect of the project as of December 31, 2018, amounts to NIS 65 million.

19. **Acquisition of Municipal Bank (in its former name: Dexia Bank).** On November 13, 2018, a merger agreement (hereinafter – "the merger agreement") has been signed between MDB and Municipal Israel Bank Ltd. (hereinafter: "Municipal Bank"), within the framework of which and subject to the fulfillment of conditions precedent stated therein, Municipal Bank would merge with and into MDB by way of a contractual merger in accordance with Chapter One of Part Eight of the Companies Act, 1999, in consideration for the payment to the shareholders of Municipal Bank of a cash amount of NIS 758.59 per share, in a total amount of approx. NIS 670 million.

    The Bank signed the merger agreement as a guarantor for the payment committed by MDB.

26. Contingent Liabilities and Special Commitments (continued)

Consummation of the transaction in accordance with the merger agreement is subject to the fulfillment of conditions precedent (hereinafter – "the conditions precedent"), including: (1) approval by the Bank of Israel; (2) approval by the Competition Commissioner (in her former title: Antitrust Commissioner; (3) obtaining any other regulatory approval as may be required; (4) approval by the general meeting of shareholders of Municipal Bank; (5) approval by the Tax Authority for the execution of the merger with exemption from income tax and profit tax applying to the merging companies under Part E(2) of the Income Tax Ordinance; (6) no adverse change in the position of Municipal Bank has occurred and no material credit extended to a subsidiary of Municipal Bank (as defined in the merger agreement) has been called for immediate repayment; (7) no event has occurred in the interim period, as a result of which reasonable concern exists as to the ability of the merged company to honor its obligations to its creditors; (8) obtaining a merger certificate by the Registrar of Companies regarding the merger.

The merger agreement states instructions regarding the commitment by the parties to act in cooperation for the speedy fulfillment in full of the conditions precedent, and it also states the circumstances in which a condition precedent would be considered as unfulfilled, due to the existence of burdening conditions on which a regulatory approval or permit is dependent.

To the extent that any of the conditions precedent is not fulfilled by June 1, 2019 ("the last date"), unless fulfillment thereof had been waived in accordance with the terms of the agreement, where relevant, the merger agreement would be considered null and void, unless the parties thereto have agreed in writing to extend the last date. If the date of consummation of the transaction being subject of the merger agreement (hereinafter – "consummation date") shall fall after April 1, 2019, the amount of consideration, as defined above, shall be increased by an amount of NIS 1.25 million per month, or a proportionate part thereof, in respect of the period as from April 1, 2019 to the consummation date. Furthermore, in the event that Municipal Bank shall distribute a dividend in the period until the consummation date (subject to the prior consent of MDB), then the consideration amount shall be adjusted based on the amount of the dividend distributed.

The merger agreement states instructions with respect to the conduct during the interim period until consummation date, according to which Municipal Bank and its subsidiary company shall manage their business in the ordinary course thereof, as had been managed prior to the date of signing of the merger agreement and in a fashion that agrees with the management of the business until date of signature.

In November 2018, MDB approached the Competition Authority (in its former name: Antitrust Authority) and the Bank of Israel with a request to approve the agreement. On December 30, 2018, the Competition Authority approached MDB and the Bank with a request for data regarding the merger application.

The general meeting of shareholders of Municipal Bank approved on January 3, 2019, with a majority vote of 99.9%, the proposal for the merger with MDB.

As stated, consummation of the transaction is subject, inter alia, to the materialization of different conditions precedent, certain of which are not under the control of the Bank, including obtaining approvals of regulatory authorities. Accordingly, there is no certainty that the transaction would be executed.

27. Pledges, Restrictive Terms and Collateral

A. IDB New York has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2018 amounted to US$1,207 million (NIS 4,525 million) [December 31, 2017: US$1,298 million (NIS 4,500 million)].

   In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of approx. US$132 million (NIS 495 million) as of December 31, 2018 as a collateral for deposits received from it [as at December 31, 2017: approx. US$100 million (NIS 348 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of approx. US$345 million (NIS 1,292 million) as of December 31, 2018 [as at December 31, 2017: US$636 million (NIS 2,205 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of approx. US$15 million (NIS 56 million).

D. The Bank deposits liquid assets with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. In the past the Bank was required to deposit bonds as part of the said collateral. This requirement was changed during 2015, and the Bank is now required to deposit cash instead of bonds. As of December 31, 2015 the deposit was nullified and it remained at a zero balance throughout the years 2017-2018.

27. Pledges, Restrictive Terms and Collateral (continued)

Mercantile Discount Bank also deposits liquid assets with foreign brokers (in the U.S.) as collateral for similar transactions. The balance of the collateral as of December 31, 2018, was NIS 1 million. The highest balance of the collateral was NIS 1 million, and the average balance was NIS 1 million.

E. Note 26 C 4 above describes the risk fund established by the Maof clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2018, amounted to approx. NIS 196 million (December 31, 2017: NIS 221 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank's customers and in respect of the Bank's activity itself (nostro) as of December 31, 2018, was approx. NIS 797 million (2017: NIS 775 million).

According to the Memorandum and Bye Laws of the Maof clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Maof clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Maof Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Maof Clearing House at the Stock Exchange Clearing House and at an account in the name of the Maof Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Maof transactions to which it is responsible towards the Maof Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts.

It is noted that on October 27 2016, the Board of Directors of the Stock Exchange, following resolutions of the Boards of Directors of the Maof clearing house and of the Stock Exchange clearing house, approved the opening of accounts for these clearing houses with the Bank of Israel, this in order to enable the clearing houses to deposit with the Bank of Israel the cash collateral provided by members of the clearing houses, and to amend accordingly the by-laws of the clearing houses.

In this framework, all members of the clearing houses, including the Bank, signed two additional pledge agreements, according to which, the rights of the members in the collateral accounts with the Bank of Israel would be pledged in favor of the Stock Exchange clearing house and the Maof clearing house, this in addition to earlier pledges and without derogating there from.

Accordingly, the Bank has pledged in favor of the Stock Exchange clearing house and the Maof clearing house, a first degree pledge and an assignment by way of a pledge, in an unlimited amount, on all its rights of whatever type and class, in each of its collateral accounts with the Bank of Israel, including all the rights to receive the funds deposited or registered to the credit of the said accounts, as well as the profits earned thereon and any right stemming from or related to these accounts, and all as guarantee for the settlement of all obligations of the Bank towards the clearing houses, as may be from time to time.

Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Maof Clearing House, the amount of which at December 31, 2018, totaled approx. NIS 1,283 million (December 31, 2017: NIS 1,099 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Maof Clearing House. The value of the collateral in favor of the Maof Clearing House, as stated, amounted on December 31, 2018, to approx. NIS 41 million (December 31, 2017: NIS 48 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2018, to approx. NIS 2 million (December 31, 2017: NIS 2 million).

BALANCE OF COLLATERAL PROVIDED TO THE MAOF CLEARING HOUSE

	Balance as of December 31, 2018	Highest balance during the year 2018	Average balance* in 2018	Balance as of December 31, 2017
	In NIS millions			
Cash	65	65	64	57
Securities	1,262	1,269	1,112	1,092

* The reporting is made on the basis of the month-end balances.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

27. Pledges, Restrictive Terms and Collateral (continued)

G. (1) The Bank enters into Credit Support Appendix (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits designed for the delimitation of the exposure to the other party, until the date of the next measurement. As of December 31, 2018, the Bank allocated in favor of various banks deposits in a total amount of approx. NIS 257 million (December 31, 2017: NIS 689 million).

In addition, in July 2015, the Bank signed an engagement agreement with Merrill Lynch International, which will serve as a clearing house member for the Bank with respect to the central clearing of certain transactions in derivatives, included within the framework of the EMIR reform.

(2) IDB New York also engages in CSA type agreements. As of December 31, 2018, IDB New York provided in favor of various banks deposits in a total amount of approx. US$0.96 million (NIS 3.56 million) [December 31, 2017: US$0.2 million (NIS 0.7 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2018, MDB provided in favor of various banks deposits in a total amount of approx. NIS 13 million (December 31, 2017: NIS 9 million).

H. As detailed in Note 26 C 5 above, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearing House (hereinafter: "the Clearing House" or "Stock Exchange Clearing House"), the Bank pledged as security for its obligations towards the Clearing House all the Bank's rights in the security deposit managed by the Clearing House (in which the Bank deposits securities) and all its rights in funds under the name of the Clearing House, deposited with the Bank of Israel. The value of the collateral amounted on December 31, 2018, to NIS 131 million (as at December 31, 2017: NIS 88 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2018, amounted to NIS 21 million (December 31, 2017: NIS 17 million).

BALANCE OF COLLATERAL PROVIDED TO THE STOCK EXCHANGE CLEARING HOUSE

	Balance as of December 31, 2018	Highest balance during the year 2018	Average balance* in 2018	Balance as of December 31, 2017
	In NIS millions			
Cash	36	36	34	27
Securities	117	431	137	78

* The reporting is made on the basis of the month-end balances.

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the new settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

The Bank deposited with the said account bonds valued, as at December 31, 2018, at approx. NIS 2.80 billion (December 31, 2017: NIS 3.3 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds valued, as at December 31, 2018, at approx. NIS 301 million (December 31, 2017: NIS 298 million).

DETAILS OF THE PLEDGE AGREEMENT

	Balance as of December 31, 2018	Highest balance during the year 2018	Average balance* in 2018	Balance as of December 31, 2017
	In NIS millions			
Pledged securities (market value)	3,028	3,329	3,103	3,598

* The report is based on outstanding monthly balances.

27. Pledges, Restrictive Terms and Collateral (continued)

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2017-2018 in the said credit tenders.

DETAILS OF THE DEPOSITS

	Balance as of December 31, 2018	Highest balance during the year 2018	Average balance* in 2018	Balance as of December 31, 2017
	In NIS millions			
Deposits with the Bank of Israel	16,250	26,874	18,910	21,253

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2018 was approx. NIS 774 million (December 31, 2017: NIS 954 million).

L. THE SOURCES AND USES OF THE SECURITIES THAT HAD BEEN RECEIVED AND THE BANK'S AND WHICH THE BANK IS ENTITLED TO SELL OR PLEDGE, AT THEIR FAIR VALUE, BEFORE SETOFFS EFFECT

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	In NIS millions			
The sources:				
Securities against cash	774	954	774	954
Total	**774**	**954**	**774**	**954**
The uses:				
Securities sold under repurchase arrangements	1,292	2,205	-	-
Total	**1,292**	**2,205**	**-**	**-**

M. DETAILS OF SECURITIES PLEDGED TO THE LENDERS

	Consolidated		The Bank	
	December 31		December 31	
	2018	2017	2018	2017
	In NIS millions			
Available for sale securities	2,793	2,541	2,138	1,920
Held-to-maturity bonds	1,974	2,547	1,967	2,541
Total	**4,767**	**5,088**	**4,105**	**4,461**

These securities have been deposited as collateral with the lenders, who are not permitted to sell or pledge them.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
   a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, Swap, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, components of embedded options, etc.
   b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
      The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Maof activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
   c. Liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.
2. Some of the derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (ALM) and the balance of which if defined as other derivatives.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the statement of profit and loss. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions. The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
   a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
   b. The derivative expires, sold, cancelled or realized;
   c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
   d. A firm hedging commitment no longer complies with the definition of a firm commitment;
   e. Management cancels the designation of the derivative as a hedging derivative.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value. When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as profit or loss in the statement of profit and loss for the reported period.

6. Fair value hedging

   Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the statement of profit and loss, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.

7. Cash flow hedge

   The subsidiary IDB New York designates certain derivatives as hedge for cash flow. The accounting treatment of the change in the fair value of derivatives that hedge exposure to the change in the cash flow produced by an asset, liability or an anticipated transaction is dependent on the effectiveness of hedge ratios.

   - The effective part of the change in the fair value of a derivative, designated as a cash flow hedge, is reported in the first place in equity, as a component of other comprehensive income, and then, when the anticipated transaction affects the statement of profit and loss, it is classified to the statement of profit and loss.
   - The non-effective part of the change in the fair value of the derivative designated as above is immediately recognized in the statement of profit and loss.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS

1. PAR VALUE OF DERIVATIVE INSTRUMENTS

	December 31, 2018					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	3,522	-	-	-	3,522
Total	**-**	**3,522**	**-**	**-**	**-**	**3,522**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,795				
B. ALM derivatives[1][2]						
Futures contracts	-	-	-	-	-	-
Forward contracts	7,170	-	862	-	-	8,032
Marketable option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Other option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	6	-	-	6
Swaps	242	7,594	24,536	-	-	32,372
Total	**7,412**	**7,594**	**25,404**	**-**	**-**	**40,410**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	242	3,620				
C. Other derivatives[1]						
Futures contracts	-	205	-	44	130	379
Forward contracts	5,650	2,116	12,564	-	1,414	21,744
Marketable option contracts						
Options written	-	-	840	9,009	-	9,849
Options purchased	-	-	786	9,009	-	9,795
Other option contracts						
Options written	-	13,486	11,211	422	4	25,123
Options purchased	-	12,777	10,442	434	4	23,657
Swaps	-	108,245	36,838	1,173	-	146,256
Total	**5,650**	**136,829**	**72,681**	**20,091**	**1,552**	**236,803**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	34,195				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,360			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

28. Derivative Instrument Activity – Volume, Credit Risk and Due Dates (continued)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

1. PAR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

	December 31, 2017					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	1,749	-	-	-	1,749
Total	**-**	**1,749**	**-**	**-**	**-**	**1,749**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,749				
B. ALM derivatives[1][2]						
Futures contracts	-	-	-	-	-	-
Forward contracts	6,614	-	940	-	-	7,554
Marketable option contracts						
Options written	-	-	-	-	-	-
Options purchased	-	-	-	-	-	-
Other option contracts						
Options written	-	-	4	-	-	4
Options purchased	-	-	8	-	-	8
Swaps	190	6,520	18,969	-	-	25,679
Total	**6,804**	**6,520**	**19,921**	**-**	**-**	**33,245**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	190	4,775				
C. Other derivatives[1]						
Futures contracts	-	48	-	39	-	87
Forward contracts	3,772	400	11,823	-	63	16,058
Marketable option contracts						
Options written	-	-	2,545	8,079	-	10,624
Options purchased	-	-	2,545	8,079	-	10,624
Other option contracts						
Options written	-	2,356	9,090	604	14	12,064
Options purchased	-	1,689	8,782	617	14	11,102
Swaps	-	78,915	31,309	341	-	110,565
Total	**3,772**	**83,408**	**66,094**	**17,759**	**91**	**171,124**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	30,108				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,492			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS

	December 31, 2018					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	32	-	-	-	32
Negative gross fair value	-	52	-	-	-	52
B. ALM derivatives[1]						
Positive gross fair value	43	79	594	-	-	716
Negative gross fair value	84	117	282	-	-	483
C. Other derivatives						
Positive gross fair value	81	1,151	987	733	38	2,990
Negative gross fair value	9	1,145	823	732	38	2,747
D.Total						
Positive gross fair value[2]	124	1,262	1,581	733	38	3,738
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**124**	**1,262**	**1,581**	**733**	**38**	**3,738**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	19	638	3	660
Negative gross fair value [3]	93	1,314	1,105	732	38	3,282
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**93**	**1,314**	**1,105**	**732**	**38**	**3,282**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	69	638	-	707

For footnotes see next page.

28. Derivative Instrument Activity - Volume, Credit Risk and Due Dates (continued)

A. VOLUME OF ACTIVITY ON A CONSOLIDATED BASIS (CONTINUED)

2. GROSS FAIR VALUE OF DERIVATIVE INSTRUMENTS (CONTINUED)

	December 31, 2017					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	28	-	-	-	28
Negative gross fair value	-	16	-	-	-	16
B. ALM derivatives[1]						
Positive gross fair value	50	87	207	-	-	344
Negative gross fair value	84	224	647	-	-	955
C. Other derivatives						
Positive gross fair value	113	988	797	703	2	2,603
Negative gross fair value	61	996	532	701	2	2,292
D. Total						
Positive gross fair value[2]	163	1,103	1,004	703	2	2,975
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**163**	**1,103**	**1,004**	**703**	**2**	**2,975**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	40	664	1	705
Negative gross fair value [3]	145	1,236	1,179	701	2	3,263
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**145**	**1,236**	**1,179**	**701**	**2**	**3,263**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	81	664	1	746

Footnotes:

(1) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(2) Of which: NIS 12 million (December 31, 2017: NIS 22 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 33 million (December 31, 2017: NIS 31 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

28. Derivative Instrument Activity – Volume, Credit Risk and Due Dates (continued)

B. DERIVATIVE INSTRUMENT CREDIT RISK BASED ON THE COUNTERPARTY TO THE CONTRACT ON A CONSOLIDATED BASIS

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2018					
Balance sheet balance of assets in respect of derivative instruments[2]	82	1,520	130	-	2,006	3,738
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(1,015)	(3)	-	(677)	(1,695)
Credit risk mitigation in respect of cash collateral received	-	(406)	(10)	-	(70)	(486)
Net amount of assets in respect of derivative instruments	**82**	**99**	**117**	**-**	**1,259**	**1,557**
Off-balance sheet credit risk in respect of derivative instruments[1]	194	205	141	9	627	1,176
Total credit risk in respect of derivative instruments[4]	**276**	**1,725**	**271**	**9**	**2,633**	**4,914**
Balance sheet balance of liabilities in respect of derivative instruments[3]	441	1,328	25	59	1,429	3,282
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,015)	(3)	-	(677)	(1,695)
Pledged cash collateral	-	(251)	-	-	-	(251)
Net amount of liabilities in respect of derivative instruments	**441**	**62**	**22**	**59**	**752**	**1,336**
	December 31, 2017					
Balance sheet balance of assets in respect of derivative instruments[2]	36	1,444	51	35	1,409	2,975
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(1,227)	-	(21)	(228)	(1,476)
Credit risk mitigation in respect of cash collateral received	-	(152)	(1)	-	(15)	(168)
Net amount of assets in respect of derivative instruments	**36**	**65**	**50**	**14**	**1,166**	**1,331**
Off-balance sheet credit risk in respect of derivative instruments[1]	166	91	92	-	562	911
Total credit risk in respect of derivative instruments[4]	**202**	**1,535**	**143**	**35**	**1,971**	**3,886**
Balance sheet balance of liabilities in respect of derivative instruments[3]	513	2,003	91	21	635	3,263
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(1,227)	-	(21)	(228)	(1,476)
Pledged cash collateral	-	(660)	-	-	(12)	(672)
Net amount of liabilities in respect of derivative instruments	**513**	**116**	**91**	**-**	**395**	**1,115**

Footnotes:

(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and between the balance sheet amount of assets in respect of derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,726 million included in the item assets in respect of derivative instruments (December 31, 2017: NIS 2,953 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,249 million included in the item liabilities in respect of derivative instruments (December 31, 2017: NIS 3,232 million).

(4) The amount does not include the above deductions. The comparative data has been restated accordingly.

28. Derivative Instrument Activity – Volume, Credit Risk and Due Dates (continued)

C. DUE DATES - PAR VALUE BALANCES FOR THE END OF THE YEAR ON A CONSOLIDATED BASIS

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
			In NIS millions		
			December 31, 2018		
Interest rate contracts					
Shekel/CPI	1,508	4,290	4,249	3,015	13,062
Other	8,845	31,996	57,340	49,764	147,945
Foreign currency contracts	51,686	34,517	7,706	6,536	100,445
Contracts on shares	17,785	1,115	1,191	-	20,091
Commodities and other contracts	584	968	-	-	1,552
Total	**80,408**	**72,886**	**70,486**	**59,315**	**283,095**
			December 31, 2017		
Interest rate contracts					
Shekel/CPI	1,105	3,570	3,502	2,399	10,576
Other	8,355	14,161	32,842	36,319	91,677
Foreign currency contracts	52,724	24,875	6,940	3,968	88,507
Contracts on shares	14,839	580	2,340	-	17,759
Commodities and other contracts	73	11	7	-	91
Total	**77,096**	**43,197**	**45,631**	**42,686**	**208,610**

29. Regulatory Operating Segments and Geographical Areas Information

A. General

As stated in Note 1 D 19 above, the report on segments of operation is presented in relation to segments that had been defined by the Supervisor of Banks.

The regulatory operating segments have been defined by the Bank of Israel in an amendment to the Directive, based on the characteristics of their customers, such as: the nature of their activity (in relation to private customers), or their business turnover (in case of commercial customers), in a format that connects, on a uniform and single value basis, between the different customers of the banking industry as a whole, and the regulatory operating segments, as follows:

"Household segment" - private individuals, the volume of their financial asset portfolio is lower than NIS 3 million.

"Private banking segment" - private individuals, the volume of their financial asset portfolio exceeds NIS 3 million.

"Minute businesses segment" - businesses, the annual turnover of which is lower than NIS 10 million.

"Small businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 10 million, but is lower than NIS 50 million.

"Medium businesses segment" - businesses, the annual turnover of which is equal to or higher than NIS 50 million, but is lower than NIS 250 million.

"Large businesses segment" - Businesses, the annual turnover of which is equal to or exceeds NIS 250 million.

"Institutional bodies segment" – activity with institutional bodies, as defined in the Regulation of Engagement in Investment Consulting, Marketing of Investments and Investment Portfolio Management Act, 1995, including provident funds, pension funds, further education funds, mutual trust funds, ETN's, insurance companies, Stock Exchange members managing customer funds.

"Financial management segment" - includes the following activities: trading activity, asset and liability management activity, non-financial investment activity and other activities.

"Other segment" - including discontinued operations, profits from reserves and other results relating to employee rights not allocated to other segments and adjustment between the total items attribute to segments and the total items stated in the consolidated financial statements.

The following definitions were used in reporting the above operating segments:

"Private individuals" – individuals, including those managing a joint account, who at date of the report are not in debt to the Bank, or whose debt is classified to the economic sector "Private individuals – housing loans and other".

"Business" - a customer who is not included in the definition of "Private individuals" and is not an institutional body or a banking corporation.

"Annual turnover" – annual sales turnover or volume of annual income.

"Trading operations" – investment in securities held for trading, market-making activity regarding securities and derivative instruments, operation in derivative instruments not intended for hedge operations and are not part of the Bank's asset and liability management, repurchase and securities lending transactions, short sale of securities, securities underwriting services.

"Asset and liability management activity" – including investment in available-for-sale bonds and held-to-maturity bonds that are not allocated to other operating segments (where the borrower has no indebtedness to the Bank except for securities), derivative hedging instruments and derivative instruments comprising part of the asset and liability management, deposits with banks and from banks in Israel and abroad, hedge or cover for exchange rate differences of investments in overseas extensions, deposits with or of governments.

"Non-financial investment activity" – investment in available-for-sale equities and investments in affiliated companies.

"Other activities" – management services, operating, trusteeship and custodian services for banks, advisory services, sales operations and management of credit portfolios, financial product development operations.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

"Asset management" – including assets of provident funds, mutual funds, further education funds, securities of customers, loans managed by the Bank, and assets stemming from collection based operations. Allocation of the average balance of managed assets to the various segments is made according to the segment to which the provident funds and further education funds are allocated, or according to the segment to which the customer holding mutual fund units is allocated.

For details regarding managerial segments, see Note 30 below.

B. **Classification of customers in certain cases.** It is noted that, where the Bank has no information as to the business turnover of a commercial customer, who has no debts to the Bank, he may be classified to the relevant regulatory operating segment based on the number of employees in his business or on the value of the total assets of the business or on the total financial assets of the customer held with the Bank, in accordance with the rules detailed in the Directive.

It is further noted that, where, in the opinion of the Bank, the income turnover of a business customer does not reflect the volume of his operations, he may be classified as follows: if his total indebtedness is equal to or higher than NIS 100 million, he may be classified to the large businesses segment; where his total indebtedness is less than NIS 100 million, he may be classified to the relevant segment according to the number of his employees or the total assets in the balance sheet of the business, in accordance with the rules detailed in the Directive.

Whereas, with respect to a part of the customers, the Bank did not have the complete information required for the classification to regulatory operating segment, in accordance with the new instructions, in particular information regarding their business turnover, various actions had been taken to obtain such information, and in certain cases, in the absence of information, decisions had been made on the basis of evaluations and estimates. The Bank is acting to complete the improvement of the information, and accordingly, such improvements may in future reporting periods require the reclassification of customers to the operating segments.

C. **Changes in classification**. Some of the data as of December 31, 2017, and December 31, 2016, and for the periods ended therein, were reclassified in this report, including reclassification in classifying customers to the different segments.

D. **The principal assumptions, estimates and principles used in the preparation of segment information**

The classification of the business results of the Group into the various regulatory operating segments, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Net interest income. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks. According to this methodology, earning or losses from financing operations resulting from changes in market conditions, including linkage differentials are taken to the "Financial Management" segment presented as inter-segment operations.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the Financial Management segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected. The collection of debts from prior years, in material amounts, is included in the large businesses segment.

Non-interest income. Non-interest income that the Bank collects from its customers are charged partly to the activity segment of the customer and partly in the financial management segment.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

2. Expenses

The allocation of expenses to segments of operation is based on the following stages:

- Direct expenses of all Bank units, which can be identified at the unit level, are charged directly to the units generating the expense (e.g., branches, operational units, and head office units);
- Operating and other expenses of all Bank units, such as: computer expenses, maintenance, administrative and other operating expenses, which cannot be directly allocated to a specific unit, are charged to all units based on different allocation keys (such as: number of staff, number of customers, number of ATM stations, quantity and volume of operations);
- Expenses of operational units allocated according to the items above, are charged to profit units and management and control units (such as: head office, internal audit unit, strategy and finance unit) based on different allocation keys, such as: number of staff, quantity and volume of operations;
- Expenses of the management and control units are allocated to the profit units based on different allocation keys (such as: number of staff, quantity and volume of operations);
- Allocation of expenses of the profit units to customers of the unit is based on quantity and volume of operations (excluding securities activity, foreign trade according to the number of transactions only), including expenses in respect of mutual services provided by the branch outlay to customers belonging to other divisions;
- Calculating the expenses of operating segments by totaling the expenses allocated to customers belonging to the relevant segment.

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 34.19% (2017: 35.04%). Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the statutory tax, net, recognized in the operating segments and the provision for taxes as recorded in profit and loss, is attributed to segments, mainly on the basis of the operating expenses ratio.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in relation to risk assets calculated in accordance with the principles of Basel III.

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment: 9.19% in 2018, 9.18% in 2017, 9.15% in 2016.

4. Presentation of inter-segment expenses

The accountability between the profit centers in the Bank is made as described in item 2 above, by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

5. **Changes in the expenditure model.** In 2018 improvements were made in the attribution bases and unit classifications in the expenditure model.
6. **Changes in assessments of the distribution of expenses – MDB.** Following changes in the organizational structure which were implemented in MDB in recent years, in the reported period a comprehensive expenses survey was completed at MDB. Following completion of the survey, the allocation of operating expenses to segments of operation in accordance with "Management's approach" was updated in the report period. The financial results stemming from the implementation of the updated expenses survey were first included in these financial statements. Whereas the results of the expenses survey are based on different assumptions and assessments, it is possible that in the future, following the examination and analysis of the results that will be received over a period of time, changes would be made to the classification of these results.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

	For the year ended December 31, 2018				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	2,241	4	1,551	348	1,109
Interest expenses To external sources	221	106	113	29	90
Interest income, net from external sources	2,020	(102)	1,438	319	1,019
Interest income, net Intersegmental	(280)	181	13	(22)	(304)
Total Interest income, net	1,740	79	1,451	297	715
Non-interest financing income from external sources	1,055	(410)	164	41	354
Non-interest financing income Intersegmental	490	480	404	79	9
Total Non-interest financing income	1,545	70	568	120	363
Total income	**3,285**	**149**	**2,019**	**417**	**1,078**
Credit loss expenses (expenses reversal)	363	1	111	(40)	120
Operating and other expenses	3,149	125	1,347	260	414
Profit (loss) before taxes	**(227)**	**23**	**561**	**197**	**544**
Provision for taxes (tax savings) on profit	(92)	8	196	68	184
Profit (loss) after taxes	**(135)**	**15**	**365**	**129**	**360**
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(135)	15	365	129	360
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(35)	-	(7)	(2)	(5)
Net Profit (loss) Attributed to the bank's shareholders	**(170)**	**15**	**358**	**127**	**355**
Average Assets	59,619	257	32,326	9,885	34,892
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[(3)]	58,671	181	31,805	9,795	34,889
Balance of credit to the public at the period end[(3)]	62,042	200	33,595	10,068	37,156
Balance of impaired debts	155	-	507	137	399
Balance of debts (not impaired) in arrear for over ninety days	377	-	54	4	-
Average Liabilities	75,024	14,951	37,835	7,229	19,801
Of which - Average Deposits from the public	71,075	14,837	32,779	6,227	17,143
Balance of deposits from the public at the period end	73,951	16,765	33,994	5,925	18,968
Average Risk-assets[(1)]	45,529	452	31,519	12,797	37,565
Balance of Risk-assets at the period end [(1)]	46,878	424	32,623	12,116	37,736
Average assets under management[(2)]	35,904	19,145	25,223	7,422	40,491
Interest income, net:					
Margin from credit activity to the public	1,513	2	1,326	275	676
Margin from deposits activity from the public	227	77	125	22	39
Other	-	-	-	-	-
Total Interest income, net	**1,740**	**79**	**1,451**	**297**	**715**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
25	475	5,753	54	1,001	245	1,300	7,053
81	476	1,116	93	186	132	411	1,527
(56)	(1)	4,637	(39)	815	113	889	5,526
90	322	-	207	(135)	(72)	-	-
34	321	4,637	168	680	41	889	5,526
(72)	2,185	3,317	44	93	40	177	3,494
84	(1,546)	-	-	-	-	-	-
12	639	3,317	44	93	40	177	3,494
46	**960**	**7,954**	**212**	**773**	**81**	**1,066**	**9,020**
1	-	556	(2)	(14)	-	(16)	540
41	202	5,538	246	314	50	610	6,148
4	758	1,860	(32)	473	31	472	2,332
1	286	651	(11)	143	6	138	789
3	472	1,209	(21)	330	25	334	1,543
-	6	6	-	-	-	-	6
3	478	1,215	(21)	330	25	334	1,549
-	5	(44)	-	-	-	-	(44)
3	**483**	**1,171**	**(21)**	**330**	**25**	**334**	**1,505**
841	59,601	197,421	1,348	20,117	10,360	31,825	229,246
-	126	126	-	-	-	-	126
710	-	136,051	1,348	20,113	-	21,461	157,512
733	-	143,794	1,375	21,909	-	23,284	167,078
295	-	1,493	-	140	-	140	1,633
-	-	435	-	-	-	-	435
14,522	14,486	183,848	8,729	15,971	3,843	28,543	212,391
14,495	-	156,556	8,713	15,942	-	24,655	181,211
13,044	-	162,647	9,216	17,053	-	26,269	188,916
1,127	13,846	142,835	1,425	20,194	1,839	23,458	166,293
1,291	13,514	144,582	1,664	21,761	2,914	26,339	170,921
72,915	7,833	208,933	13,410	-	-	13,410	222,343
19	-	3,811	12	408	-	420	4,231
15	-	505	156	272	-	428	933
-	321	321	-	-	41	41	362
34	**321**	**4,637**	**168**	**680**	**41**	**889**	**5,526**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2017 [(4)]				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	1,994	4	1,451	328	929
Interest expenses To external sources	201	88	67	14	61
Interest income, net from external sources	1,793	(84)	1,384	314	868
Interest income, net Intersegmental	(252)	136	(55)	(41)	(209)
Total Interest income, net	1,541	52	1,329	273	659
Non-interest financing income from external sources[(7)(8)]	1,921	574	914	177	381
Non-interest financing income Intersegmental	(522)	(506)	(346)	(51)	(65)
Total Non-interest financing income	1,399	68	568	126	316
Total income	**2,940**	**120**	**1,897**	**399**	**975**
Credit loss expenses (expenses reversal)	333	-	145	21	23
Operating and other expenses [(5)(7)]	2,925	127	1,251	244	364
Profit (loss) before taxes	(318)	(7)	501	134	588
Provision for taxes (tax savings) on profit	(133)	(4)	176	46	204
Profit (loss) after taxes	(185)	(3)	325	88	384
Bank's share in operating loss of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(185)	(3)	325	88	384
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(45)	-	(10)	(2)	(7)
Net Profit (loss) Attributed to the bank's shareholders	**(230)**	**(3)**	**315**	**86**	**377**
Average Assets	55,628	255	30,018	9,538	29,687
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[(3)]	54,787	188	29,554	9,477	29,706
Balance of credit to the public at the period end[(3)]	56,129	217	30,825	9,651	32,698
Balance of impaired debts	88	-	566	284	538
Balance of debts (not impaired) in arrear for over ninety days	357	-	45	5	-
Average Liabilities	73,786	14,541	32,256	7,097	18,289
Of which - Average Deposits from the public	69,502	14,431	28,027	6,294	16,276
Balance of deposits from the public at the period end	68,766	15,656	27,220	6,230	17,632
Average Risk-assets[(1)]	41,632	424	30,719	13,285	34,853
Balance of Risk-assets at the period end [(1)]	44,242	448	32,015	13,175	34,567
Average assets under management[(2)]	35,835	19,099	20,211	4,732	43,716
Interest income, net:					
Margin from credit activity to the public	1,363	2	1,244	254	630
Margin from deposits activity from the public	178	50	85	19	29
Other	-	-	-	-	-
Total Interest income, net	**1,541**	**52**	**1,329**	**273**	**659**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Reclassified - see D (5) above .
(6) Reclassified – Improvement of the allocation of the expanses.
(7) Reclassified - see note 1 C (5) .
(8) Reclassified – Improvement of the allocation of intercompany balances in the Group.

						International operations	
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
31	[8]388	5,125	45	800	[8]243	1,088	6,213
35	[8]455	921	64	106	[8]147	317	1,238
(4)	(67)	4,204	(19)	694	96	771	4,975
46	375	-	141	(91)	(50)	-	-
42	308	4,204	122	603	46	771	4,975
94	(838)	3,223	44	81	10	135	3,358
(83)	1,573	-	-	-	-	-	-
11	735	3,223	44	81	10	135	3,358
53	**1,043**	**7,427**	**166**	**684**	**56**	**906**	**8,333**
(21)	-	501	(3)	76	-	73	574
39	215	5,165	211	[6]247	[6]71	529	5,694
35	**828**	**1,761**	**(42)**	**361**	**(15)**	**304**	**2,065**
12	305	606	(17)	160	(2)	141	747
23	**523**	**1,155**	**(25)**	**201**	**(13)**	**163**	**1,318**
-	1	1	-	-	-	-	1
23	524	1,156	(25)	201	(13)	163	1,319
-	4	(60)	-	-	-	-	(60)
23	**528**	**1,096**	**(25)**	**201**	**(13)**	**163**	**1,259**
968	61,592	187,686	1,352	19,529	11,719	32,600	220,286
-	148	148	-	-	-	-	148
883	-	124,595	1,355	19,577	-	20,932	145,527
642	-	130,162	1,333	19,373	-	20,706	150,868
299	-	1,775	-	355	-	355	2,130
-	-	407	-	-	-	-	407
14,431	15,431	175,831	9,345	15,198	4,607	29,150	204,981
14,394	-	148,924	9,244	15,034	-	24,278	173,202
14,645	-	150,149	8,789	16,232	-	25,021	175,170
1,381	12,142	134,436	1,365	20,018	1,499	22,882	157,318
847	12,836	138,130	1,318	19,152	1,470	21,940	160,070
68,903	7,474	199,970	13,426	-	-	13,426	213,396
24	-	3,517	16	422	-	438	3,955
18	-	379	106	181	-	287	666
-	308	308	-	-	46	46	354
42	**308**	**4,204**	**122**	**603**	**46**	**771**	**4,975**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2016 [6]				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income from external sources	1,705	3	1,363	343	813
Interest expenses To external sources	171	72	52	10	35
Interest income, net from external sources	1,534	(69)	1,311	333	778
Interest income, net Intersegmental	(188)	114	(98)	(60)	(187)
Total Interest income, net	1,346	45	1,213	273	591
Non-interest financing income from external sources[5][8]	1,650	282	542	155	236
Non-interest financing income Intersegmental	(316)	(216)	12	(13)	24
Total Non-interest financing income	1,334	66	554	142	260
Total income	**2,680**	**111**	**1,767**	**415**	**851**
Credit loss expenses (expenses reversal)	217	1	59	58	(22)
Operating and other expenses [7][8]	2,884	127	1,307	290	381
Profit (loss) before taxes	**(421)**	**(17)**	**401**	**67**	**492**
Provision for taxes (tax savings) on profit [5]	(99)	(3)	185	33	186
Profit (loss) after taxes	**(322)**	**(14)**	**216**	**34**	**306**
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(322)	(14)	216	34	306
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(41)	-	3	1	2
Net Profit (loss) Attributed to the bank's shareholders	**(363)**	**(14)**	**219**	**35**	**308**
Average Assets	49,492	227	28,005	9,390	26,516
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	48,557	161	27,522	9,403	26,734
Balance of credit to the public at the period end[3]	50,773	212	29,124	9,595	30,053
Balance of impaired debts	61	-	789	341	820
Balance of debts (not impaired) in arrear for over ninety days	381	-	51	7	1
Average Liabilities	71,402	14,590	29,947	6,559	15,022
Of which - Average Deposits from the public	66,917	14,483	26,026	5,811	13,218
Balance of deposits from the public at the period end	67,496	16,221	26,242	6,200	16,554
Average Risk-assets[1]	37,523	403	32,480	14,926	26,038
Balance of Risk-assets at the period end [1]	39,890	381	29,471	14,199	31,427
Average assets under management[2]	37,354	18,653	18,529	5,182	38,025
Interest income, net:					
Margin from credit activity to the public	1,183	1	1,152	260	570
Margin from deposits activity from the public	163	44	61	13	21
Other	-	-	-	-	-
Total Interest income, net	**1,346**	**45**	**1,213**	**273**	**591**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4)The effect of the transaction for the acquisition of VISA Europe, see Note 36 F.
(5) Reclassified - Improvement of the allocation of intercompany balances in the Group.
(6) Reclassified - see C above.
(7) Reclassified - see D (5) above .
(8) Reclassified - see Note 1 C (5).

Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	International operations Total International operations	Total
28	(5)344	4,599	50	727	(5)283	1,060	5,659
23	(5)429	792	59	85	(5)166	310	1,102
5	(85)	3,807	(9)	642	117	750	4,557
27	392	-	148	(71)	(77)	-	-
32	307	3,807	139	571	40	750	4,557
50	270	3,185	91	74	60	225	3,410
(33)	542	-	-	-	-	-	-
17	(4)812	3,185	91	74	60	225	3,410
49	**1,119**	**6,992**	**230**	**645**	**100**	**975**	**7,967**
30	-	343	1	125	-	126	469
51	(4)208	5,248	226	240	71	537	5,785
(32)	**911**	**1,401**	**3**	**280**	**29**	**312**	**1,713**
(10)	332	624	13	100	4	117	741
(22)	**579**	**777**	**(10)**	**180**	**25**	**195**	**972**
-	15	15	-	-	-	-	15
(22)	594	792	(10)	180	25	195	987
-	(47)	(82)	-	-	-	-	(82)
(22)	**547**	**710**	**(10)**	**180**	**25**	**195**	**905**
1,181	59,907	174,718	1,928	20,575	12,438	34,941	209,659
-	143	143	-	-	-	-	143
1,054	-	113,431	1,544	19,831	-	21,375	134,806
1,047	-	120,804	1,523	20,577	-	22,100	142,904
597	-	2,608	-	335	-	335	2,943
-	-	440	-	-	-	-	440
11,008	15,906	164,434	10,867	15,542	5,022	31,431	195,865
10,972	-	137,427	10,838	15,210	-	26,048	163,475
13,185	-	145,898	10,670	15,750	-	26,420	172,318
1,269	11,404	124,043	2,399	21,347	233	23,979	148,022
1,429	11,503	128,300	2,039	21,410	1,141	24,590	152,890
57,705	6,326	181,777	13,139	-	-	13,139	194,916
18	-	3,184	27	284	-	311	3,495
14	-	316	112	287	-	399	715
-	307	307	-	-	40	40	347
32	**307**	**3,807**	**139**	**571**	**40**	**750**	**4,557**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED

	For the year ended December 31, 2018								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Other
	in NIS millions								
Interest income From external sources	909	486	846	2,241	2	-	2	4	2,245
Interest expenses To external sources	-	2	219	221	-	-	106	106	327
Interest income, net From external sources	909	484	627	2,020	2	-	(104)	(102)	1,918
Interest income, net Intersegmental	(598)	(32)	350	(280)	(1)	-	182	181	(99)
Total Interest income, net	311	452	977	1,740	1	-	78	79	1,819
Non-interest financing income From external sources	15	1,033	7	1,055	-	1	(411)	(410)	645
Non-interest financing income Intersegmental	-	-	490	490	-	-	480	480	970
Total Non-interest financing income	15	1,033	497	1,545	-	1	69	70	1,615
Total income	**326**	**1,485**	**1,474**	**3,285**	**1**	**1**	**147**	**149**	**3,434**
Credit loss expenses	23	152	188	363	-	-	1	1	364
Operating and other expenses	122	1,079	1,948	3,149	-	-	125	125	3,274
Profit (loss) before taxes	181	254	(662)	(227)	1	1	21	23	(204)
Provision for taxes (tax savings) on profit	62	78	(232)	(92)	-	-	8	8	(84)
Profit (loss) after taxes	119	176	(430)	(135)	1	1	13	15	(120)
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	-	(35)	-	(35)	-	-	-	-	(35)
Net Profit (loss) Attributed to the bank's shareholders	**119**	**141**	**(430)**	**(170)**	**1**	**1**	**13**	**15**	**(155)**
Average Assets	30,240	13,337	16,042	59,619	84	38	135	257	59,876
Of which - Average credit to the public(3)	30,365	13,197	15,109	58,671	84	39	58	181	58,852
Balance of credit to the public at the period end(3)	32,684	14,028	15,330	62,042	95	39	66	200	62,242
Balance of impaired debts	-	46	109	155	-	-	-	-	155
Balance of debts (not impaired) in arrear for over ninety days	316	-	61	377	-	-	-	-	377
Average Liabilities	77	2,548	72,399	75,024	-	36	14,915	14,951	89,975
Of which - Average Deposits from the public	-	23	71,052	71,075	-	-	14,837	14,837	85,912
Balance of deposits from the public at the period end	-	23	73,928	73,951	-	-	16,765	16,765	90,716
Average Risk-assets(1)	17,236	12,245	16,048	45,529	42	40	370	452	45,981
Balance of Risk-assets at the period end(1)	18,568	12,038	16,272	46,878	52	40	332	424	47,302
Average assets under management(2)	399	-	35,505	35,904	-	-	19,145	19,145	55,049
Interest income, net:									
Margin from credit activity to the public	311	452	750	1,513	1	-	1	2	1,515
Margin from deposits activity from the public	-	-	227	227	-	-	77	77	304
Total Interest income, net	**311**	**452**	**977**	**1,740**	**1**	**-**	**78**	**79**	**1,819**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	(4) For the year ended December 31, 2017								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Other
	in NIS millions								
Interest income From external sources	717	445	832	1,994	2	-	2	4	1,998
Interest expenses To external sources	-	1	200	201	-	-	88	88	289
Interest income, net From external sources	717	444	632	1,793	2	-	(86)	(84)	1,709
Interest income, net Intersegmental	(497)	(32)	277	(252)	(1)	-	137	136	(116)
Total Interest income, net	220	412	909	1,541	1	-	51	52	1,593
Non-interest financing income From external sources (6)	16	885	1,020	1,921	-	1	573	574	2,495
Non-interest financing income Intersegmental	-	-	(522)	(522)	-	-	(506)	(506)	(1,028)
Total Non-interest financing income	16	885	498	1,399	-	1	67	68	1,467
Total income	**236**	**1,297**	**1,407**	**2,940**	**1**	**1**	**118**	**120**	**3,060**
Credit loss expenses	14	130	189	333	-	-	-	-	333
Operating and other expenses(5)(6)	117	889	1,919	2,925	-	1	126	127	3,052
Profit (loss) before taxes	105	278	(701)	(318)	1	-	(8)	(7)	(325)
Provision for taxes (tax savings) on profit(5)	36	89	(258)	(133)	-	-	(4)	(4)	(137)
Profit (loss) after taxes	69	189	(443)	(185)	1	-	(4)	(3)	(188)
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	-	(45)	-	(45)	-	-	-	-	(45)
Net Profit (loss) Attributed to the bank's shareholders	**69**	**144**	**(443)**	**(230)**	**1**	**-**	**(4)**	**(3)**	**(233)**
Average Assets	27,125	11,725	16,778	55,628	86	38	131	255	55,883
Of which - Average credit to the public(3)	27,234	11,592	15,961	54,787	86	38	64	188	54,975
Balance of credit to the public at the period end(3)	28,687	12,413	15,029	56,129	79	40	98	217	56,346
Balance of impaired debts	-	23	65	88	-	-	-	-	88
Balance of debts (not impaired) in arrear for over ninety days	282	-	75	357	-	-	-	-	357
Average Liabilities	129	2,432	71,225	73,786	-	35	14,506	14,541	88,327
Of which - Average Deposits from the public	-	21	69,481	69,502	-	-	14,431	14,431	83,933
Balance of deposits from the public at the period end	-	22	68,744	68,766	-	-	15,656	15,656	84,422
Average Risk-assets(1)	15,304	10,341	15,987	41,632	40	36	348	424	42,056
Balance of Risk-assets at the period end (1)	16,402	11,804	16,036	44,242	42	38	368	448	44,690
Average assets under management(2)	445	-	35,390	35,835	-	-	19,099	19,099	54,934
Interest income, net:									
Margin from credit activity to the public	219	412	732	1,363	1	-	1	2	1,365
Margin from deposits activity from the public	1	-	177	178	-	-	50	50	228
Total Interest income, net	**220**	**412**	**909**	**1,541**	**1**	**-**	**51**	**52**	**1,593**

Footnotes:

(1) Risk weighted assets – as computed for capital adequacy purposes.

(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

(4) Reclassified - see C above.

(5) Reclassified - see D (5) above.

(6) Reclassified - see Note 1 C (5).

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. SMALL, MINUTE, MEDIUM AND LARGE BUSINESS - OPERATIONS IN ISRAEL, CONSOLIDATED

	For the year ended December 31, 2018									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	total	Construction and real estate	Other	total	Construction and real estate	Other	total	total
	in NIS millions									
Interest income From external sources	425	1,126	1,551	84	264	348	274	835	1,109	3,008
Interest expenses From external sources	22	91	113	4	25	29	5	85	90	232
Interest income, net From external sources	403	1,035	1,438	80	239	319	269	750	1,019	2,776
Interest income, net Intersegmental	(33)	46	13	(10)	(12)	(22)	(72)	(232)	(304)	(313)
Total Interest income, net	**370**	**1,081**	**1,451**	**70**	**227**	**297**	**197**	**518**	**715**	**2,463**
Non-interest financing income From external sources	9	155	164	20	21	41	135	219	354	559
Non-interest financing income Intersegmental	61	343	404	7	72	79	(24)	33	9	492
Total Non-interest financing income	**70**	**498**	**568**	**27**	**93**	**120**	**111**	**252**	**363**	**1,051**
Of which - Credit Card income	-	134	134	-	29	29	-	84	84	247
Total income	**440**	**1,579**	**2,019**	**97**	**320**	**417**	**308**	**770**	**1,078**	**3,514**
Credit loss expenses (expenses reversal)	12	99	111	(12)	(28)	(40)	(19)	139	120	191
Operating and other expenses	167	1,180	1,347	29	231	260	13	401	414	2,021
Profit before taxes	261	300	561	80	117	197	314	230	544	1,302
Provision for taxes on profit	87	109	196	27	41	68	108	76	184	448
Profit after taxes	174	191	365	53	76	129	206	154	360	854
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(7)	(7)	-	(2)	(2)	-	(5)	(5)	(14)
Net Profit Attributed to the bank's shareholders	**174**	**184**	**358**	**53**	**74**	**127**	**206**	**149**	**355**	**840**
Average Assets	10,134	22,192	32,326	2,359	7,526	9,885	8,897	25,995	34,892	77,103
Of which - Average credit to the public(3)	10,032	21,773	31,805	2,352	7,443	9,795	8,954	25,935	34,889	76,489
Balance of credit to the public at the period end(3)	10,939	22,656	33,595	2,370	7,698	10,068	10,162	26,994	37,156	80,819
Balance of impaired debts	293	214	507	55	82	137	59	340	399	1,043
Balance of debts (not impaired) in arrear for over ninety days	10	44	54	4	-	4	-	-	-	58
Average Liabilities	5,732	32,103	37,835	1,651	5,578	7,229	3,206	16,595	19,801	64,865
Of which - Average Deposits from the public	5,617	27,162	32,779	1,630	4,597	6,227	3,184	13,959	17,143	56,149
Balance of deposits from the public at the period end	5,736	28,258	33,994	1,579	4,346	5,925	3,552	15,416	18,968	58,887
Average Risk-assets(1)	9,504	22,015	31,519	3,503	9,294	12,797	15,510	22,055	37,565	81,881
Balance of Risk-assets at the period end (1)	10,518	22,105	32,623	2,954	9,162	12,116	16,147	21,589	37,736	82,475
Average assets under management(2)	447	24,776	25,223	488	6,934	7,422	258	40,233	40,491	73,136
Interest income, net:										
Margin from credit activity to the public	351	975	1,326	65	210	275	192	484	676	2,277
Margin from deposits activity from the public	19	106	125	5	17	22	5	34	39	186
Total Interest income, net	**370**	**1,081**	**1,451**	**70**	**227**	**297**	**197**	**518**	**715**	**2,463**

Footnotes:
(1) Risk weighted assets-as computed for capital adequacy purposes
(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. SMALL, MINUTE, MEDIUM AND LARGE BUSINESS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2017[4]									
	Small and minute businesses			Medium businesses			Large businesses			
	Construction and real estate	Other	total	Construction and real estate	Other	total	Construction and real estate	Other	total	total
	in NIS millions									
Interest income From external sources	390	1,061	1,451	83	245	328	236	693	929	2,708
Interest expenses From external sources	9	58	67	3	11	14	5	56	61	142
Interest income, net From external sources	381	1,003	1,384	80	234	314	231	637	868	2,566
Interest income, net Intersegmental	(46)	(9)	(55)	(13)	(28)	(41)	(63)	(146)	(209)	(305)
Total Interest income, net	335	994	1,329	67	206	273	168	491	659	2,261
Non-interest financing income From external sources[6]	99	815	914	78	99	177	82	299	381	1,472
Non-interest financing income Intersegmental	(29)	(317)	(346)	(1)	(50)	(51)	22	(87)	(65)	(462)
Total Non-interest financing income	70	498	568	77	49	126	104	212	316	1,010
Of which - Credit Card income	-	133	133	-	30	30	-	81	81	244
Total income	**405**	**1,492**	**1,897**	**144**	**255**	**399**	**272**	**703**	**975**	**3,271**
Credit loss expenses (expenses reversal)	5	140	145	(18)	39	21	(78)	101	23	189
Operating and other expenses [5][6]	148	1,103	1,251	28	216	244	12	352	364	1,859
Profit (loss) before taxes	252	249	501	134	-	134	338	250	588	1,223
Provision for taxes on profit	87	89	176	45	1	46	119	85	204	426
Profit (loss) after taxes	165	160	325	89	(1)	88	219	165	384	797
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(10)	(10)	-	(2)	(2)	-	(7)	(7)	(19)
Net Profit (loss) Attributed to the bank's shareholders	**165**	**150**	**315**	**89**	**(3)**	**86**	**219**	**158**	**377**	**778**
Average Assets	9,134	20,884	30,018	2,449	7,089	9,538	7,845	21,842	29,687	69,243
Of which - Average credit to the public[3]	9,074	20,480	29,554	2,441	7,036	9,477	7,915	21,791	29,706	68,737
Balance of credit to the public at the period end[3]	9,273	21,552	30,825	2,407	7,244	9,651	8,579	24,119	32,698	73,174
Balance of impaired debts	268	298	566	79	205	284	14	524	538	1,388
Balance of debts (not impaired) in arrear for over ninety days	8	37	45	4	1	5	-	-	-	50
Average Liabilities	4,343	27,913	32,256	1,664	5,433	7,097	2,212	16,077	18,289	57,642
Of which - Average Deposits from the public	4,244	23,783	28,027	1,645	4,649	6,294	2,196	14,080	16,276	50,597
Balance of deposits from the public at the period end	4,222	22,998	27,220	1,936	4,294	6,230	3,072	14,560	17,632	51,082
Average Risk-assets[1]	8,926	21,793	30,719	4,101	9,184	13,285	12,865	21,988	34,853	78,857
Balance of Risk-assets at the period end [1]	9,076	22,939	32,015	3,753	9,422	13,175	14,554	20,013	34,567	79,757
Average assets under management[2]	421	19,790	20,211	394	4,338	4,732	326	43,390	43,716	68,659
Interest income, net:										
Margin from credit activity to the public	322	922	1,244	63	191	254	163	467	630	2,128
Margin from deposits activity from the public	13	72	85	4	15	19	5	24	29	133
Total Interest income, net	**335**	**994**	**1,329**	**67**	**206**	**273**	**168**	**491**	**659**	**2,261**

Footnotes:
(1) Risk weighted assets – as computed for capital adequacy purposes.
(2) Managed assets – including assets of provident funds, further education funds, mutual funds and customer securities.
(3) Outstanding balance of credit to the public- the recorded amount of the debt is presented.
(4) Reclassified - see C above.
(5) Reclassified - see D (5) above.
(6) Reclassified - see Note 1 C (5).

29. Regulatory Operating Segments and Geographical Areas Information (continued)

In accordance with the transitional instructions, these financial statements present for the first time separate data regarding the financial management segment. Accordingly, no comparative data is presented.

H. FINANCIAL MANAGEMENT SEGMENT – DOMESTIC OPERATIONS, CONSOLIDATED

	For the year ended December 31, 2018				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	total
	in NIS millions				
Interest income From external sources	32	439	-	4	475
Interest expenses To external sources	(1)	475	-	2	476
Interest income, net From external sources	33	(36)	-	2	(1)
Interest income, net Intersegmental	(24)	346	-	-	322
Total Interest income, net	9	310	-	2	321
Non-interest financing income From external sources	95	1,889	116	85	2,185
Non-interest financing income Intersegmental	64	(1,610)	-	-	(1,546)
Total Non-interest financing income	159	279	116	85	639
Total income	**168**	**589**	**116**	**87**	**960**
Operating and other expenses	127	47	18	10	202
Profit (loss) before taxes	**41**	**542**	**98**	**77**	**758**
Provision for taxes (tax savings) on profit	12	186	32	56	286
Profit (loss) after taxes	**29**	**356**	**66**	**21**	**472**
Bank's share in operating income of affiliated companies	-	-	6	-	6
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	5	-	-	5
Net Profit (loss) Attributed to the bank's shareholders	**29**	**361**	**72**	**21**	**483**
Average Assets	6,646	50,870	1,790	295	59,601
Of which - Investment in Investee companies	-	-	126	-	126
Average Liabilities	4,167	10,012	-	307	14,486
Average Risk-assets(1)	5,559	6,318	1,405	564	13,846
Balance of Risk-assets at the period end (1)	5,087	6,437	1,486	504	13,514
Average assets under management(2)	-	3	-	7,830	7,833
Components of net interest income and non-interest income:					
Net exchange rate differences(3)	63	81	-	-	144
Net CPI linkage differences(3)	(30)	88	-	-	58
Net interest exposure(3)	238	269	-	-	507
Net share exposure(3)	(7)	-	-	-	(7)
Total net interest income and non-interest income, on an accrual basis	**264**	**438**	**-**	**-**	**702**
Profits or losses on sale or on impairment in value	-	49	-	-	49
Change in the difference between fair value and the accrual basis	-	102	-	-	102
Other non-interest income	(96)	-	-	-	(96)
Total net interest income and non-interest income	**168**	**589**	**116**	**87**	**960**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter of a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including in respect of securities and derivative instruments.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

H. FINANCIAL MANAGEMENT SEGMENT – DOMESTIC OPERATIONS, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2017[4]				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	total
	in NIS millions				
Interest income From external sources	22	358	-	8	388
Interest expenses To external sources	-	451	-	4	455
Interest income, net From external sources	22	(93)	-	4	(67)
Interest income, net Intersegmental	(8)	383	-	-	375
Total Interest income, net	14	290	-	4	308
Non-interest financing income From external sources [6]	61	(1,253)	235	119	(838)
Non-interest financing income Intersegmental	60	1,513	-	-	1,573
Total Non-interest financing income	121	260	235	119	735
Total income	**135**	**550**	**235**	**123**	**1,043**
Operating and other expenses [5][6]	121	56	22	16	215
Profit (loss) before taxes	14	494	213	107	828
Provision for taxes (tax savings) on profit	4	174	57	70	305
Profit (loss) after taxes	10	320	156	37	523
Bank's share in operating income of affiliated companies	-	-	1	-	1
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	4	-	-	4
Net Profit (loss) Attributed to the bank's shareholders	**10**	**324**	**157**	**37**	**528**
Average Assets	5,920	52,763	1,813	1,096	61,592
Of which - Investment in Investee companies	-	-	148	-	148
Average Liabilities	3,443	10,799	-	1,189	15,431
Average Risk-assets[1]	4,329	5,929	1,374	510	12,142
Balance of Risk-assets at the period end [1]	4,747	5,993	1,338	758	12,836
Average assets under management[2]	-	9	-	7,465	7,474
Components of net interest income and non-interest income:					
Net exchange rate differences	55	(43)	-	-	12
Net CPI linkage differences	26	(11)	-	-	15
Net interest exposure	(61)	450	-	-	389
Net share exposure	3	-	-	-	3
Total net interest income and non-interest income, on an accrual basis	**23**	**396**	**-**	**-**	**419**
Profits or losses on sale or on impairment in value	-	177	-	-	177
Change in the difference between fair value and the accrual basis	-	(23)	-	-	(23)
Other non-interest income	112	-	-	-	112
Total net interest income and non-interest income	**135**	**550**	**235**	**123**	**1,043**

Footnotes:

Average balance were computed on the basis of balance at beginning of a quarter of a month.

(1) Risk weighted assets-as computed for capital adequacy purposes

(2) Managed assets-including assets of provident funds, further education funds, mutual funds and customer securities.

(3) Including in respect of securities and derivative instruments.

(4) Reclassified - see C above.

(5) Reclassified - see D (5) above.

(6) Reclassified - see Note 1 C (5).

(7) Reclassified – Improvement of the allocation of intercompany balances in the Group.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

I. INFORMATION ON GEOGRAPHICAL AREAS

	Income[1]			Net Income (loss) attributed to the bank's shareholders			Assets	
	For the year end December 31						As at December 31	
	2018	2017	2016	2018	2017	2016	2018	2017
	in NIS millions							
Israel	7,954	[2]7,427	[2]6,992	1,171	[2]1,096	[2]710	204,828	188,988
Europe	1	(10)	17	1	(14)	(1)	17	15
North America	1,065	[2]916	[2]954	333	[2]177	[2]196	34,331	32,218
South America	-	-	4	-	-	-	-	-
Total Overseas	**1,066**	**906**	**975**	**334**	**163**	**195**	**34,348**	**32,233**
Total Consolidated	**9,020**	**8,333**	**7,967**	**1,505**	**1,259**	**905**	**239,176**	**221,221**

Footnote:

(1) Income - Interest income, net, before credit loss expenses and non-interest income.

(2) Reclassified – Improvement of the allocation of intercompany balances in the Group.

It is noted that in view of the sale of the operations of Discount Bank Latin America (see Note 15D), the operations in South America discontinued. It is also noted that in view of the sale of operations of IDB (Swiss) Bank and the closing down of the London Branch, operations in Europe are discontinued also.

30. Managerial Operating Segments

A. General

1. According to the new instructions, a banking corporation, the operating segments of which, according to the approach of its Management, are materially different from the regulatory operating segments, shall provide in addition, disclosure regarding operating segments according to the Management's approach ("managerial operating segments"), in accordance with the accounting principles accepted by U.S. banks in the matter of operating segments – (ASC 280).
2. The Bank has identified the following managerial operating segments: Retail banking, Middle Market banking, Corporate banking, financial operations, Discount Capital, Discount Bancorp, Israel Credit Cards Company, other. These segments agree with the managerial structure.
   - Segments under responsibility of the Banking Division (at the Bank; under the responsibility of the Retail Division of MDB relating to retail banking, under the responsibility the Corporate-Commercial Division of MDB relating to commercial banking):

     Retail banking – Household activity (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to their private customers) and activity of small businesses (this framework includes services provided by the Bank and MDB in the field of banking and capital market operations to business customers, individuals and corporations, the activity of which is typical of small businesses).

     Middle Market banking - In this framework are included banking services provided by the Bank and MDB to business customers (individuals and corporations) having a medium scope of operations, and who do not belong to the corporate banking segment.
   - Segment under the responsibility of the Corporate Division (at the Bank; under the responsibility of the Commercial Banking Division of MDB):

     Corporate banking segment - This framework includes banking services provided by the Bank and MDB to large corporations. The segment includes also the activity of the Bank and MDB in the construction and real estate field.
   - Segment under the responsibility of the Financial Markets Division (at the Bank; under the responsibility of the Financial Division of MDB):

     Financial activity segment – In this framework is included the financial activity of the Bank and of MDB, which is not attributed to customers, such as operations in the securities portfolios of the banks.
   - Segments including the activities of the principal subsidiaries in the Group:

     Discount Capital – Activity in the investments field (in private equity funds, in venture capital funds and in other non-financial investments), in the field of investment banking, in the field of securities distribution and in the underwriting and management of issuance.

30. Managerial Operating Segments (continued)

Discount Bancorp – The international activity of the Discount Group, characterized as corporate- middle market activity and private banking through IDB New York.

ICC – Issue and clearing activity of credit cards of different kinds, for use in Israel and abroad.

- Other segment – Different activities, which are not included in any of the above described segments, the scope of which is not material enough to be defined as an operating segment.

3. In allocating the expenses to the administrative segments, use is made of the allocation model used for the regulatory segments, apart from customer attribution to the appropriate administrative segment, in accordance with criteria used for dividing the activity between the administrative segments.

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS

	For the year ended December 31, 2018									
	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
Interest income, net	2,468	554	803	343	7	879	463	3	6	5,526
Non-interest income	1,131	136	385	421	125	177	1,235	62	(178)	3,494
Total income	**3,599**	**690**	**1,188**	**764**	**132**	**1,056**	**1,698**	**65**	**(172)**	**9,020**
Credit loss expenses (expenses reversal)	375	(27)	48	-	1	(16)	159	-	-	540
Operating and other expenses	3,325	425	409	164	34	611	1,329	23	(172)	6,148
Income (loss) before taxes	(101)	292	731	600	97	461	210	42	-	2,332
Provision for taxes (tax saving) on income	(41)	101	251	228	29	138	71	12	-	789
Income (loss) after taxes	(60)	191	480	372	68	323	139	30	-	1,543
Bank's share in income of affiliated companies, net of tax effect	1	-	-	6	2	-	-	-	(3)	6
Net income before attributed to the non-controlling rights holders	(59)	191	480	378	70	323	139	30	(3)	1,549
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(44)	(3)	3	(44)
Net Income attributed to the bank's shareholders	**(59)**	**191**	**480**	**378**	**70**	**323**	**95**	**27**	**-**	**1,505**
Balance of Assets	75,211	19,180	47,791	64,065	1,559	34,554	16,015	4,314	(23,513)	239,176
Balance of credit to the public	73,281	19,345	43,247	-	85	23,284	15,622	-	(7,786)	167,078
Balance of deposits from the public	122,261	14,707	26,295	3,942	-	26,270	23	-	(4,582)	188,916

footnotes:

(1) The contribution to the Bank's business results.

30. Managerial Operating Segments (continued)

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	For the year ended December 31, 2017									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
Interest income, net	2,214	513	754	295	1	765	423	4	6	4,975
Non-interest income	[3]1,121	[3]137	[3]355	369	268	146	1,087	41	(166)	3,358
Total income	**3,335**	**650**	**1,108**	**664**	**269**	**911**	**1,510**	**45**	**(160)**	**8,333**
Credit loss expenses (expenses reversal)	389	54	(65)	-	-	73	124	-	(1)	574
Operating and other expenses	[2][3]3,227	[2][3]404	[2][3]360	[2][3]164	41	526	1,094	38	(160)	5,694
Income (loss) before taxes	(281)	192	814	500	228	312	292	7	1	2,065
Provision for taxes (tax saving) on income	[2][3](117)	[2][3]67	[2][3]284	[2][3]202	62	140	102	7	-	747
Income (loss) after taxes	(164)	125	530	298	166	172	190	-	1	1,318
Bank's share in income of affiliated companies, net of tax effect	1	-	-	2	(1)	-	1	-	(2)	1
Net income (loss) before attributed to the non-controlling rights holders	(163)	125	530	300	165	172	191	-	(1)	1,319
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(60)	(2)	2	(60)
Net Income (loss) Attributed to the bank's shareholders	**(163)**	**125**	**530**	**300**	**165**	**172**	**131**	**(2)**	**1**	**1,259**
Balance of Assets	69,358	18,052	39,518	63,855	1,483	32,288	14,053	3,288	(20,674)	221,221
Balance of credit to the public	67,508	18,219	37,619	-	-	20,706	13,668	-	(6,852)	150,868
Balance of deposits from the public	111,598	14,569	24,656	2,909	-	25,021	22	-	(3,605)	175,170

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified – updating the expense model, see Note 29 D 5.

(3) Reclassified, see Note 1 C 5.

30. Managerial Operating Segments (continued)

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	For the year ended December 31, 2016									
	Retail banking[2]	Middle market banking	Corporate banking	Financial management	Discount Capital[1]	Discount Bancorp[1]	Israel Credit Cards[1]	other	Adjustments	Total
	In NIS millions									
Interest income, net	1,946	469	700	323	1	747	362	3	6	4,557
Non-interest income	[3]1,100	[3]131	[3]321	367	109	208	1,260	71	(157)	3,410
Total income	**3,046**	**600**	**1,021**	**690**	**110**	**955**	**1,622**	**74**	**(151)**	**7,967**
Credit loss expenses (expenses reversal)	239	(1)	29	-	-	127	75	-	-	469
Operating and other expenses	[2][3]3,266	[2][3]419	[2][3]391	[2][3]165	28	527	1,105	35	(151)	5,785
Income (loss) before taxes	(459)	182	601	525	82	301	442	39	-	1,713
Provision for taxes (tax saving) on income	[2][3](93)	[2][3]74	[2][3]225	[2][3]223	13	108	174	16	1	741
Income (loss) after taxes	(366)	108	376	302	69	193	268	23	(1)	972
Bank's share in income of affiliated companies, net of tax effect	1	-	-	7	9	-	-	-	(2)	15
Net income (loss) before attributed to the non-controlling rights holders	(365)	108	376	309	78	193	268	23	(3)	987
Net income attributed to the non-controlling rights holders	-	-	-	-	-	-	(82)	(2)	2	(82)
Net Income (loss) Attributed to the bank's shareholders	**(365)**	**108**	**376**	**309**	**78**	**193**	**186**	**21**	**(1)**	**905**
Balance of Assets	63,733	16,277	37,645	67,941	1,267	35,609	12,416	5,038	(20,349)	219,577
Balance of credit to the public	61,690	16,379	36,349	-	-	22,100	12,043	-	(5,657)	142,904
Balance of deposits from the public	109,485	13,024	23,778	4,510	-	26,384	19	-	(4,882)	172,318

footnotes:

(1) The contribution to the Bank's business results.

(2) Reclassified – updating the expense model, see Note 29 D 5.

(3) Reclassified, see Note 1 C 5.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds, securities borrowed or purchased under resale agreements and assets in respect of the "MAOF" market activity.

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS

1. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES - CONSOLIDATED

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,560	178	566	2,304	1	2,305
Expenses for credit loss	178	23	339	540	-	540
Accounting write-offs	(476)	(14)	(446)	(936)	-	(936)
Collection of debts written-off in previous years	324	-	197	521	-	521
Net accounting write-offs	(152)	(14)	(249)	(415)	-	(415)
Financial statements translation adjustments	20	-	1	21	-	21
Balance of allowance for credit losses, as at December 31, 2018	**1,606**	**187**	**657**	**2,450**	**1**	**2,451**
Of which: In respect of off-balance sheet credit instruments	125	-	51	176	-	176
	2017					
Balance of allowance for credit losses, as at December 31, 2016	1,702	168	469	2,339	-	2,339
Expenses for credit loss	243	15	315	573	1	574
Accounting write-offs	(761)	(5)	(410)	(1,176)	-	(1,176)
Collection of debts written-off in previous years	401	-	193	594	-	594
Net accounting write-offs	(360)	(5)	(217)	(582)	-	(582)
Financial statements translation adjustments	(25)	-	(1)	(26)	-	(26)
Balance of allowance for credit losses, as at December 31, 2017	**1,560**	**178**	**566**	**2,304**	**1**	**2,305**
Of which: In respect of off-balance sheet credit instruments	155	-	38	193	-	193
	2016					
Balance of allowance for credit losses, as at December 31, 2015	1,675	176	407	2,258	3	2,261
Expenses (expenses reversal) for credit loss	255	8	209	472	(3)	469
Accounting write-offs	(569)	(16)	(327)	(912)	-	(912)
Collection of debts written-off in previous years	345	-	180	525	-	525
Net accounting write-offs	(224)	(16)	(147)	(387)	-	(387)
Financial statements translation adjustments	(4)	-	-	(4)	-	(4)
Balance of allowance for credit losses, as at December 31, 2016	**1,702**	**168**	**469**	**2,339**	**-**	**2,339**
Of which: In respect of off-balance sheet credit instruments	161	-	34	195	-	195

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – CONSOLIDATED

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31, 2018					
Recorded amount of debts:						
Examined on a specific basis[1]	75,208	-	539	75,747	5,389	81,136
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]231	32,779	-	33,010	-	33,010
Group - other	[2]28,054	145	30,122	58,321	450	58,771
Total debts	**103,493**	**32,924**	**30,661**	**167,078**	**5,839**	**172,917**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,096	-	64	1,160	-	1,160
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]185	-	186	-	186
Group - other	384	2	542	928	1	929
Total allowance for Credit Losses	**1,481**	**187**	**606**	**2,274**	**1**	**2,275**
	December 31, 2017					
Recorded amount of debts:						
Examined on a specific basis[1]	67,477	-	483	67,960	4,325	72,285
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]250	28,766	-	29,016	-	29,016
Group - other	25,524	127	28,241	53,892	229	54,121
Total debts	**93,251**	**28,893**	**28,724**	**150,868**	**4,554**	**155,422**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,043	-	34	1,077	-	1,077
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]1	[3]176	-	177	-	177
Group - other	361	2	494	857	1	858
Total allowance for Credit Losses	**1,405**	**178**	**528**	**2,111**	**1**	**2,112**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 79,503 million (December 31, 2017 - NIS 70,155 million) and the allowance in its respect in an amount of NIS 937 million (December 31, 2017 - NIS 889 million) computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (as of December 31, 2017 – an amount of NIS 250 million).

(3) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 4 million (December 31, 2017 - NIS 3 million), and computed on a group basis, in an amount of NIS 116 million (December 31, 2017 - NIS 103 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

3. CHANGE IN THE BALANCE OF THE ALLOWANCE FOR CREDIT LOSSES – THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	2018					
Balance of allowance for credit losses, as at December 31, 2017	1,010	157	282	1,449	1	1,450
Credit loss expenses	115	20	165	300	-	300
Accounting write-offs	(348)	(13)	(243)	(604)	-	(604)
Collection of debts written-off in previous years	253	-	105	358	-	358
Net accounting write-offs	(95)	(13)	(138)	(246)	-	(246)
Balance of allowance for credit losses, as at December 31, 2018	**1,030**	**164**	**309**	**1,503**	**1**	**1,504**
Of which: In respect of off-balance sheet credit instruments	108	-	18	126	-	126
	2017					
Balance of allowance for credit losses, as at December 31, 2016	1,143	151	231	1,525	-	1,525
Credit loss expenses	65	11	181	257	1	258
Accounting write-offs	(537)	(5)	(231)	(773)	-	(773)
Collection of debts written-off in previous years	339	-	101	440	-	440
Net accounting write-offs	(198)	(5)	(130)	(333)	-	(333)
Balance of allowance for credit losses, as at December 31, 2017	**1,010**	**157**	**282**	**1,449**	**1**	**1,450**
Of which: In respect of off-balance sheet credit instruments	132	-	15	147	-	147
	2016					
Balance of allowance for credit losses, as at December 31, 2015	1,112	160	198	1,470	-	1,470
Credit loss expenses	99	7	126	232	-	232
Accounting write-offs	(348)	(16)	(182)	(546)	-	(546)
Collection of debts written-off in previous years	280	-	89	369	-	369
Net accounting write-offs	(68)	(16)	(93)	(177)	-	(177)
Balance of allowance for credit losses, as at December 31, 2016	**1,143**	**151**	**231**	**1,525**	**-**	**1,525**
Of which: In respect of off-balance sheet credit instruments	134	-	14	148	-	148

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

A. DEBTS AND OFF-BALANCE SHEET CREDIT INSTRUMENTS (CONTINUED)

4. ADDITIONAL INFORMATION REGARDING THE MODE OF COMPUTING THE ALLOWANCE FOR CREDIT LOSSES IN RESPECT OF THE DEBTS AND REGARDING THE DEBTS FOR WHICH THE ALLOWANCE IS COMPUTED – THE BANK

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	December 31,2018					
Recorded amount of debts:						
Examined on a specific basis[1]	60,027	-	275	60,302	6,039	66,341
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	209	27,989	-	28,198	-	28,198
Group - other	7,203	-	14,122	21,325	-	21,325
Total debts	**67,439**	**27,989**	**14,397**	**109,825**	**6,039**	**115,864**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	821	-	51	872	-	872
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]164	-	165	-	165
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**922**	**164**	**291**	**1,377**	**1**	**1,378**
	December 31,2017					
Recorded amount of debts:						
Examined on a specific basis[1]	53,178	-	208	53,386	4,778	58,164
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	200	24,568	-	24,768	-	24,768
Group - other	6,887	-	14,015	20,902	-	20,902
Total debts	**60,265**	**24,568**	**14,223**	**99,056**	**4,778**	**103,834**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	777	-	27	804	-	804
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]1	[2]157	-	158	-	158
Group - other	100	-	240	340	1	341
Total allowance for Credit Losses	**878**	**157**	**267**	**1,302**	**1**	**1,303**

:Footnotes
(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 65,146 million (December 31, 2017 - NIS 56,673 million) and the allowance in its respect in an amount of NIS 703 million (December 31, 2017 - NIS 662 million) computed on a group basis.
(2) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis, in amount of NIS 3 million (December 31, 2017 - NIS 2 million), computed on a group basis, in amount of NIS 98 million (December 31, 2017 - NIS 87 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS

1. CREDIT QUALITY AND ARREARS - CONSOLIDATED

	December 31, 2018					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	12,496	71	88	12,655	13	28
Construction and Real Estate - Real Estate Activity	9,506	14	281	9,801	1	11
Financial Services	9,553	1	298	9,852	1	7
Commercial - Other	44,439	620	625	45,684	43	149
Total Commercial	**75,994**	**706**	**1,292**	**77,992**	**58**	**195**
Private Individuals - Housing Loans	32,377	[5]334	-	32,711	310	99
Private Individuals - Other Loans	28,896	406	155	29,457	61	174
Total Public - Activity in Israel	**137,267**	**1,446**	**1,447**	**140,160**	**429**	**468**
Banks in Israel	399	-	-	399	-	-
Government of Israel	2,167	-	-	2,167	-	-
Total Activity in Israel	**139,833**	**1,446**	**1,447**	**142,726**	**429**	**468**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	9,068	131	139	9,338	-	-
Commercial - Other	15,601	515	47	16,163	-	14
Total Commercial	**24,669**	**646**	**186**	**25,501**	**-**	**14**
Private Individuals	1,411	6	-	1,417	6	1
Total Public - Activity Abroad	**26,080**	**652**	**186**	**26,918**	**6**	**15**
Foreign banks	2,104	-	-	2,104	-	-
Foreign governments	1,169	-	-	1,169	-	-
Total Activity Abroad	**29,353**	**652**	**186**	**30,191**	**6**	**15**
Total public	**163,347**	**2,098**	**1,633**	**167,078**	**435**	**483**
Total banks	**2,503**	**-**	**-**	**2,503**	**-**	**-**
Total governments	**3,336**	**-**	**-**	**3,336**	**-**	**-**
Total	**169,186**	**2,098**	**1,633**	**172,917**	**435**	**483**

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

1. CREDIT QUALITY AND ARREARS – CONSOLIDATED (CONTINUED)

	December 31, 2017					
	Problematic[1]				Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	10,748	56	93	10,897	11	23
Construction and Real Estate - Real Estate Activity	8,358	19	230	8,607	1	11
Financial Services	7,073	1	348	7,422	1	1
Commercial - Other	42,480	663	966	44,109	37	155
Total Commercial	**68,659**	**739**	**1,637**	**71,035**	**50**	**190**
Private Individuals - Housing Loans	28,379	[5]308	-	28,687	282	78
Private Individuals - Other Loans	27,037	402	88	27,527	70	195
Total Public - Activity in Israel	**124,075**	**1,449**	**1,725**	**127,249**	**402**	**463**
Banks in Israel	368	-	-	368	-	-
Government of Israel	770	-	-	770	-	-
Total Activity in Israel	**125,213**	**1,449**	**1,725**	**128,387**	**402**	**463**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	8,168	296	137	8,601	-	-
Commercial - Other	13,004	343	268	13,615	-	4
Total Commercial	**21,172**	**639**	**405**	**22,216**	**-**	**4**
Private Individuals	1,398	5	-	1,403	5	8
Total Public - Activity Abroad	**22,570**	**644**	**405**	**23,619**	**5**	**12**
Foreign banks	2,693	-	-	2,693	-	-
Foreign governments	723	-	-	723	-	-
Total Activity Abroad	**25,986**	**644**	**405**	**27,035**	**5**	**12**
Total public	**146,645**	**2,093**	**2,130**	**150,868**	**407**	**475**
Total banks	**3,061**	**-**	**-**	**3,061**	**-**	**-**
Total governments	**1,493**	**-**	**-**	**1,493**	**-**	**-**
Total	**151,199**	**2,093**	**2,130**	**155,422**	**407**	**475**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see B.2.c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Debts in arrears for between 30 and 89 days which accrue interest income, in amount of NIS 125 million are classified as unimpaired problematic debts (December 31, 2017 - NIS 123 million).

(5) Including housing loans in amount of NIS 10 million with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due (December 31, 2017 - NIS 12 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE

	December 31, 2018				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	56	15	32	88	1,545
Construction and Real Estate - Real Estate Activity	168	8	113	281	1,077
Financial Services	298	22	-	298	404
Commercial - Other	450	124	175	625	3,444
Total Commercial	**972**	**169**	**320**	**1,292**	**6,470**
Private Individuals - Other Loans	123	54	32	155	528
Total Public - Activity in Israel	**1,095**	**223**	**352**	**1,447**	**6,998**
Total Activity in Israel	**1,095**	**223**	**352**	**1,447**	**6,998**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	-	-	139	139	498
Commercial - Other	-	-	47	47	127
Total Commercial	**-**	**-**	**186**	**186**	**625**
Private Individuals	-	-	-	-	1
Total Public - Activity Abroad	**-**	**-**	**186**	**186**	**626**
Total Activity Abroad	**-**	**-**	**186**	**186**	**626**
Total public	**1,095**	**223**	**538**	**1,633**	**7,624**
Total	**1,095**	**223**	**538**	**1,633**	**7,624**
Of which:					
Measured according to present value of cash flows	888	196	84	972	
Debts under troubled debt restructurings	868	163	357	1,225	

For footnotes see next page.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

A. IMPAIRED DEBTS AND SPECIFIC ALLOWANCE (CONTINUED)

	December 31, 2017				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	30	8	63	93	1,962
Construction and Real Estate - Real Estate Activity	82	5	148	230	1,163
Financial Services	347	32	1	348	460
Commercial - Other	539	116	427	966	4,049
Total Commercial	**998**	**161**	**639**	**1,637**	**7,634**
Private Individuals - Other Loans	[4]57	25	[4]31	88	445
Total Public - Activity in Israel	**1,055**	**186**	**670**	**1,725**	**8,079**
Total Activity in Israel	**1,055**	**186**	**670**	**1,725**	**8,079**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	10	1	127	137	547
Commercial - Other	1	1	267	268	391
Total Commercial	**11**	**2**	**394**	**405**	**938**
Private Individuals	-	-	-	-	1
Total Public - Activity Abroad	**11**	**2**	**394**	**405**	**939**
Total Activity Abroad	**11**	**2**	**394**	**405**	**939**
Total public	**1,066**	**188**	**1,064**	**2,130**	**9,018**
Total	**1,066**	**188**	**1,064**	**2,130**	**9,018**
Of which:					
Measured according to present value of cash flows	[4]791	154	[4]257	1,048	
Debts under troubled debt restructurings	[4]868	109	[4]749	1,617	

Footnotes:
(1) Recorded amount.
(2) Specific allowance for credit losses.
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.
(4) Reclassified due to changes in the data.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

B. AVERAGE BALANCE AND INTEREST INCOME

	2018			2017			2016		
	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	109	1	1	157	2	-	174	4	2
Construction and Real Estate - Real Estate Activity	315	6	4	256	5	4	349	9	8
Financial Services	310	7	-	591	14	10	690	4	2
Commercial - Other	853	14	10	1,313	16	11	1,652	34	29
Total Commercial	**1,587**	**28**	**15**	**2,317**	**37**	**25**	**2,865**	**51**	**41**
Private Individuals - Other Loans	177	4	2	102	3	2	73	1	1
Total Public - Activity in Israel	**1,764**	**32**	**17**	**2,419**	**40**	**27**	**2,938**	**52**	**42**
Total Activity in Israel	**1,764**	**32**	**17**	**2,419**	**40**	**27**	**2,938**	**52**	**42**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	143	6	-	133	7	1	206	6	4
Commercial - Other	232	8	-	338	7	-	333	16	-
Total Commercial	**375**	**14**	**-**	**471**	**14**	**1**	**539**	**22**	**4**
Private Individuals	-	-	-	-	-	-	1	-	-
Total Public - Activity Abroad	**375**	**14**	**-**	**471**	**14**	**1**	**540**	**22**	**4**
Total Activity Abroad	**375**	**14**	**-**	**471**	**14**	**1**	**540**	**22**	**4**
Total	**2,139**	**(3)46**	**17**	**2,890**	**(3)54**	**28**	**3,478**	**(3)74**	**46**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amount of NIS 81 million (31.12.2017 - NIS 99 million, 31.12.2016 - NIS 127 millions).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED

	December 31, 2018				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	22	-	-	7	29
Construction and Real Estate - Real Estate Activity	119	-	3	15	137
Financial Services	-	-	-	295	295
Commercial - Other	379	-	-	102	481
Total Commercial	**520**	**-**	**3**	**419**	**942**
Private Individuals - Other Loans	74	-	1	56	131
Total Public - Activity in Israel	**594**	**-**	**4**	**475**	**1,073**
Total Activity in Israel	**594**	**-**	**4**	**475**	**1,073**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	9	-	-	101	110
Commercial - Other	-	-	-	42	42
Total Commercial	**9**	**-**	**-**	**143**	**152**
Total Public - Activity Abroad	**9**	**-**	**-**	**143**	**152**
Total Activity Abroad	**9**	**-**	**-**	**143**	**152**
Total	**603**	**-**	**4**	**618**	**1,225**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

Commitment to grant additional credit to borrowers, in respect of which a troubled debt restructurings was performed, within the framework of which the credit terms had been changed, amounts at December 31, 2018, to NIS 33 million (December 31, 2017– NIS 13 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS – CONSOLIDATED (CONTINUED)

	December 31, 2017				
	Recorded amount				
	Not accruing interest income	Accruing debts[1], in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	18	-	-	9	27
Construction and Real Estate - Real Estate Activity	100	-	-	18	118
Financial Services	-	-	-	344	344
Commercial - Other	637	-	3	113	753
Total Commercial	**755**	**-**	**3**	**484**	**1,242**
Private Individuals - Other Loans	44	-	-	27	71
Total Public - Activity in Israel	**799**	**-**	**3**	**511**	**1,313**
Total Activity in Israel	**799**	**-**	**3**	**511**	**1,313**
Lending Activity Abroad					
Public - Commercial					
Construction and Real Estate	11	-	-	99	110
Commercial - Other	-	-	49	145	194
Total Commercial	**11**	**-**	**49**	**244**	**304**
Total Public - Activity Abroad	**11**	**-**	**49**	**244**	**304**
Total Activity Abroad	**11**	**-**	**49**	**244**	**304**
Total	**810**	**-**	**52**	**755**	**1,617**

Footnotes:

(1) Accruing interest income.

(2) Included in impaired debts.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2018			2017			2016		
	Debt restructuring performed								
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions								
Lending Activity in Israel									
Public - Commercial									
Construction and Real Estate - Construction	166	24	23	100	23	22	99	17	17
Construction and Real Estate - Real Estate Activity	19	20	20	13	7	7	9	3	3
Financial Services	4	(1)-	(1)-	5	(1)-	(1)-	5	597	597
Commercial - Other	864	169	165	505	246	245	379	225	223
Total Commercial	**1,053**	**213**	**208**	**623**	**276**	**274**	**492**	**842**	**840**
Private Individuals - Other Loans	5,927	144	140	3,609	75	72	2,553	37	33
Total Public - Activity in Israel	**6,980**	**357**	**348**	**4,232**	**351**	**346**	**3,045**	**879**	**873**
Total Activity in Israel	**6,980**	**357**	**348**	**4,232**	**351**	**346**	**3,045**	**879**	**873**
Lending Activity Abroad									
Public - Commercial									
Construction and Real Estate	-	-	-	10	105	105	2	1	1
Commercial - Other	6	42	42	4	110	110	6	129	129
Total Commercial	**6**	**42**	**42**	**14**	**215**	**215**	**8**	**130**	**130**
Private Individuals	5	(1)-	(1)-	1	(1)-	(1)-	-	-	-
Total Public - Activity Abroad	**11**	**42**	**42**	**15**	**215**	**215**	**8**	**130**	**130**
Total Activity Abroad	**11**	**42**	**42**	**15**	**215**	**215**	**8**	**130**	**130**
Total	**6,991**	**399**	**390**	**4,247**	**566**	**561**	**3,053**	**1,009**	**1,003**

Footnote:
(1) An amount lower than NIS 1 million.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

2. ADDITIONAL INFORMATION REGARDING IMPAIRED DEBTS – CONSOLIDATED (CONTINUED)

C. RESTRUCTURED TROUBLED DEBTS - CONSOLIDATED (CONTINUED)

	2018		2017		2016	
	Failure of restructured debts[1]					
	Number of contracts	Recorded amount	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	49	7	32	12	17	1
Construction and Real Estate - Real Estate Activity	10	9	7	4	1	[2]-
Financial Services	1	[2]-	-	-	2	[2]-
Commercial - Other	297	20	154	11	98	48
Total Commercial	**357**	**36**	**193**	**27**	**118**	**49**
Private Individuals - Other	3,143	28	[3]1,827	17	[3]728	6
Total Public - Activity in Israel	**3,500**	**64**	**2,020**	**44**	**846**	**55**
Total Activity in Israel	**3,500**	**64**	**2,020**	**44**	**846**	**55**
Lending Activity Abroad						
Public - Commercial						
Construction and Real Estate	-	-	1	13	1	[2]-
Commercial - Other	-	-	[3]2	[3]30	-	-
Total Commercial	**-**	**-**	**3**	**43**	**1**	**[2]-**
Private Individuals	2	[2]-	-	-	-	-
Total Public - Activity Abroad	**2**	**[2]-**	**3**	**43**	**1**	**[2]-**
Total Activity Abroad	**2**	**[2]-**	**3**	**43**	**1**	**[2]-**
Total	**3,502**	**64**	**2,023**	**87**	**847**	**55**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrears.

(2) An amount lower than NIS 1 million.

(3) Reclassified – improvement of data of subsidiary companies.

3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to changes in private consumption and in currency rates;
- Exposure to foreign competition, in particular to the effect of E-commerce;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent years, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. DEBTS (CONTINUED)

3. ADDITIONAL DISCLOSURE REGARDING THE QUALITY OF CREDIT (CONTINUED)

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- The growth in competition in recent years, whether within the banking industry or against off-banking institutions, may lead to erosion of the spreads, to a decline in the quality of borrowers, and as a result thereof to increased credit risk. The present credit policy examines thoroughly the risk involved in the underwriting of loans to existing and new customers using models and tools developed for sales points, thus reducing such risk.

(B) INDICATION OF CREDIT QUALITY

	December 31, 2018				December 31, 2017			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	97.3%	99.0%	98.2%	97.7%	96.3%	98.9%	98.3%	97.2%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	1.3%	1.0%	1.3%	1.3%	1.5%	1.1%	1.4%	1.4%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	1.4%	-	0.5%	1.0%	2.2%	-	0.3%	1.4%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.4%	0.6%	2.0%	1.4%	1.5%	0.6%	1.8%	1.4%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	47.6%	55.0%	107.2%	56.6%	37.1%	57.1%	106.7%	46.0%

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank.

BALANCES FOR THE YEAR END, ACCORDING TO LOAN-TO-VALUE (LTV)[1] RATIO, MANNER OF REPAYMENT AND TYPE OF INTEREST:

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31, 2018			
First degree pledge: financing ratio	Up to 60%	21,359	344	12,815	297
	Over 60%	10,648	99	6,630	88
Second degree pledge or without pledge		917	75	423	2,581
Total		**[2]32,924**	**518**	**19,868**	**2,966**
		December 31, 2017			
First degree pledge: financing ratio	Up to 60%	18,683	402	11,217	189
	Over 60%	9,383	70	5,922	45
Second degree pledge or without pledge		827	69	376	1,653
Total		**[2]28,893**	**541**	**17,515**	**1,887**

Footnotes:

(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

(2) The balance of housing loans not includes the balance of commercial debts in the amount of NIS 235 million, which are combined in the layout of transactions and collateral of commercial borrowers' business, or which were granted to acquisition groups, the projects being built by them are in the course of construction (December 31, 2017 - NIS 250 million).

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

C. SALE, PURCHASE AND SYNDICATIONS OF CREDIT TO THE PUBLIC DURING THE YEAR

SALE AND PURCHASE OF CREDIT (CONSOLIDATED)

	Credit risk sold					Credit risk purchased[1]		
	Credit sold this year	Off-balance sheet credit risk[2] sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Balance at end of year of credit sold, which is serviced by the banking corporation	Credit purchased this year[4]	Off-balance sheet credit risk[2] purchased this year	Of which: problematic credit
	In NIS millions							
	2018							
Total commercial	248	-	-	6	2,228	2,388	-	-
Total credit to the public risk	**248**	**-**	**-**	**6**	**2,228**	**2,388**	**-**	**-**
Credit to governments	-	-	-	-	-	1,450	-	-
Total debts	**248**	**-**	**-**	**6**	**2,228**	**3,838**	**-**	**-**
	2017							
Total commercial	1,008	[4]60	120	[3]25	2,851	975	-	-
Private individuals – other	116	-	-	-	-	-	-	-
Total credit to the public risk	**1,124**	**60**	**120**	**25**	**2,851**	**975**	**-**	**-**
Credit to governments	-	-	-	-	-	129	-	-
Total debts	**1,124**	**60**	**120**	**25**	**2,851**	**1,104**	**-**	**-**

Footnotes:

(1) The data do not include credit acquisition transactions at IDB New York, most of which is short-term factoring. The balance of the transactions amounted to NIS 178 million as of December 31, 2018 (December 31, 2017: NIS 171 million).

(2) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

(3) Not including a receipts of NIS 91 million, that has been recorded as a reduction in credit loss expenses.

(4) Reclassification, following a renewed examination of certain transactions, which had been presented in the past in this Note.

For details regarding profit net in respect of loans sold, see Note 3.

SYNDICATIONS AND PARTICIPATION IN LOAN SYNDICATIONS (CONSOLIDATED)

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Share of the banking corporation		Share of others		Share of the banking corporation	
	Credit	Off-balance sheet credit risk[1]	Credit	Off-balance sheet credit risk[1]	Credit	Off-balance sheet credit risk[1]
	In NIS millions					
	2018					
Total commercial	3,851	975	7,687	921	5,230	2,048
Total credit to the public risk	**3,851**	**975**	**7,687**	**921**	**5,230**	**2,048**
Credit to governments	583	37	250	87	-	-
Total debts	**4,434**	**1,012**	**7,937**	**1,008**	**5,230**	**2,048**
	2017					
Total commercial	3,478	798	8,065	1,606	4,343	1,970
Total credit to the public risk	**3,478**	**798**	**8,065**	**1,606**	**4,343**	**1,970**
Credit to governments	349	291	148	125	-	-
Total debts	**3,827**	**1,089**	**8,213**	**1,731**	**4,343**	**1,970**

Footnote:

(1) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a single borrower indebtedness, excluding in respect of derivative instruments.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. COMPOSITION OF CREDIT TO THE PUBLIC(1) AND OFF-BALANCE-SHEET CREDIT RISK(3), BY SIZE OF CREDIT TO INDIVIDUAL BURROWERS

1. CONSOLIDATED

				December 31					
				2018			2017		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)	Number of borrowers(2)	Credit(1)	Off-balance Credit risk(1)(3)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,356,285	1,948	1,678	1,146,384	1,814	1,270
Over	10	Up to	20	535,674	2,889	5,894	423,743	2,457	4,497
Over	20	Up to	40	517,361	5,679	9,418	394,997	5,017	6,706
Over	40	Up to	80	254,752	7,740	5,903	240,189	7,512	5,492
Over	80	Up to	150	93,155	7,334	2,766	87,690	7,022	2,604
Over	150	Up to	300	49,562	8,290	1,988	47,562	8,033	1,849
Over	300	Up to	600	30,813	11,302	2,083	29,364	10,878	1,821
Over	600	Up to	1,200	28,229	20,223	3,582	24,478	17,646	2,862
Over	1,200	Up to	2,000	7,563	9,196	2,082	6,443	7,958	1,674
Over	2,000	Up to	(4)4,000	3,336	7,298	1,860	3,153	6,732	1,896
Over	4,000	Up to	(4)8,000	1,390	6,439	1,674	1,368	5,970	1,976
Over	8,000	Up to	(4)20,000	1,120	11,681	2,780	1,094	10,690	3,214
Over	20,000	Up to	(4)40,000	636	14,806	3,741	651	13,897	4,541
Over	40,000	Up to	(4)200,000	682	37,293	17,596	(5)639	(5)33,328	(5)16,969
Over	200,000	Up to	(4)400,000	45	8,239	4,419	(5)40	(5)7,588	(5)3,466
Over	400,000	Up to	(4)800,000	*15	*7,050	1,135	(*)(5)9	(*)(5)4,036	(*)(5)1,035
Over	800,000	Up to	(4)1,200,000	2	1,218	592	(5)4	(5)3,281	(5)565
Over	1,200,000	Up to	(4)1,600,000	2	2,174	660	-	-	-
Over	1,600,000	Up to	(4)2,000,000	1	1,265	684	1	1,487	118
Over	2,000,000	Up to	(4)2,400,000	2	2,159	2,520	2	1,382	3,098
Over	(4)3,200,000			*1	*5,933	-	*1	*5,542	-
Total				**2,880,626**	**180,156**	**73,055**	**2,407,812**	**162,270**	**65,653**
*Mortgage backed securities issued by:									
GNMA				1	5,933		1	5,542	
FNMA				1	548		1	622	
FHLMC				1	539		1	628	

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2018 - NIS 5,673 million, as of December 31, 2017 - NIS 5,194 million).

(4) Consolidated - by combining specific balances.

(5) Reclassified – change in the classification of the data of a number of burrowers, following the improvement of the specific consolidation of the accounts related to them.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. COMPOSITION OF CREDIT TO THE PUBLIC[1] AND OFF-BALANCE-SHEET CREDIT RISK[3], BY SIZE OF CREDIT TO INDIVIDUAL BURROWERS (CONTINUED)

2. THE BANK

				December 31					
				2018			2017		
				Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]	Number of borrowers[2]	Credit[1]	Off-balance Credit risk[1][3]
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	226,070	241	439	219,241	227	365
Over	10	Up to	20	107,156	570	1,118	107,879	568	1,135
Over	20	Up to	40	121,727	1,495	2,106	122,702	1,513	2,116
Over	40	Up to	80	103,753	3,282	2,691	104,352	3,357	2,644
Over	80	Up to	150	66,879	5,050	2,236	65,206	4,965	2,147
Over	150	Up to	300	36,867	6,028	1,617	35,732	5,889	1,520
Over	300	Up to	600	23,269	8,452	1,713	22,200	8,134	1,508
Over	600	Up to	1,200	23,385	16,696	3,097	20,144	14,439	2,491
Over	1,200	Up to	2,000	6,088	7,241	1,788	5,137	6,206	1,431
Over	2,000	Up to	4,000	2,362	4,918	1,522	2,251	4,553	1,558
Over	4,000	Up to	8,000	975	4,184	1,322	985	3,805	1,695
Over	8,000	Up to	20,000	634	6,283	1,730	632	5,647	2,176
Over	20,000	Up to	40,000	333	7,274	2,384	358	7,094	3,019
Over	40,000	Up to	200,000	384	20,294	12,234	[5]357	[5]18,305	[5]12,007
Over	200,000	Up to	400,000	36	6,074	3,997	[5]30	[5]5,504	[5]2,913
Over	400,000	Up to	800,000	12	5,540	1,109	[5]6	[5]2,614	[5]791
Over	800,000	Up to	1,200,000	2	1,218	584	[5]5	[5]4,112	[5]549
Over	1,200,000	Up to	1,600,000	3	3,552	652	-	-	-
Over	1,600,000	Up to	2,000,000	1	1,220	683	1	1,487	118
Over	2,000,000	Up to	2,800,000	3	4,390	2,524	3	3,395	3,102
Total				**719,939**	**114,002**	**45,546**	**707,221**	**101,814**	**43,285**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit un the top level: NIS 2,528 million (2017: NIS 2,346 million).

(5) Reclassified – change in the classification of the data of a number of burrowers, following the improvement of the specific consolidation of the accounts related to them.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

E. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	Consolidated		The Bank		Consolidated		The Bank	
	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balance(1)	Provision(2)	Balance(1)	Provision(2)
	December 31, 2018				December 31, 2017			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,234	5	777	4	(4)1,100	5	699	4
Credit guarantees	2,139	27	1,445	21	2,010	27	1,314	21
Guarantees for home purchasers	9,184	3	8,114	2	7,282	2	5,903	2
Other guarantees and obligations	8,782	40	7,762	35	(4)8,022	55	7,149	45
Unutilized facilities for transactions in derivative instruments	1,522	-	1,419	-	1,028	-	930	-
Unutilized facilities credit line for credit cards	28,543	39	5,985	7	22,905	28	5,764	6
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,805	22	7,398	19	8,805	24	7,429	19
Irrevocable commitments to extend credit approved but not yet granted(3)	20,403	36	13,942	34	21,553	48	15,431	46
Commitment to issue guarantees	6,701	4	6,319	4	6,148	4	5,654	4

Footnotes:

(1) Contract balance or their stated amounts at period end before of allowance for credit loss.

(2) Balance of allowance for credit losses at period end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

(4) Reclassified – improvement of data of a subsidiary.

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

F. GUARANTEES

(1) General

The Bank provides a broad variety of guarantees and indemnities for its customers in order to improve their credit ability and to enable them to complete a wide range of transactions. For certain contracts, which meet the definition of the guarantee, the Bank recognizes – at the time of initial recognition – a liability in the amount of the fair value of the obligation with respect to the guarantee at the time of issuing the guarantee. The maximum amount of the potential future payments is determined in accordance with the nominal amount of the guarantees, without taking into account possible repayments or collateral held or pledged.

(2) POTENTIAL FUTURE PAYMENTS

	Consolidated						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	December 31, 2018						
	in NIS millions						
Letters of credit (standby)	200	12	-	-	-	212	-
Credit guarantees	1,766	140	201	32	-	2,139	20
Guarantees for home purchasers	-	-	-	-	9,184	9,184	36
Other guarantees and obligations	4,973	1,384	1,625	800	-	8,782	49
Total	**6,939**	**1,536**	**1,826**	**832**	**9,184**	**20,317**	**105**
	December 31, 2017						
Letters of credit (standby)	219	-	-	-	-	219	-
Credit guarantees	1,755	175	40	40	-	2,010	21
Guarantees for home purchasers	-	-	-	-	7,282	7,282	30
Other guarantees and obligations	4,128	1,647	329	1,918	-	8,022	49
Total	**6,102**	**1,822**	**369**	**1,958**	**7,282**	**17,533**	**100**

31. Additional Information regarding Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

(2) POTENTIAL FUTURE PAYMENTS (CONTINUED)

	The Bank						
	The maximal amount of potential future payments						
	Expiration in one year or less	Expiration between one to three years	Expiration between over three years and five years	Expiration over five years	No fixed maturity date	Total	Amortized cost
	31.12.2018						
	in NIS millions						
Letters of credit (standby)	171	3	-	-	-	174	-
Credit guarantees	1,105	116	193	31	-	1,445	13
Guarantees for home purchasers	-	-	-	-	8,114	8,114	30
Other guarantees and obligations	4,181	1,199	1,598	784	-	7,762	38
Total	**5,457**	**1,318**	**1,791**	**815**	**8,114**	**17,495**	**81**
	31.12.2017						
Letters of credit (standby)	203	-	-	-	-	203	-
Credit guarantees	1,099	138	37	40	-	1,314	14
Guarantees for home purchasers	-	-	-	-	5,903	5,903	24
Other guarantees and obligations	3,500	1,435	309	1,905	-	7,149	38
Total	**4,802**	**1,573**	**346**	**1,945**	**5,903**	**14,569**	**76**

(3) EVALUATION OF THE GUARANTEE RISK

Most of the guaranties are rated according to the credit performance rating.

32. Assets and Liabilities according to Linkage Terms

CONSOLIDATED

	December 31, 2018						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	18,066	35	2,937	449	371	-	21,858
Securities	19,734	1,544	14,604	967	10	1,039	37,898
Securities borrowed or purchased under resale agreements	774	-	-	-	-	-	774
Credit to the public, net	117,621	16,295	28,631	1,800	457	-	164,804
Credit to the Government	888	324	1,225	899	-	-	3,336
Investments in affiliated companies	-	2	-	-	-	133	135
Buildings and equipment	-	-	-	-	-	2,437	2,437
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	505	95	2,168	128	115	715	3,726
Other assets	1,991	11	941	49	541	515	4,048
Total assets	**159,579**	**18,306**	**50,506**	**4,292**	**1,494**	**4,999**	**239,176**
Liabilities							
Deposits from the public	123,985	4,839	51,785	5,933	2,374	-	188,916
Deposits from banks	3,883	3	2,817	176	7	-	6,886
Deposits from the Government	128	22	107	-	-	-	257
Securities loaned or sold under repurchase agreements	-	-	1,126	-	-	-	1,126
Bonds and Subordinated debt notes	3,168	5,236	-	72	-	-	8,476
Liabilities in respect of derivative instruments	502	141	1,596	176	115	719	3,249
Other liabilities	11,221	154	643	20	94	465	12,597
Total liabilities	**142,887**	**10,395**	**58,074**	**6,377**	**2,590**	**1,184**	**221,507**
Difference	16,692	7,911	(7,568)	(2,085)	(1,096)	3,815	17,669
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(10,314)	(3,720)	10,694	1,948	1,392	-	-
Options in the money, net (in terms of underlying asset)	277	-	(90)	40	(227)	-	-
Options out of the money, net (in terms of underlying asset)	(375)	-	364	29	(18)	-	-
Total	**6,280**	**4,191**	**3,400**	**(68)**	**51**	**3,815**	**17,669**
Options in the money, net (discounted par value)	347	-	(20)	(59)	(268)	-	-
Options out of the money, net (discounted par value)	(2,876)	-	2,658	334	(116)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

CONSOLIDATED (CONTINUED)

	December 31, 2017						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	22,871	42	3,817	749	547	-	28,026
Securities	16,560	2,341	12,059	855	-	888	32,703
Securities borrowed or purchased under resale agreements	954	-	-	-	-	-	954
Credit to the public, net	106,269	15,339	25,026	1,476	647	-	148,757
Credit to the Government	233	213	710	337	-	-	1,493
Investments in affiliated companies	-	2	-	-	-	151	153
Buildings and equipment	-	-	-	-	-	2,366	2,366
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,343	113	456	312	57	672	2,953
Other assets	1,871	13	1,039	54	359	320	3,656
Total assets	**150,101**	**18,063**	**43,107**	**3,783**	**1,610**	**4,557**	**221,221**
Liabilities							
Deposits from the public	116,288	4,606	45,847	6,145	2,284	-	175,170
Deposits from banks	2,786	4	1,494	502	18	-	4,804
Deposits from the Government	131	36	100	-	-	-	267
Securities loaned or sold under repurchase agreements	-	-	1,943	-	-	-	1,943
Bonds and Subordinated debt notes	1,917	5,645	-	77	-	-	7,639
Liabilities in respect of derivative instruments	1,671	179	382	285	44	671	3,232
Other liabilities	10,959	244	532	45	35	283	12,098
Total liabilities	**133,752**	**10,714**	**50,298**	**7,054**	**2,381**	**954**	**205,153**
Difference	16,349	7,349	(7,191)	(3,271)	(771)	3,603	16,068
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(11,565)	(3,124)	10,357	3,629	703	-	-
Options in the money, net (in terms of underlying asset)	63	-	77	(130)	(10)	-	-
Options out of the money, net (in terms of underlying asset)	172	-	90	(234)	(28)	-	-
Total	**5,019**	**4,225**	**3,333**	**(6)**	**(106)**	**3,603**	**16,068**
Options in the money, net (discounted par value)	(114)	-	341	(206)	(21)	-	-
Options out of the money, net (discounted par value)	243	-	536	(689)	(90)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

THE BANK

	December 31, 2018						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	15,441	4	2,524	299	231	-	18,499
Securities	14,740	1,083	4,674	840	10	95	21,442
under resale agreements securities borrowed or purchased	774	-	-	-	-	-	774
Credit granted to the public, net	87,137	14,089	5,247	1,650	325	-	108,448
Credit granted to Governments	888	324	1,225	899	-	-	3,336
Investments in affiliated companies	862	93	-	-	-	8,662	9,617
Buildings and equipment	-	-	-	-	-	1,671	1,671
Assets in respect of derivative instruments	507	86	1,994	127	78	709	3,501
Other assets	1,604	2	3	23	541	358	2,531
Total assets	**121,953**	**15,681**	**15,667**	**3,838**	**1,185**	**11,495**	**169,819**
Liabilities							
Deposits from the public	101,146	4,631	23,011	5,484	2,128	-	136,400
Deposits from banks	1,235	40	436	162	7	-	1,880
Deposits from the Government	6	22	-	-	-	-	28
Subordinated bonds and debt notes	1,259	2,800	-	72	-	-	4,131
Other liabilities in respect of derivative instruments	501	90	1,472	173	78	713	3,027
Other liabilities	6,467	37	206	3	83	406	7,202
Total liabilities	**110,614**	**7,620**	**25,125**	**5,894**	**2,296**	**1,119**	**152,668**
Difference	11,339	8,061	(9,458)	(2,056)	(1,111)	10,376	17,151
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(8,573)	(4,052)	9,314	1,902	1,409	-	-
Options in the money, net, (in terms of base asset)	275	-	(88)	40	(227)	-	-
Options out of the money, net, (in terms of base asset)	(375)	-	364	29	(18)	-	-
Total	**2,666**	**4,009**	**132**	**(85)**	**53**	**10,376**	**17,151**
Options in the money, net, (discounted nominal value)	345	-	(18)	(59)	(268)	-	-
Options out of the money, net, (discounted nominal value)	(2,876)	-	2,658	334	(116)	-	-

Footnote:

(1) Includes those linked to foreign currency.

32. Assets and Liabilities according to Linkage Terms (continued)

THE BANK (CONTINUED)

	December 31,2017						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	19,085	9	2,565	631	433	-	22,723
Securities	13,203	1,705	2,436	730	-	56	18,130
under resale agreements Securities borrowed or purchased	954	-	-	-	-	-	954
Credit granted to the public, net	78,459	13,202	4,255	1,334	504	-	97,754
Credit granted to Governments	234	213	709	337	-	-	1,493
Investments in affiliated companies	896	123	-	-	-	7,836	8,855
Buildings and equipment	-	-	-	-	-	1,676	1,676
Assets in respect of derivative instruments	1,339	111	374	305	53	668	2,850
Other assets	1,454	2	2	29	359	186	2,032
Total assets	**115,624**	**15,365**	**10,341**	**3,366**	**1,349**	**10,422**	**156,467**
Liabilities							
Deposits from the public	92,937	4,611	19,280	5,734	2,090	-	124,652
Deposits from banks	446	207	324	495	18	-	1,490
Deposits from the Government	14	36	-	-	-	-	50
Subordinated bonds and debt notes	1,345	2,810	-	77	-	-	4,232
Other liabilities in respect of derivative instruments	1,645	126	319	276	42	667	3,075
Other liabilities	6,845	107	151	27	20	224	7,374
Total liabilities	**103,232**	**7,897**	**20,074**	**6,609**	**2,170**	**891**	**140,873**
Difference	12,392	7,468	(9,733)	(3,243)	(821)	9,531	15,594
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(10,467)	(3,781)	9,906	3,591	751	-	-
Options in the money, net, (in terms of base asset)	59	-	81	(130)	(10)	-	-
Options out of the money, net, (in terms of base asset)	172	-	90	(234)	(28)	-	-
Total	**2,156**	**3,687**	**344**	**(16)**	**(108)**	**9,531**	**15,594**
Options in the money, net, (discounted nominal value)	(118)	-	345	(206)	(21)	-	-
Options out of the money, net, (discounted nominal value)	243	-	536	(689)	(90)	-	-

Footnote:

(1) Includes those linked to foreign currency.

33. Assets and Liabilities according to Currency and Maturity Periods

CONSOLIDATED - IN NIS MILLIONS[5]

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2018

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets[10]	49,193	16,286	25,303	23,261	16,366
Liabilities	104,776	12,705	21,989	5,722	2,124
Difference	**(55,583)**	**3,581**	**3,314**	**17,539**	**14,242**
Derivative instruments (excluding options)	(1,143)	(3,924)	(7,028)	(1,369)	(353)
Options (in terms of underlying assets)	(22)	(107)	100	(37)	-
Difference after effect of derivative instruments:	(56,748)	(450)	(3,614)	16,133	13,889
Foreign currency[8]:					
Assets[11]	10,079	5,542	7,914	8,819	6,168
Liabilities	43,847	6,364	13,487	2,538	517
Difference	**(33,768)**	**(822)**	**(5,573)**	**6,281**	**5,651**
Of which: Difference in dollar	(28,960)	(487)	(4,984)	5,593	4,797
Of which: Difference in respect of foreign activity	(16,989)	337	351	4,640	4,238
Derivative instruments (excluding options)	1,143	3,924	7,028	1,369	353
Options (in terms of underlying assets)	22	107	(100)	37	-
Difference after effect of derivative instruments:	(32,603)	3,209	1,355	7,687	6,004
Total:					
Assets[1]	59,272	21,828	33,217	32,080	22,534
Liabilities[2]	148,623	19,069	35,476	8,260	2,641
Difference	**(89,351)**	**2,759**	**(2,259)**	**23,820**	**19,893**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of underlying assets)	-	-	-	-	-
[1] Of which: Credit to the public	34,787	18,255	27,517	24,875	16,519
[2] Of which: Deposits from the public	134,645	16,558	31,189	4,184	1,077
B. Balance Sheet Amount as December 31, 2017					
Total:					
Assets[3]	63,872	16,745	30,143	24,820	21,568
Liabilities[4]	134,323	18,509	32,713	6,382	4,887
Difference	**(70,451)**	**(1,764)**	**(2,570)**	**18,438**	**16,681**
[3] Of which: Credit to the public	32,830	15,674	25,070	19,689	15,435
[4] Of which: Deposits from the public	124,241	15,589	29,205	3,842	1,038

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to currency and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the effect of accounting write-offs and allowances for credit losses .

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives, which are not net settled.

(7) Includes past-due receivables totaling NIS 307 million (2017: NIS 347 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 6,541 million (2017: NIS 5,856 million) and an amount of NIS 747 million with no due date (2017: NIS 760 million).

(11) Including current loan account credit facilities in the amount of NIS 386 million (2017: NIS 134 million) and an amount of NIS 263 million with no due date (2017: NIS 193 million).

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
10,921	9,198	25,855	18,620	5,670	200,673	1,486	178,177	3.19
4,759	873	2,010	1,250	232	156,440	-	153,516	0.66
6,162	**8,325**	**23,845**	**17,370**	**5,438**	**44,233**	**1,486**	**24,661**	**2.53**
(784)	(146)	1,230	212	-	(13,305)	-	(13,753)	-
-	-	-	-	-	(66)	-	(64)	-
5,378	8,179	25,075	17,582	5,438	30,862	1,486	10,844	-
3,998	3,717	9,743	5,555	1,646	63,181	1,383	56,000	3.12
329	269	364	90	64	67,869	28	66,807	1.11
3,669	**3,448**	**9,379**	**5,465**	**1,582**	**(4,688)**	**1,355**	**(10,807)**	**2.01**
3,266	3,213	8,736	5,443	1,582	(1,801)	1,262	(7,620)	-
2,189	2,189	5,073	5,145	1,528	8,701	967	3,346	-
784	146	(1,230)	(212)	-	13,305	-	13,753	-
-	-	-	-	-	66	-	64	-
4,453	3,594	8,149	5,253	1,582	8,683	1,355	3,010	-
14,919	12,915	35,598	24,175	7,316	263,854	2,869	234,177	3.17
5,088	1,142	2,374	1,340	296	224,309	28	220,323	0.80
9,831	**11,773**	**33,224**	**22,835**	**7,020**	**39,545**	**2,841**	**13,854**	**2.37**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
11,778	9,147	21,605	18,417	5,449	188,349	1,808	164,804	4.08
727	467	569	182	-	189,598	-	188,916	0.85
15,378	11,907	27,919	20,810	5,927	239,089	2,972	216,664	2.87
1,732	4,643	1,628	1,163	274	206,254	51	204,199	0.60
13,646	**7,264**	**26,291**	**19,647**	**5,653**	**32,835**	**2,921**	**12,465**	**2.27**
10,360	9,002	19,463	15,635	4,313	167,471	1,919	148,757	3.83
637	577	412	156	-	175,697	-	175,170	0.24

33. Assets and Liabilities according to Currency and Maturity Periods (continued)

THE BANK - IN NIS MILLIONS[5]

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2018

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	41,151	10,764	16,418	17,327	12,039
Liabilities	81,170	8,431	16,367	4,191	1,872
Difference	**(40,019)**	**2,333**	**51**	**13,136**	**10,167**
Derivative instruments (excluding options)	(320)	(3,665)	(6,750)	(1,341)	(317)
Options (in terms of base assets)	(24)	(107)	100	(37)	-
Difference after effect of derivative instruments:	(40,363)	(1,439)	(6,599)	11,758	9,850
Foreign currency[8]:					
Assets[11]	6,805	3,066	1,698	2,315	1,665
Liabilities	20,490	4,250	7,359	762	336
Difference	**(13,685)**	**(1,184)**	**(5,661)**	**1,553**	**1,329**
Of which: Difference in dollar	(9,173)	(829)	(5,014)	905	734
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	320	3,665	6,750	1,341	317
Options (in terms of underlying assets)	24	107	(100)	37	-
Difference after effect of derivative instruments:	(13,341)	2,588	989	2,931	1,646
Total:					
Assets[1]	47,956	13,830	18,116	19,642	13,704
Liabilities[2]	101,660	12,681	23,726	4,953	2,208
Difference	**(53,704)**	**1,149**	**(5,610)**	**14,689**	**11,496**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of base assets)	-	-	-	-	-
[1] Of which: Credit to the public	27,504	10,493	14,727	13,723	9,172
[2] Of which: Deposits from the public	96,263	11,505	21,861	3,748	1,177
B. Balance Sheet Amount as December 31, 2017					
Total:					
Assets[3]	51,162	9,927	15,694	15,686	13,569
Liabilities[4]	92,871	12,322	21,418	3,822	3,435
Difference	**(41,709)**	**(2,395)**	**(5,724)**	**11,864**	**10,134**
[3] Of which: Credit to the public	25,965	9,142	12,153	11,673	9,154
[4] Of which: Deposits from the public	87,728	11,270	19,886	2,608	2,287

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to currency and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the effect of accounting write-offs and allowances for credit losses .

(6) As included in Note 32 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives, which are not net settled.

(7) Includes past-due receivables totaling NIS 244 million (2017: NIS 273 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,160 million (2017: NIS 3,710 million) and an amount of NIS 679 million with no due date (2017: NIS 551 million).

(11) Including current loan account credit facilities in the amount of NIS 218 million (2017: NIS 100 million) and an amount of NIS 254 million with no due date (2017: NIS 190 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[6] No fixed maturity date[7]	Total	The contractual rate of return, in percentages[9]
8,313	6,908	21,244	15,976	4,843	154,983	1,609	137,746	2.72
4,143	838	1,655	877	136	119,680	-	118,437	0.43
4,170	**6,070**	**19,589**	**15,099**	**4,707**	**35,303**	**1,609**	**19,309**	**2.28**
(784)	(146)	1,230	212	-	(11,881)	-	(12,325)	-
-	-	-	-	-	(68)	-	(66)	-
3,386	5,924	20,819	15,311	4,707	23,354	1,609	6,918	-
1,283	1,256	4,317	408	118	22,931	380	20,578	3.23
189	129	316	90	64	33,985	2	33,112	1.07
1,094	**1,127**	**4,001**	**318**	**54**	**(11,054)**	**378**	**(12,534)**	**2.16**
702	898	3,454	298	54	(7,971)	291	(9,418)	-
-	-	-	-	-	-	-	-	-
784	146	(1,230)	(212)	-	11,881	-	12,325	-
-	-	-	-	-	68	-	66	-
1,878	1,273	2,771	106	54	895	378	(143)	-
9,596	8,164	25,561	16,384	4,961	177,914	1,989	158,324	2.78
4,332	967	1,971	967	200	153,665	2	151,549	0.57
5,264	**7,197**	**23,590**	**15,417**	**4,761**	**24,249**	**1,987**	**6,775**	**2.21**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
7,678	5,806	16,164	15,224	4,705	125,196	1,246	108,448	3.25
836	603	928	196	-	137,117	-	136,400	0.52
10,029	7,478	19,222	13,776	3,869	160,412	1,854	146,045	2.54
1,454	3,939	1,272	844	174	141,551	2	139,982	0.44
8,575	**3,539**	**17,950**	**12,932**	**3,695**	**18,861**	**1,852**	**6,063**	**2.10**
6,349	5,837	14,363	12,868	3,750	111,254	1,112	97,754	3.22
600	499	306	59	-	125,243	-	124,652	0.39

34. Balances and Fair Value Estimates of Financial Instruments

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the "instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount interest rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not necessarily serve as an indication for the realization value of the financial instrument on the reporting date.

Estimating the future cash flows was made by interest rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Additionally, no consideration was given to commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value and the amounts presented in fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. **Methods and main assumptions used in estimating the fair value of financial instruments**

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at interest rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Credit to the public, net - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2018, the Bank has classified some 99% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2017: 99%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 2 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 million (compared to NIS 2 million and NIS 1 million, respectively, as of December 31, 2017).

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, increased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 74 million (compared to a decrease of NIS 20 million at December 31, 2017). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached 3.73 years on December 31, 2018, compared to 3.35 years, taking into consideration the forecast for early redemptions (December 31, 2017: 3.88 years and 3.50 years, respectively).

Deposits, bonds and subordinated debt notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and debt notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate debt notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 28 million (compared to NIS 41 million at December 31, 2017). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2018 to 2.50 years, compared to 2.34 years, taking into consideration the forecast for early redemption (December 31, 2017: 2.85 years and 2.67 years, respectively).

34. Balances and Fair Value Estimates of Financial Instruments (continued)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance-sheet balance of commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 31 E.

The bank and its banking subsidiaries in Israel present the balances and fair value estimates of Financial Instruments according to the directive of the Supervisor of Banks. A banking subsidiary abroad presents the balances and fair value estimates of Financial Instruments according to generally accepted accounting principles in the US, which do not materially differ from those of the Supervisor.

D. COMPOSITION - CONSOLIDATED[3]

	December 31, 2018				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	21,858	9,490	-	12,462	21,952
Securities[2]	37,898	21,362	15,682	923	37,967
Securities borrowed or purchased under resale agreements	774	-	-	774	774
Credit to the public, net	164,804	3,567	-	161,137	164,704
Credit to Governments	3,336	-	-	3,336	3,336
Assets in respect of derivative instruments	3,726	654	2,297	775	3,726
Other financial assets	2,162	309	12	1,841	2,162
Total financial assets	**[3]234,558**	**35,382**	**17,991**	**181,248**	**234,621**
Financial liabilities					
Deposits from the public	188,916	17,909	132,910	38,319	189,138
Deposits from banks	6,886	708	5,136	1,057	6,901
Deposits from the Government	257	-	122	138	260
Securities loaned or sold under repurchase agreements	1,126	-	-	1,130	1,130
Bonds and Subordinated debt notes	8,476	7,217	215	1,617	9,049
Liabilities in respect of derivative instruments	3,249	653	2,382	214	3,249
Other financial liabilities	9,517	784	33	8,700	9,517
Total financial liabilities	**[3]218,427**	**27,271**	**140,798**	**51,175**	**219,244**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	105	-	-	105	105

Footnotes:

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

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 12.

(3) Of which: assets and liabilities in the amount of NIS 49,969 million and NIS 96,242 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see items B and C below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. COMPOSITION - CONSOLIDATED[3] (CONTINUED)

	December 31, 2017				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	28,026	11,078	-	16,955	28,033
Securities[2]	32,703	19,139	12,974	814	32,927
Securities borrowed or purchased under resale agreements	954	-	-	954	954
Credit to the public, net	148,757	3,101	1	145,986	149,088
Credit to Governments	1,493	-	-	1,512	1,512
Assets in respect of derivative instruments	2,953	682	1,636	635	2,953
Other financial assets	1,761	138	22	1,601	1,761
Total financial assets	**[3]216,647**	**34,138**	**14,633**	**168,457**	**217,228**
Financial liabilities					
Deposits from the public	175,170	18,196	120,153	37,119	175,468
Deposits from banks	4,804	-	3,965	841	4,806
Deposits from the Government	267	-	123	151	274
Securities loaned or sold under repurchase agreements	1,943	-	-	2,004	2,004
Bonds and Subordinated debt notes	7,639	6,473	306	1,838	8,617
Liabilities in respect of derivative instruments	3,232	682	2,237	313	3,232
Other financial liabilities	8,764	962	31	7,771	8,764
Total financial liabilities	**[3]201,819**	**26,313**	**126,815**	**50,037**	**203,165**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	100	-	-	100	100

Footnotes:

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

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

(3) Of which: assets and liabilities in the amount of NIS 46,541 million and NIS 90,743 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair .value on a recurrent basis and on a non-recurrent basis, see items B and C below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. ITEMS MEASURED AT FAIR VALUE - CONSOLIDATED

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS

	December 31, 2018					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	14,832	2,026	-	-	16,858	16,858
Of foreign governments	-	749	-	-	749	749
Of Israeli financial institutions	39	22	-	-	61	61
Of foreign financial institutions	-	1,314	-	-	1,314	1,314
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	9	6,846	-	-	6,855	6,855
Of others in Israel	58	90	-	-	148	148
Of others abroad	-	1,965	-	-	1,965	1,965
Shares	57	-	-	-	57	57
Total available-for-sale securities	**14,995**	**13,012**	**-**	**-**	**28,007**	**28,007**
Trading Securities						
Of the Israeli Government	1,032	981	-	-	2,013	2,013
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	19	-	-	-	19	19
Of foreign financial institutions	-	8	-	-	8	8
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	77	-	-	77	77
Of others in Israel	62	-	-	-	62	62
Of others abroad	-	8	-	-	8	8
Shares	59	-	-	-	59	59
Total trading securities	**1,172**	**1,074**	**-**	**-**	**2,246**	**2,246**
Credit to the public in respect of securities loaned	3,567	-	-	-	3,567	3,567
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	124	-	124	124
Other Interest Rate Contracts	1	968	293	-	1,262	1,262
Foreign Currency Contracts	7	1,217	345	-	1,569	1,569
Shares Contracts	643	90	-	-	733	733
Commodity and other Contracts	3	22	13	-	38	38
Total assets in respect of derivative instruments	654	2,297	775	-	3,726	3,726
Other	-	12	-	-	12	12
Assets in respect of the "Maof" market operations	309	-	-	-	309	309
Total assets	**20,697**	**16,395**	**775**	**-**	**37,867**	**37,867**
Liabilities						
Deposits from the public in respect of securities borrowed	1,260	-	-	-	1,260	1,260
CLN deposits	-	-	193	-	193	193
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	93	-	93	93
Other Interest Rate Contracts	-	1,299	-	-	1,299	1,299
Foreign Currency Contracts	7	972	121	-	1,100	1,100
Shares Contracts	643	76	-	-	719	719
Commodity and other Contracts	3	35	-	-	38	38
Total liabilities in respect of derivative instruments	653	2,382	214	-	3,249	3,249
Other	-	33	-	-	33	33
Commitments in respect of the "Maof" market operations	309	-	-	-	309	309
Short sales of securities	475	-	-	-	475	475
Total liabilities	**2,697**	**2,415**	**407**	**-**	**5,519**	**5,519**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. ITEMS MEASURED AT FAIR VALUE – CONSOLIDATED (CONTINUED)

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

	December 31, 2017					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	14,346	1,685	-	-	16,031	16,031
Of foreign governments	68	503	-	-	571	571
Of Israeli financial institutions	-	43	-	-	43	43
Of foreign financial institutions	-	584	-	-	584	584
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	6,262	-	-	6,262	6,262
Of others in Israel	59	96	-	-	155	155
Of others abroad	-	1,427	-	-	1,427	1,427
Shares	37	-	-	-	37	37
Total available-for-sale securities	**14,510**	**10,600**	**-**	**-**	**25,110**	**25,110**
Trading Securities						
Of the Israeli Government	818	422	-	-	1,240	1,240
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	-	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	-	-
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	55	-	-	55	55
Of others in Israel	77	-	-	-	77	77
Of others abroad	-	46	-	-	46	46
Shares	37	-	-	-	37	37
Total trading securities	**932**	**523**	**-**	**-**	**1,455**	**1,455**
Credit to the public in respect of securities loaned	3,101	1	-	-	3,102	3,102
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	163	-	163	163
Other Interest Rate Contracts	-	969	134	-	1,103	1,103
Foreign Currency Contracts	24	620	338	-	982	982
Shares Contracts	658	45	-	-	703	703
Commodity and other Contracts	-	2	-	-	2	2
Total assets in respect of derivative instruments	682	1,636	635	-	2,953	2,953
Other	-	22	-	-	22	22
Assets in respect of the "Maof" market operations	138	-	-	-	138	138
Total assets	**19,363**	**12,782**	**635**	**-**	**32,780**	**32,780**
Liabilities						
Deposits from the public in respect of securities borrowed	1,239	20	-	-	1,259	1,259
CLN deposits	-	-	284	-	284	284
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	145	-	145	145
Other Interest Rate Contracts	-	1,236	-	-	1,236	1,236
Foreign Currency Contracts	24	987	168	-	1,179	1,179
Shares Contracts	658	13	-	-	671	671
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	682	2,237	313	-	3,232	3,232
Other	-	31	-	-	31	31
Commitments in respect of the "Maof" market operations	138	-	-	-	138	138
Short sales of securities	824	-	-	-	824	824
Total liabilities	**2,883**	**2,288**	**597**	**-**	**5,768**	**5,768**

34. Balances and Fair Value Estimates of Financial Instruments (continued)

E. ITEMS MEASURED AT FAIR VALUE – CONSOLIDATED (CONTINUED)

2. ITEMS MEASURED ACCORDING TO FAIR VALUE NOT ON A RECURRING BASIS

	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31
			In NIS millions		
			December 31, 2018		
Impaired credit the collection of which is collateral dependent	-	-	661	661	(152)
Other	-	-	10	10	-
			December 31, 2017		
Impaired credit the collection of which is collateral dependent	-	-	1,082	1,082	(133)
Other	-	-	13	13	-

F. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN ITEM 3 – CONSOLIDATED

	Fair value as at beginning of the year	Total realized and unrealized gains (losses) included in the statement of profit and loss	Issuances	Acquisitions	Settlements	Transfers from level 3	Transfers to level 3	Fair value as at end of the year	Unrealized gains (losses) in respect of held instruments as at end of the year
					in NIS millions				
					For the year ended December 31, 2018				
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	18	(1)(9)	-	-	22	-	-	31	(1)25
Other Interest Rate Contracts	134	(1)(42)	-	-	200	-	1	293	(1)(36)
Foreign Currency Contracts	170	(1)170	-	(112)	(8)	-	4	224	(1)210
Commodity and other Contracts	-	(1)21	-	-	(8)	-	-	13	(1)13
Total	**322**	**140**	**-**	**(112)**	**206**	**-**	**5**	**561**	**212**
Liabilities									
CLN Deposits	(284)	(2)(2)	-	-	93	-	-	(193)	(2)(2)
					For the year ended December 31, 2017				
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	18	(1)(16)	-	-	16	-	-	18	(1)(14)
Other Interest Rate Contracts	247	(1)22	-	-	(80)	(53)	(2)	134	(1)23
Foreign Currency Contracts	283	(1)(110)	-	(62)	50	8	1	170	(1)155
Total	**548**	**(104)**	**-**	**(62)**	**(14)**	**(45)**	**(1)**	**322**	**164**
Liabilities									
CLN Deposits	(319)	(2)(8)	(26)	-	69	-	-	(284)	(2)(8)

Footnotes:
(1) Included in the statement of profit and loss in the item "Non-interest financing income".
(2) Included in the statement of profit and loss in the item "Interest income and expenses".

G. TRANSFERS BETWEEN HIERARCHY LEVELS OF FAIR VALUE

Immaterial transfers to or from level 3 were made in 2017 and 2018, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3

1. QUANTITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

	Fair value as at December 31, 2018	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	661	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Other	10	Valuation by an expert assessor	Company value, real estate market inputs					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	31	Discounted cash flow	The interest curve in the CPI linked segment	From	-1.32%	to	2.08%	(-0.03%)
			Counterparty credit risk (CVA)	From	0.00%	to	4.88%	(1.49%)
Other Interest Rate Contracts	293	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	1.17%	(0.02%)
Foreign Currency Contracts	224	Discounted cash flow	The interest curve in the CPI linked segment	From	-1.59%	to	1.47%	(-0.22%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	17.56%	(0.38%)
Commodities and other contracts	13	Rating model	Counterparty credit risk (CVA)	From	0.10%	to	0.20%	(0.10%)
Liabilities								
CLN Deposits	193	Discounted cash flow	Credit risk of the underlying asset					

	Fair value as at December 31, 2017	Valuation Techniques	Unobservable inputs	Range (Weighted Average)				
	In NIS millions			In %				
A. Items measured at fair value not on a recurring basis								
Impaired credit the collection of which is collateral dependent	1,082	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs					
Other	13	Valuation by an expert assessor	Company value, real estate market inputs					
B. Items measured at fair value on a recurring basis								
Net Assets in respect of derivative instruments								
Shekel/CPI Interest Rate Contracts	18	Discounted cash flow	The interest curve in the CPI linked segment	From	-0.68%	to	2.39%	(0.14%)
			Counterparty credit risk (CVA)	From	0.00%	to	1.60%	(0.33%)
Other Interest Rate Contracts	134	Discounted cash flow	Counterparty credit risk (CVA)	From	0.00%	to	10.06%	(0.07%)
Foreign Currency Contracts	170	Discounted cash flow	The interest curve in the CPI linked segment	From	-0.70%	to	2.39%	(-0.44%)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From	0.00%	to	4.77%	(0.51%)
Liabilities								
CLN Deposits	284	Discounted cash flow	Credit risk of the underlying asset					

34. Balances and Fair Value Estimates of Financial Instruments (continued)

H. ADDITIONAL DETAILS REGARDING SIGNIFICANT UNOBSERVABLE INPUTS AND VALUATION TECHNIQUES USED FOR THE MEASUREMENT OF FAIR VALUE OF ITEMS CLASSIFIED TO LEVEL 3 (CONTINUED)

2. QUALITATIVE INFORMATION REGARDING THE MEASUREMENT OF FAIR VALUE AT LEVEL 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are the interest graph in the CPI linked segment, and adjustments regarding counterparty credit risk (CVA). In as much as the interest graph rises (falls) and the Bank commits to pay the index-linked amount, so the fair value rises (falls). In as much as the interest graph rises (falls) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value falls (rises). The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries

A. BALANCES

	December 31, 2018													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank			
	Controlling Shareholders[2]		Other[3]		Officers[4]		Others[6][7]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	10	15
Securities[12]	-	-	-	-	-	-	18	20	-	-	-	-	580	580
Credit to the public	-	-	253	264	2	2	207	237	50	105	380	393	224	263
Provision for credit losses	-	-	(3)	(3)	-	-	(1)	(2)	(1)	(1)	(2)	(2)	(2)	(2)
Credit to the public, net	-	-	250	261	2	2	206	235	49	104	378	391	222	261
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	135	135	-	-
Other assets	-	-	-	-	-	-	1	21	-	-	17	18	7	10
Liabilities														
Deposits from the public	-	-	6	38	4	4	1,222	1,883	-	-	19	77	267	450
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	904	908
Subordinated debt notes	-	-	-	-	-	-	-	1	-	-	-	-	-	-
Other liabilities	-	-	-	-	31	31	5	26	-	-	15	15	53	65
Shares (included in equity)[13]	-	-	2,844	2,844	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	11	11	6	7	62	75	-	-	81	81	651	660

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

A. BALANCES (CONTINUED)

	December 31, 2017													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank			
	Controlling Shareholders[2]		Other[3][16]		Officers[4]		Others[6][7][16]		Whoever was an interested party at date of the transaction		Affiliated companies[8]		Others[9]	
	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)	(10)	(11)
	in NIS millions													
Assets														
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	-	3	36
Securities	-	-	-	-	-	-	-	-	-	-	-	-	539	539
Credit to the public	-	-	-	-	1	2	5	12	113	138	311	324	228	297
Provision for credit losses	-	-	-	-	-	-	-	-	(1)	(7)	(1)	(2)	(2)	(3)
Credit to the public, net	-	-	-	-	1	2	5	12	112	131	310	322	226	294
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	153	153	-	-
Other assets	-	-	-	-	-	-	-	4	-	-	14	15	6	25
Liabilities														
Deposits from the public	-	-	23	55	4	4	46	47	-	-	19	79	356	1,279
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	900	900
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	28	28	-	1	-	-	15	18	42	86
Shares (included in equity)[13]	-	-	931	931	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[14]	-	-			4	4	13	13	-	-	74	74	464	464

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

B. SUMMARIZED RESULTS OF TRANSACTIONS WITH RELATED AND INTERESTED PARTIES

	Interested parties[1]				Related parties[1]	
	Shareholders				Held by the Bank	
	Controlling Shareholders[2]	Other[3][16]	Officers[4]	Others[6][7][16]	Affiliated companies[8]	Others[9]
	in NIS millions					
	For the year ended December 31, 2018					
Interest income (expenses), net (See item D)	-	4	-	(3)	3	1
credit loss income (expenses)	-	(1)	-	1	-	-
Non-interest income (expenses)	-	-	-	[15](176)	7	103
Operating and other expenses (See item C)	-	-	(38)	(6)	(11)	(36)
Total	**-**	**3**	**(38)**	**(184)**	**(1)**	**68**
	For the year ended December 31, 2017					
Interest income (expenses), net (See item D)	-	-	-	(2)	2	-
credit loss income	-	-	-	-	1	2
Non-interest income	-	-	-	[15]80	8	81
Operating and other expenses (See item C)	-	-	(34)	(6)	(8)	(33)
Total	**-**	**-**	**(34)**	**72**	**3**	**50**
	For the year ended December 31, 2016					
Interest income, net (See item D)	-	-	-	-	3	2
credit loss income	-	-	-	-	17	-
Non-interest income	-	-	-	-	10	58
Operating and other expenses (See item C)	-	-	(32)	(4)	(7)	(32)
Total	**-**	**-**	**(32)**	**(4)**	**23**	**28**

For notes to the tables see after item D.

C. REMUNERATION AND ANY OTHER BENEFIT TO INTERESTED PARTIES (FROM THE BANKING CORPORATION AND FROM INVESTEE COMPANIES)

	For the year ended December 31					
	2018		2017		2016	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit[17]	Number of benefit Recipients	Total benefit[17]	Number of benefit Recipients	Total benefit[17]	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf[18]	33	16	30	13	26	12
Directors who are not employed by the Bank or on its behalf	5	12	5	12	6	13
Total	**38**	**28**	**35**	**25**	**32**	**25**

For notes to the tables see after item D.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

D. INTEREST INCOME, NET, IN TRANSACTIONS OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES WITH RELATED AND INTERESTED PARTIES[18]

	Consolidated			Of which from Affiliated Companies		
	2018	2017	2016	2018	2017	2016
	in NIS millions					
A. On assets						
Credit to the public	20	9	8	3	2	3
Total	**20**	**9**	**8**	**3**	**2**	**3**
B. On liabilities						
Deposits from the public	(11)	(6)	(1)	-	-	-
Deposits from the banks	(4)	(3)	(2)	-	-	-
Subordinated capital notes	-	-	-	-	-	-
Total	**(15)**	**(9)**	**(3)**	**-**	**-**	**-**
Total Interest income, net	**5**	**-**	**5**	**3**	**2**	**3**

Footnotes: relating to items A,B,C & D:

(1) Interested party, related party - as defined in item 80 d of the public Reporting Directives.

(2) Controlling shareholder and their relatives – in accordance with item 80 d (1) of the public Reporting Directives.

(3) Other shareholders including whoever holds 5% or more of the means of control of a banking corporation or whoever is entitled to appoint one director or more of the directors or the president & CEO in accordance with item 80 d (2) of the public Reporting Directive.

(4) Officers - in accordance with item 80 d (3) of the public Reporting Directives.

(5) As regards the engagement terms see item O below

(6) in accordance with item 80 d (4) of the public Reporting Directives.

(7) In respect of corporations, where a person or a corporation included in one of the groups of interested parties, as above, according to the Securities Act, holds 25% or more of their issued share capital or of the voting therein, or which is entitled to appoint 25% or more of the directors thereof.

(8) Affiliated Companies- in accordance with item 80 d (7) of the public Reporting Directives.

(9) in accordance with item 80 d (8) of the public Reporting Directives.

(10) The balance at balance sheet date.

(11) The highest balance during the year on the basis of month-end balances.

(12) Details of these item are included also in Securities - Note 12, Investments in Investee Companies - Note 15 and guarantees Note 26.

(13) Holdings of interested parties and of related parties in the equity of the banking corporation.

(14) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.

(15) stemming mainly from derivative financial instruments activity.

(16) The classification of balances of certain entities from "Interested parties – Shareholders – Other" to "Interested parties – Other".

(17) The amounts of the remuneration do not include payroll tax.

(18) Including the officiating Chairman of the Board (see item F below)

E. (1) On December 3, 2013 the Bank became a bank with no core controlling interest.

(2) During 2017-2018, a number of entities managing customer funds became interested parties in the Bank, following the policy of the Bank of Israel in the matter of the granting of a bank holding permit to entities managing customer funds. It is noted that in accordance with the amendment of Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties", entities which had obtained a holding permit in accordance with the said policy, who hold means of control of the Bank of a rate that does not exceed 7.5%, have been removed from the definition of "related party", and accordingly, transactions of a banking corporation with such entities does not require approval in accordance with the said Directive.

F. **Remuneration for the officiating Chairman of the Board, the President & CEO and the former Chairman of the Board**

Remuneration for the officiating Chairman of the Board. The officiating Chairman of the Board of Directors took office as Chairman on December 3, 2018, though at this stage, the remuneration, which he would be entitled to as Chairman, has not yet been determined, and he continues to receive remuneration as a regular director in accordance with the Companies Regulations (Rules Regarding Remuneration and Expenses for an External Director), 2000 and the Bank's remuneration policy

The Board of Directors decided on February 26, 2019, to accept the recommendation of the Remuneration Committee of February 12, 2019, and approve the terms of office of the Chairman, beginning with the date on which he takes office as Chairman of the Board of the Bank, and subject to the provisions of the law/regulation permitting such terms of office as stated:

1. Period of office - The terms of office apply as from December 3, 2018 and until the end of his period of office as Chairman of the Board (the Chairman ends his second period of office as Director on December 11, 2020, and is entitled to be appointed to an additional period of office until December 11, 2023).

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

2. Scope of office - The scope of office is 100% position as an active Chairman of the Board and in accordance with the Bank's needs. The Chairman may not enter into any additional paid engagement, unless he receives in advance the consent of the Board of Directors.
3. Services rendered by the Chairman of the Board of Directors - The Chairman shall provide his services against issue to the Bank of an invoice. The Chairman shall bear any tax and other compulsory payments under the law, applying to any payment or benefit received in accordance with his terms of office. Where required, VAT under the law will be added to any payment or right to which the Chairman is entitled in accordance with his terms of office.
4. The consideration – In respect of his services as Chairman of the Board, the Chairman shall be entitled to annual consideration in the amount of NIS 2,425 thousand, linked to the CPI, with the addition of VAT under the law ("the annual consideration").
5. Deposits with severance pay and provident funds - In addition to the annual consideration, as stated, the Bank shall pay to the Chairman additional amounts, with the addition of VAT under the law, in lieu of severance pay, provident contributions and loss of work ability compensation, against the deposit thereof by the Chairman in Funds, so that the total of the comprehensive annual remuneration payable to the Chairman, including deposits with severance pay and provident funds, would amount to NIS 2,796 thousand (linked to the CPI).
6. Additional terms – The Chairman shall be entitled to an appropriate motor vehicle or to reimbursement of expenses in respect of use of his private vehicle and/or to telephone expenses and/or to benefits and other terms respecting his duties as Chairman of the Board, all as is the accepted practice at the Bank, and provided that the total annual cost to the Bank in respect of the terms of office shall not exceed the annual consideration (not including deposits with severance compensation and provident funds).
7. Expenses – The Chairman shall be entitled to the reimbursement of reasonable expenses incurred by him in the fulfillment of his duties, in accordance with the accepted practice at the Bank.
8. Additional rights - The Chairman shall continue to be entitled to exemption from the duty of care, to officer liability insurance and to an advance commitment for indemnification, as is the practice regarding officers of the Bank.
9. Additional duties - The Chairman is committed to a non-competition and a "cooling-off" period of six months since the date of termination of office and to the maintaining of confidentiality for an unlimited period.

The Terms of office of the Chairman shall be tabled for approval of the Bank's General Meeting of Shareholders convened for April 3, 2019.

Should the provisions of the law/regulation not permit the payment of the terms of office, the Chairman shall be entitled to continue to receive remuneration in accordance with the Remuneration Regulations, similar to the remuneration that is paid to the rest of the directors of the Bank possessing accounting and financial expertise. Should the terms of office be approved by the General Meeting and should the aforesaid provisions of the law/regulation be permitted, the Chairman shall refund the Bank whatever money he received as director’s remuneration as aforesaid, with this being from the date on which he shall be entitled to the aforementioned terms of office (including by means of set-off).

Terms of office and engagement of the President & CEO. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the President & CEO, for a period of five years as from October 12, 2016. The said terms of office and employment, replaced the terms of office and employment as approved by the General Meeting of Shareholders held on January 17, 2014 (hereunder: "the original agreement").

The President & CEO is entitled to an advance notice period of six months. In the event of the President & CEO’s employment being terminated after five years and not extended, the President & CEO will be entitled to payment of the advance notice cost. The President & CEO is employed in a fulltime position and shall not be permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. In view of the restrictions determined by the Remuneration Act, the approved remuneration terms include a reduction in the scope of remuneration applying to the President & CEO.

In consideration for the fulfillment of her duties, the President & CEO is entitled to a monthly salary of NIS 180,000, gross (Non-linked). In each calendar year during her employment period, the President & CEO will be entitled to an additional monthly salary (13^{th} month salary) including also social allowances in respect thereof.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The President & CEO is entitled to paid vacation days (may not be accumulated), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

The Remuneration Committee and the Board of Directors may, at their discretion, grant the President & CEO an annual award in an amount not exceeding three monthly salaries.

Severance pay – at the end of her period of office, for whatever reason, the President & CEO would be entitled to severance pay on the basis of her last monthly salary, or to the funds and rights accumulated to her credit in respect of the pension arrangement, the higher of the two. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto.

The annual remuneration of the President & CEO (excluding social benefits and related benefits) shall not exceed the maximum amount permitted by Section 2(b) of the Remuneration Act. Following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration were also updated. The engagement terms also state that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the President & CEO shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

Nothing in the terms of office and employment that were approved on November 8, 2016 shall be treated as impairing the rights accrued by the President & CEO through October 12, 2016, including variable remuneration in respect to 2016 and the compensation for terminating the employee-employer relationship (the right to receive severance pay, within the framework of terminating the employee-employer relationship, on the initiative of the President & CEO or on the initiative of the Bank, in addition to the ongoing deposits in respect to severance pay made to her pension arrangement funds).

Remuneration in respect of the year 2018. The Remuneration Committee has confirmed that in accordance with the "restricted ratio" stated in the Remuneration of Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016, (the Remuneration Act) - multiplication by 35 of the expense in respect of the lowest remuneration paid to a bank employee for the year 2018, including employees of contractors – the maximum amount of the potential remuneration payable to the President & CEO in respect of the year 2018, totals NIS 3,009,790 (not including severance pay and provident fund contributions under the law). Accordingly, the President & CEO is entitled to an additional fixed remuneration component in the amount equal to one monthly salary (with the addition of severance pay and provident fund contributions under the law) totaling NIS 206,700.

The engagement agreement with the former Chairman of the Board of Directors. The former Chairman of the Board officiated in this role as from January 3, 2010 and until December 2, 2018. The General Meeting of Shareholders approved on November 10, 2010, the Bank's engagement in a personal employment agreement with the former Chairman of the Board. The period of the agreement was five years beginning on January 3, 2010 (hereinafter: "the first agreement period").

The Bank's annual meeting of shareholders held on October 2, 2014, the terms of office and employment of the former Chairman of the Board were reapproved. The terms of service and employment preserved the fixed remuneration and termination of employment agreements of the former Chairman of the Board according to the previous employment agreement terms, subject to the changes required by the new provisions applicable to the Bank and to the Bank's remuneration policy (Plus a 13th salary, similarly other employee groups at the Bank).

Following the enactment of the Remuneration Act, the Bank was required to make modifications to the engagement terms of the former Chairman of the Board. The Annual General Meeting of Shareholders held on November 8, 2016, resolved to approve the terms of office and engagement of the former Chairman of the Board, as from October 12, 2016 and until the end of his term of office as Chairman of the Bank's Board of Directors. The engagement terms have been formed in accordance with the Remuneration Act, the Bank's remuneration policy, the Companies Act and Directive 301A. The approved remuneration terms included a reduction in the scope of remuneration applying to the former Chairman, in order to comply with the restrictions determined by the Remuneration Act.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

In consideration for executing his duties, the former Chairman was entitled to a monthly salary of NIS 162,802 (non-linked). The former Chairman of the Board was also entitled to a thirteen month's salary, including allowances in respect thereof. The agreement stated also the duties imposed on the Chairman, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty – at the end of his period of office, for whatever reason, the former Chairman of the Board was entitled to severance pay on the basis of his last monthly salary, or to the funds and rights accumulated to his credit in respect of allowances for severance pay, the higher of the two. The former Chairman was entitled to an annual vacation, which could not be accumulated, excluding the redemption of 66 vacation days, accumulated to the credit of the former Chairman of the Board in accordance with the previous engagement terms, and also to sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits. In addition, the former Chairman was entitled to early notice of six months, during which he was entitled to remuneration and related benefits in accordance with the agreement and to an adaptation period of six months. During the adaptation period the former Chairman was entitled to a monthly salary and related benefits in accordance with the engagement agreement.

Following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration in respect of the previous engagement terms, were also updated. The terms also stated that to the extent that the maximum amount permissible by the Remuneration Act allows, the fixed remuneration component of the Chairman of the Board shall be increased by an additional fixed remuneration component, not to exceed one additional monthly salary.

Nothing in the terms of employment that were approved on November 8, 2016 shall be treated as impairing the rights accrued by the former Chairman of the Board of Directors through October 12, 2016, including the compensation upon the termination of his service (the right to receive severance pay upon termination of service, as prescribed by law, in addition to his entitlement to monies and rights accumulated for his benefit in respect to pension provisions made by the Bank).

G. **Awards to the President & CEO.** In accordance with the terms of the original agreement, the President & CEO, among other things, was entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO was entitled to an annual award in respect of each award year, which was restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year was conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the President & CEO, as detailed below.

Computation of the annual award. The annual award was computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices" - Return on capital; Efficiency ratio; Commissions and other income; Core capital ratio) and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter: "the qualitative index"). The Remuneration Committee and the Board of Directors were entitled to decide that with respect to a particular award year, the award shall be based solely on the quantitative indices.

(2) **Current award.** The President & CEO was entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank's work plan.
- The grade granted to the President & CEO is at least grade "2" of the qualitative index for the award year.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(3) Special awards

3.1 **Award for special profits or losses.** The Remuneration Committee and the Board of Directors are entitled to grant the President & CEO a special award, either positive or negative, in respect of special profits or losses. This award shall be computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

3.2 **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors may grant the President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

3.3 **Award in special circumstances.** The Remuneration Committee and the Board of Directors may grant the President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

(4) On February 2, 2015, the Bank's Board of Directors received the recommendation of the audit committee and approved the targets for the purpose of computing the annual award to the President & CEO for the years 2015-2016.

(5) **The annual award for 2016.** The entitlement to annual awards did not materialize in respect of the year 2016. The Remuneration Committee and the Board of Directors have approved: the fulfillment of the criteria for a current award for 2016, in an amount of NIS 703 thousand (the proportionate share of the annual award of NIS 900 thousand, calculated through October 12, 2017; see item (2) above); a special circumstances award of NIS 281 thousand (the proportionate share of the annual award of NIS 360 thousand, calculated through October 12, 2017; see section 3.3 above); and a special contribution award, which can be distributed once every three years, of NIS 700 thousand, (see item 3.2 above).

The approved awards total NIS 1,684 thousand. The Remuneration Committee and the Board of Directors have approved the following special profits and losses for the purpose of the 2016 remuneration plan: the gain on the sale of VISA Europe; ICC's expense in respect to the arrangement in lieu of criminal proceedings; and the costs in respect to the 2016 retirement plan. Elimination of the aforesaid special profits and losses has not affected the total amount of the awards.

The Remuneration Committee and the Board of Directors have approved the application of the spreading mechanism prescribed in the previous employment agreement in respect to 2016.

(6) **The annual award for 2018.** The Remuneration Committee and the Board of Directors approved an annual award to the President & CEO in the amount of NIS 313 thousand, equal to 1.74 of a monthly salary. It is noted that the said award was affected by the limitation under the law. Furthermore, in view of the attainment of the return on equity goal, as determined in the original engagement agreement with the President & CEO regarding the entitlement to a deferred award, the entitlement to the second deferred installment (out of three deferred installments) had been realized regarding the awards in respect of special contribution, the current award and the special circumstances award, as approved by the Board of Directors in December 2016 and March 2017 in respect of the year 2016. The amount of the deferred installment payable to the President & CEO proximate to the date of publication of the financial statements for 2018, totals NIS 441 thousand, as of December 31, 2018, and it includes a component of linkage to the relevant share data as of that date, as determined in the original engagement agreement with the President & CEO.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

H. The Bank has a commitment to pay directly to subordinated debt notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated debt notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2018, amounted to NIS 3,588 million (as at December 31, 2017 – NIS 2,546 million).

I. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 26 C 4 and Note 26 C 5.

J. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to International VISA Organization and MasterCard Worldwide organization as stated in Note 26 C 10 items a and b.

K. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, see Note 26 C 8, items N and O.

L. **Remuneration of expert directors.** Following approval by the Remuneration Committee, the Board of Directors approved on May 16, 2018, the payment of annual remuneration and remuneration for participation in meetings to external directors and other directors officiating and who would officiate at the Bank (excluding the Chairman of then Board), and who are expert directors, as defined in the Remuneration Regulations, in an amount that does not exceed the "maximum amount for an external expert director" stated in the fourth addendum to the Companies Regulations (Rules regarding remuneration and expenses payable to an external director), 2000, in accordance with the grade of the Bank (hereinafter: "the updated remuneration"). A director who is not an expert director shall continue to receive annual remuneration and remuneration for participation in meetings, as stated in Note 35 L to the financial statements as of December 31, 2017.

The said updated remuneration shall be paid to an expert director, as stated, starting with the date of beginning of office of a new external director at the Bank, or the date of renewal of office of an officiating external director, the earlier of the two.

The said approval was granted in accordance with Regulation 1A of the Relief Regulations (Relief regarding transactions with interested parties), 2000.

M. **Terms of transactions with interested and related parties.** All business with interested and related parties has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

N. For details regarding the remuneration policy for officers of the Bank, see Note 23 D and F. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2015-2016), see Note 23 F. For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2017-2019), see Note 23 G.

36. Credit Card Activity

A. **Existing arrangements between the credit card companies and between such companies and the banks**

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Competition Tribunal (its former name: Antitrust Tribunal; hereinafter: "the Tribunal") for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Competition Commissioner in her former title: Antitrust Commissioner; "the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Competition Court. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement - reduction of the issuer commission rate. The Competition Tribunal approved on March 7, 2012 a new compromise arrangement, to which had been attached an amended cross clearing arrangement. The compromise agreement determines, among other things, that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement and that the reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement.

36. Credit Card Activity (continued)

The five stages, as detailed in the agreement, were implemented on the due dates. From July 1, 2014 and until the end of the agreement period (December 31, 2018), the issuer commission decreased and amounts as of December 31, 2018 to an average rate that did not exceed 0.7%.

The terms of the exemption state that credit card companies are required to submit for approval of the Commissioner, the operating agreement permitting cross-clearing. As required, the operating agreement was submitted to the Competition Authority in 2012.

The arrangement expired on December 31, 2018.

Exemption terms for the operating agreement. Instead of the amended cross-settlement arrangement, which expired on December 31, 2018, the Competition Commissioner published on April 25, 2018, terms for the granting of an exemption to the operating interface agreement. The exemption relates to the operating-technical interface and does not include reference to the rate of the cross-commission, which was determined by the Bank of Israel. The terms include, inter alia, restrictions on issuers and clearing agents with wide-ranging activity, regarding discrimination or regarding operations resulting in the discrimination of other issuers and clearing agents. It has also been decided that credit card companies are required to allow participation in the cross-clearing agreement, in an equal manner and at no cost, to any issuer, clearing agent or anyone on their behalf who wish to join this agreement, and to put at his disposal all the information required by him in order to join the agreement and act in accordance therewith, as well as perform any adjustments, where required, in a way that would allow the new participant, as stated, to join the agreement and operate in accordance with its provisions.

The granting of the exemption is conditional upon the transition to the daily clearing of deferred debit transactions. This condition shall become effective on July 1, 2021, and would apply to a single payment transaction. In the case of such transactions, the issuer would be required to transfer the consideration to the clearing agent no later than one day following the date of broadcast of the transaction by the trading house. This condition does not apply to installment transactions.

Reduction of the cross-commission rate. The Governor of the Bank of Israel announced on February 25, 2018 a new outline with respect to the reduction of the cross-commission in deferred charge transactions, from the present rate of 0.7% to a rate of 0.5%, this in five stages during the coming years.

The cross commission level under the new outline has been calculated based on the methodology that was approved in 2006 by the Competition Court, as referred to above.

The reduction in the issuer's fee to a level of 0.5% will be implemented in stages, as follows:

- from January 1, 2019, the end of the current arrangement period, through December 31, 2019, the issuer's fee will stand at an average rate that shall not exceed 0.6%;
- from January 1, 2020, through December 31, 2020, the issuer's fee will stand at an average rate that shall not exceed 0.575%;
- from January 1, 2021, through December 31, 2021, the issuer's fee will stand at an average rate that shall not exceed 0.55%;
- from January 1, 2022, through December 31, 2022, the issuer's fee will stand at an average rate that shall not exceed 0.525%;
- from January 1, 2023, the issuer's fee will stand at an average rate that shall not exceed 0.5%.

In addition, an outline was established with respect to the reduction of the cross-commission regarding immediate charge transactions, from the current rate of 0.3%, to a rate of 0.25%, in two phases, during the coming years. The aforementioned reduction will be carried out in stages, as follows:

- from January 1, 2021 through December 31, 2022, the commission will be at an average rate of not more than 0.275%;
- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

On November 25, 2018, these rates were recognized in the Banking Order (Customer service) (Supervision over cross-clearing service for charge card transactions and for immediate debit transactions), 2018.

It should be noted that the reducing the rate of the cross commission effects various parameters, including: the scope of the fees collected from trading houses, the scope of the royalties paid to the banks with which the company has entered into a joint-issuing agreement, various operational fees, the scope of the clearing activity, the effects of the changes in the credit card sector as a result of the "Strum Law" etc. Difficulties exist in assessing each of these parameters on its own and in assessing their aggregate impact, particularly in light of the fact that their impact is felt gradually over time. Consequently, ICC is of the opinion that it is not possible to assess the scope of the impact of the reduction in the cross commission rate on its business results. Nevertheless, the Bank and ICC estimate that the business results of ICC might be materially impaired as a result of the reduction in the commission rate, as stated.

36. Credit Card Activity (continued)

Petition regarding the rate of the cross commission. On December 9, 2018, a petition was filed with the Supreme Court sitting as the High Court of Justice, in which relief was sought through the revocation of the Banking Order (Customer Service) (Supervision of Cross Clearing Service of Debit Card Transactions and of Immediate Charge Transactions), 2018. According to the petitioners, the Order should be revoked, and it should be prescribed that the credit card companies be forbidden from generating profit from the cross commission, which is meant to cover only the issuer's costs. In addition, the petitioners allege that the cross commission is a "restrictive agreement" that requires a permit.

2. **Exemption for a restrictive agreement for the clearing of Isracard cards.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel.

   On May 16, 2018, ICC received an exemption for a restrictive agreement for clearing Isracard cards, further to earlier exemptions granted in this matter. This exemption is granted following the extension of the agreement between ICC and Isracard with regard to clearing "Isracard" branded cards for a further two years, i.e. through May 15, 2020. In general, the exemption is granted for the period of the agreement, but should the parties extend the agreement without making any substantive changes thereto, the exemption will be valid through December 31, 2023.

3. **A joint issuance agreement between ICC and owner banks.** ICC signed on September 30, 2013 with the Bank and with the First International Bank Group, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. The issuance agreements were valid for 5-year periods and are extendable under certain circumstances determined in the agreements. ICC and the owner banks are conducting negotiations for renewal of the issuance agreements.

4. **Issuance agreements with banks participating in the arrangement.** ICC is engaged with most banks in Israel by agreements for the joint issuance and operation of the issue of charge cards. In accordance with these agreements, ICC and/or the bank issue charge cards to customers of that bank, the operation of which would be performed by ICC. According to the agreements, a mechanism was determined for the distribution of income between ICC and the banks in respect of the card operation (including: income derived from transaction in Israel and abroad, and service commission charged to card holders). Also determined are the operation fees to which ICC would be entitled in respect of certain operations, such as extending bank credit by means of the card. Under certain of the agreements the bank enjoys an increase in its share of the income based on the volume of the joint operations and/or the quantity of cards issued in accordance with the agreement. Moreover, certain of the agreements include awards dependent on attainment of goals.

   The banks were awarded the exclusive discretion regarding the issue of the credit card, its cancellation, suspension, the number of credit cards to be issued (with no commitment for a minimum number of cards), including the amount of the credit facility and the interest rates charged. Among other things, the agreements also state that the banks would be responsible for everything related to credit risk, while ICC on its part would be responsible for risks of misuse of the credit card by the customer (excluding exceptional cases as stated in the agreements). The agreements further regularize the manner of use of information derived from the use of credit cards and the ownership of the said information, as well as the manner of management of the commercial relations with the credit organizations.

   The agreements are signed for a period of several years and certain of them contain provisions regarding the extension thereof for an additional period. As of date of the report, ICC is negotiating the renewal of four agreements which had expired, and until their renewal the parties continue to operate in accordance with the provisions of the existing agreement.

B. **Arrangements following the Strum Act.** Following the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (Legislation amendments), 2017 ("the Strum Act"), The Bank and ICC reached the following arrangements:

1. **Agreement between the Bank and Leumi Card.** The Bank signed a joint issuance agreement on March 29, 2018, with LeumiCard, based on the commercial understandings reached between the parties. In accordance with the agreement, the Bank would issue credit cards together with LeumiCard as from February 2019 (date of entering into effect of the duty stated in the Act to conduct the issuance operation by means of more than one operating company). Inter alia, the agreement regularizes the services to be received by the Bank, the division of responsibility and the manner of settlement between the parties. The agreement is in effect until January 31, 2024, and may be extended for an additional period of two years by a notice in advance by the Bank.

36. Credit Card Activity (continued)

2. **A joint issuance agreement with Bank Hapoalim.** On November 21, 2018, ICC and Bank Hapoalim Ltd. signed an agreement for the joint issuance and operation of charge cards. According to the agreement, the parties will issue credit cards to customers of Bank Hapoalim, which would be operated by ICC. The agreement determines the distribution of income between the parties, as well as their rights and obligations and further arrangements regarding the said operation. The agreement will be in effect as from date of signature thereof and until December 31, 2024. Bank Hapoalim is entitled to extend the period of the agreement by means of a written request delivered to ICC no later than June 30, 2024, while ICC is entitled to inform Bank Hapoalim of its consent within 45 days from date of delivery of the request for extension. The entry into effect of the agreement is subject to obtaining the approval of the Supervisor of Banks.
3. **Agreement for joint issuance with Bank Leumi.** On August 12, 2018, ICC, Diners and Bank Leumi Le-Israel Ltd. (hereinafter: "Leumi") signed an agreement for the joint issuance and operation of debit card issuance. In accordance with the agreement, the parties would issue to customers of Leumi debit cards operated by ICC. The agreement determines the division among the parties of income and expenses derived from the joint issuance operations, as well as the rights and duties of the parties and additional arrangements relating to the described operations. The period covered by the agreement would be from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi will be entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties will be permitted to agree to extend the period of the agreement by four additional periods of one year each. Entry of the agreement into effect is subject to the fulfillment of conditions precedent, including regulatory approvals, where required.

C. **Joint distribution agreement with El-Al Company.** On June 11, 2014, Diners and ICC entered into an agreement for the issue of brand name credit cards to members of the frequent flyer club of El-Al Israel Airlines Ltd. ("EL-AL") (hereinafter: "brand name credit cards").

An agreement of principles was signed on December 11, 2018, in respect of a new engagement of ICC with EL AL, regarding the issuance and operation of brand name credit cards for a period of ten years as from September 1, 2019, with a mutual termination right for each of the parties after seven years ("the engagement period"). This agreement replaces the previous agreement.

It has been agreed that ICC shall pay EL AL a onetime signature award in a total amount of NIS 75 million, payable upon the agreement of principles taking effect (upon fulfillment of the condition precedent, as detailed below). Furthermore, EL AL would be entitled to the payment by ICC of current royalties (and under certain terms to increased royalties, dependent on reaching determined operational goals), in respect of the use of the brand name credit cards, and which shall be derived from the various income earned on the brand name credit card operations, comprising the distribution of income between the parties with respect to the cross-commission earned on transactions made by the credit cards, with respect to income on the credit extended to card holders, with respect to card fees charged to the holders and with respect to foreign currency conversion income. The agreement of principles determines in addition, instructions regarding the marketing and promotion of sale of the brand name credit cards, including marketing and advertising budgets by ICC all through the period of the engagement.

On date of entry into effect of the agreement of principles, EL AL received an advance payment of NIS 60 million, on account of a part of the above mentioned current royalties, which shall be reimbursed in full during the first seven years of the engagement period, by means of offsetting the amount against the current royalties only.

Moreover, EL AL shall be granted a "phantom" option, which would grant it economic rights in ICC (of a value equal to 8.75% of the increase in value of ICC) or in Diners (of a value equal to 35% of the increase in value of Diners). The option may be exercised only in the event of sale or share issue of any of the above companies, in accordance with the terms stated in the agreement in this respect, and shall be settled in cash.

The entry into effect of the Agreement of principles, was subject to certain conditions, which were fulfilled near to the date of approval of these financial statements.

In accordance with the plan of operation of the agreement, ICC's profitability is expected to be impaired due to expenses relating to operating the club in the first two years of its operation.

D. **Joint distribution agreement with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter together: "ICC") and Shufersal Company Ltd. and Supersol Finance, Limited Partnership (hereinafter together – "Shufersal") signed a memorandum of principles (hereinafter: "the Memorandum of principles") for the issue and operation of off-banking credit cards to customers of Shufersal (hereinafter: "Credit Club" and "the Cards", respectively). The parties introduced the club on January 18, 2018, in accordance with the document of principles.

The Memorandum of principles also states that the parties will act towards the signing of a detailed agreement ("the Agreement") which would regularize all matters existing between the parties with respect to the Credit Club, and this within a period of six months, while until the date of signing of the detailed Agreement, the Memorandum of Principles would bind the parties.

36. Credit Card Activity (continued)

The Agreement would be in effect from date of signature thereof and until December 31, 2027, such period being extended for additional periods of two years each, unless any of the parties announces his wish not to extend the validity of the Agreement for an additional period, by giving a notice twelve months prior to the termination of each period.

Among other things, the Memorandum of Principles regularizes the benefits that would be granted to customers holding the Credit Club cards by the parties to the agreement, the instructions relating to the attraction of customers to the Credit Club, providing marketing and advertising budgets by the parties, distribution of costs, and instructions relating to fees charged to card holders. All liabilities applying by law to the issuer shall apply to ICC. ICC would be the exclusive issuer permitted to offer charge cards and loans to customers of Shufersal.

The Memorandum of Principles also regularizes the possibility that the cards would be registered under the Bank Identification Number (BIN) of Shufersal, if this is requested by Shufersal and subject to obtaining all relevant approvals and licenses.

The Memorandum of Principles determines the distribution of income between the parties with respect to the cross-commission earned on transactions made by use of the cards, in respect of the interest bearing credit balances created through the operation of the Credit Club, and in respect of card fees charged to the holders thereof. Card holders would also be charged by Shufersal with monthly membership fees in respect of their membership of the Credit Club, in accordance with determined terms.

Within the framework of the Memorandum of Principles, ICC has committed with respect to each of the years 2018, 2019 and 2020, that in the event that the total income of Shufersal and Supersol Finance from the activity of the Credit Club, as defined in the Memorandum of Principles for each of those years, would be lower than the amount stated in the Memorandum of Principles (approx. NIS 65 million), then ICC would pay the difference to Shufersal, until the end of the first quarter of each year in respect of the preceding year, and all subject to the terms stated in this respect in the Memorandum of Principles.

The document of principles also prescribes that ICC will pay Shufersal NIS 30 million in connection with the benefits that Shufersal will grant to members of the credit club. It also prescribes that, subject to attaining material goals determined for the operations of the Credit Club, Supersol would be entitled to two awards of NIS 35 million each, at the end of the fourth and eighth year of the Agreement.

The Agreement also regularizes the payments to be made between the parties following the termination of the Agreement, where, as a general rule, in the event that ICC continues to operate the cards until their expiry date, the terms of the Agreement will continue to apply in respect of the distribution of income between the parties, while in the case that ICC discontinues the operation of the cards and these would instead be operated by Shufersal, Supersol Finance or by a third party, then ICC would be entitled to receive, during a stated period, royalties based on ICC's share in income from the cards in the year preceding the date of termination of the Agreement, and all in accordance with the terms and rates determined in the Agreement.

E. **Diners Club International franchise.** Diners is engaged in the operation of "Diners" credit cards. The franchise granted to it by Diners Club International is in effect until December 31, 2019.

F. (1) **An arrangement in lieu of criminal proceedings.** Note 36 F to the financial statements as of December 31, 2017, includes a description of events regarding the clearing of international electronic trade transactions and other matters, as well as a description of an arrangement in lieu of criminal proceedings signed in November 2016, between the Economic Department of the State Attorney Office and ICC. An expense in the amount of NIS 85 million was recognized in the books of ICC in 2016 in respect of the said arrangement.

On May 1, 2018, a notice from the State Attorney's Office was received, according to which, following a study of the documents submitted to the State Attorney's Office and other examinations made, The State Attorney's Office arrived at the decision that ICC had complied with the terms of the conditional arrangement.

(2) **Approach according to Section 194 of the Companies Law.** On June 11, 2014, the Bank received an approach in terms of Section 194 of the Companies Act, 1999, directed at the Bank's Chairman of the Board and the Chairman of the Board of ICC, according to which, the Bank and ICC are requested to file a claim against officers and employees whose acts or neglect had led, as alleged by that factor submitting the approach, to fines being imposed in the years 2008-2009, by VISA Europe and MasterCard in respect of the operations of ICC International (subsidiary of ICC, since merged with and into ICC). The factor submitting the approach demanded that as part of the claim that would be submitted, the Bank and/or ICC would motion for compensation in respect of the direct and indirect damage allegedly caused to the Bank and/or ICC and/or ICC International including the payment of fines and monetary sanction that had been imposed on ICC by the Bank of Israel in respect of violations of the Prohibition of Money Laundering Order, the legal expenses borne by these companies and the damage to the reputation of the Bank and ICC. On August 31, 2014, the Bank responded to the approach and dismissed the demand for the filing of a lawsuit, as stated. Two approaches were received at the Bank on April 26, 2015, under Section 194 of the Companies Act.

36. Credit Card Activity (continued)

The one was directed at the Chairman of the Board of the Bank and at the Chairman of the Board of ICC, while the other was directed only at the Chairman of the Board of the Bank. According to these approaches, the Bank and ICC are required to submit a claim against different entities, including Officers, Directors and others at ICC and at the Bank, in the relevant period, arguing that due to their negligence and/or violation of their duties towards ICC, enabled, as alleged by the Appellants, the existence of illegal activity, in which ICC was prima facie engaged, causing direct or indirect damage to ICC and the Bank as a result thereof. The Bank and ICC refuted the demands.

G. **Acquisition of VISA Europe.** On November 2, 2015, VISA Inc. and VISA Europe Ltd. Announced entry into an agreement whereby VISA Inc. will acquire VISA Europe from the principal members who were holding its shares. The transaction is made up of a cash payment and special preferred shares, as well as a future consideration. On June 21, 2016, the immediate cash consideration in the amount of Euro 71 million, was received. According to information received from VISA, an additional future cash consideration of Euro 6 million, which is expected to be received in accordance with the stated terms. In addition, ICC has received restricted preferred shares for periods of 4-12 years, which are convertible into Visa Inc. shares, under terms prescribed in the sale transaction.

The consideration for the transaction was divisible among the Bank, ICC and FIBI, all having the status of "Principal Member" in VISA Europe. The division will be conducted in the future in accordance with an agreed division mechanism formed by the parties, which has been approved by the authorized organs of the parties.

Following the consummation of the transaction a net profit of approx. NIS 178 million was recognized in the financial statements for 2016. For further details, see Note 3 above.

H. **Acquisition of the minority interest in Diners.** In December 2015 ICC acquired all the holdings of Dor-Alon and Blue Square in Diners (49%) (collectively: the “Sold Shares”), so that upon conclusion of the transaction ICC holds all the rights (100%) in Diners. A dispute arose between the parties regarding the entitlement of the sellers to additional consideration, conditional upon fulfillment of conditions precedent. The parties have recently referred to mediation proceedings in the matter.

37. Legislation Initiatives

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

CORPORATE GOVERNANCE, AUDIT, ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

Corporate Governance and additional details – List of tables

Corporate Governance and additional details – List of charts

CORPORATE GOVERNANCE AND AUDIT

Board of Directors and Management

General. A list of the members of the Board of Directors and a list of the Bank's executive officers and their areas of responsibility appear on page 4 of this report. These lists are correct as at the date hereof.

Report on Directors having Accounting and Financial Expertise

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise. Subsequent to the dates of the said resolution of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives of the Supervisor of Banks has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.
At date of reporting, the number of Directors having accounting and financial expertise is 12 (out of 13) and the number of Directors having accounting and financial expertise who are members of the audit committee of the Board is 7 (out of 7). List of Directors having accounting and financial expertise, are presented below under "Details regarding members of the Board of Directors". For details regarding the factual background by which they may be regarded as having such expertise, see the Bank's periodic report for 2018 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Details regarding Members of the Board of Directors

Directors name	Date on which the term of office as Director began	Membership in the Board of Directors Committees
Shaul Kobrinsky, Chairman of the Board of Directors(3)(4)(5)	December 11, 2017 (initially appointed as Director on December 11, 2014, and as Chairman of the Board since December 3, 2018)	Chairman of the Credit Committee; Chairman of the Resources Committee; Technologies and Innovation Committee
Iris Avner(2)(3)(4)(5)	March 22, 2018	Credit Committee; Resources Committee; Technologies and Innovation Committee; Risk Management Committee
Aharon Abramovich(1)(2)(4)(5)	October 30, 2017	Chairman of the Remuneration Committee; Audit Committee; Resources Committee; Risk Management Committee
Reuven Adler(4)(5)	August 1, 2018	Audit Committee; Risk Management Committee
Prof. Asher Elhayany(5)	March 13, 2016	Resources Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2019 (initially appointed on February 15, 2016)	Chairperson of the Technologies and Innovation Committee; Credit Committee; Resources Committee
Prof. Shalom Hochman(1)(2)(4)(5)	August 1, 2018	Audit Committee; Remuneration Committee; Credit Committee
Prof. Ben-Zion Zilberfarb(4)(5)	August 1, 2018	Chairman of the Risk Management Committee; Resources Committee; Technologies and Innovation Committee
Miriam (Miri) Katz(3)(4)(5)	February 1, 2017	Audit Committee; Remuneration Committee; Technologies and Innovation Committee
Baruch Lederman(1)(2)(4)(5)	November 27, 2017 (initially appointed on November 27, 2014)	Chairman of the Audit Committee; Remuneration Committee; Credit Committee; Risk Management Committee
Yehuda Levi(1)(2)(4)(5)	November 27, 2017 (initially appointed on November 27, 2014)	Remuneration Committee; Audit Committee; Risk Management Committee
Dr. Yaacov Lifshitz(2)(3)(4)(5)	March 26, 2018	Credit Committee; Technologies and Innovation Committee; Risk Management Committee
Yali Sheffi(2)(3)(4)(5)	January 29, 2017 (initially appointed on November 10, 2010)	Audit Committee; Credit Committee; Remuneration Committee; Technologies and Innovation Committee

Notes:
(1) External Director as defined in the Companies Act.
(2) Independent Director as defined in the Companies Act.
(3) External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives.
(4) Accounting and financial expertise.
(5) Professional qualifications.

For additional details regarding members of the Board of Directors, see the Bank's periodic report for 2018 (Regulation 26), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Committee for the appointment of Directors in Banking Corporations

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. The Annual General Meeting of Shareholders has been requested to elect 3 directors having the status of "another director" as defined by Section 11D(a)(2) of the Banking Ordinance, 1941, out of 4 candidates and 1 external director, within the meaning of the term in the Companies Act, 1999, out of 2 candidates proposed by the Committee for appointment of directors in banking corporations. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

Changes in the Board of Directors

Within the context of amendment to Proper Conduct of Banking Business Directive No. 301, the maximum number of directors in a banking corporation has been reduced from 15 to 10 as of July 1, 2020. For further details, see “Legislation and Supervision” below.

Appointment of Directors. Ms. Iris Avner took office on March 22, 2018, as Director of the Bank, replacing Mr. David Levinson, who terminated his office as Director on that date, all as stated in the immediate reports dated March 22, 2018 (Ref. Nos. 2018-01-022554 and 2018-01-022545, respectively). Dr. Yaacov Lifshitz took office on March 26, 2018, as Director of the Bank, replacing Ms. Edith Lusky, who terminated her office as external Director on that date, all as stated in the immediate reports dated March 26, 2018 (Ref. Nos. 2018-01-023730 and 2018-01-023724, respectively).

Mr. Reuven Adler, Prof. Ben-Zion Zilberfarb and Prof. Shalom Hochman took office on August 1, 2018, as members of the Bank's Board of Directors. For additional details, see the immediate reports dated May 2, 2018, June 8, 2018 and August 1, 2018 (Ref No. 2018-01-043495, No. 2018-01-056248, No. 2018-01-072169, No. 2018-01-072157 and 2018-01-072184 respectively).

On October 8, 2018, the Bank's Board of Directors resolved to appoint Mr. Shaul Kobrinsky to the office of Chairman of the Board of Directors of the Bank. Mr. Kobrinsky began his tenure of office on December 3, 2018, upon the termination of office of Dr. Yossi Bachar, all as detailed in the immediate reports dated October 8, 2018 and December 3, 2018 (Ref. Nos. 2018-01-089677, 2018-01-117465 and 2018-01-117471).

Mr. Eli Eliezer Gonen terminated on December 2, 2018 his office as Director of the Bank, all as detailed in the immediate report of December 3, 2018 (Ref. No. 2018-01-117459).

The Chairman of the Board, the Board of Directors and the President & CEO thank Yossi Bachar, Eli Gonen, Edith Lusky and David Levinson for their activity and contribution during their period of office at the Bank, and wish Iris Avner, Reuven Adler, Shalom Hochman, Ben-Zion Zilberfarb and Yaacov Lifshitz success in fulfilling their office.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Lilach Asher-Topilsky(1)	The President & CEO	February 19, 2014
Yair Avidan	Senior Executive Vice President, Head of the Subsidiaries Division	July 21, 2016(2)
Orit Alster	Executive Vice President, Head of the Corporate Division	March 21, 2011
Ziv Biron	Executive Vice President, Head of Planning, Strategy and Finance Division	April 2, 2017
Joseph Beressi	Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Accounting Division	April 1, 2000
Yuval Gavish	Senior Executive Vice President, Head of the Banking Division	January 11, 2011
Yafit Gheriani	Executive Vice President, Head of the Human Resources and Properties Division	April 13, 2014
Esther Deutsch	Senior Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory and Regulation Division	June 1, 2006
Yaakov (Yakki) Zano	Executive Vice President, Head of the Technologies and Operations Division	October 2, 2018
Avraham (Avi) Levy	Senior Executive Vice President, Chief Risk Officer and Head of Risk Management Division	July 21, 2016(3)
Assaf Pasternak	Executive Vice President, Head of the Financial Markets Division	April 1, 2018
Arik Frishman	Executive Vice President; Head of the Digital and Data Division	August 1, 2018
Nir Abel	Executive Vice President, Internal Auditor	May 18, 2011

Notes:
(1) Interested party of the corporation.
(2) Acted as Executive Vice President, Chief Risk Officer and Head of the Risk Management Group at the Bank, as from June 9, 2010 and until July 21, 2016.
(3) Acted as Executive Vice President, Head of the Customer Assets Division at the Bank, as from August 28, 2011 and until July 21, 2016.

For additional details regarding members of Management, see the Bank's periodic report for 2018 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Changes in Management and an organizational change

Mr. Assaf Pasternak took office on April 1, 2018, as Executive Vice President, Head of the Financial Markets Division of the Bank, replacing Mr. Ran Oz, who terminated his office at that date, all as stated in the immediate reports dated January 23, 2018 and April 1, 2018 (Ref. Nos. 2018-01-007332 and 2018-01-027777).
On June 10, 2018, Mr. Levy Halevy terminated his office as Executive Vice President at the Bank, Head of the Technologies and Operations Division.
Appointments and organizational changes. Mr. Arik Frishman took office on August 1, 2018, as Executive Vice President, Head of the new division formed at the Bank – the Digital and Data Division. Mr. Yaakov (Yakki) Zano took office on October 2, 2018, as Executive Vice President, Head of the Technologies and Operations Division. For additional details, see the immediate report dated July 9, 2018 (Ref. No. 2018-01-065554).
The Bank's Board of Directors approved on December 30, 2018, the following appointments and organizational changes: Ms. Esther Deutsch, Senior Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory and Regulation Division is appointed Head of the Group Management and Regulation Division, replacing Mr. Yair Avidan, Senior Executive Vice President, Head of the Subsidiaries Division, who had announced his retirement. Ms. Hagit Meirovitz is appointed member of Management of the Bank with the title of Executive Vice President, Chief Legal Adviser and Head of the Legal Advisory Division. All as detailed in the immediate report dated December 30, 2018 (Ref. No. 2018-01-128394). The date of entry into effect of the organizational change shall be determined at a later date.
The Chairman of the Board, the Board of Directors and the President & CEO thank Ran Oz and Levi Halevi, and wish Asaf Pasternak, Yaakov Zano, Arik Frishman and Hagit Meirovich, success in fulfilling their offices.

Meetings of the Board of Directors and its Committees

In 2018, the Board of Directors held 29 meetings. In addition, 79 meetings of committees of the Board of Directors were held.

The detailed information contained in the immediate reports mentioned above in the item "Board of Directors and Management", is presented herewith by way of reference.

The Internal Audit in the Group in 2018

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.
The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit).
In addition, as from May 18, 2011, Mr. Abel serves also as the Internal Auditor of ICC.
The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.
Letter of appointment. The Audit Committee of the Board and the Board of Directors approved in January 2012 the letter of appointment of the Internal Auditor, and in January 2016, they approved an update of the letter of appointment.
The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.
Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives. The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel, COSO 2013, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit

function). Prior to the work plan being submitted for approval, it is forwarded to the Bank's independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board's Audit Committee and to the Bank's President & CEO for lodging comments and elucidations. The Board of Director's Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval. A deviation from the work plan is brought for approval of the Audit Committee.
The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.
Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank's investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank's Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.
Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules. In addition, the Bank's Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.
Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 87.2 positions (including overheads; not including 8.7 outsourcing positions), of which, 26.6 positions in corporations that engage an independent Internal Auditor (MDB and IDB New York). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

AVERAGE NUMBER OF POSITIONS IN 2018 ENGAGED IN INTERNAL AUDIT AT THE BANK AND IN INVESTEE COMPANIES IN ISRAEL AND ABROAD

	Group employees	Outsourcing employees
The Bank	53.2	1.5
Investee companies in Israel audited by the Bank's internal auditor(1)	6.7	1.0
In overseas extensions - IDB New York	0.7	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	17.6	0.2
Investee companies abroad where the audit is performed by an independent internal audito(3)	9.0	6.0
Total	**87.2**	**8.7**

Notes:
(1) Of which, 5.5 positions in ICC.
(2) Of which, the internal auditor. Not including 1.9 positions of costumer complaints.
(3) Auditors in IDB New-York.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.
The Board of Directors and the Audit Committee have expressed their opinion that the internal auditor has met all the requirements prescribed in the standards referred to above in the directives and guidelines of the Supervisor of Banks, based on an assessment of the internal audit function and the regular reports that it submits. The Audit Committee receives regular reports regarding the activity of the Internal Audit Division, by means of ongoing quarterly reporting and the half-yearly and annual reports, as well as reports on specific topics. An external assessment of the internal audit function was conducted in 2014 by the accounting firm chosen by the Audit Committee, while in 2017 an internal assessment was performed by the internal audit, in accordance with the guideline contained in Proper Conduct of Banking Business Directive No. 307.
Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.
Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.
A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.
The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed at the Bank, at the subsidiaries in Israel and at the foreign extensions, detailing the material findings reported in the individual reports

submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved. The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee discusses specific audit reports regarding the Bank’s units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- Report on the activities of the internal audit in the fourth quarter of 2017, submitted on January 23, 2018, and discussed by the Audit Committee on March 13, 2018;
- Annual report on the activities of the internal audit in 2017, submitted on March 6, 2018, and discussed by the Audit Committee on March 13, 2018 and by the Board of Directors on April 15, 2018;
- The report on the activities of the internal audit in the first quarter of 2018 was submitted April 24, 2018, and discussed by the Audit Committee on May 29, 2018;
- The semi-annual report on the activities of the Internal Audit in the first half of 2018 was submitted on July 30, 2018, and discussed by the Audit Committee on September 3, 2018;
- Report on the activities of the internal audit in the third quarter of 2018, submitted on October 15, 2018, and discussed by the Audit Committee on November 27, 2018;
- Report on the activities of the internal audit in the fourth quarter of 2018, submitted on January 28, 2019 and is yet to be discussed by the Audit Committee;
- Annual report on the activities of the internal audit in 2018, submitted on February 27, 2019, and is yet to be discussed.

Valuation by the Board of Directors of the Internal Auditor’s performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals set out for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor’s professional judgment.

THE INTERNAL AUDITOR’S REMUNERATION

General details			Remuneration* for services							
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer’s payments and provisions(1)	Benefits and grossing-up(2)	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act(3)	Loans granted under regular terms
						in NIS thousands				
2018	100%	-	1,186	574	377	213	-	2,350	2,157	-
2017	100%	-	1,138	529	271	187	-	2,125	1,967	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay) and also to an adaptation grant in an amount equal to four monthly salaries. Mr. Abel is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). Mr. Abel was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements).

Auditor's Remuneration

REMUNERATION(1)(2)(3) PAID TO THE AUDITORS (IN NIS THOUSAND)

	Consolidated		The Bank	
	For the year ended December 31,			
	2018	2017	2018	2017
For Auditing(3):				
To the joint auditors	17,482	15,943	6,902	6,935
For Other Services:				
Audit related services(4):				
To the joint auditors	2,988	3,318	2,642	3,112
Taxation Services(5):				
To the joint auditors	3,199	3,625	1,011	1,672
Other Services:				
To the joint auditors	2,767	2,014	2,713	2,011
To other auditors	-	-	-	-
Total	8,954	8,957	6,366	6,795
Total Auditors' Remuneration	**26,436**	**24,900**	**13,268**	**13,730**

Remuneration of Interested Parties and Senior Officers and Transactions with Interested Parties

Remuneration of Interested Parties Senior Officers

Year 2018

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act[3]	Loans granted under regular terms
				in NIS thousands							
Mr. Shaul Kobrinsky[4]	Chairman of the Board	100%	-	[5]622	-	-	-	-	622	591	-
Dr. Joseph Bachar[6]	Former Chairman of the Board	100%	[7]-	2,327	-	223	248	-	2,798	2,368	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,534	313	413	113	[8]197	3,570	3,010	-
Mr. Uri Levin	President and CEO of IDB New York	100%	-	3,884	2,736	247	470	-	7,337	[9]-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,969	1,496	278	313	-	4,056	[9]-	-
Mr. Dan Trister	Executive Vice President and Head of Treasury Division of IDB New York	100%	-	1,438	1,151	124	247	-	2,960	[9]-	-
Mr. James LoGatto	Executive Vice President and Head of U.S. Private Banking of IDB New York	100%	-	1,576	990	221	115	-	2,902	[9]-	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,324	908	318	184	-	2,734	2,553	86
Mr. Assaf Pasternak[10]	Executive Vice President, Head of Financial Markets Division	100%	-	1,018	539	[11]1,050	126	-	2,733	2,201	-
Ms. Orit Alster	Executive Vice President, Head of the Corporate Division	100%	-	1,245	777	365	217	-	2,604	2,381	-
Ms. Yafit Gheriani	Executive Vice President, Head of Human Resources and Properties Division	100%	-	1,194	715	464	193	-	2,566	2,286	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

(4) Mr. Kobrinsky took office as Chairman of the Board on December 3, 2018.

(5) Includes a director's remuneration through to the commencement date of his serving as Chairman of the Board of Directors. For further details see below.

(6) Dr. Bachar ended his term of office as Chairman of the Board on December 2, 2018.

(7) On the termination date of his service, Dr. Bachar held a negligible number of Bank shares having a par value of 29,640.

(8) Adjustments in respect of linkage to changes in the price of the Bank's shares of the deferred award (out of awards recognized in the financial statements for 2016).

(9) The Remuneration for Officers of Financial Corporations Act does not apply to this officer.

(10) Mr. Pasternak took office as Head of the Financial Markets Division on April 1, 2018. The amounts presented in the table also include payments for his work prior to his appointment as a member of Management.

(11) Includes a provision at the date of appointment for an adaptation grant and a topup to the severance pay provision.

Remuneration of Interested Parties Senior Officers (continued)

Year 2017

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Supplementing the employer contributions in respect of rights accumulated until October 12, 2016	Total	Of which: total in respect of the Remuneration for Officers of Financial Corporations Act[3]	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	(4)-	2,130	-	452	247	-	2,829	2,510	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,354	-	400	114	(5)192	3,060	2,517	-
Mr. Uri Levin[6]	President and CEO of IDB New York	100%	-	3,200	1,040	(139)	258	-	4,359	(11)-	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,917	693	290	361	-	3,261	(11)-	-
Mr. David Cohen[7]	Executive Vice President and Head of Treasury Division of IDB New York	100%	-	1,205	-	1,795	186	-	3,186	(11)-	-
Ms. Tal Rubinstein[8]	President, business development of Discount Capital Underwriting	100%	-	960	1,317	756	18	-	3,051	(11)-	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,296	627	375	196	-	2,494	2,319	95
Mr. Ziv Biron[9]	Executive Vice President, Head of Planning, Strategy and Finance Division	100%	-	839	491	(10)992	142	-	2,464	2,351	-
Mr. Levy Halevy	Executive Vice President, Head of Technologies and Operations Division	100%	-	1,235	696	322	184	-	2,437	2,269	-
Mr. Ran Oz	Senior Executive Vice President, Head of Financial Markets Division	100%	-	1,268	692	269	168	-	2,397	2,254	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Remuneration, as defined in the Remuneration to Officers of Financial Corporations Act (Special approval and non-deductibility tax wise of exceptional remuneration), 2016, which is the total remuneration, excluding provisions for severance pay and provident fund contributions (including loss of work ability) in accordance with the law and excluding the complementing of employer contributions in respect of employee rights accumulated prior to the effective date of the Act.

(4) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(5) Adjustments in respect of linkage to changes in the price of the Bank's shares of the deferred award (out of awards recognized in the financial statements for 2016).

(6) Mr. Levin took office as President & CEO of IDB New York on April 2, 2017. The amounts presented in the Table include also payments in respect of his office as Head of the Planning, Strategy and Finance Division until April 1, 2017 (including cancellation of the provision in respect of early notice).

(7) Mr. Cohen ended his term of office as Executive Vice President and Head of Treasury Division of IDB New York on November 1, 2017.

(8) Ms. Rubinstein was appointed on July 17, 2017 as President, Business Development at Discount Capital Underwriting. Until that date, she acted as CEO of Discount Capital Underwriting.

(9) Mr. Biron took office as Head of the Planning, Strategy and Finance Division on April 2, 2017.

(10) Includes provisions in respect of adaptation award and early notice, most of the effect thereof is recognized in the first year of employment.

(11) The Remuneration for Officers of Financial Corporations Act does not apply to this officer.

Shaul Kobrinsky serves as Chairman of the Board of Directors since December 3, 2018. The terms of office of Mr. Kobrinsky were approved by the Remuneration Committee on February 12, 2019, and by the Board of Directors on February 26, 2019. These terms would be tabled for approval by the Bank's General Meeting of Shareholders convened for April 3, 2019. All as detailed in the immediate report dated February 27, 2019, (Ref No. 2019-01-017631), the details contained in this matter therein are presented herewith by way of reference (see also Note 35 F to the financial statements). The amounts in respect of Mr. Kobrinsky, presented in the Table, include a provision in accordance with the said terms of office in respect of the proportionate part of 2018.

Dr. Yossi Bachar. The former Chairman of the Board officiated in this role as from January 3, 2010 and until December 2, 2018. For details regarding the terms of engagement of Dr. Bachar, see Note 35 F to the financial statements.

Ms. Lilach Asher-Topilsky acts as President & CEO of the Bank from February 19, 2014. For details regarding the terms of engagement of Ms. Asher-Topilsky, see Note 35 G and h to the financial statements. For details regarding the bonuses paid to Ms. Asher-Topilsky for 2016, see Note 35 G to the financial statements.

Mr. Uri Levin, President & CEO of IDB New York, is employed pursuant to the terms of an Employment Agreement. IDB New York's Compensation Committee of the Board of Directors approved the initial terms of the Employment Agreement and annually reviews and approves Mr. Levin's incentive compensation. Mr. Levin is entitled to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank. IDB New York provides Mr. Levin with the use of an automobile and annual home leave in Israel.

Ms. Lissa Baum. Executive Vice President, Head of the Corporate Division in IDB New York. For additional details, see below "Terms of employment of members of Management of IDB New York".

Mr. Dan Trister, Executive Vice President, Head of the Financial Markets Division in IDB New York. For additional details, see below "Terms of employment of members of Management of IDB New York".

Mr. James LoGatto, Executive Vice President, Head of Local Private Banking Division in IDB New York. For additional details, see below "Terms of employment of members of Management of IDB New York".

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Mr. Gavish is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). Mr. Gavish was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Mr. Assaf Pasternak, employed by the Bank as Executive Vice President, Head of the Financial Markets Division. Mr. Pasternak is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Orit Alster, employed by the Bank as Senior Executive Vice President, Head of the Corporate Division. Ms. Alster is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). Ms. Alster was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements). For additional details, see below "Terms of employment of members of the Bank's Management".

Ms. Yafit Gheriani, employed by the Bank as Senior Executive Vice President, Head of the Human Resources and Properties Division. Ms. Gheriani is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2017-2019 (see Note 23 G to the financial statements). Ms. Gheriani was entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 23 F to the financial statements). For additional details, see below " Terms of employment of members of the Bank's Management".

Terms of employment of members of the Bank's Management. Members of the Bank's Management mentioned above are employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, they are prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. The salary of the members of the Bank's Management is linked to the CPI, and in the event of the CPI falling, their salary will not change until such time that the rise in the CPI offsets the rate of the fall. Members of the members of the Bank's Management are entitled to thirteenth month salary, vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, the Bank's management are entitled to severance payment in accordance with the law (however, in accordance with the agreement, employer's pension fund and insurance policy payments will be made in place of severance pay), as well as to an adaptation grant equal to an amount of four salaries.

Terms of employment of members of Management of IDB New York. Members of IDB New York Management mentioned above are employed by IDB New York as an "employee at will." IDB New York's Compensation Committee of the Board of Directors annually reviews and approves the compensation of members of the IDB New York management. Members of the IDB New York management are entitled

to participate in all savings and retirement plans, welfare and insurance plans, practices, policies and perquisites of employment applicable generally to other senior executives of the Bank.
For details regarding officers included in the Table for 2017, but not included in the Table for 2018, see the 2017 annual report (pp. 314).
Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000. The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. The cost of remuneration in respect of all the Directors, excluding the former Chairman of the Board and including the cost of remuneration of the officiating Chairman of the Board in respect of his period of office as Director, amounted in 2018, to NIS 5,564 thousand (2017: NIS 5,488 thousand).
Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see Note 23 D and E to the financial statements. For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.
For details regarding the Remuneration of Officers of Financial Corporations Act, 2016, see the 2016 Annual Report (pp. 406-407).

Transactions with Interested and Related Parties

For details regarding the terms of office of Mr. Kobrinsky, see above "Remuneration of interested parties and senior officers" and Note 35 F to the financial statements.
For additional details, see Note 35 to the financial statements.

Corporate Governance Code for the Discount Group

The corporate governance code approved by the Bank's Board of Directors in October, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. In December 2017, the Board of Directors approved updates to the document. The updated document is available for review on the Bank's website.
Within the framework of the implementation of the corporate governance program, the Board of Directors approved a work procedure vis-à-vis the subsidiary companies (see below "Group Management"). In addition, the Bank's Board of Directors approved a procedure for the approval of transactions with interested parties in the Bank.

Corporate Governance Questionnaire

The Securities Authority published on January 14, 2016, an updated version of the questionnaire. The accompanying letter noted that the staff of the Securities Authority works for the establishment of the matter in a binding and permanent manner in Regulations, and that it encourages its implementation even previously. In 2018 the Bank decided to submit a corporate governance questionnaire voluntarily. The Bank's corporate governance questionnaire available for review on the MAGNA website of the Israel Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange as well as on the Bank's website.

Group Management

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues. Instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group. The Proper Conduct of Banking Business Directive no. 301 includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company. In continuation of the above stated, Proper Conduct of Banking Business Directive No. 306, which took effect on January 1, 2019, establishes the expectations of the Supervisor of Banks for the tightening of supervision over banking extensions abroad.

In March 2016, the Board of Directors approved a policy document and operating procedures with investee companies, which updates and replaces the work procedure with the subsidiaries that had been in force until then. The policy sets forth the work procedures between the Bank and investee companies regarding, among other matters, the appointment of directors and officers, formulating strategy and work plans, oversight and control mechanisms over risk exposures at investee companies, reporting mechanisms to enable the parent company to increase supervision on the activities of investee companies, and the professional accountability of the professional functions at the subsidiaries to the professional functions at the parent company. The principal companies in the Group have completed the adoption of the policy, with required changes in respect of their nature and scope of operations. As a complementary layer for this document, a procedure was formed at the beginning of 2018, with respect to the duties and responsibilities of the responsible managerial function, which defines the level of involvement required from the member of Management responsible for each company, in accordance with the nature of the company's operations and scope of holdings therein.

The Bank operates a Subsidiary Companies Division, the duties of which are to comprise a central factor in the leading and for the promotion of comprehensive management and utilizing synergies to the utmost, with the assistance of the professional factors with respect to strategic, business, regulatory, legal and accounting aspects, as well as in the compliance, taxation, risk management, supervision and control fields, in a manner that would assist Management of the Group and the Board of Directors to apply and realize in an optimal manner, the strategy of the Group.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" below.

Involvement with and Contribution to the Community

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The extensive voluntary work performed in aid of the community by Discount Bank employees continued in 2018 and was even widened. In this framework, the volunteering Bank employees contribute their time and compassion through a wide range of activities, and grant assistance and support to varied groups of population in Israel, including children, youth, students, military service personnel, distress population, senior citizens, handicapped persons, the sick and more.

As part of the policy in this respect, the support trend of the Bank regarding children and youth in distress situations continued in 2018. In addition, the Bank conducted in 2018 a wide activity also in the cultural and artistic fields, in granting sponsorships and donations to different associations.

"Sprint for the future" – Discount Bank's flag ship project. In 2005 Israel Discount Bank joined forces with "Sprint for the Future" Association adopting the program focused on school age children from peripheral regions with difficulties in their studies. The name of the program is "Sprint Discount". The "Sprint for the future" program's objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank's management are members of the executive board of the Association, and employees of the Bank have started voluntary activity in the framework of the Association's programs, among other things, through adoption by nearby Bank branches and Banks units of schools participating in the project.

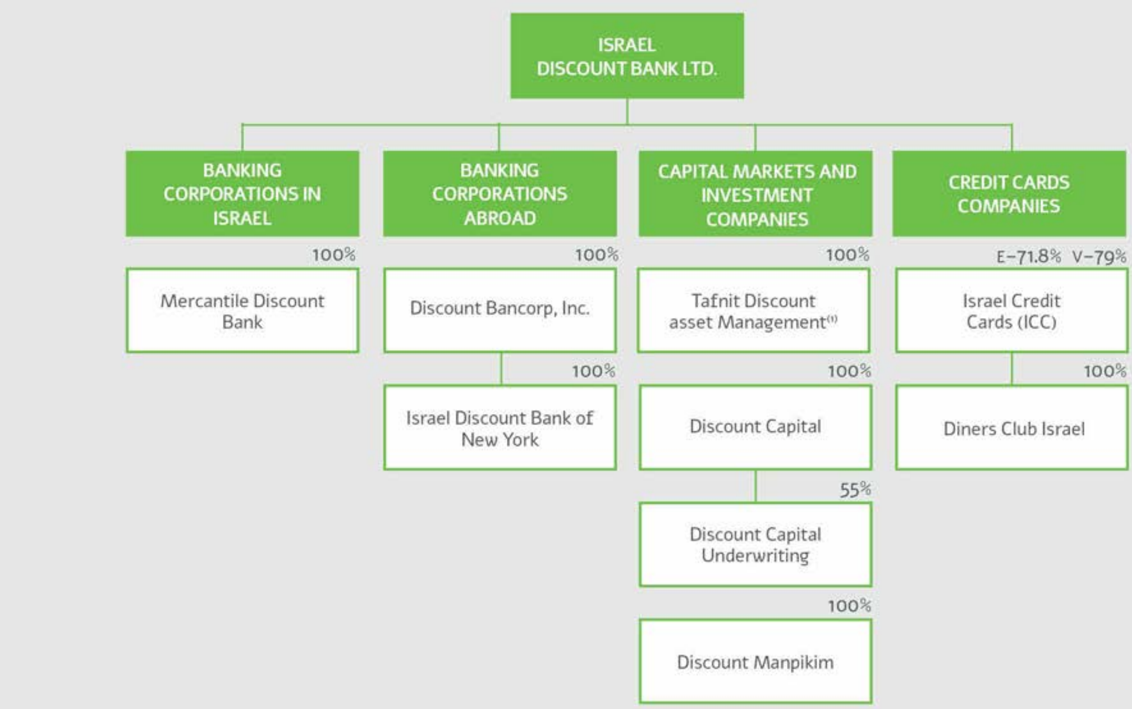
"Herzelilinblum" - Banking and Tel Aviv Nostalgia Private Museum. The Herzelilinblum Private Museum of Banking and Tel Aviv Nostalgia provides the possibility of a close study of the history and economics of Israel since the beginning of the last century. The Museum is located in a one hundred and five-year-old preserved building, one of the first houses of Ahuzat Bait.

Corporate Responsibility Report - Corporate Social Responsibility Report No. 7. CSR Report No. 7, for 2017, is available for perusal on the Bank's website. The report was drawn up in accordance with the GRI guidelines (Global Reporting Initiative).

"Maala" Rating for 2018. In June 2018, "Maala" published its rating for 2018. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). ICC was rated this year for the second time and has maintained its Platinum rating.

ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

Discount Group Structure



(1) Directly and Indirectly.

Control of the Bank – Bank having no Core Controlling Interest

As of December 3, 2013, the Bank became a bank with no core controlling interest.

The Banking Act (Legislation amendments). On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein. Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. In accordance with these instructions, the appointment of directors in a banking corporation having no core controlling interest shall be made by the annual meeting of shareholders. The candidates are proposed by a statutory committee established for the appointment of directors in a banking corporation. Furthermore, candidates may also be proposed by shareholders who hold over 2.5% of the share capital of the Bank, and who comply with certain conditions determined in the instructions.

Bank Holding Permits to Entities Managing Customer Funds

The Banking (Licensing) Law requires that a holding permit be obtained from the Governor of the Bank of Israel for any holding in excess of 5% of a banking corporation's means of control. On June 16, 2016, the Supervisor of Banks published an updated policy relating to permits for holders of control in bodies that manage clients' funds (provident funds, insurers, mutual funds), whereby a holder of control in a body that manages clients' funds is permitted to hold a percentage that does not exceed 7.5% of the means of

control in a banking corporation, subject to obtaining a permit from the Governor of the Bank of Israel and subject to the conditions prescribed therein. The total holdings of a recipient of a holding permit, that are not holdings for “clients”, shall not exceed 5% of any class of the banking corporation’s means of control. The total holding of any body that is controlled by a recipient of a holding permit shall not exceed 5% of any class of the banking corporation’s means of control. All holding permits shall be granted for a set term, until December 31, 2019.
Following that stated above, the Supervisor of Banks published on September 29, 2016, an amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "related parties". This amendment removes from the definition of "related party", entities which obtained a holding permit in accordance with the new policy, and which the rate of their holdings exceeds 5% due to holdings on behalf of their customers.

Fixed Assets and Installations

Buildings and Equipment

At the end of 2018, the investment in buildings and equipment amounted to NIS 2,437 million, compared with NIS 2,366 million at the end of 2017, an increase of 3.0%. For details as to the Bank’s investments in buildings and equipment, see Note 16 to the financial statements.
Establishment of the Discount Campus. In 2016, Discount Leasing, ICC and MDB began initiating the Group campus that would house the head offices of the Bank and of the principal subsidiaries in Israel – MDB and ICC. Discount Leasing (71.55%), ICC (18.45%) and MDB (10%) have purchased land of an area of 21 dunam in the "1000 compound" in Rishon LeZion. The scope of building rights relating to the land amounts approx. to 135 thousand square meters, both above ground main and service buildings. In addition, an option for the purchase of trading rights, granted within a contract for the purchase of the land, has been exercised. In consideration of the land a total amount of NIS 135 million was paid. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25 thousand square meters will be constructed by the acquirers for its own purposes and that the aforesaid construction will take place within five years from the date of fulfilling a term which has not yet been fulfilled. It has also been specified that the Group can require the Municipality to repurchase part of the building rights attached to the plot.
During 2016-2018 different processes were promoted for the realization of the establishment of the Campus, including completing the definition of the Discount Campus vision and the choosing of a manager for the project, choosing an architect and the planning team. The budget for the project was approved during the last quarter of 2018 and the digging and wall supporting work began.
The Bank estimates that the expenses assessment of the Group Campus Project is expected to reach NIS 1.8 billion. Of this amount, NIS 137 million has already been invested by the Group until December 31, 2018. The balance of the commitment in respect of the project as of December 31, 2018, amounts to NIS 65 million. Construction work has begun this year and is expected to continue for four additional years. Wall reinforcement, excavation and piling works is expected to be completed in 2019.
The Bank is of the opinion that the impact on capital adequacy of the Group Campus construction project is not expected to be material, as the project is to be partly financed by the sale in the coming years of existing properties.
Forward looking information. The above stated includes, inter alia, assessments made by the Bank regarding the investment in the Project and its impact on capital adequacy, which are considered forward looking information. The above stated reflects the assessment of the Bank's Management, taking into consideration the information existing in its hands at date of preparation of the annual report, inter alia, with respect to the cost of construction of projects of this type, plans of the Project and the feasibility of the sale of existing properties. The above stated may not be realized in the case of changes occurring in the real estate sector in Israel and in case of unforeseen developments in the macro-economic conditions, which are not under the Bank's control.
Focus points for 2018-2019. Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank, among other things, in view of the reduction of the labor force. An extensive project was put into operation in the last quarter of 2014, which continued during 2015-2018, within the framework of which, activities are being performed, intended to ensure the efficient and effective utilization of the real estate assets. These actions included the shutdowns of Head Office units, branches and extensions, reduction in the floor area of branches, merger of branches, improvement in terms of rental agreements or the exchange of rented locations, etc.
Since the launching of the project and until February 2019, the investment in the project amounted to NIS 64 million, which is expected to produce savings of NIS 59.7 million, in annual terms (in certain of the projects, the space has not yet been returned to the owners, therefore the realization of a certain part of the savings is delayed).

Since approval of the strategic plan, 22 Head Office and branch properties have been closed, merger of 33 branches and extensions have been made (of which 6 in 2018), 3 investment centers, 2 branches and 3 Head Office units have been moved (of which one in 2018), the floor area of 6 branches has been reduced and the terms of lease agreements regarding 3 properties have been improved.
As revealed by the data presented below, a downward trend is evident in the amount of real estate space used by the Bank.

FLOOR AREA AT THE DISPOSAL OF BANK BRANCHES

As of	Sq. meters[1]	Number of brunches	Average Sq. meters per branch
December 31, 2018	54,130	106	510.7
December 31, 2017	55,429	111	499.4
December 31, 2016	59,503	122	487.7
December 31, 2015	64,000	132	484.9
December 31, 2014	68,325	138	495.1

Footnote:
(1) The data regarding the areas was improved in 2018, including the comparative data.

DISTRIBUTION OF ALL FLOOR AREA AT THE DISPOSAL OF THE BANK

	As of December 31					
	2018	2017	2016	2015	2014	2013
	In Sq. meters					
Freehold	95.6	98.0	107.5	109.1	112.4	115.7
Leasehold	49.9	49.8	50.3	50.5	54.2	56.6
Total	**145.5**	**147.8**	**157.8**	**159.6**	**166.6**	**172.3**

Gain on sale of assets. In 2018 a gain from the sale of properties of approx. NIS 34 million was recorded, net of the tax effect, compared with NIS 57 million in 2017.

Accessibility for Handicapped Persons

In accordance with the Equal Rights for Handicapped Persons Act, the Bank has appointed an Accessibility Coordinator which leads and coordinates the accessibility operations at the Bank and serves as an address for any approach in the matter. The Bank conducted a "Discount accessible" project, within the framework of which, the Bank made accessibility modifications in accordance with the new regulation, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service.
For the purpose of the project, the Bank engaged an association specializing in the matter of access to handicapped persons, in which authorized professionals operate, who accompany the Bank, providing guidance and advice on the modifications required for easy access.
Within the framework of the project, a comprehensive survey of all the Bank's properties had been performed for the mapping of gaps and the definition of modifications to be carried out in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to a public place being an existing building), 2011. Furthermore, the Bank had mapped all services which require modification of accessibility to services in accordance with the Equal Rights for Handicapped Persons Regulations (Accessibility adjustments to service), 2013, and accessibility modifications have been made at Bank properties in accordance with a multiyear work plan.
In addition, accessibility modifications have been made at the Internet websites and on the cellular applications, and in addition, training sessions are held to employees on the accessibility subject.

Information and Computer Systems

General

The information and control systems stand at the core of the Bank's operations and comprise the backbone on which the Bank's operations are based. The Bank's data processing system is a central computer system composed of IBM Main Frame computers, servers of different types, communication components and work stations deployed at the branches and at Head Office units.

Some 12,000 work stations (PC's) and approx. 3,000 servers are installed at the branches and at head office units, which are being used to both internal and external customers.

Direct banking services are provided by the Bank through a variety of lanes: Internet, information stations, automatic teller machines, computerized vocal response and more. These services interface with the overall computer system for the purpose of obtaining and updating of information, and are protected by most advanced technologies of data protection.

500 information stations are available to customers providing also self service operations and a wide variety of services - "Discount Information Station".

Most of the various computer systems serve both the Bank and MDB.

Over the years the Bank has developed qualitative and reliable computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems, within the framework of the "Ophek" project, are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, in accordance with preferences of the budget and strategic plans.

For details as to the cost of in-house development of computer software, see Note 16 H to the financial statements.

Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, HDC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

Locations of the Operation

The technological layout is doubly installed in two different locations distant from one another, in various cities in the Greater Tel Aviv area. The fact that the two systems are located at a distance from one another adds to the survivability of the Bank's technological layout. The Bank's two computer sites are connected by optical fibers in a number of different routes. The Bank has the ability to maintain the required business operations in each of the locations independently. These sites also house the disc systems of the companies IBM, Netapp, Kaminario and Oracle, cassette robots, central printers and additional peripheral equipment required for the Bank's operation. Needless to say that this equipment is also backed-up at the two sites. The branches and the head office units are connected to the computer center by two communication lines. The two lines are simultaneously active, each line providing an adequate bandwidth for each website. In the event of failure, one line provides back-up for the active applications on the other line, and vice versa.

Principle Projects Conducted in 2018

1. Main computer facility –the existing computer facility has been upgraded and the planning for a new main computer facility began;
2. CRM and customer interaction – The deployment of the system has been completed at all the Bank's branches. The system enables the implementation of an advanced multi-channel, multi-focal concept by means of management of sale processes and approach to customers made through a wide variety of channels (telephone, E-mail, cellular application correspondence, the Bank's websites and more) in accordance with a flexible business routing strategy;
3. Direct channels – During 2018, a wide variety of developments in the direct channels were promoted, including: the development and deployment of a new business site, a new foreign trade site and a Cash Management model. Several versions of the app were brought out during the year in order to improve the user experience: new functionality abilities, Didi (BOT) and customer insights;
4. Credit system – Development of a new credit system has been completed and its deployment has begun. The system enables the availability of information and effective management ability of the credit portfolio, real-time information management, more efficient and simpler credit underwriting processes (both retail and corporate), risk reduction and elimination of potential gaps in this field;

5. Cyber and data protection – Discount's Cyber Protection (DCP) concept is implemented through a range of projects, with emphasis on exercising advanced capability to hunt down cyber threats, on enhancing the ability to cope with extreme cyber events and on thwarting attacks against the Bank;
6. Projects designed for compliance with regulatory requirements, such as the establishment of the credit pool at the Bank of Israel and the execution of the Strum Act project.

Principle Projects for 2019

1. Core projects – Continued deployment of a new credit system and development of new models;
2. CRM and customer interaction – A gradual launch of the CRM system to the business divisions;
3. Digital channels – On the Internet channel, a new site for private individuals is planned to be launched with an advanced user experience. On the mobile channel, online account opening is planned to be launched on the app and a number of additional advanced digital services will also be launched;
4. Infrastructure projects – Preparations for the move to the new Discount Campus, including new and advanced computer infrastructures (Smart Campus);
5. Cyber and data protection –Further development of the proactive protection capability, meeting the risk appetite goals in the field of cyber protection by means of activating a self-initiating threat scenarios orientated defense array, implementing the DCP (Discount's Cyber Protection) concept and improving the ability to cope with cyber events.
6. Projects designed to comply with the regulatory provisions – the Fair Credit Act and treatment of the Cash Act.

The Bank's investment budget for 2019 in respect of information systems and computerization, including for information system development projects, amounts to NIS 325 million (NIS 311 million in 2018).

The contents of the above section constitute a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carry out the Bank's plans at date of publication of the reports.

ICC

ICC is conducting a project for the conversion of the core system. As part of this project, during 2018, ICC implemented a first prototype of the project, with the aim of establishing a new modern infrastructure having a long-range technological horizon. The conversion project is expected to continue through the end of 2020 and its cost is estimated at approx. NIS 140 million.

ICC has completed the process of thickening the DR site and has replaced the old computer equipment with new equipment. ICC has signed a hosting agreement for the transfer of the main computer installation, currently located in Givatayim, to a new host location in Modi'in. The installation transfer project is planned to be completed in 2020.

ICC has established an infrastructure to absorb the joint issuing operation with Bank Hapoalim and Bank Leumi.

Intangible Assets

Trademarks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart, etc. In December 2018, the Bank registered the trademarks "PayBox", "PayBox App" as well as the logo.

ICC developed a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trademarks in Israel, including "ICC", "Cal" "Cal Choice".

Furthermore, the Bank's subsidiary companies own trademarks, related brand names and slogans registered for the purpose of their business and marketing operations.

Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trademarks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.

The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. Diners and Diners International signed agreements in March 2007 granting Diners the license to make use of trademarks and to issue credit cards, to open accounts and the exclusivity to provide services to customers in Israel until the year 2019. The said agreements are renewable for periods of five years each at the discretion of Diners International.

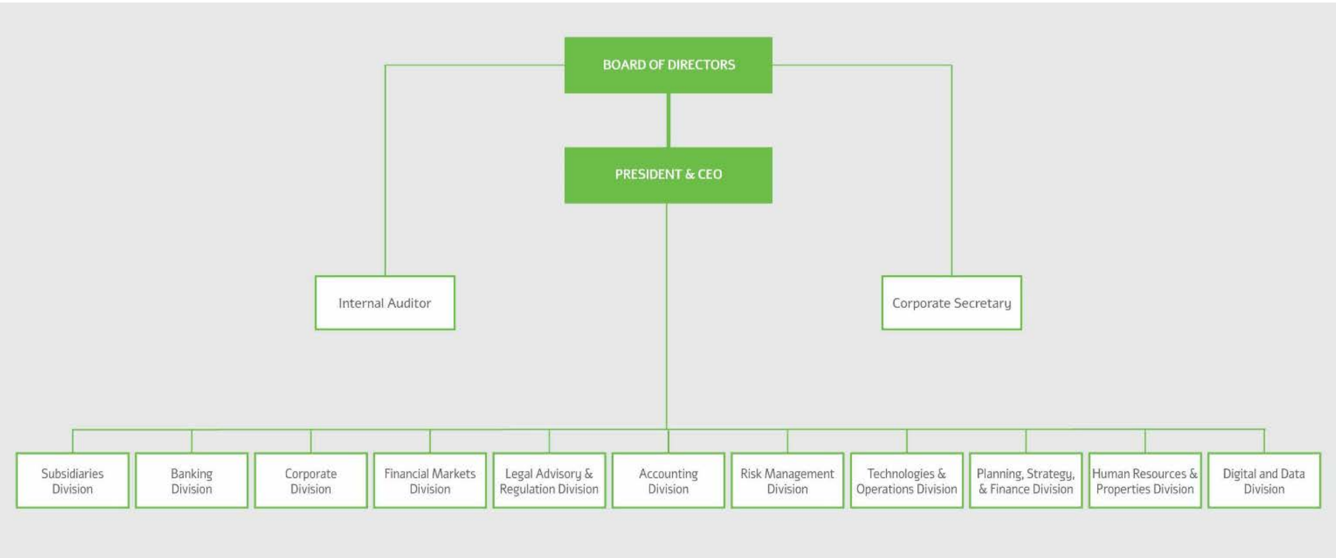
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.

Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees. Thus, among other things, ICC holds a number of data bases of registered customers holding VISA, Diners (through Diners) and MasterCard credit cards, as well as of traders accepting these cards.

The Human Capital

Organizational Structure Chart



Management of the Human Resource – General

Principal Activities in 2018

2018 Efficiency plan. In 2018 a plan for accelerating the efficiency was formed, in the center of which is the reduction in the manpower status of the Discount Group by approx. 1,000 additional employees by the year 2021, both by early retirement and natural retirement. For details, see above "Efficiency of the banking industry – 2018 efficiency plan" and Note 23 I to the financial statements.

Until December 31, 2018, some 134 employees had retired in the framework of the plan. 7 additional employees signed a retirement agreement in 2018 and retired at the beginning of 2019, all of whom within the framework of the plan.

Forming the "Discount spirit". A far-reaching measure for forming the vision, values, and Code of Ethics. A wide scope move was made in the second half of 2018 for the integration of the code of ethics that had been formed within the framework of the Discount Spirit and approved at the beginning of 2018. In this framework, an ethics committee has been established, learning by the employees has been introduced, unit managers conducted a wide move for the introduction and integration of the new code among the employees and their getting acquainted with it, and ethical dilemmas are being published on a current basis on the employee's portal. In addition, the integration of the Discount Spirit in organizational processes, in strategic projects, in manager development programs and in the intra-organizational communication continued in 2018. While doing so, the employee evaluation process, which is based in a more significant manner on the values of the Discount Spirit, has been redefined.

The signing of wage agreements in the Group. Signing of a wage agreement at the Bank for the years 2019-2021 (see below). Signing of a wage agreement at MDB for the years 2019-2023 (see below).

Challenges for 2019

Effective management of the labor force and its cost. The central challenge for 2018 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plans of 2014, 2016 and 2018 on the one hand, and the utilization of the natural retirement potential on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

Continuing the "Discount spirit" measure. Completion of the intra-organizational assimilation process of the values and Code of Ethics that have been formed.

Labor Force and Salary Expenses

The implementation of the early retirement plans at the end of 2014, at the end of 2016 and at the end of 2018, a strict management of the manpower position of the Bank and the reduction in overseas operations, led in the years 2014-2018 (December 2013 until December 2018) to a reduction of 1,497 positions in the group, comprising a decrease of 14.9% and to a decrease of 1,406 employees in the Group, a decrease of 13.0%.

There were 4,968 employees in full-time positions in the Bank in Israel at the end of 2018, compared with 5,192 at the end of 2017, a decrease of 4.3%. The average monthly number of employees, based on full-time positions, in the Bank dropped in 2018 and amounted to 5,157, as compared to 5,265 in 2017, a decrease of 2.1%.

There were 8,550 full-time positions in the Group in Israel and abroad at the end of 2018, compared with 8,578 at the end of 2017, a decrease of 0.3%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2018, was 8,668, compared with 8,641 at the end of 2017, an increase of 0.3%.

LABOR FORCE DATA OF THE GROUP AND THE BANK

	Employees					Positions[1]									
	As of December 31					As of December 31					Monthly average in				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
The Bank in Israel	5,489	5,666	5,702	6,034	6,095	4,968	5,192	5,126	5,530	5,515	5,157	5,265	5,413	5,510	5,942
Domestic subsidiaries	3,396	3,221	3,214	3,178	3,294	3,055	2,895	2,946	3,037	3,066	3,003	2,896	2,930	3,019	3,052
Group total in Israel	**8,885**	**8,887**	**8,916**	**9,212**	**9,389**	**8,023**	**8,087**	**8,072**	**8,567**	**8,581**	**8,160**	**8,161**	**8,343**	**8,529**	**8,994**
Overseas branches	-	-	-	-	26	-	-	-	-	26	-	-	-	21	32
Overseas subsidiaries	522	487	485	498	775	527	491	486	501	762	508	480	499	758	759
Group total overseas	**522**	**487**	**485**	**498**	**801**	**527**	**491**	**486**	**501**	**788**	**508**	**480**	**499**	**779**	**791**
Group total overseas and Israel	**9,407**	**9,374**	**9,401**	**9,710**	**10,190**	**8,550**	**8,578**	**8,558**	**9,068**	**9,369**	**8,668**	**8,641**	**8,842**	**9,308**	**9,785**

Footnote:

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the

Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

COST PER POSITION, IN NIS THOUSANDS, ON THE BASIS OF COSTS REPORTED IN PRACTICE

	2018	(2)2017	(2)2016	2018 compared to 2017	2017 compared to 2016
The annual average direct cost(1) per employee position in the Bank in Israel	267	261	246	2.3	6.1
The total annual average cost(1) per employee position in the Bank in Israel	391	379	358	3.2	5.9
The average annual overall payroll cost(1) per employee of the Group in Israel and abroad	391	371	358	5.4	3.6

Footnotes:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

(2) Reclassified – see below explanation regarding cost per position.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2018 by a rate of 2.3% (see Table above). With elimination of the awards, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2018 by a rate of 0.8% (see Table below).
The total average annual cost of an employee position at the Bank in Israel, increased in 2018 by a rate of 3.2% (see Table above). Eliminating the effect of settlement and awards, the total average annual cost of an employee position at the Bank in Israel, increased by a rate of 1.4%, compared with 2017 (see Table below).
It should be noted that, in the above and below tables, the cost per position does not include salary expenses, which, in accordance with the Public Reporting Directives, have been classified as "Other expenses" (see Note 1 C 6 (3) to the financial statements). The comparative data have been reclassified accordingly.

COST PER POSITION, IN NIS THOUSANDS, ELIMINATING CERTAIN COMPONENTS

	2018	(2)2017	(2)2016	2018 compared to 2017	2017 compared to 2016
The annual average direct cost(1) per employee position in the Bank in Israel - Disregarding awards	241	239	244	0.8	(2.0)
The total annual average cost(1) per employee position in the Bank in Israel - Disregarding awards	359	354	356	1.4	(0.6)
The average annual overall payroll cost(1) per employee of the Group in Israel and abroad - Disregarding awards	350	344	346	1.7	(0.6)

Footnotes:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

(2) Reclassified – see above explanation regarding cost per position.

TOTAL INCOME PER POSITION IN NIS THOUSANDS

	2018	2017	2016	2018 compared to 2017	2017 compared to 2016
Total income at the Bank to an average employee position at the Bank	941	846	762	11.2	11.0
Total income, consolidated to an average employee position at the Group in Israel and abroad	1,041	964	901	8.0	7.0

Human Resources according to Segments of Operation

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

HUMAN RESOURCES ACCORDING TO SEGMENTS OF OPERATION

	Domestic operations								International operations	
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses	Institutional bodies	Financial management	Total Domestic operations	total International operations	total
	For the year ended December 31, 2018									
Average number of positions in the segment	4,570	199	2,034	403	704	63	187	8,160	508	8,668
	For the year ended December 31, 2017(1)									
Average number of positions in the segment	4,509	202	2,074	402	723	65	186	8,161	480	8,641

Footnote:
(1) The data for the year ended December 31, 2017, have been reclassified following changes in the allocation of expenses to the different segments.

Labor Relations

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.
Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd.", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter. In an agreement dated November 30, 2016, the validity of the Charter was extended until December 31, 2021.

Principal Categories with respect to Employment Conditions

The Bank's employees are classified into three main categories for purposes of employment conditions:
Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements. The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period. It is noted that in the agreement dated November 30, 2016, the trial period applying to employees assigned from the status of temporary employees to the status of tenured employees was abolished, as from date of signature of the agreement, and such employees are assigned to the status of tenured employees with no need for a trial period.
Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. The temporary periods for temporary employees is being altered in accordance with their jobs: seven years for IT staff, five years for bank tellers and employees in direct banking jobs and four years for all other temporary employees. In addition, the agreement signed between the Bank's Management and the representative committee of employees in September2016 allows for the continued employment at a temporary status, for an indefinite period, of 250 IT staff who have already been employed for seven years on a temporary basis. Some 220 employees are engaged by the Bank as "computer temporaries".
According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.
Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, and the provisions of the labor charter and the collective agreements, which apply to "tenured" employees, do not apply to them. Employees engaged under a personal contract include members of the Bank's management, part of the information technology staff and a defined and specified agreed list of position holders, mainly senior personnel. As of December 31, 2018, the Bank employed 127 personnel (including members of management) under personal employment agreements (December 31, 2017: 95 employees engaged under personal contracts).
In addition, the Bank acquires services of manpower company employees and software houses. These employees are engaged mainly in software development tasks.

SUMMARY OF EMPLOYMENT DATA IN THE BANK IN THE VARIOUS CATEGORIES AND THE CHANGES THEREIN

	As of December 31,					Change			
Employees	2018	2017	2016	2015	2014	2018 compared to 2017	2017 compared to 2016	2016 compared to 2015	2015 compared to 2014
Tenured employees under personal contracts and members of management	3,681	3,853	3,917	4,149	4,115	(172)	(64)	(232)	34
Temporary employees	1,215	1,285	1,304	1,386	1,493	(70)	(19)	(82)	(107)
Software house	447	364	308	314	301	83	56	(6)	13
Total	**5,343**	**5,502**	**5,529**	**5,849**	**5,909**	**(159)**	**(27)**	**(320)**	**(60)**
Additional – employees on unpaid leave and maternity leave	146	164	173	185	186	(18)	(9)	(12)	(1)
Total	**5,489**	**5,666**	**5,702**	**6,034**	**6,095**	**(177)**	**(36)**	**(332)**	**(61)**
Positions									
Tenured employees under personal contracts and members of management	3,739	3,905	3,963	4,228	4,156	(166)	(58)	(265)	72
Temporary employees	1,206	1,263	1,283	1,389	1,532	(57)	(20)	(106)	(143)
Software house	378	345	288	325	302	33	57	(37)	23
Total	**5,323**	**5,513**	**5,534**	**5,942**	**5,990**	**(190)**	**(21)**	**(408)**	**(48)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	154	139	179	206	226				
Of which positions of software house employees of which has been capitalized to fixed assets	201	182	229	206	249				
Total positions before of which has been capitalized to fixed assets	**4,968**	**5,192**	**5,126**	**5,530**	**5,515**				

The implementation of the early retirement plans at the end of 2014 (December 2013 until December 2018), at the end of 2016 and at the end of 2018, and a strict management of the manpower position of the Bank, led in the years 2014-2018 to a reduction of 1,167 positions at the Bank, comprising a decrease of 17.5%.

Developments in Labor Relations

On May 30, 2018, the Bank received a notice from the "Employees Movement", which was headed "Association of Discount Bank's Temporary Employees". As members on the “Action Committee”, they presented the names of the nine temporary Bank employees who have taken various actions, the aim of which is to allow such employees to join the organization. The Bank has responded, inter alia, that the temporary employees are being represented by the General Federation of Labor, which is, for many years, their representative organization in accordance with the law, together and as an integral part of the other organized Bank employees; and that the Bank holds no position with respect to their membership of one or another organization, however joining-up does not change the identity of the representative organization, and as such they do not have a right to conduct negotiations with the Bank otherwise than through their representative organization.

An employee, who is a member of the Action Committee, was invited on June 19, 2018, for a hearing prior to dismissal, on grounds of continued dissatisfaction with his performance. On July 10, 2018, a letter terminating his employment was delivered to that employee.

On July 17, 2018, the Bank received notice of an urgent motion filed with the Regional Labor Court in the matter of "an urgent plea against unlawful dismissal as well as a request for a provisional injunction and for recognition of representation" within the framework of which, the Court is requested to recognize the Tnufa Union as the representative organization of the temporary employees, and also to abolish the dismissal and reinstate the dismissed employee. In addition, the Court was asked to charge the Bank with heavy fines in respect of obstructing the unionization of employees and in respect of harassment of an employee who had uncovered corruption at the Bank.

On July 26, 2018, the Bank received notice of rejection of the motion. With respect to representation and unionization, the Court stated that all the claims of the Appellants in this matter including the indemnity in respect thereof had been dismissed at the recommendation of the Court already at the time of the hearing, and that the Tnufa Union had not argued and had not proven that the terms of a labor union apply to it, and moreover that Tnufa is not to be viewed as an entity representing one third of the temporary employees. As to the matter of dismissal, the Court decided that the dismissal of the employee should not be abolished and that he should not be reinstated at the Bank, due to the fact that the dismissal was made on substantive grounds with no connection to the unionization of the employees.

A new wage agreement

The Board of Directors approved on January 9, 2019 the agreements reached between the Bank's Management and the National Representative Committee of Discount Bank Employees, the essence of which are as follows:

- The wage agreement would be in effect for a period of three years until December 31, 2021.
- In each of the three years of the agreement, an average differential, shekel, salary increase will be granted of NIS 450 for clerks and NIS 600 for managers would be given. The addition will be differential based on performance evaluation.
- The wage update, as stated, shall be made in July of each year during the period of the agreement.
- The maximum wage level for all second generation employees would be updated.
- The convalescence pay for second generation clerks would be updated.
- The provident fund contributions would be increased from 6.5% to 7.5% and the provision for severance pay to 8.33%, subject to the finality of the provision (Section 14 of the Severance Pay Act).
- The minimum monthly wage for severance pay purposes would be updated to NIS 6,500 in two stages in the years 2019 and 2020.
- Cancelation of the salary components of a daily newspaper and the refund of medical expenses and updating the traffic fees component

In addition, the employees would be entitled in the years 2019-2021 to a return based award, based on a graded award mechanism determined in the previous wage agreement, which relates the annual award to employees to the rate of return on equity.

Industrial calm will be maintained at the Bank through December 31, 2021 in relation to the topics covered by the agreement. The agreement was signed on February 21, 2019.

The Bank estimates that the new wage agreement shall not have a material impact on the Bank's profits for the years 2018-2021, and that it agrees with the Bank's multi-annual strategic plan.

Award to employees in respect of 2018

On March 10, 2019, the Board of Directors approved the distribution of a return dependent award to all the Bank’s employees, at an average level of 1.5 salaries per employee, in recognition of the joint effort that led to the Bank’s achievements in 2018.

Remuneration Plan for Members of the Bank’s Management

The Bank approved an awards plan for Officers for 2017-2019, which reflect the challenges and goals derived from the strategic plan approved on August 20, 2014 (See Note 23 G to the financial statements). For details regarding the awards actually paid to the vice presidents and for the President & CEO in the years 2016-2018, see Note 23 F and G, and Note 35 G, respectively.

Labor Relations of the Principal Subsidiaries

ICC. A special collective labor agreement was signed on June 26, 2016, by ICC, the New Federation of Labor and the National Committee of ICC employees. This agreement amends and continues earlier agreements dated December 21, 2011 and March 23, 2015. The agreement was in effect until December 31, 2018.

In the framework of the agreement, among other things, a selective annual salary increase was determined at an average rate of 3.1% for each of the years 2016, 2017 and 2018. Also determined is an annual seniority addition of 0.5% payable to employees of a "tenured employee" status, as defined in the agreement.

According to the agreement, workers of ICC were eligible, among other things, to a special monetary bonus in respect of the sale of Visa Europe to Visa Inc., in the amount of NIS 20 million, which was recorded as an expense in 2016.

ICC and the representative committee of employees conduct negotiations for the signing of a collective labor agreement to take effect as from January 1, 2019.

MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" and complementary collective agreements. The Management of MDB and the national committee of employees of this bank signed in December 2018, a wage agreement for the years 2019-2023, which includes new and significant items. The essence of the agreement includes: detachment of the wage, work terms, and related benefits of MDB from those prevailing at Bank Leumi during the agreement period; in respect of the said detachment, the employees are to receive a onetime award amounting to 2.5 monthly salaries; a wage increment at the rate of 3.1% per year (excluding a seniority increment of 0.8%), for each of the years covered by the agreement; a gradual updating of the minimum monthly wage used for computing severance pay.

Legislative Restrictions, Regulations and Arrangements

General. In addition to the labor charter, the various collective agreements existing from time to time, the Bank operates within the framework of laws and regulations applying to all entities in the economy. A short description of the principal restrictions applying to the Bank with respect to its labor relations is given hereunder.

Improvement of enforcement of labor laws. On June 19, 2012, the Intensification of Enforcement of Labor Laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The Act specified an administrative enforcement mechanism, which includes warnings and the imposition of monetary sanctions on employers who violate labor laws, which will serve as an alternative for criminal indictments by power of labor laws. The law imposes extensive liability on employers with respect to their direct employees, as well as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties.

Collective agreement in the matter of proper representation in the workplace of handicapped persons. A collective agreement was signed on June 25, 2014, by the Business Associations Board, the Manufacturers Association in Israel, Federation of Israeli Chambers of Commerce (FICC) and other organizations with the Federation of Labor, which states that an employer, who employs over 100 employees, must provide for the proper representation of handicapped persons - 3% of the total number of employees employed by an employer. It has also been agreed that an employer has to appoint a person on his behalf as "responsible for the employment of handicapped persons". The agreement became effective on October 5, 2014, upon the publication by the Minister of the Economy of the Extension Order. The Bank is preparing for the implementation of the provisions of the collective agreement, including the appointment of a "responsible officer", as stated.

Remuneration Policy in a Banking Corporation

Instructions in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation (hereunder: "The Directive"). In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, which has to be formed by the remuneration committee, as well as determine principles for a Group remuneration policy, which comply with the requirements stated in the Directive as well as with the requirements of the Remuneration for Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016 (see above).

Remuneration policy for Officers of the Bank. The Annual General Meeting of Shareholders held on November 8, 2016, decided to approve the remuneration policy for officers of the Bank for 2017-2019, in accordance with Section 267A of the Companies Act.

The remuneration policy and remuneration agreements signed with the Chairman of the Board and with the President & CEO, were brought for approval of the General Meeting of Shareholders, held on November 8, 2016, modified to the Remuneration Act (see above Note 23 to the financial statements), all as detailed in immediate reports dated September 28, 2016, and November 9, 2016 (Ref. Nos. 2016-01-056790 and 2016-01-074847, respectively), the information provided in them in these matters, is included herewith by way of reference.

Employees remuneration policy. In June 2014 the Bank approved a remuneration policy for all employees of the Bank has been approved, including in respect of key employees, as well as the principals of group remuneration policy. In December 2016, the Board of Directors approved an updated remuneration policy for employees.

For further disclosure in the matter of "remuneration", see the document "Disclosure according to the third pillar of Basel and additional information regarding risks", available for review on the Internet.

Development of Human Resources

Development of human resources at the Bank derived from the strategic focuses from the focuses of the annual work plans and from the Bank's organizational culture. Thus reinforcing the Bank's ability to address successfully its business and organizational challenges. Accordingly, the development of the human resources in 2017, focused on the following issues:

The Discount Spirit. The Discount Spirit comprises Vision, Values, Principles of Conduct and the Code of Ethics. During 2017, the Bank's Management worked to form the vision, values and principles of conduct. The Code of Ethics was approved by the Bank's Board of Directors at the beginning of 2018. In the course of 2018, a significant integration of the Discount Spirit took place in organizational processes, in strategic projects, in programs for the development of managers and in the intra-organizational communication. Everything under the supervision and control of the Bank's Management.

Combined. 2018 saw the completion of training and assimilation in the second stage of the strategic project "Combined" – for intensifying the connection with the Bank's customers, and the deployment of the "Connected +" CRM system. The formulation has begun of the assimilation concept and change management for the third stage of the project, which will focus on the customer experience, understanding management of the branch service array and improving the interface with the customer through additional digital means.

Managers development programs. During 2018, some 150 managers participated in the managerial training room, a practical-integrative training for increasing the managerial capabilities deriving from the Bank's values. In addition, training to enhance the managerial abilities of particular populations (most of whom are team leaders) was conducted for 110 participants.

A process was undertaken in 2018 to consolidate and assimilate a management concept – "the manager as a manager of the human resource", in five wings. The process included mapping a picture of the organizational situation and drawing up a plan for its improvement.

In addition, the year 2018 saw the successful conclusion of a program to enhance the leadership ability of senior Management in which 15 selected managers (at "reporting-to-management" level) participated. Moreover, advice and personal mentoring was provided to approx. 120 managers, to assist them in facing the challenges of their position or within the framework of team development or as an accompaniment to other organizational changes.

Key personnel and positions

A process was undertaken in 2018 to identify key positions and key personnel at the Bank – persons possessing unique expertise or who have significant impact. 49 such key personnel were identified in 2018 for special attention, paths of action for them were drawn up and detailed plans formulated to mitigate the risk in the event of their leaving the Bank, with said plans being at different stages of implementation.

Performance assessment and feedback

In the first quarter of 2018, a performance assessment process was conducted. Again this year, emphasis was placed on setting personal performance goals for all the employees, deriving from the Bank's work plan and from its strategic foci. In writing their assessments, the managers making the assessments were instructed to differentiate between the strengths of the employee being assessed and areas for improvement, this being so as to encourage personal and professional development. Prior to conducting the assessment process, guidance sessions regarding the process were provided for the managers making the assessments for the first time, while refresher sessions were given to managers who had conducted assessments in the past.

Professional Guidance

In 2018, a broad response was provided for the professional needs and support of the Bank's strategic projects. Training was extended to additional staff categories within the organization, primarily for the technological and digital unit. Concurrently, studies were deepened for mortgage consultants and credit coordinators, while reducing the number of study days and improving the study content and the study methods practiced in the past. In addition, an opportunity has been initiated for head office personnel to deepen their banking knowledge through short study meetings that cover organizational and broader aspects.

The number of frontal training days in 2018 reached 28,737 compared with 29,536 training days in 2017, a decrease of approx. 2.7%. In addition, the Bank held computer network training, amounting in 2018 to 43,611 interactions of self-study, compared with 37,016 interactions in 2017, an increase of 17.8%. A significant part of the computer network learning was dedicated to the regulation in different areas.

Organizational Culture

In 2018, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service, and all in congruence with the "Discount Spirit".

Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.

With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2018, including: Senior Forum - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor.

A new "FaceBank" Portal. FaceBank enables access to employees, participation in know-how, a wide dialogue and contents that assist in the integration of information in a convenient manner and advanced user experience. The portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.

"The Managers" website. During 2018, the managers site was upgraded, including its appearance. Video clips, work tools and various articles on management and leadership topics have been uploaded to the site.

Communication with the Senior Forum. The Bank has a designated channel for communications with the Senior Forum at the Bank and at the Group. The Forum consists of some 120 executives in the Group who, through this channel, receive current updates and reports on a daily basis.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices.

Improvement of Service

The service concept of Discount Bank places customer satisfaction of the Bank at the top of the importance scale. The Bank endeavors to create a personal service experience for its customers, causing them to continue selecting it at every new opportunity.

In 2018, the customer's service experience was measured in a variety of channels – at the branch, with TeleBank and at investment centers. The measurement was based mainly on an index of customer satisfaction with their last service experience at the unit (70%). In addition, branches were measured as to their compliance with the SLA determined for response to customer inquiries (15%) and compliance with the SLA for telephone call response (15%).

The surveys cover a variety of parameters from different service aspects and these can be viewed as indices that reflect the customer experience, such as: professionalism, personal attention, availability, initiative, and the customers' recommendation regarding the unit and the Bank, resulting from their satisfaction with the service provided to them.

The measurement data is conveyed on a current basis to managers of the business units at the branches, the investment centers and at TeleBank, and comprise an infrastructure for drawing of conclusions and analyzing the strengths and weakness of providing the service.

In situations where it is apparent that immediate involvement is required, the unit manager contacts the customer in order to provide a personal response.

With the aim of providing managers with the tools to improve, new analysis reports have been developed, which provide for a view of the branch's status in the service field and on parameters on which it is advisable to focus improvement efforts.

Internal services survey. The survey was published in October 2018, for the fifth time at Discount Bank, in a cross-organization format. The results of the survey constitute a "base line" for a continuous process of measurement and improvement. The survey had measured 424 services provided by the different divisions to those receiving service from the Bank and from the subsidiary companies. The rate of respondents reached approx. 91%.

The results and findings are presented to all heads of divisions and departments at designated meetings; Each service manager receives a detailed report of the findings and an analysis of the results; improvement targets are defined for each head of department at a KPI level; units receive professional guidance both from divisional reference functionaries and from the customer experience unit. In addition, a convention is held in honor of outstanding service managers and for the outstanding unit managers, as in the case for the outstanding field units, with the participation of the President & CEO as well as members of Management.

Treating Complaints

The reduction in the amount of complaints and the number of justified complaints were defined as a system objective also in 2018.

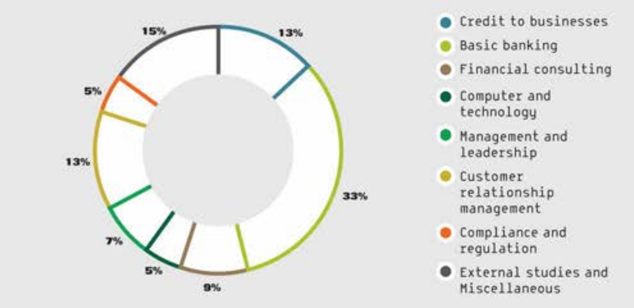
In August 2018, the bank/customer relations wing at the Supervisor of Banks published data regarding complaints lodged against banks in Israel in 2017. The number of complaints received at the Bank through the Bank of Israel increased in 2017 by 60% (390 complaints in 2017 as compared with 243 in 2016). The number of complaints found justified in 2017 increased from 2016 – 18 justified complaints compared to 3 in 2016. The rate of justified complaints increased from 3.5% in 2016 to 17.5% in 2017.

No data has yet been received from the Bank of Israel in respect of 2018.

The annual report to the public regarding the treatment of complaints by the Bank in 2017, may be viewed on the Bank's website. The annual report in respect of 2018, shall be available to the public on the Bank's website at the end of March 2019.

Number of positions at the Bank

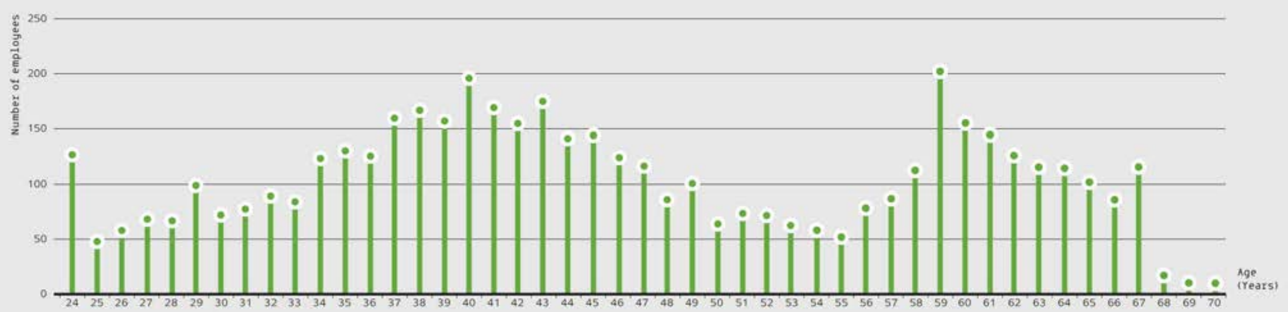
Training days at the Bank



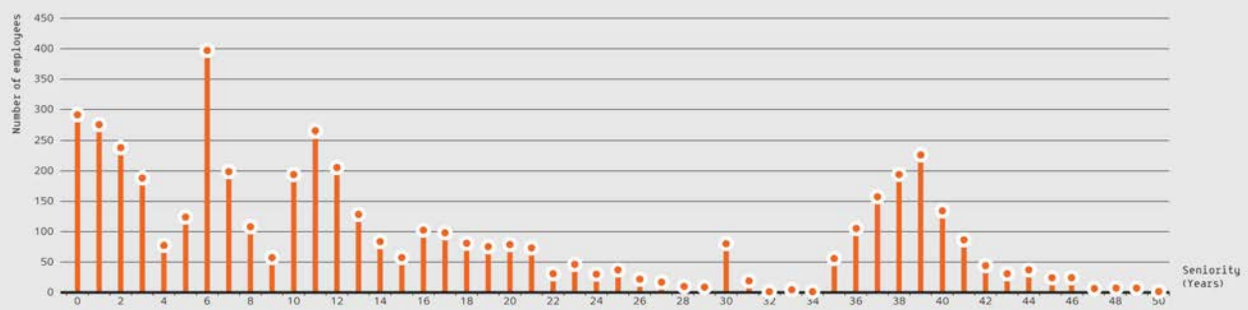
The rate of university graduates according to grade at the Bank

Average seniority and average age at the Bank

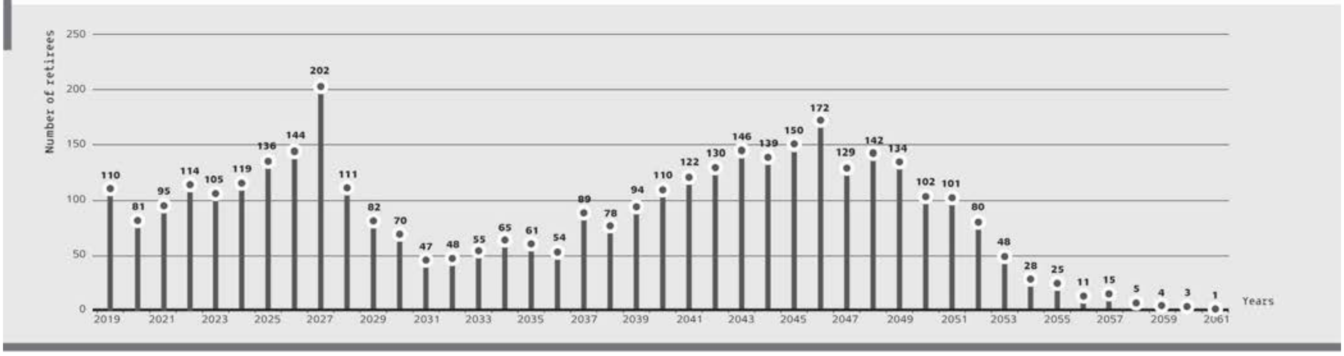
Distribution of tenured employees by age at the Bank – work force 12/18



Distribution of tenured employees by seniority at the Bank – work force 12/18



Natural Retirement by Years at the Bank (tenured employees)



Material Agreements

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank's operations during such period.

Obligations of the Bank with respect to capital markets operations. In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading. The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds. However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

Exemptions of indemnification to Directors or former Directors in the Bank or investee companies of the bank. The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest. Accordingly, the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For additional details, see Note 26 C 8 A to the financial statements. For details regarding this matter and the matter of exemption in advance and indemnification of Directors and other Officers of the Bank and the subsidiaries, see Note 26 C 8 to the financial statements.

Agreements with FIBI as to the holding of means of control in ICC. In December 2006, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement dated September 29, 2000. For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

Labor charter. The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter.

Acquisition of Municipal Bank (in its former name: Dexia Bank). For details, see Note 26 C 19 to the financial statements.

Rating the Liabilities of the Bank and some of its Subsidiaries

RATING DETERMINED FOR THE BANK AND SOME OF ITS SUBSIDIARIES BY DIFFERENT RATING AGENCIES

Rating given by	Subject of rating	Rating	Rating outlook	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	December 6, 2018
	Subordinate capital notes(1)	il AA	Stable	December 6, 2018
	Upper tier 2 capital (Series 1)	il AA-	Stable	December 6, 2018
	Hybrid tier 1 capital (Series "A")	il A	Stable	December 6, 2018
	Subordinated debt notes with a loss absorption mechanism (Series "L")	AA-	Stable	December 6, 2018
	Bonds (Series M-N)	il AA+	Stable	December 20, 2018
Midroog	Long-term deposits	Aa1	Stable	November 6, 2018
	Short-term deposits	P-1		November 6, 2018
	Subordinate capital notes(1)	Aa2	Stable	November 6, 2018
	Subordinate capital notes (tier 1 capital)	A1	Stable	November 6, 2018
	Subordinated debt notes with a loss absorption mechanism (Series "L")	A1	Stable	November 6, 2018
	Bonds (Series M-N)	Aa1	Stable	December 5, 2018
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	September 6, 2018
The international rating agency Moody's	Long-term foreign currency deposits	A3	Stable	October 17, 2018
	Counterparties Risk Assessments	AA2		October 17, 2018
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	September 6, 2018(2)
	Subordinate capital notes	il AA	Stable	September 6, 2018
	IDB New York			
Kroll Bond Rating agency	Deposits	A-	Stable	October 18, 2018

Footnotes:
(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.
(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

Moody's announced on October 17, 2018, the raising of the rating of the Bank from Baa1 to A3 and the changing of the rating outlook from "positive" to "stable". The raising of the rating reflects according to Moody's the improvement in the financial infrastructure of the Bank and the continuing and sustainable improvement in credit infrastructure, as expressed in improvements in profitability, efficiency and in the quality of assets and the capital.
On August 3, 2018, The S&P rating agency raised the credit rating of the State of Israel to a level of "AA-".

THE INTERNATIONAL RATING DATA FOR THE STATE OF ISRAEL (LONG-TERM FOR BONDS ISSUED IN FOREIGN CURRENCY)

Rating given by	Foreign currency - long-term*	Rating horizon*
The international rating agency Moody's	A-1	Positive
The international rating agency S&P	AA	Stable
The international rating agency Fitch	A+	Stable

* The data is taken from the website of the Accountant General at the Ministry of Finance.

Activity of the Group according to Regulatory Segments of Operation – Additional Details

Household segment (Domestic operations) – additional details

General

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 182 branches located all over the country. This in addition to the range of services provided by the direct channels. The customers are classified into a number of customer populations according to groups of age, financial wealth and additional parameters.

Points of Emphasis for the coming year

In 2019, the Bank will continue to implement the new retail strategy, while strengthening the relations with and improving the service to customers by:
- Managing the telephone availability to customers by means of a smart telephone system in use by the business and private teams at the branches;
- Continuing the upgrading of products and services on the digital channels and directing of operations to these channels that provide quick, available and accessible response at low costs;
- Attaching additional customers to the new communication channels, coded mail and the communication application for correspondence with the bankers;
- Managing relations with the customer at the branches and the TeleBank by means of an upgraded CRM system for the documentation and monitoring the interaction with customers;
- Managing the frontal meeting at the branch and enabling customers to arrange a meeting with a banker;
- Upgrading the marketing effectiveness by means of value offers tailored to the customer's needs in all the channels;
- The continued positioning of the Bank as a leader in the pension consulting field;
- The continued development and use of analytical models as a supporting tool for decision making in the granting of credit;
- The continuing upgrading and improvement of service and responsiveness in the mortgage loan granting process.

Service

General. An emphasis was placed in 2018 on upgrading of multi-channel service experience, with the aim of providing a varied, qualitative, fast and accessible service.
Among the services in the different channels may be mentioned:
Personal service TeleBank. A customer telephonic response center – automatic transfer to online banking of customer calls to the branch telephone exchange. The service enables improvement of telephone response time and clears time for branch employees to create added value for customers from the aspect of service, initiative and sales.
Activity on the Bank website and on the mobile application – It is possible to conduct by means of these channels varied banking transactions, such as: depositing funds with a deposit account, obtaining a loan and the transfer of funds between accounts, and to receive diverse information.
Correspondence with a banker by the cellular application - allows the obtaining of information and effecting transactions.
The management of customer communication strategy was integrated in 2018, in accordance with life events of the customer, while focusing on designated products adapted to the household segment.

Consulting Layout

Investment banking. The Bank operate under the private banking segment – 11 investment banking units and extensions spread throughout Israel that provide investment consulting services to customers having investment capital of NIS 1-4 million or customers active on the capital market. The service is provided by expert investment consultants.

Investment consulting services. Consulting services that are provided at the Bank's branches by licensed investment consultants are intended for customers having investment capital in excess of NIS 100 thousand. Customers receiving consulting that have investment capital in excess of NIS 1 million are also offered the choice of receiving counseling services at the investment centers, as described above.

Pension advisory services. The Bank provides pension advisory services at the Bank's branches and private banking centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self-employed and salaried employees all over the country.

Portfolio management. Directing customers in need of services to authorized portfolio managers.

Marketing and Distribution

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- at the branches - frontal activity through screens located in areas where customers await service;
- by means of the telephone, Telebank, the Bank's application and the Internet, as well as through feedback and direct mailings.

The Bank continues to offer its customers and to those joining it the unique "Family Program", which grants benefits to the family members that join it, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members.

Bank Branches

At the end of 2018, the Bank operated a country wide layout of 106 branches and extensions. This, following the Bank's closing down and merging 5 branches and extensions: Ramat Aviv branch, Daniel Branch in Bat Yam, Hatikvah Neighborhood Branch, Tel-Ganim Branch and the "B" precinct in Ashdod. MDB operated 76 additional branches.

Direct Channels

The Bank acts on a current manner in order to provide its customers with an advanced experience regarding its direct channels, aspiring for a continuous improvement both as regards the type and variety of services and as regards user friendliness and customer experience. For additional details, see "Technological improvements and innovation" hereunder.

Service Concept

In 2018, the Bank focused on differentiating service according to customer segments, including the modification of a variety of segment adjusted products.

Conduct of the service is based on the following principles:

- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enables the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Service initiative - Forecasting customer needs, product adaptation and services;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- Easy and convenient communication with the Bank's customers through emails to the banker.

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"Discount Key"

In 2018, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount's credit cards (VISA CAL, Diners and MasterCard) enjoy discounts at over 120 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends.
Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.

Operational Efficiency in the Branches

The action for the removal of operational activity from the branches continued in 2018 alongside efficiency measures, improvement in procedures and a change in the concept of operation.
The activity was designed to achieve the following targets:

a. Removal from the branch of all operational activity not required for customer service;
b. Simplifying and shortening the remaining processes at the branch;
c. Focusing on the customer and his needs in order to improve the service experience, while focusing on service by means of automatic instruments;
d. Reducing the amount of paperwork and filing at the branch;
e. Efficiency in manpower and costs, inter alia, by means of the merger of branches and reduction in teller services at the branches;
f. Reduction in office space at the branches.

All the Bank's branches have a self-service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services and effecting payments. Approx. 179 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches.

Competition

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank's principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. Furthermore, competition has arisen in recent years from "off banking" financial entities, e.g. credit card companies, have entered the competitive market with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions, etc.
Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers, by means of the branch layout;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting, credit and mortgage service.

Retail Segment at MDB

MDB views the retail segment in general, as well as the household segment in particular, as a central target of its business development and is diligently working on broadening its activity in the segment as well as improving the service to its customers.

Mortgage Activity

The Bank views mortgage activity as a strategic activity and as a tool for retaining existing customers and for attracting new customers. At the present time, the Bank operates 63 branches, countrywide, providing mortgage loan services.
The Bank operates two channels in the process of approving a mortgage, as follows:
- The mortgage consultants' channel at branches;
- A call center channel specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with applications from customers interested in a new loan and enabling a conditional approval in principle to be granted (on the basis of set criteria), with the process being continued at a personal meeting with the customer at the branch;
  - Approaches by customers who do not match the criteria are dismissed, or alternatively, the customer is invited to discuss his request at the branch;
  - Response to existing customer questions regarding ongoing loans.

DEVELOPMENTS IN THE MORTGAGE MARKET

	December 31,		
	2018	2017	Change in %
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	59,597	53,347	11.7
Loans from State funds	542	388	39.7

NEW LOANS AND RECYCLED LOANS GRANTED FOR THE PURCHASE OF A RESIDENTIAL UNIT AND SECURED BY A MORTGAGE ON A RESIDENTIAL UNIT

	For the year ended December 31,		
	2018	2017	
	In NIS millions		Change in %
From bank funds[1]	7,290	5,973	22.0
From Treasury funds[2]	46	29	58.6
Total of new loans	7,336	6,002	22.2
Recycled loans	516	410	25.9
Total granted	**7,852**	**6,412**	**22.5**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 136 million in 2018, compared to NIS 149 million as in 2017.
(2) Including standing loans in the amount of NIS 8 million in 2018, compared NIS 5 million in 2017.

LEGISLATIVE RESTRICTIONS AND REGULATIONS

Amendment of Proper Conduct of Banking Business Directives No. 203 regarding relief for the funding of residential units purchases. On March 15, 2018, the Banking Supervision Department published an amendment regarding Measurement and Capital Adequacy, pursuant to which a reduction of 60% has been made to the amount of the capital allocation required from a banking corporation for loans that shall be granted from the date of the circular's publication for the purchase of a residential unit at LTV rate in excess of 60%, thereby providing relief for young couples and home renovators that are buying residential units with a high LTV rate.
Amendment of Proper Conduct of Banking Business Directive No. 329, "Limitations on Issuing Housing Loans". The amendment was published on April 16, 2018. Against the background of the Ministry of Housing's decision to allow housing improvers in certain areas to participate in the apartment purchase lotteries under the "Mechir Lemishtaken" program, the definition of a 'reduced price apartment' has been revised so as to include any apartment that is bought at a reduced price in projects such as the "Mechir Lemishtaken", and not just a single apartment that is bought at a reduced price.
Revision of Proper Conduct of Banking Business Directive No. 451, "Procedures for Extending Housing Loans". An amendment to the Directive was published on November 28, 2018, which includes revisions on several topics for the purpose of improving different processes as regards the customer.
The Equality of Handicapped Persons Bill (Amendment No. 18), 2018. On July 2, 2018, the Amendment passed its second and third readings by the Knesset. In accordance with the Amendment, a financial body may not refuse a residential loan to a person having a life-shortening disability, subject to the terms and restrictions detailed in the Amendment, including limiting the loan to a maximum amount of NIS 1 million.

Banking Act (Customer service)(Amendment No. 30), 2018. An amendment to the Act was published on December 27, 2018, according to which, prior to the signing of a residential loan agreement the customer has to be notified that in the event of unemployment, maternity vacation, bodily injury, long illness, the customer may defer the repayment dates for a period not exceeding three months, and this not more than once in a consecutive twelve-month period and not more than three times during the period of the loan.

Banking Act (Customer service)(Amendment No. 31), 2019. An amendment to the Act was published on January 7, 2019, according to which, in case of a customer who had taken a residential loan and then passed away, the banking corporation shall defer the repayment dates of the loan for a period, as requested by whoever is obliged to repay the loan, that shall not exceed twelve months from the date of death.

Guidelines and directives of the Supervisor of Banks designed to restrain the mortgage market. In the years 2010 to 2015, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market. For additional details, see the 2017 Annual Report (pp. 336-338).

DEVELOPMENTS IN THE MORTGAGE MARKET

The volume of sale of residential units decreased in 2018, with a respective decline in the volume of mortgage loans granted. The year 2018 began with a trend similar to that recorded in 2017, but as from the second half of the year, a trend of growth was recorded throughout the system. The performance volume in 2018 for the whole system amounted to NIS 60 billion, compared to NIS 53 billion in 2017, a growth of approx. 13.2%.

The volume of the Group's housing loan portfolio grew in 2018 by a higher increase than the growth in the housing loan portfolio of the banking sector as a whole.

The instructions by the Supervisor of Banks published during 2013-2015 have led to an increase in the average risk assets in the segment's activity.

In addition, the Supervisor has limited the loan component granted at a variable interest rate. Since its entering into effect, the instruction led to a shift from the variable interest option to fixed interest options. Such shift reduces the exposure of borrowers to changes in the monthly repayment amounts in the event of rising interest rates.

The rate of growth in the volume of the mortgage loan portfolio at the Bank in recent years was relatively low in relation to the sectorial growth. A change in this trend occurred during 2016-2017, with a growth of the Bank's mortgage loan portfolio that is higher than that of the industry, this, with a view of increasing the Bank's share in the mortgage market, so that the Bank's market share in this segment would be similar to the Bank's share in the retail operating segment.

The repayments of mortgage loans are, among other things, affected by the unemployment rate in the market and by housing prices. The decrease in the volume of problematic debts continued in 2018 (similarly to 2016 and 2017), compared with the years 2014-2015.

SECTORS OF OPERATION

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.

Multipurpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).

Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Small-scale projects are performed by the Mortgages branch of the Banking Division. Approval of the individual mortgage files is conducted in designated branches. A decline in the volume of these operations has been recorded at the Bank in recent years.

Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank’s and MDB's telephone services, respectively.

BUSINESS STRATEGY

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans.

Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations has been approved, which defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, safety factors, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.

The Bank operates a rating model, used in the approval of the transaction and its pricing.

ADDITIONAL DETAILS REGARDING THE MORTGAGE PORTFOLIO OF THE DISCOUNT GROUP AND THE RISKS INHERENT THEREIN

For additional details regarding the mortgage loan portfolio of the Discount Group and the risk inherent therein, see Chapter C – "Risks Review" in the Board of Directors and Management Report.

COMPETITION

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.

The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans and making processes more efficient. The Bank is upgrading its systems by means of computerizing of processes, with a view of improving the reaction time to customers' new mortgage loan applications, while conducting a controlled management of the risks. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

Private Banking Segment (Domestic operations) – Additional Details

General

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.

Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter: "private banking customers").

Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private banking centers at their disposal: in Herzliyah, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.

In 2018, the restructuring was completed of the services for wealthy customers in the Investments and Wealthy Customers wing. As part of the restructuring, customers active on the capital market in amounts of between NIS 1 million and NIS 4 million receive expert consulting services only, at the investment banking units that report to the private banking centers (4 units and 7 extensions spread throughout Israel).

Customers having investment capital in excess of NIS 4 million continue to receive an inclusive package of services at the Israeli private banking centers.

Strategic Emphasis

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international banking department, serving foreign resident private banking customers and new immigrants, and the investments and affluent customers wing, serving Israeli resident private customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to foreign residents and new immigrant customers with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by investment consultants responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. For several years, the Bank adopts and implements a strict, risk based, policy with respect to foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts. In addition, the risk management unit at the Banking Division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan.

Service to Customers

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.
Segment customers with passive investments exceeding NIS 4 million, enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants, VIP mortgage consultants, as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.
Customers with passive investments of between NIS 1 million and NIS 4 million receive investment and pension advisory services at the private banking – investment banking centers, while banking services are provided at the branch.
The private banking provides service to customers six days per week and the private banking centers in Herzliyah, Tel Aviv and Jerusalem operate from 8 AM to 7 PM (on Fridays from 8 AM to 1 PM), in order to provide service at hours convenient to customers.
The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.
In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank’s subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment’s customers.
Customer relations unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.
A product initiation unit acts to create unique products suitable for this segment of customers.
The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

Development in the Segment’s Markets and Competition

The year 2018 was also typified by continued competition in the private banking field, in the field of prices and commissions and in the level of service to customers. Foreign banks continued, also in this year, their marketing efforts to Israeli customers in the investments and credit fields, considered customers of high financial wealth, whether by a direct approach from abroad or through their local extensions.

Discount invest

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.

"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.

The service also includes foreign securities operations on the U.S. Stock Exchanges.

Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 20:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors, including foreign securities.

Customers having investments in amounts of between NIS 1 million and NIS 4 million, obtain services from four private banking centers, the investment banking segment and seven extensions countrywide, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.

Customers of the investment banking centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.

Customers having financial wealth enjoy a layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.

For details regarding innovative digital services, see below in the "technological and innovative improvements" section.

Small and Minute Businesses Segment (Domestic Operations) – Additional Details

General

The small business segment provides services and diverse financial products to small business customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 182 branches located all over the country, in addition to a variety of direct channels.

Business Strategy, Goals and Points of Emphasis for 2019

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the small business segment as one of the segments in focus, on which the Group would focus in the coming years, as a central growth engine. The new strategy relies on the focusing on the intensification of relations with the existing customers, alongside a growth in the market share of this segment. Activity in 2018 was based on the implementation of the strategic plan, while emphasizing the automatization of credit processes in the small business segment, among customers having a debt of less than NIS 1 million. The focusing by the segment continued in 2018, with an emphasis on increasing the activity with existing customers, attracting new business customers and the basing of growth upon improving the models for the rating of business customers as a supporting tool for the granting of credit.

The small businesses segment is one of the segments of the Bank's strategic focus in 2019. Goals have been set for controlled growth in this segment, with focus and emphasis on existing and new quality customers, having a reasonable level of risk and having risk-adjusted profitability suitable for the Bank. Among other things, the following goals were set:

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers wishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Sale of products fitting to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Continuation of improving a rating model for business customers and the use thereof as a tool deciding or supporting a decision for the granting of credit;
- Expansion of the use of direct channels, with a focus on upgrading the designated website for customers of this segment – "Business +" and a designated application for business customers;
- Integration of the change within the branch network and the movement and concentration of business customers to appointed designated branches, thus maximizing the professional service granted to segment's customers.

Competition

The existing competition in this segment is mainly in the banking sector. Nevertheless, the trend of granting finance to small business customers is increasing, which is provided by credit card companies, as well as through designated, private, off-banking companies that finance specific activity, such as: the purchase of vehicles, equipment, imports activity, and the provision of lines of credit for working capital purposes. The principal steps that the Bank takes to cope with the competition, include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

Service to Segment Customers

The small business segment provides the full variety of services to the segments' customers. The service is provided at the Bank's branches, including foreign trade services through a head office support unit. Also available to business customers is the possibility of receiving service via an Internet website and a designated application and over the telephone.
Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").
Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to approx. NIS 15 million and indebtedness of up to approx. NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.
Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.
Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.
"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.
SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.
Cooperation with iCount Company. The cooperation with iCount comprises the first business-technological implementation in the banking sector in Israel, which applies an open banking concept to the interface with third party suppliers. A business customer of Discount Bank who is also a customer of iCount, is able to connect his bank account with his accounting system by means of combining the banking data with the accounting data. iCount offers customers of Discount Bank tools for the management of their business, which make their business and financial conduct more efficient.

Legislative restrictions, regulations and special constraints applicable to the

operations

Letter from the Banking Supervision Department on the subject "The Tracks Service – Raising Awareness of Small Business and Encouraging Them to Join", dated November 26, 2017. The purpose of the letter is to encourage small businesses to join the Tracks Service and to reduce the costs of managing their accounts. The banking corporations have been asked to identify customers and raise their awareness regarding this possibility as follows –

- To locate customers that are small businesses, as defined in the Fees Rules, and private individuals customers who are authorized dealers, which have not joined the Tracks Service, and which meet the criteria specified in the letter.
- To contact these customers by February 28, 2018 by means of a special letter setting out the number of transactions conducted over a direct channel/with a bank teller, and the amounts of the fees paid by them for such transactions during the second half of 2017, compared to the prices of the basic and extended tracks, while noting the amount of the customer's annual saving had he joined one of the tracks, and giving details of how to join a track. In the middle of February 2018, the aforesaid letters were sent to the relevant Bank's customers that had been identified.

Draft amendment to the Banking Rules (Customer Service) (Commissions), 2008. The draft was published on October 14, 2018, and within its framework, it is being proposed, inter alia, to require the banks to conduct, during the course of the financial year, of the accounts of customers classified as a small business/authorized dealer, in comparison with the basic and extended commissions track, and enrolling the customer for a commissions track, in so far as this is preferential for the customer in relation to the commissions paid without enrolling for such track, with this being done by March 1 of the year following the examination. A banking corporation will be required to send the customer a notice regarding his being transferred to such a track. It is also being proposed within the framework of the draft that: an option be provided to receive the bank's tariff list by any digital communication means; the commission for providing a bank guarantee that is secured by a specific deposit be reduced; an option be added to charge commissions for the following special services: pension consulting, cash withdrawals from an ATM using a prepaid card unassociated with the current account (at a percentage of the withdrawal amount) and cash withdrawals from an ATM using a charge card not issued in Israel.

The Small Business Segment at Mercantile Discount Bank ("MDB")

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.

From time to time, MDB participates in tenders published by the Ministry of Finance for the provision of bank credit to small businesses, within the framework of special-purpose, state-guaranteed funds, and use this channel as means for the development of activity in this segment.

MDB, in partnership with another institutional body, was selected as one of the winners of a Ministry of Finance tender for the provision of small business loans. The balance of the small business loans that MDB provided within this framework amounted to NIS 777 million as of December 31, 2018 (2017 – NIS 480 million).

Medium businesses Segment (Domestic operations) – Additional Details

Service to Segment Customers

Customers of the group's Medium businesses segment are medium size business customers (middle market). These customers enjoy personal, professional and quality service relating to all their financial needs (one stop shop). The service includes the modification of the varied banking products to their different needs as regards credit and guarantees, currency hedge, international trade, financial instrument activity, credit card clearing settlement, specialized investments in the capital market, and more. Besides these services, the Bank offers solutions for the financial needs of company owners, their executives and staff, who enjoy terms granting them the status of preferred customers.

Service to Bank customers is provided by five business centers that operate nationwide: Jerusalem, Tel Aviv, the Sharon Region, Haifa and the Lowlands, as well as through a southern extension in Beer Sheva, which provides service and response to business customers in the Southern Region.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room designed for providing operating services to middle-market and small business segments customers and provides purchase and conversion of foreign currency services and performing hedge transactions.
In addition to the middle-market activity at the Bank, included in this segment is also the middle-market activities of MDB.

Developments in the Segment's Markets

The main activities of the segment customers are conducted on the local market in the following economic sectors: commerce and services, industry, construction and real estate. Part of the segment's customers also conduct import and export business.
The segment's customers were affected by the relatively high growth rate, compared to the previous year. Growth was made possible due to the high growth of private consumption.

Goals and Points of Emphasis for 2019

- The medium business segment is one of the Bank's strategic focus segments for 2019. Growth targets have been set for this segment while focusing and placing an emphasis on existing and new, quality customers having a reasonable risk level and satisfactory risk-adjusted profitability for the Bank;
- Expanding the activity with customers operating in economic sectors that are preferred for growth in accordance with the Bank's credit policy, while reducing activity with economic sectors having a high risk level;
- Continuing the improvement of professionalism, availability and the processes of credit risk management and amplifying the control and monitoring processes by way of improving the quality of analyzing the monitoring results of customer condition;
- The integration of advanced credit risk management models with the aim of improving the pricing of the marginal transaction and adjustment of the financing spread to the nature of the transaction and to the risk to the Bank, while improving the ability to compete for quality customers.

Anticipated Developments in the Coming Year

The Bank estimates that growth is expected to continue in 2019 with further recovery in the export of commodities and additional growth in private consumption. However, as assessed by the Bank, the principal risks to the realization of the forecast stem primarily from global events, at the head of which is a sharp downturn in China or a marked rise in global inflation, and from local events, the prominent of which are a geopolitical crisis, a crisis in the real estate market and a severe downturn in the high-tech sector. In view of that stated, an increase is expected in bank credit to the commercial sector, financing both working capital and investments, and are for financing investments.

Competition

High competition exists among the banks operating in Israel in the granting of credit to this segment. Furthermore, competition exists also with off-banking financial institutions. The main competition is in the interest rates and commission offered to customers as well as in the collateral required and in the related terms such as the rate of financing.

Large businesses Segment (Domestic Operations) – Additional Details

Review of Developments in the Corporate Banking Segment in 2018

The domestic economy expanded in 2018 at a rate of 3.3%, a slow rate in relation to the growth of 3.5% in 2017. Concurrently, the business product grew by 3.3% compared with 3.6% in 2017.
Following are the factors which affected the development of the business product in 2018:
- Exports (excluding startup companies and diamonds) grew at a rate of 4.2%, following rapid growth of 7.3% in 2017. The aforesaid growth reflected rapid growth in the export of services, led by the export of high-tech services. Industrial exports grew at a moderate rate of 1.7%, after having accelerated in 2017;
- Private consumption continued to act as a major growth engine, with a growth of 3.9%, a higher rate than that of 2017 (3.4%). Nevertheless, it should be noted that acceleration in private consumption in the passing year is due, to a considerable extent, to a

steep increase in the import of motor vehicles. Private consumption excluding motor vehicles slowed down, as did current consumption;

- Investments in fixed assets (excluding ships and aircraft) recorded a growth of 1.3%, lower than that of 2017 (3.3%), following a steep decline of 8.3% in investments in residential construction. Investments in the economic sectors recorded rapid growth of 7.9%, against the background of rapid growth in investments in infrastructure and in non-residential construction and in passenger cars (leasing);
- Public consumption (excluding defense imports) grew in 2018 at the rate of 4.3%, slightly lower than in 2017 (4.5%), with a continuing relatively fast growth in civilian consumption;
- The import of commodities and services (excluding defense imports, ships, aircraft and diamonds) recorded a relatively accelerated growth of 4.5%, though lower compared with 2017 (7.3%). Import data indicate accelerated growth in the import of commodities, and a relatively moderate growth in the import of services.

Developments in the Debt of the Corporate Banking Segment

As of November 2018[7], an increase of 6.8% was recorded in the debt of the business sector (excluding banks and insurance companies), compared with December 31, 2017 (the rates of change are in nominal terms, and are affected by changes in the exchange rates and in the CPI). The balance of the debt at the end of November 2018 stood at NIS 913 billion, compared with NIS 856 billion at the end of 2017. The growth in the debt reflected an increase at the rate of 7% in the debt to banks (including corporate bonds), and of 9.3% in the debt to institutional bodies. The debt to foreign residents and to households grew at a more moderate pace of 4.7% and 4.6%, respectively. It is noted, that whereas private loans extended by institutional bodies grew at the rate of approx. 5%, the remaining balance of bonds held by the institutional bodies recorded a quicker growth at the rate of approx. 13%. As a result of the said trends, a negligible growth was recorded in the weight of the debt to banks in the total debt amount of the business sector, from 48.2% at the end of 2017 to 48.3% at the end of November 2018.
Funds raised by the issue of corporate bonds in 2018 (both marketable and nonmarketable, excluding the financial sector) amounted to NIS 36.8 billion, compared with NIS 46.1 billion in 2017.
The margin between corporate bonds (included in the Tel-Bond 60) and government bonds at the end of December 2018 was 1.46%, compared to 1.26% at the end of 2017 and 1.14% at the end of the third quarter of 2017.

Developments in Segment Markets

Following are development directions in the principal economic sectors:

- Industrial sector – During the past year, there was an improvement in the economic activity of the industrial sectors. This was reflected, inter alia, in growth in manufacturing activity, stronger exports and stability in the employment field. Nonetheless, it is important to note that, during the year, exports benefited from the weakness of the shekel against the dollar. The purchasing managers index also displayed a similar picture, with it retaining a trend of consistent expansion during the last six months;
- Diamonds sector – The diamond sector continued to display weakness in 2018, reflected mainly in a further decline in trading volumes. Most of the decrease related to the main sub-sector – diamond processing;
- The tourism sector – The rate of tourist entries to Israel continues to reflect a record level and supports a further improvement in the sector's activity, as is reflected in hotel occupancy rates throughout the country. The robust activity is also expressed in the financial results of the public hotel chains, which continue to post revenue growth;
- Commercial sector – This sector is being affected mostly, by domestic demand. In accordance with the first estimate for 2018, the rate of change in public consumption during 2018 rose and amounted to 3.9%, compared to 2017. However, the growth in private consumption was not felt in all the traditional commerce sectors, which continue to face the challenges of online shopping and ever-fiercer competition;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

Anticipated Developments in the Segment's Markets

In accordance with the Bank of Israel's assessments, the product is expected to grow by 3.4% in 2019 – a lower rate than that previously

[7] The most updated data available at the time of submitting the report to print.

forecast. The inflation forecast has also been revised downward (1.3%) but continues to remain within the Bank of Israel's target range. Accordingly, the Bank of Israel's interest rate is forecast to rise to 0.5% in the third quarter of 2019 and it is expected to reach a level of 1.25% by the end of 2020.

Reaching Targets and Business Strategy – 2018

In the course of 2018 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, and to the reduction in exposure to high risk level operations, with the aim of improving the credit portfolio.
In addition, in 2018 the Bank focused on syndication transactions and capital mitigation, as well as the management of the credit portfolio from the aspect of pricing a risk adjusted return, in terms of return on the regulatory capital and return on the economic capital.
In 2018, the Bank completed a significant quantum leap in the field of systems and digital services for business customers. The Bank launched a number of advanced services for its business customers, including a new and advanced business website which serves as a "home" for additional services, such as an upgraded overseas trade site and a cash management system.
In addition, the Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

Targets and Business Strategy

In 2019, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, while shifting risk assets to usages earning a high return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.
Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2019:
- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies in Israel and abroad;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (targeted populations, products, geography);
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2018". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

Purchase of a credit risk insurance policy

During 2018, the Bank purchased credit risk insurance for the real estate field. The policy covers the existing loan portfolio as well as new loans extended during the period of the policy, the nature of which loans agrees with the definitions contained in the insurance contract. The volume of the insured portfolio as of December 31, 2018, amounts to NIS 2.4 billion.

In addition, during the year, loans in a cumulative amount of NIS 1.1 billion were insured under facultative[8] insurance.
These purchases are in addition to the purchase of a credit risk insurance policy with respect to Sale Act guaranties and to an insurance policy covering other nonfinancial guaranties; these policies were first purchased by the Group during the years 2015-2016 and renewed also for 2019, and they relate to a credit risk portfolio amounting to NIS 17.8 billion.
Within the framework of the policies, the Bank transfers a part of the credit risk to an international consortium of re-insurers. Under the provisions of Proper Conduct of Banking Business Directive No. 203, the insurance transaction allows the Bank to reduce its risk assets, by way of reducing the risk weight of the exposure, and bringing it to a risk weight of 20%, in accordance with the international rating of the re-insurers.

Legislative Restrictions, Regulations and Special Constraints applicable to the Segment

The principal restrictions applicable to this segment are briefly described hereunder.
Proper Conduct of Banking Business Directive No. 313. In accordance with the directive, the indebtedness limit for a single borrower (that is not a bank) stands at 15% of the bank's capital, the indebtedness limit for a group of borrowers stands at 25% of the bank's capital and the indebtedness limit for a group of banking borrowers or a group of credit card borrowers stands at 15% of the bank's capital. The total indebtedness of borrowers, groups of borrowers, groups of banking borrowers and groups of credit card borrowers, whose net indebtedness to the banking corporation exceeds 10% of the bank's capital, is not to exceed 120% of the bank's capital.
The definition of capital for the purpose of computing the limitation was restricted to the Tier 1 capital only (net of supervisory adjustments and deductions) within the meaning of Proper Conduct of Banking Business Directive No. 202. As of December 31, 2018 no deviations existed to the limitations as set in the directive.
The Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. In accordance with a clarification received from the Supervisor of Banks, the investment of the Group in securities of U.S. federal agencies is averaged at 50% for the purpose of computing the liability according to Directive 313.
During 2018, the percentage at which Sales Act guarantees are weighted for the purpose of the concentration calculation was reduced to 30% with respect to residential units still to be delivered.
On February 12, 2019, draft amendment to the directive was issued, within the framework of which it is being proposed, inter alia, to include additional limits in relation to indebtedness of borrowers/groups of borrowers engaged in speculative activity.
The limitation on "related persons". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. As of December 31, 2018, there were no deviations from the said limitations.

Service to Segment Customers

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.
The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.
The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities.
Discount Capital offers the customers of the corporate segment assistance in the process of public offerings and private placements, including underwriting services and securities distribution, as well as services regarding investment banking.
The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.

8 Insuring a specific credit transaction of a particular borrower.

Customers engaged in international trade are being served by the foreign trade unit (for additional details, see below).
The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.
Some of the segment's customers utilize the services of the Bank's trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

Foreign Trade Operations

General. The Bank's foreign trade operations are conducted by the foreign trade unit and by the hybrid foreign trade finance unit. These two units operate within the framework of the Bank's Corporate Division, and provide varied services to customers of the different business sectors that engage in international trade.
Operations. The business activity of the foreign trade unit includes all the services in the foreign trade field that the customer requires (import, export, finance, conducting factoring of foreign guarantees, etc.). In addition to conducting the activity, intensive activity continues in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions.
In 2018, a new and innovative website was launched for performing foreign trade transactions, within the framework of which foreign currency transfers can be made using a fast, user-friendly interface. The innovations include the ability to independently set up and manage payees, as well as support with complex signature rounds. In 2019, additional innovations are planned to be integrated on the site: foreign currency transfers in batches and the performance of complex transactions.

Substitutes for Products and Services of the Segment and Changes therein

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities. In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.
Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

Products and Services

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.
In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

Construction and Real Estate Activity

MARKET DEVELOPMENTS

Residential construction. Data for 2018 indicate that the activity downturn is continuing with the total transactions (including "Mechir Lamishtaken") still falling. Along with the continued waiting of those entitled to the government program, the proportion of private investors in the housing market is maintaining its downward trend. Nevertheless, the trend data in recent months indicates a rise in the number of new residential units sold, alongside growth in the volume of mortgages, compared to the corresponding period, accompanied by an acceleration in the number of residential units sold within the framework of "Mechir Lamishtaken".
In the area of residential units prices, until November an annual decrease of 1.4% occurred, which do not apply to all regions. Thus, the price decreases were in the Tel Aviv and Jerusalem regions, while prices rose in the northern, central and southern regions. Moreover, most of the decrease stems from the relatively steep decline in prices recorded toward the end of 2017.
Income generating real-estate for office buildings. Occupancy rates and rentals in the offices market continued to remain stable in 2018. In addition, occupancy rates and rentals continued their upward trend in Tel Aviv, Israel's largest offices market.
Income generating real-estate commercial buildings. In the commercial real estate market there appears to be a weakness in tenants' turnover. During the past year, some of the retail chains began to reduce the physical size of their commercial space, while concurrently same store sales of the leading fashion companies continued to fall.
Infrastructure. The scope of activity in the infrastructure sector continued to grow in 2018. In addition to projects already underway, substantial additional projects are expected to commence.

DEVELOPMENTS IN THE FINANCING RESOURCES OF THE ACTIVITIES

Bonds. A slight increase was recorded in 2018 in the volume of corporate bonds issued by real estate companies. Local real estate companies issued bonds to the tune of over NIS 20 billion, an 3% increase compared to 2017.
Competition on the part of the institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has a consistent growth. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

EXPECTED DEVELOPMENTS IN THE ACTIVITY

Residential construction. The trends that characterized the past year are expected to continue in the short term. The decisions of the new government, which is expected to be formed during 2019, may have an impact on the development of activity in the sector.
Office and commercial income generating real estate. With the entry into the market in the coming years of a large volume of new office and commercial properties, most of which in demand areas, excess supply might occur leading to a decline in rental prices in certain areas.
So long as weakness continues in the activity of major tenants at the commercial centers, it may lead to damaging the profitability of certain commercial centers.
Infrastructure. Substantial activity is expected to continue in the infrastructure sector in the coming years.

DIRECTIONS OF BUSINESS DEVELOPMENT IN THE MARKETS ACTIVITIES

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:
- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level.

CREDIT POLICY IN THE CONSTRUCTION AND REAL ESTATE ACTIVITY

The credit policy for this sector focuses on the financing of operations in Israel, giving preference to borrowers having financial strength with extensive experience in this field, with whom the Bank has positive business relations.
The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the closed loan method, under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more.

LEGISLATIVE AND REGULATORY LIMITATIONS AND SPECIAL CONSTRAINTS APPLYING TO THE ACTIVITY

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted in the Proper Conduct of Banking Business Directives no. 315 regarding a sectoral indebtedness limit, a limitation was set to apply to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank’s exposure as regards credit to the construction and real-estate industry as of December 31, 2018 reached a rate of 18.79% (17.4% at the end of 2017).

SERVICE TO CUSTOMERS OF THE SEGMENT

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition, the financing operations of the segment are also conducted by business managers at the large corporations department, mainly with income producing real estate holding corporations, as well as by means of the business centers of the Banking Division.
Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by the PPP method). The unit engages in allocating appropriate finance packages though at smaller volumes.
MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

ALTERNATIVES TO PRODUCTS AND SERVICES OF THE OPERATIONS AND CHANGES THEREIN

Off-banking financing constitutes an alternative financing source for long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.
In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

STRUCTURE OF THE COMPETITION PREVAILING IN THE OPERATIONS AND CHANGES THEREIN

Competition exists in this sector both on the part of banking corporations and on the part of institutional bodies, which in recent years have established units engaged in the granting of credit for the finance of long-term nonmarketable properties. Certain of the institutional bodies have even extended their activity to granting Sales Act guarantees to purchasers of residential units.

COPING WITH COMPETITION

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to these types of transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt is subject to the Bank of Israel instructions and the Bank's policy.
Other means for facing with the competition are the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

PRODUCTS AND SERVICES

The services provided include, among other: credit for the construction or purchase of properties intended for housing and/or intended to serve as income producing property (mostly commercial and office space, large parts of which are marketed in advance); credit financing national infrastructure projects at the construction and operating stages; credit financing working capital and/or investments in Israel, and in exceptional cases also investments abroad; credit granted to acquisition groups; providing Sales act guarantees to purchasers of residential units and guarantees to landowners within the framework of combination construction transactions.

Institutional bodies Segment (Domestic operations) – Additional Details

Condensed description of the characteristics of the segment

The segment is engaged in the management of funds of the investor population in Israel. Most of the investments comprise long-term fund investments (the major part thereof being pension savings), a part comprises medium-term investments (through further education funds) and a part comprises short-term investments (by means of mutual funds and ETFs).

Areas of operation

At present, the Bank serves large investment bodies in the capital market, which, among other, include insurance companies, provident funds, pension funds, managers of mutual funds and ETFs. The institutional bodies are active in the following fields: deposits, securities trading, securities lending, foreign currency, interest and derivatives (marketable and non-marketable).

Competition

With respect to a share in the activity of institutional bodies, the Bank competes against local banks, foreign banks and Stock Exchange members who are not banks. A trend of diverting investments to foreign markets on the part of institutional bodies has been noticed in recent years.

A Competitive Process

Once every number of years (generally three years) institutional bodies conduct a process in which they invite offers from the various Stock Exchange members for the provision of trading services in securities and related services. In certain of the cases, a competitive process is also performed for obtaining securities custody services.

Operating Services

At the present time, the Bank does not provide operating services to institutional bodies.

Financial Management Segment (Domestic Operations) – Additional Details

Dealing room

A dealing room acts for the Bank's customers to execute transactions in the global financial and capital markets, while providing personal and professional financial services. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. The combination of several fields of activity enables customers to obtain trading services in foreign currency, interest rates, securities and derivatives under one roof.
The dealing room is engaged in two principal areas of activity:

Over the Counter (OTC) trading – Foreign Currency and Interest Rate Trading

The OTC unit develops and adapts different market risk hedge transactions in accordance with customer needs. The unit serves also as a "principal market maker" with respect to Dollar/Shekel and government bonds transactions.
The main transactions carried out by the unit with Bank customers, are: Purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives.

Trading in securities

Foreign securities. The foreign securities desk operates in a wide range of markets around the world, and is conducting brokerage transactions in a wide range of instruments: shares traded on foreign stock exchanges, options, state and corporate bonds, mutual funds and hedge funds.
Brokerage regarding Israeli securities. The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded in the Israeli market. The desk provides brokerage services involving both marketable and non-marketable securities (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

Global Treasury

The Global Treasury unit coordinates the financial management of the Discount Group. The Unit is responsible for the asset and liability management (ALM) in the Group's balance sheet, including the management of liquidity risk, management of interest risk, inflation risk and exchange rate risk management, and managing the capital. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance at the subsidiaries.
Following are details of the principal areas of operation of the Global Treasury:
Liquidity risk management. Liquidity risk management is performed using internal models and regulatory models, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of a current analysis of changes in the volume of assets and liabilities of the Group.
Short-term liquidity and deposits. The desk engaged in the management of the Bank's short-term liquidity (up to one month) in shekels and in foreign currency, operates mainly by means of the Bank of Israel tenders, deposits by corporate customers and SWAP transactions. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency and invests the surplus short-term liquidity.
Market exposure management. The management of market exposure is conducted by means of a designated computer system, which calculates risk indices in relation to up-to-date data, reflecting the overall business activity at the Bank. The ALM committee, headed by the President & CEO, determines the market risk exposure targets, within the framework of limitations set by the Board of Directors as regards the risk appetite.
Transfer prices and management of the marginal financial spread. A daily calculation of the Bank's internal transfer prices, serving as a basis for the pricing and measuring profitability of credit and deposits. The prices are being updated in accordance with developments in the capital and financial markets, and with the determination of the marginal spread targets regarding deposits, as well as with the conduct of current monitoring.
Interest tables. Production and publication of deposit interest tables.
Development of financial models. Development of models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, premature withdrawal option regarding deposits, early repayment forecasts for mortgages and more.
Managing the Capital. Formation of recommendations to Management and to the Board of Directors with respect to the equity ratio targets, formation of a risk asset budget for Group companies and business units, current monitoring and the raising of debt, if required.

Nostro Management

"Nostro" portfolio management policy. The Bank's "Nostro" Unit is subject to the decisions of investment committee and to frameworks determined by the Bank's Board of Directors.
The investment portfolio of the "Nostro" unit, manages a facility out of the surplus liquidity balances comprising investments embodying credit margin risk – inter alia, corporate bonds, state bonds and other debt instruments.
The investment activity of the subsidiary companies, in particular, IDB New York, Discount Capital and MDB, is conducted independently, subject to the risk limitations as determined by the Bank. The Group's "Nostro" portfolios are being managed from an overall standpoint, subject to risk limitations determined by the Bank's Board of Directors.

Competition

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel, and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

Business Strategy and Targets

The goals for the year 2018 set for this segment are mostly, the continuation of profitability improvement in a low interest rate environment and in a challenging macro-economic environment, while maintaining a risk level in accordance with the risk appetite of the Bank.

Investments in Non-Financial Companies

POLICY REGARDING NON-FINANCIAL INVESTMENTS

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product. Investments exceeding the determined limit are brought for approval of the Bank's Board of Directors prior to their execution.

PRINCIPAL AREAS OF OPERATION

The investments of the Discount Group in non-financial companies are made primarily through the subsidiary Discount Capital and are divided into three principal categories:
- Investment in private equity funds and in venture capital funds;
- Investments in companies;
- Mezzanine operations.

INVESTMENTS IN PRIVATE EQUITY FUNDS AND IN VENTURE CAPITAL FUNDS

Discount Capital's strategy for investing in investment funds places emphasis on the portfolio's decentralization from the aspects of management groups, the life-stage of the portfolio companies, the activity spheres of the funds and the geographical region in which they invest. As of December 31, 2018, Discount Capital was invested in 35 funds which were spread over 20 different management groups.
Discount Capital's investment balances in funds amounted to US$ 170 million as of December 31, 2018 and the balance of its liability to funds that had not yet reached the end of their investment period (usually five years) amounted to US$ 165 million.

SELECTED INVESTMENTS IN PRIVATE INVESTMENT FUNDS AND IN VENTURE CAPITAL FUNDS

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2018		
Fimi Opportunity II	293	50	44.3	-	Israeli Private Equity Fund.
Fimi Opportunity IV	509	50	41.3	-	Israeli Private Equity Fund.
FIMI Opportunity V	824	70	63.6	6.4	Israeli Private Equity Fund.
Fimi Opportunity VI	1,100	70	21.4	48.6	Israeli Private Equity Fund.
Vertex Israel III Fund	174	13.5	13.5	-	An Israeli venture capital fund.
Vertex Israel IV Fund	144	5	4.1	0.9	An Israeli venture capital fund.
Vertex Israel V Fund	126	7	1.7	5.3	An Israeli venture capital fund.
Fortissimo I	78	5	4.3	0.7	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Fortissimo II	110	20	18.8	1.2	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Fortissimo III	265	10	9.3	0.7	An Israeli venture capital fund, which invests primarily in technological and industrial companies.
Stage One Ventures Capital Fund II	65	5	3.5	1.5	A venture capital fund, which specializes in early-stages investment.
Stage One Ventures Capital Fund III	110	8	0.5	7.5	A venture capital fund, which specializes in early-stages investment.
Apax Europe VII	Euro 11 billion	Euro 7.4 million	Euro 7.3 million	Euro 0.1 million	A European private equity fund in the Global Apax Group.
IGP I (Israel Growth Partners)	229	6	15.5(2)	5.3	An Israeli venture capital fund that focuses on growth-stages technology companies. The investment in the fund is comprised of an investment commitment and an option to expand the investment (Pool B).
IGP II	190	17	0.9	16.1	An Israeli venture capital fund that focuses on growth-stages technology companies.
AMI Opportunities	504	10	6.6	3.4	An Israeli Private Equity Fund of the Global APAX Group.
Sky III	200	20	2.9	17.1	An Israeli private equity fund specializing in investments in mid-market companies.
One Equity Partners VI	1,650	5	5	-	A U.S. Private Equity fund.
One Equity Partners VII	947	5	-	5	A U.S. Private Equity fund.
Qumra II	150	10	1.2	8.8	An Israeli venture capital fund focusing on growth stage technology companies.
Vestor VII	1,000	5	-	5	An Israeli venture capital fund focusing on growth stage technology companies.
Viola-Fintech	93	8	1	7	A new investment fund of the Viola Group, specializing in investments in the fintech field.
Briges Israel	57	7.5	1.1	6.4	An Israeli impact investment fund.
Ap Partners	83	5	0.2	4.8	An Israeli PE fund that specializes in investments in small-medium companies.
Plenus III	120	21.8	17.1	4.7	A venture debt fund that specializes in granting loans to technology companies.
Other Funds	**Not relevant**				
Total	**Not relevant**				

Notes:
(1)The amounts are presented in U.S. dollars, unless otherwise stated.
(2) Of which an amount of US$10.9 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability

DIRECT INVESTMENT IN NON-FINANCIAL COMPANIES

The direct investments of Discount Capital as of December 31, 2018 amounted to NIS 235 million, in cost terms, in some 13 companies. Following is a summary description of the principal investments:

Investment in Super-Pharm. Discount Capital holds 10.4% of the share capital of Super-Pharm Israel Ltd. ("Super-Pharm"), in the amount of approx. NIS 150 million. Super-Pharm owns a chain of retail marketing pharmaceutical and pharma products, cosmetics and toiletries in Israel and Poland. In total Super-Pharm operates 300 stores in Israel, approx. 60 of which are in Eastern Europe.

Investment in "Menif" - Financial Services Ltd. Discount Capital owns approx. 19.6% of the equity of Menif, which is engaged in the financing field and the supplementing of equity capital to entrepreneurs regarding construction projects. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. For details regarding guarantees provided by Discount Capital, see Note 26 C 16 (b).

Investment in Ginegar Plastic Products Ltd. ("Ginegar"). Discount Capital holds 15% of the equity capital of Ginegar, which is listed on the Tel Aviv Stock Exchange. Ginegar is one of the leading companies in the world engaged in the manufacturing of advanced plastic cover film and nets for a large variety of applications in agriculture. Covers are manufactured by the company in accordance with the needs of the farmer – for different crops in different areas.

Investment in Viola PEGP. Discount Capital holds 20% of the Viola PEGP Partnership, a special purpose vehicle (SPV) holding 60% of the equity of Gaon Holdings Ltd.

Gaon Holdings, listed on the Tel Aviv Stock Exchange, is a holding company the main activity of which is conducted through its subsidiary, the "Gaon Group" (formerly Middle East Pipes) is one of the largest and leading manufacturers in Israel of steel pipes. The Gaon Group is the principal pipe supplier for Mekorot Company, the Israeli national water company.

Investment in Felco Ltd. (Feldman Ice Cream). Discount Capital holds 18% of the equity capital of Felco Ltd. The investment was made by joining an investor group led by the Green Lantern Group. The company is engaged in the production and marketing of ice cream and ice-lolly under the old established and known brand name of Feldman Ice Cream, and is the fifth largest participant in the ice cream market in Israel.

Investment in Gad Dairies Ltd. During the fourth quarter of 2018, Discount Capital signed an agreement for the purchase of 20% of the equity capital of the company. Gad Dairies is an old established and leading dairy in Israel, engaged in cheese production (with a focus on special, hard and salty cheeses) and in the marketing of its products both to the wholesale market (marketing networks) and to the professional market (pizza stores, restaurants, bakeries, etc.). The transaction is expected to be consummated in the first quarter of 2019.

Moreover, Discount Capital makes direct investments from time to time in technology companies at different stages of development, as well as investments in the fintech field (directly and through investment funds).

MEZZANINE ACTIVITY

This activity began in 2018. Investments made during the year in this field amounted to a total of NIS 90 million.

DEVELOPMENTS IN THE ACTIVITY

Realizations. In 2018, Discount Capital has recognized income in the total amount of NIS 87 million in respect of realizations of investments, mostly in respect of a realizations by Funds of the Fortissimo group (approx. NIS 61 million) and of the FIMI group (approx. NIS 18 million), compared with approx. NIS 45 million in 2017. In addition, a dividend from Super-Pharm was recorded in the amount of NIS 5.1 million (2017: NIS 15.5 million).

New investments. In 2018, Discount Capital made sixteen new investments in investment funds and companies, in a total amount of US$85 million.

LEGISLATIVE AND REGULATORY LIMITATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE INVESTMENTS OPERATIONS

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -

(1) Up to 15% of its capital - in any non-financial corporation;
(2) Up to a further 5% of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;
(3) Up to a further 5% of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.

As of December 31, 2018, no violation of these restrictions exists.

Within the framework of the Concentration Law, restrictions have been prescribed whereby a banking corporation may not hold more than 1% of a certain class of the means of control of a significant non-financial corporation (a significant non-financial corporation is a corporation the volume of operations of which, or the volume of its indebtedness exceed NIS 6 billion, and which is included in the list of significant non-financial corporations published in accordance with the Concentration Act).
Notwithstanding the aforesaid, a banking corporation may hold more than 1%, but not more than 10%, of a single significant non-financial corporation. As of December 31, 2018, no violation of these restrictions exists.

International Operations Segment – Additional Details

General

The foreign operations of the Discount group are conducted by a subsidiary company in the United States (for details regarding the closing down or sale of operations of part of the extensions, see below).

Legislative Restrictions, Regulations and Special Constraints applicable to the International Operations

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk appetite applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.
On December 31, 2018, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.37% of total risk assets, as compared with 14.9% on December 31, 2017. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 25% on December 31, 2017). The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.
IDB New York - Risk Based and Leverage Capital Ratios. Beginning on January 1, 2015, IDB New York became subject to new Basle III capital rules based on the final rules published by the FRB in July 2013 (the “Basel III Capital Rules”). The new rules establish a new comprehensive capital framework for U.S. banking organizations.
The rules apply to all depository institutions and banks holding companies with total consolidated assets of $500 million or more, Among other things, the new rules establish a new common equity tier 1 ("CET1") minimum capital requirement and a higher minimum tier 1 capital requirement, and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real estate. The rules also limit dividend distributions by certain banking organizations as well as discretionary bonus payments if the banking organization does not hold a “capital conservation buffer”, consisting of a specified amount of common equity tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer came into effect in 2016.
The Basel III Capital Rules became effective on January 1, 2015, subject to a phase-in period. The minimum capital ratios as of January 1, 2016 are as follows:
- 4.5% CET1 to risk assets;
- 6.0% Tier 1 capital to risk assets;
- 8.0% Total capital to risk assets; and
- 4.0% Leverage ratio.

Overseas regulatory supervision. Operations of the international segment are subject to supervision on the part of the appropriate authority in the country in question.
U.S. legislation. The supervisory authorities in the United States issued on December 10, 2013, the final rules relating to investment portfolios of banks ("Nostro"), as determined in the Dodd Frank Act ("Volcker rule"), and a period of preparation for their implementation has been granted. IDB New York has completed its preparations, to the extent relevant and required.

Guidelines of the Supervisor of Banks. In 2016, the Supervisor of Banks published several guidelines regarding cross-border risks, which have been applied by the Supervisor of Banks also to operations of a banking corporation outside Israel. Accordingly, IDB New York is preparing for the implementation of these guidelines with modifications required by the local laws applying to it. For further details regarding the guidelines, see "Exposure to cross-border risks in respect of the activities of foreign resident customers" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

New Proper Conduct of Banking Business Directive in the matter of "supervision over overseas extensions". For details see "Other risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks", which is published concurrently with this report, and which is available on the MAGNA and MAYA sites as well as on the Bank's website.

Taxation

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 8 L to the financial statements.

Rubik Tax Agreement. Two international treaties entered into effect as from 2013 – a treaty between Switzerland and Great Britain and a treaty between Switzerland and Austria. These treaties regulate (both in respect of the past and in respect to the future) the taxation treatment of income and capital gains earned on financial investments at Swiss banks performed by residents of the said countries, who had elected to remain anonymous, and which preserves the protection of privacy in Switzerland.

Where account holders would wish to declare their financial investments and pay the relevant taxes directly and personally, the banks, with the consent of the account holders, shall provide the details of their accounts to the tax authorities of their countries of residence.

Service to Segment Customers

IDB New York ("IDB Bank") is the largest of the Israeli banks operating overseas. This bank maintains four branches in the New York area, one branch in Florida and two branches in California.

Services and Principal Products of IDB New York

Credit. IDB New York provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.

Middle Market. IDB New York grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.

Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.

Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.

Private Banking. IDB New York provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.

At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, including the granting of housing mortgages and products and services of IDB Capital, as subsidiary of IDB New York, engaged in securities transactions and insurance products in behalf of customers.

Credit Card Operations

Structure of the field of operation

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.

The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission".

This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.

According to publications by the Central Bureau of Statistics, over 85% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 2 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2018 was approx. 11 million. Furthermore, some 80 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

The Operations of ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions.

ICC directly issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement. The Bank is currently engaged in a joint issuing agreement with LeumiCard (see Note 36 B 1).

In the issuance field, ICC issues (directly and through Diners Club, a fully owned and controlled company) credit cards that are divided into two main groups: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance. As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the full credit risk involved with the card; (b) Off-banking credit cards - issuance of cards directly by ICC. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.

ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.

ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and "IsraCard" credit cards (in Israel only).

In the clearing field, ICC offers its customers voucher factoring services, loans, the advancing of payment dates and the granting of advances. Most of the marketing efforts in the clearing field are directed at trading houses, including chains, through focusing on their needs.

QUANTITATIVE DATA REGARDING THE ACTIVITY OF ICC

	December 31, 2018		December 31, 2017	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,694	1,453	1,635	1,393
Off-banking cards	1,581	1,176	1,003	718
Total	**3,275**	**2,629**	**2,638**	**2,111**

Transactions turnover		
	For the year ended December 31, 2018	For the year ended December 31, 2017
	in NIS millions	
Bank cards	67,161	61,187
Off-banking cards	26,222	19,025
Total	**93,383**	**80,212**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

New activities and strategic collaborations

Arrangements following the Strum Act. For details regarding the signing of agreements between ICC and Bank Leumi and ICC and Bank Hapoalim on the one hand, and between the Bank and LeumiCard on other hand, see Note 36 B to the financial statements.
Memorandum of principles with Shufersal Company. For details, see Note 36 D above.
Agreement with El Al. On December 11, 2018, an agreement in principle was signed for ICC to enter into a new engagement with El Al with regard to the issuance and operation of branded credit cards. For further details, see Note 36 C above.
Engagement with GAMA Company. On July 6, 2017, ICC entered into an agreement with GAMA Management and Clearing Ltd. and with GAMA Personal Direct Finance Ltd. (hereinafter: "GAMA"), within the framework of which, GAMA would become an "Aggregator" enabling credit card transactions using the services of GAMA and ICC.
The signing of this agreement conforms to the provisions of the Increase in Competition and Reduction of Concentration in the Banking Market in Israel Act, which includes rules intended to increase competition in clearing operations. Management of ICC is of the opinion that the agreement would improve the value offer to the small and medium trading houses.

Additional developments in Operations

Entry of an additional clearing agent to the clearing market in Israel. On March 20, 2018, the Supervisor of Banks announced the granting of a new clearing agent license, in addition to that granted to another company on April 8, 2017. It was noted in the announcement that the additional clearing agent is expected to begin clearing operations within 18 months from date of the license. In ICC's opinion, it is not possible at this stage to assess the effect in general of the additional clearing agents entering the clearing market in Israel, or its effect on ICC in particular, noting that the said clearing agents obtained a restricted license until completion of their preparations.
Reduction of the cross-commission rate. For details, see Note 36 A 1 above.
You Customer Club. In January 2018 Mega Retail Ltd. informed ICC that it is conducting negotiations that would lead to its withdrawal from the Club, including by way of its liquidation. A binding agreement on the subject has not yet been signed.

Changes regarding competition in the credit card market

On background of the expected separation of Isracard and Leumi Card from the respective banks, alongside the impact of regulation measures initiated by the Supervisor of Banks, as well as in view of action taken by credit card companies, such as engagement of ICC with GAMA (for additional detail see above), competition between the credit card companies, which has intensified recently, is reflected in the decrease in clearing fees. According to data provided by the Supervisor of Banks, businesses in Israel saved in 2017 an amount of NIS 300 million, following the increase in competition, in comparison with the situation prevailing in 2014.

Furthermore, fierce competition appeared in the customer clubs field, which, inter alia, was expressed in the commercial terms of a number of agreements signed in the credit card field. ICC estimates that this state of affairs will continue in the coming years.

Competition in the off-banking credit field in recent years has also increased in view of the significant increase in the number of financial entities offering loans to households, such as: provident funds, further education funds or inter-personal loan platforms (P2P). Various regulatory measures, introduced by the Supervisor of Banks, such as the establishment of a credit data base, are expected to increase the volume of competition and enable providers of off-banking credit (including credit card companies, including ICC) to obtain more reliable information regarding existing and potential customers.

ICC had prepared and is preparing for such changes, and has formed a strategy aimed at enabling it to handle these changes in an optimal manner (for additional details, see above "Main Investee Companies").

In addition, signs of growth in the Israeli e-commerce market are beginning to be seen and alternative electronic payment means are being developed for credit cards, including means that allow the transfer of payments from account to account without a credit card, or means that are operated by banking corporations or by companies under their control. Should use of these alternative means expand and taking into account the feasibility of direct operation (without use of a credit card) of these means, a material adverse effect on ICC's income base is expected. ICC has held and is holding discussions with the Supervisor of Banks regarding the provision of payment solutions by companies that are controlled by banking corporations and is considering other possibilities for the purpose of facing such competition.

Regulations, Legislation and Arrangements

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements. Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards.

The Competition Commissioner (in her former title: The Antitrust Commissioner). The Competition Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 36 B 1 and 2 to the financial statements.

Reduction of the cross-commission rate. For details regarding the outline for the reduction of the cross-commission rate, in respect of deferred debit transactions and in respect of immediate debit transactions, published by the Governor of the Bank of Israel, and regarding the draft of the exemption terms for the new agreement in this field, published by the Competition Commissioner, see above Note 36 A 1 to the financial statements.

The Payment Services Act. See "Legislation and Supervision" below.

Statement by the Ministry of Finance in the matter of an exclusive issue and clearing brand. The Ministry of Finance informed ICC on July 24, 2017, that to the extent that the maximum trading house commission applying to domestic transactions, charged in relation to an exclusive issue and clearing brand, shall be reduced over the period from 2017 to 2020 by four significant installments, reaching until the end of December 2017 a level not exceeding 2.95%, until the end of December 2018 a level not exceeding 2.45%, until the end of December 2019 a level not exceeding 2.10%, and until the end of June 2020 a level not exceeding 1.99%, then, for the time being, the Minister of Finance does not see the need to use his authority under section 36 M (a) of the Banking Act (Licensing), 1981, or to support proposed Bills, the contents of which is identical with acting under the said authority, or which directly interfere with the brand commission above and beyond the reduction outline described above.

In July 2017, the Boards of Directors of ICC and of Diners approved the limitation on clearing fees regarding the Diners brand, in accordance with the said outline. Diners is acting in accordance with the said outline, and has accordingly informed the relevant trading houses.

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017. For details, see "Legislation and Supervision" below.

Implementation of the EMV standard. On May 2, 2016, the Supervisor of Banks published a Directive in the matter of the implementation of EMV Standard. This Directive relates for the first time, in a designated manner, to financial entities engaged in clearing, and outlines the main principles for the clearing operation of transactions made by debit cards. The Directive differentiates between two types of clearing agents, and grants certain relief to "small" clearing agents, with a view of facilitating the entry of new players into this field. The Directive has an impact on the clearing operation of ICC.

The Directive became effective on June 1, 2016, excluding certain sections dealing mostly with the transition to the EMV Standard, for which another effective date has been determined.

The dates for the integration into the market of the EMV Standard were updated on July 26, 2017, in the following manner: the connection of new terminals (excluding exceptions detailed in the Directive) takes effect on August 1, 2017; the connection of a small trading house (with a turnover of up to NIS 60,000) will become effective on January 1, 2019; the liability shift mechanism is being reexamined and the date on which it would become effective has been deferred to January 1, 2019.

Banking Rules (Licensing) (Terms for accommodating a clearing agent), 2018. On June 25, 2018, the Governor of the Bank of Israel published rules in the matter of the accommodation of new clearing agents on platforms of existing clearing agents. The construction of infrastructure for clearing purposes by a clearing agent holding an appropriate license may be complex and take a long time. The Increase in Competition and Reduction in Centralization Act allows a new clearing agent, during the interim period until construction of the relevant infrastructure, as stated, or in general, to conduct clearing operations through an existing clearing agent, namely, being accommodated. The Rules allow new clearing agents, who are not connected directly to a payment system, to conduct clearing operations by means of existing clearing agents, so that new agents may quickly and easily integrate into the market. Publication of these Rules is an additional step within the framework of the action taken by the Bank of Israel and the Ministry of Finance to advance the implementation of the reform for increase in competition.

Circular regarding Proper Conduct of Banking Business Directive No. 472 and Liability Shift Mechanism – EMV. On October 22, 2018, the Banking Supervision Department issued a circular that included the liability shift mechanism, according to which, in an instance where a smart card is charged for transactions or for activities that were performed through misuse of a card, which does not meet the EMV standard, the clearing agent will be responsible for refunding the amount of the charge to the issuer. The circular took effect from January 1, 2019. However, in accordance with a draft published on October 22, 2018, in relation to small trading houses (whose transaction turnover with the clearing agent does not exceed NIS 5 million), the mechanism will go into effect from January 1, 2020.

Charge Cards Bill (Amendment of Cancellation Charge on Credit due to Transaction with Supplier in Breach), 2018. On November 25, 2018, the Knesset plenum passed the first reading of the bill. The bill is also intended, like the amendments recently made to Proper Conduct of Banking Business Directive No. 472, to strengthen the protection of customers from suppliers with a reputation for defrauding and deceiving customers. In accordance with the bill, if the Commissioner of Consumer Protection and Fair Trade has a reasonable basis to assume that transactions took place between a supplier and customers in which the supplier exercised unfair influence or deceived customers, in aggravated circumstances, the Commissioner will be entitled to inform the issuer to cease charging customers for all transactions that took place with the supplier, and to inform the clearing agents to refrain from transferring payments to the supplier for the transactions that took place with it. According to that proposed, within the framework of the clarification process with the supplier suspected of being in violation, a notice will also be sent to clearing agents so that they should already cease sending money to the supplier from the same date. In a second stage, the Commissioner will decide whether to inform the aforesaid issuers and clearing agents to cease charging the customer and cease transferring money to the supplier. Furthermore, if an issuer charges a customer for a transaction with a supplier who is in violation, but the amount charged has not yet been transferred to the supplier, the issuer will be obliged to credit the customer such charges as soon as possible and not later than 10 workdays from the date of the Commissioner's notice. It is stated in the explanatory notes that, at the time of preparing the bill for its second and third readings, consideration will be given to the possibility of revealing the identity of the suppliers; expanding the obligation to repay the customer to also include money deriving from charges that were already transferred to the supplier; allowing a clearing agents to cease transferring money even without a notice from the Commissioner in certain circumstances; and discussing sanctions that could be imposed on an issuer or a clearing agent that breaches the provisions of the Act.

Draft Proper Conduct of Banking Business Directive in the matter of "direct marketing". On September 17, 2018, ICC received a draft Directive in the matter of "direct marketing" transactions. In accordance with the proposed Amendment, clearing agents would be entitled to refuse providing clearing services to a trading house where substantial suspicion exists that its operations include fraudulent activity regarding customers. The draft Directive provides an incomplete detailed list of tests providing a basis for substantial suspicion of such activity.

Banking Supervision Department's approach regarding transaction refusal and harm to small businesses. On September 20, 2018, the Banking Supervision Department approached ICC requesting that it define procedures relating to the treatment of transaction renunciation, including action paths intended to reduce instances in which customers misuse their right to renounce a transaction. The Banking Supervision Department also requested that tracking of transaction renunciations be established, inter alia, for the purpose of identifying repeat renunciations or patterns of transaction renunciations in which there is concern regarding misuse of the transaction renunciation mechanism. ICC has been asked to send its procedures on this topic to the Banking Supervision Department by December 20, 2018. The company has set up a team to formulate recommendations as required.

Updates of Proper Conduct of Banking Business Directives supporting the success of the reform in the credit card market

The Supervisor of Banks published in recent months several updates of Proper Conduct of Banking Business Directives, intended to support the reform in the credit card field:

Update of Proper Conduct of Banking Business Directive No. 203 in the matter of measurement and capital adequacy – credit risk – the standardized approach. The update was published on July 5, 2018, and accordingly credit card companies would continue to obtain averaging for capital adequacy purposes, as if they were banking corporations, also after the separation from the banking corporations. The update of the Directive takes effect on date of its publication.

Update of Proper Conduct of Banking Business Directive No. 221 in the matter of liquidity coverage ratio. The update was published on July 5, 2018, according to which a credit card company, which complies with the terms determined in the update, would not be required to meet the liquidity coverage ratio, but would be required to hold liquid assets in accordance with an internal model in agreement with the company's nature of operation. The update of the Directive takes effect on date of its publication.

Update to Proper Conduct of Banking Business Directive No. 470, "Charge Cards". The update was published on July 5, 2018, and accordingly, a section was added regulating the date for the transfer of money from the bank issuer to the issuance operator, the effective date if which is February 1, 2019. Furthermore, transitional provisions have been added for the new operating agreements, the effective date of which is its date of publication.

Update of Proper Conduct of Banking Business Directive No. 313 in the matter of restrictions on indebtedness of a single borrower and of a group of borrowers. The update was published on August 1, 2018, and states that as a general rule, the Directive shall apply to credit card companies as if they were banking corporations, but includes transitional provisions for a period of five years, within the framework of which, indebtedness of a banking group of borrowers to a credit card company, shall not be subject to the restriction regarding "a banking borrower group" and shall not be included in the aggregate restriction regarding large borrowers.

Amendment of Proper Conduct of Banking Business Directive No. 470 in the matter of debit cards. The Amendment was published on November 13, 2018. The Strum Act includes a duty imposed on banking corporations to present, in a summarized form on the website serving the customer's account, information regarding transactions made by that customer by means of a debit card (bank and off-bank). The Amendment includes instructions regarding the implementation of this duty.

Draft Amendment of Proper Conduct of Banking Business Directive No. 325. The draft, which was published on October 28, 2018, proposes to apply the directive also to credit facilities managed by means of credit cards. In addition, it is proposed to establish warning mechanisms informing customers of the level of use of their credit facility, with the aim of increasing their awareness of the remaining availability of their credit facility, thus enabling them to conduct their affairs in a more intelligent manner. In accordance with the draft, the Amendment shall become effective one year from date of publication of the final version thereof.

Critical Success Factors

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Competition Commissioner (in her former title: Antitrust Commissioner), such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; existence of cross-clearing agreements between all credit card companies in Israel; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the operations of ABS and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

Market entry barriers

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the holding of control over the issuer by a financially stable corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing online clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertising and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

Alternative Products

Credit cards have many alternative products, starting with the traditional alternative products, such as cash, checks, bank transfers, standing orders, purchase vouchers, rechargeable cards and credit extended by banks and off-banking credit companies, and ending with technology based alternative products that are available and convenient, such as: payment by means of the smart phone (including, inter alia, payment applications operated by banking corporations in Israel) as well as the "digital wallet" service.

Customers

The issuance field. Customers in this field are holders of credit cards, among whom are private customers, employees of large corporations and businesses. As of today, most of the customers of ICC hold bank credit cards. ICC is active in increasing the rate of holders of off-banking credit cards, mainly through the framework of customer clubs, subject to the examination of solvency of each potential customer.

The clearing field. ICC is engaged in clearing agreements with businesses in a variety of economic sectors. Additional customers in the clearing field are trading houses that require services of discounting vouchers, obtaining credit, early payments and advances.

Marketing and Distribution

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for ICC in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are Shufersal, FlyCard, Cal-365, Cal-H&O, PowerCard and You. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. The marketing operations in this field are directed towards the traders, including chains (marketing chains generally utilize one clearing agent for all their branches). Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more. The marketing of clearing services is also performed by means of GAMA Company (for details of the agreement with it, see above "New activities and strategic collaborations").

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard group controlled by Bank Hapoalim (the said control is expected to be terminated following the implementation of the "Strum Act") and Leumi Card Company, the control thereof by Bank Leumi ended recently (the control of the banks over the competitors of ICC, as stated, will come to an end in the coming years, following the enactment of the Strum Act). As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The clearing field is characterized by intense competition between the credit card companies.

Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and LeumiCard clearing the brands "VISA", "MasterCard" and "IsraCard".

Various regulatory changes may bring about the entry of additional clearing agents and increase competition in this segment.

Business Goals and Strategy

The issuance field. Leading the market through the exhaustion of the banking lane and through offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).

The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing sector. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

For additional details, see Note 36 to the financial statements.

Technological Improvements and Innovation

General. Among the goals of the Bank's strategic plan, is the goal of the implementation of technological means and increasing customer experience. Among the measures taken in this field may be noted the establishment of the Digital and Data Division, operating within the framework of which are the digital wing, a fintech and innovation unit, a unit which manages the Paybox application and the Chief Digital Officer (CDO) group.

The Digital Department leads solutions concept in three principal content spheres - direct channels, the CRM and customer concept and current account. The department is responsible for setting the course for each content sphere, for shaping the customer's future journeys, for upgrading and adapting the bankers' work environment to the changing reality and for the assimilation of innovative tools, services and solutions with a view of improving customer experience as well as customer satisfaction.

The "fintech and innovation" unit acts for the creation of cooperation with FinTech companies and the integration thereof in value offers to customers, as part of the banking work environment and of the systems of the Bank.

The Paybox unit acts to expand the payments operations of the Bank, by means of the cellular Application and the website.

PayBox

In April 2017 the Bank entered into an agreement with a startup company in the Fintech field by the name of PayBox Payment Solutions Ltd. ("the company"). The company has developed a cellular phone application and a designated Internet website under the brand name of "PayBox", which enablesthe transfer of funds between private individuals, as well as the collective collection of funds for a defined purpose by way of establishing a closed group for this purpose. The Bank acquired from the company an exclusive license to operate the application and the website in Israel, and also a number of assets and services that enable it to independently operate the application and the website.

The technological changes required for its operation by the Bank. The Bank received a permit from the Bank of Israel to acquire the activity of PayBox Israel.

In the course of 2018, the Bank continued to expand the payments activity with customers of all the banks in Israel, under the brand name of "Paybox" by means of the cellular Application and the website.

iCount

In August 2017, the Bank entered into a cooperation agreement with a fintech technology company which has developed a system for the management of accounts and cash flows for small and medium businesses, operating by means of an Internet website and mobile application under the "iCount" brand name.

In accordance with the signed agreement, Discount Bank and MDB let their small business customers securely connect their small business account with the iCount accounting system, giving them the opportunity to benefit from advanced business management tools.

This is the first technological-business application in the banking sector in Israel, which implements an open banking concept into an interface with third party suppliers using an Application Programming Interface (API) platform of the most advanced in the world, and which enables a secured link based on a global standard.

DIDI – a digital representative

In December 2017, the Bank began the staged launch of a new service to its banking app customers, through which it is possible to correspond and talk on the app with a digital representative, called "Didi". Didi offers an innovative and unique way for digital banking activity and thereby changes the way in which customers work with the app. The conversation with Didi takes place in free language and is based on sophisticated artificial intelligence technology, which enables to decipher the text that the customer inputs on the one hand, and holding a conversation with a smart learning robot on the other hand. Didi is able to present customers with account information, to link to the transaction execution portal, to assist with navigating within the app, and to create artificial intelligence-based insight regarding important events that have taken place on the account.
The service is unique and is a first in the Israeli banking system. During 2018, Didi's range of insights was extended so as to assist the customer with smart financial conduct.

Agreement with nsKnox

On February 18, 2019, the Bank signed an agreement with nsKnox Technologies Ltd., which has developed security and control solutions with respect to organizational payment systems for large and medium corporations, using cooperative cyber security technology.
In the framework of this agreement and as part of the realization of the cooperative defense concept, the Bank shall become part of the defense layout of the company, in return for consideration out of the income of the company. This is a first and innovative move for the leverage of existing capabilities of the Bank in favor of third parties, and this within the efforts made to expand its operations and diversify its sources of income, while implementing innovative banking models. The start of operations is subject to performing technological adjustments.

Direct channels

The Bank is constantly taking measures to provide customers with a progressive experience when using the direct channels. The Bank is striving to constantly improve the range of services that it offers, while placing emphasis on providing a user-friendly service and, above all else, an exceptional customer experience. The services and products contained in this framework of operation in the year 2018, are:

The Business Website

CUSTOMER EXPERIENCE

New "Business +". A new groundbreaking business site has been launched, which presents information and allows transactions to be conducted, has innovative visibility and is individually customized for managing the activity of the business in accordance with its needs. The new site serves as a digital "work tool" for the Bank's business customers and includes many capabilities that provide the business customer with an advanced digital user experience, including the ability to personalize the home screen and the actions menu in accordance with a hierarchy or with topics of interest and it is possible to work through it on several transactions in parallel.
Signature composition. Possibility for WF[9] in an assortment of operations.
Information for the diamond trade. Information for diamond dealers was added, which is presented in a convenient and user-friendly manner.
New styling for the foreign trade world. The new styling includes a friendly and personally adapted menu, presentation of past foreign trade transactions of up to one year, including an advanced search according to sorting, viewing, retention and printing of SWIFT notices and debit notes, the independent setting up of a new foreign trade beneficiary, effecting transfers in a centralized display on one screen, step by step, in a convenient form accompanied by explanations, and more.

9 WF – Work Flow, signature components.

FUNCTIONALITY

Foreign currency transfers. An option for making foreign currency transfers to other banks, in Israel and overseas, has been added.
New services in the CM[10] world. The CM service collects all the information regarding balances and movements in all accounts of the company in the banking sector in Israel and abroad, showing it on one screen, and also the possibility of distribution of the information by companies, accounts, currencies and more. The service also offers planning and monitoring tools regarding the cash flows of the company, including performance against planning, assistance in forming short and long term forecasting and budgeting, warning notices regarding unusual financial operations, and more. In addition, the service enables presentation of assets and liabilities of the customer at Discount Bank, personal adaptation and retention of preferred reports, obtaining bank reconciliation file by means of a "Vault" and a capability to present customer data regarding his accounts with other banks in Israel also by means of the EDI[11] infrastructure.

Cellular Application for private customers

CUSTOMER EXPERIENCE

New styling for the Application menu. Development of a new menu, which incorporates a division of topics into different content areas. The menu organizes and provides accessibility to the application's rich array of information arenas, transactions and a range of means for contacting the Bank.
Link to performing transactions directly from the identification screen of the application: it is possible to make transfers between accounts, make cardless withdrawals, deposit checks and request loans. Following identification, the customer is transferred directly to the instruction screen of the chosen operation.
Addition of shortcuts to services on the Application through "Siri"[12]. Discount Bank continues to lead the digital innovation, being the first Bank that enables its customers a direct transfer from "Siri" to screens on the application, such as "my statement of account", deposit of checks, cardless withdrawal of cash, transfer of funds between accounts and "my insights". The Siri service enables direct access to these services on the application by means of a fixed voice command in context-free language that the customer selects.
Transfer from the Application to the adapted website. Now, wherever there is a referral from the application to the appropriate website, the new site is opened without the identification process having to be repeated.
Smart insights on "Didi". Didi", the digital help on the application provides new insights into important events that have occurred in the account. The insights are AI based, are created following an analysis of the activity of the account and assist in smart financial conduct.
"My extended profile". A direct link to the adapted website to receive information and update many items, such as updating of address and of fields of operation in the account, changing the level of service of the digital and telephone channels and joining the mail and SMS services.
Immediate loan with a clear user-friendly design. The new styling allows reflecting on the screen the monthly repayment and rate of interest charged in accordance with the amount of the loan and the number of installments, with a view of improving the customer experience and facilitate the process of obtaining a loan.

FUNCTIONALITY

New operations in the world of transfers on the Application. The possibility of transacting a future transfer (up to six months ahead), periodic transfer (including information on the instructions for such transfers in the account and the option to cancel transfers that have not yet been made), extending the validity of fixed beneficiaries.
New operations in the world of foreign currency on the Application. A speedily and easy exchange of foreign currency and the transfer of foreign currency by means of a direct link from the Application menu to the adapted website.
World of checks in the Application. The possibility to cancel a check has been added. In addition, the maximum amount for depositing checks on the application has been increased to NIS 20,000 for a single check, to NIS 50,000 on a single business day, and to NIS 100,000 in a calendar month.
New operations in the world of credit cards on the Application. It is possible to change the charge date of a credit card, to cancel a credit card and to relate a credit card to a foreign currency account.

10 CM – Cash Management, a special Discount service that summarizes the balances and movements of all the company's banking system accounts in Israel and worldwide.
11 EDI – Electronic Data Interchange - systems of standards that constitute a technological infrastructure for transferring items of information and documents between systems of different organizations.
12 SIRI – Apple's digital assistant, which enables owners of iPhone devices to conduct transactions on their devices using voice commands.

Locating a credit card transaction on the cellular application. The possibility is added for the quick location of a credit card transaction according to a trading house, date or the card used – during the past six months period.
The mortgage world on the cellular application. A new world that centralizes all the mortgage accounts.

On the private customers website

CUSTOMER EXPERIENCE

New site in English. A new website in English has been introduced, with a clearer and more convenient presentation of information as well as the possibility for the personal adaptation of the display on the screen. Additional capabilities have been added, which create an advanced digital user experience. The site is being rolled out gradually to customers from December 2018 through the first quarter of 2019.

In the capital market world

CUSTOMER EXPERIENCE

The new capital market site. All customers have been assigned to conduct operations on the new and advanced capital market zone that provides a trading experience and the easy conduct of transactions. Use of the information and the analysis tools available to the customer are advanced and intuitive.
Information having added value. Now, it is possible to view analyst recommendations regarding shares of corporations traded on stock exchanges in the United States. Also added is a "concluding zone" summarizing performance of securities, enabling observation of the total debit or credit expected in respect of security transactions according to currency or date, and also added was the presentation of real-time market quotations for an up-to-date securities portfolio, as well as the presentation of the reason for declining an order regarding a foreign security transaction.

FUNCTIONALITY

Standing orders for mutual funds. An option was added to update and cancel standing orders for the purchase of mutual funds, at monthly intervals, via the Bank’s website.
ETFs. An option to conduct digital trading in ETFs.

CUSTOMER RELATIONS

Corresponding with a banker via the app. A service allowing the customer to correspond with a banker and at the same time upload a file.
Verification via a vocal OTP. Customers not receiving SMS notices are able to receive a onetime verification code (OTP) by means of a telephone call, also on the mobile application.
OTP verification of a non-Israeli number. Customers who have a non-Israeli mobile number, which has been updated in the Bank’s systems, can also now receive SMS messages with a verification code sent to the aforesaid number when making a digital transfer.
Updating of e-mail addresses – also on the app from this year.
Display of e-mail addresses of branch teams. Customers who are subscribers of "e-mail service" are presented on the website the mailing addresses of the team members serving him at the branch (business, VIP or personal).

”Open bank”

Access privileges to accounts within the framework of the iCount service. As part of the "Open Bank" strategy and the cooperation between Discount Bank and the third party systems and sites that provide banking services to businesses, the Bank, for the first time in Israel, has introduced an API-based development. Thanks to this infrastructure, Bank customers that use the iCount system can – through digital means – grant the system access privileges and receive information on the iCount system regarding balances on their accounts with the Bank.
Current account balances for financial entities (on the website for privet individuals). A new service that enables a customer to define external financial institutions to which the Bank can transfer information regarding the customer’s current account balances.

Availability of general information and accessibility

New capabilities have been added to the accessibility field, such as displaying a purely numeric keyboard when relevant, adjusting the colors in the identification window on the marketing site, changes that enable those with disabilities to find their way around the site with the aid of "Screen Reader" software, a change in voice tone and enlarging font size in the app, an improvement in the contrast on lobby screens for customers having iPhone devices with color inversion, and so forth.

Main developments in Israel and around the world in 2018

Developments in Global Economy

General. The global economy grew in 2018 at a rate similar to that of 2017, though the balance had been unsettled and the difference between the blocks widened. The U.S. returned to lead global growth, while a slowdown is noticed in Europe and in China. In addition, moderation was recorded in the growth in global trade amid developments in the trade war and by concerns regarding its intensification.

The U.S. economy grew in 2018 by 2.9%, acceleration in relation to the growth of 2.2% in 2017. Growth in the Eurozone slowed down to 1.8%, compared to 2.4% in 2017. The International Monetary Fund estimates that the growth in the global product is expected to become more moderate from 3.7% in 2018 to 3.5% in 2019.

The inflation in the U.S. moved around the targeted rate of 2%, while in the Eurozone it is still far from it (the core inflation amounts to 1%). The FED raised the interest rate in 2018 in four stages. In the Eurozone, the central bank announced the termination bond purchases.

Financial markets. High fluctuations in equities markets around the world were recorded in during the first three quarters of 2018, which intensified in the last quarter. Towards the end of the year, stock exchanges around the world recorded steep decline, amid concerns regarding the intensification of the trade war and the economic slowdown in China, and on the background of the continued rise in interest rates in the U.S.. In total for the year, central indices around the world recorded falling prices.

CHANGES IN THE LEADING EQUITIES INDICES RECORDED DURING THE YEARS 2017 AND 2018

Index	2018	2017
500 S&P	(6.2%)	19.4%
DAX	(18.3%)	12.5%
MSCI Emerging Markets	(16.6%)	34.3%

Returns on government bonds around the world recorded a mixed trend. Returns on U.S. government bonds were traded during most of the year at a rising return trend. However, in November the trend was reversed following concerns regarding global economic slowdown, falling prices of risky assets and increased market fluctuations, all leading to a decline in rate of interest expectations and a flight to safety. Return on U.S. government bonds for ten years was traded at the end of the year at a level of 2.68%, compared to 2.41% at its beginning. In Germany, return of ten year dropped by 19 basis points to a level of 0.24% at the end of the year.

RETURNS ON GOVERNMENT BONDS

Return on bonds for 10 years	December 31, 2018	December 31, 2017
U.S.A.	2.7%	2.4%
Germany	0.24%	0.43%

The U.S. dollar strengthened in 2018 against most of the world currencies. The strengthening of the dollar was supported by the strong economic growth data in the U.S. and by the growing interest margin between the U.S. and the rest of the world.

CHANGES IN THE U.S. DOLLAR AGAINST SELECTED CURRENCIES

Exchange rate	2018	2017
EUR	4.9%	(12.4%)
JPY	(2.7%)	(3.7%)
GBP	6.0%	(8.6%)

Oil prices dropped at a steep rate of 20% in 2018, following a steep decline in the last three months of the year. This, despite the decision of the oil producers to cut down production. The steep decline in oil prices stemmed from concerns that the slowdown in global economy and the trade war between the U.S. and China would lead to a decline in demand for oil. Furthermore, the decline in equities markets increased the negative sentiment towards oil.

CHANGES IN SELECTED COMMODITIES INDEXES

	2018	2017
The commodities index - GSCI	(15.4%)	11.1%
The oil price (BRENT)	(19.5%)	17.7%
The oil price (WTI)	(24.8%)	12.5%
Gold	(1.6%)	13.5%

Main Developments in the Israeli Economy

General

The economy grew in 2018 at a rate of 3.3%, compared to 3.5% in 2017. Growth in 2018 was led by private consumption (growth of 3.9%) and by export of hi-tech services (growth of 8%), and was supported by the expansionary monetary policy of the Government. On the other hand, industrial exports recorded a negligible growth, and investments in housing construction dropped steeply. Recent economic activity data hint that the economy converges into the potential growth rate.

The labor market remained tight: unemployment rate remained low (an average of 4% in 2018), and the ratio of vacant positions to all positions is at a high level. In addition, the wage increase trend in the economy continues, led by the business sector. Notwithstanding the above, there are apparent indications of a halt in the labor market improvement trend, on the background of limited supply (the economy is at full employment).

Main developments in economic sectors

Industrial production data recorded fluctuations in 2018, with a difference in the technological intensity. Notwithstanding, in total for the period (the months of January to November), a fast growth at the rate of 5% was recorded in the industrial production index, acceleration as compared to 2017, led by industrial sectors characterized by hi-tech (increase of 9.1%). The other sectors recorded a slower growth. The industrial sectors characterized by combined hi-tech grew by 1.9%, while the industrial sectors of combined traditional and traditional grew at a moderate rate of 1.0% and 0.6%, respectively.

Developments in the activity of the Israeli economy with overseas markets

The direct investments in Israel (through banks) by foreign residents amounted during 2018 to US$12.8 billion, as compared with US$8.5 billion in 2017. The financial investments by foreign residents in the Tel Aviv Stock Exchange amounted in the reviewed period to US$2.9 billion, compared to US$2.7 billion in 2017. The growth stems from the increase in net investments by foreign residents in government bonds and short-term loans (MAKAM). Furthermore, the financial investments by foreign residents in Israeli financial assets traded abroad amounted to net realizations of US$2.1 billion.

Financial investments in securities by Israeli residents abroad amounted in 2018 to US$10.2 billion, of which US$7.8 billion in equities and the remainder in bonds.

CHANGES RECORDED IN INVESTMENTS OF THE ISRAELI ECONOMY ABROAD

Investments in Israel by foreign residents	January-December 2018	January-December 2017
	US$ million	
Total direct investments through banks	12,806	8,461
Total financial investments	769	1,948
Of which: Government bonds and MAKAM	4,726	2,699
Shares	(4,082)	(3)

Investments abroad by Israeli residents	January-December 2018	January-December 2017
	US$ million	
Total direct investments	3,399	3,696
Total financial investments	10,162	4,330

Developments in Foreign Exchange Rates and Inflation Rates

The inflation in Israel in 2018 amounted to 0.8% (0.4% in 2017), following the period from June to November, in which it stayed above the lower level of the targeted range (approximately 1.2% on the average). The "core" inflation (the general index net of energy, fruit and vegetable and price reductions initiated by then Government) rose by only 0.7%. The central items contributing to the positive inflation in the past year were fruit and vegetable and housing. It is noted that the inflationary expectations for a range of one year are in the region of 1% to 1.1%. As to the foreign exchange rate in the reviewed period, the shekel was devalued by 8.1% as against the U.S. dollar and by 3.3% as against the Euro. In terms of the effective exchange rate, the shekel was devalued by 2.8%.

Fiscal and Monetary policy

Fiscal policy. The budgetary deficit amounted in 2018 to NIS 38.9 billion, slightly higher in relation to the original planning. However, as a percentage of the product, the annual deficit amounted to 2.9%, similarly to the target. It is noted that in total for the year, the Government expenditure exceeded the original budget (by 5.2% compared to 4% in the original planning), while tax revenues were lower than the forecasted amount (by NIS 0.9 billion).

Monetary policy. The Bank of Israel raised the interest rate to 0.25% in the last quarter of 2018, following nearly four years of fixed interest rate of 0.1%. The Bank of Israel stresses that the outline of future rises in interest rates would be gradual and careful, in a way that would support a process, at the end of which the inflation would be stabilized around the center of the targeted range, and the economic activity.

Changes in the monetary base. Growth at the rate of 6.7% was recorded during 2018 in the M1 money supply (cash held by the public and shekel current account deposits), of which, the current account deposits grew by 6.6%, and the cash grew by 6.9%. On the other hand, the M2 money supply (M1 plus non-linked deposits for up to one year) recorded a moderate growth of 2.4%, due to the decline of 12.1% in non-linked fixed time deposits of up to one year. It is noted, that in 2017 both the M1 and M2 money supply grew by 14.3% and 8.9%, respectively.

In 2018, a growth of NIS 4.9 billion was recorded in the monetary base, compared with a growth of NIS 12.2 billion in 2017. The growth in the monetary base stemmed from the supply of money, both by the Bank of Israel and by the Government, in an amount of approx. NIS 3 billion and approx. NIS 2 billion, respectively. The supply by the Bank of Israel resulted from the conversion of foreign currency, a decline in tenders for shekel deposits, and on the other hand, absorption of cash by means of open market operations (excess of raising short-term loans (MAKAM) over redemption).

SOURCES FOR THE CHANGE IN THE MONETARY BASE

	2018	2017	change
	In NIS billion		in %
Operations on the Capital Market	(14.7)	13.1	-
The Shekel deposits tender	6.0	(22.0)	-
Foreign currency conversion	11.7	24.0	(51.4)
Government activity	1.8	(3.9)	-

The Capital Market

The reviewed period was characterized by high fluctuations on the domestic capital market, similarly to the global trend. In the first three quarter the leading indices of the Tel Aviv Stock Exchange recorded rising prices, though towards the end of the year the trend was reversed. In total for the year the TA-35 and the TA-125 indices dropped by 3% and 2.3%, respective.

CHANGES IN SELECTED SHARE INDICES IN THE YEARS 2017 AND 2018

Index	2018	2017
TA 35	(3.0%)	2.7%
TA 125	(2.3%)	6.4%
TA banks	4.4%	23.4%
TA Global-Blutech	(10.6%)	(2.2%)
Real-estate 15	(10.9%)	23.4%

The trade in government bonds in Israel was also characterized by fluctuations, though in total for the year, upward returns were recorded all along the shekel graph. The increase in returns was affected by the global trend as well as by developments in the domestic market (rising inflationary expectations and rising expectations for the increase in the Bank of Israel interest rate). All along the period, the shekel return for ten year rose to 2.32% compared with 1.68% at the end of 2017. The trade in corporate bonds was largely affected by the rise in returns on government bonds concurrently with the steep increase in margins.

CHANGES RECORDED IN SELECTED BOND INDICES DURING 2017 AND 2018

Index	2018	2017
General bonds	(1.5%)	4.7%
General Government bonds	(1.3%)	3.5%
Shekel Government bonds	(1.2%)	3.6%
Linked Government bonds	(1.4%)	3.4%
General Corporate bonds	(1.8%)	6.4%
Linked Corporate bonds	(0.8%)	6.2%
Shekel Tel-Bond	(4.3%)	7.5%

In 2018, capital raised through corporate bonds totaled NIS 54.4 billion, compared with NIS 61.2 billion in 2017. Of this sum, NIS 11.3 billion was raised through issuances by the banks, compared with NIS 9.5 billion in 2017.

The asset portfolio held by the public

The value of the portfolio of financial assets held by the public rose by 2% in 2018 and amounted to NIS 3.7 trillion at the end of December. The aforesaid growth in the value of the assets is due, to a considerable extent, to the enlargement of the foreign equities component (8.5% growth) and from the growth in the linked to foreign currency component (9% growth).

DISTRIBUTION OF THE ASSET PORTFOLIO HELD BY THE PUBLIC

	December 31, 2018	December 31, 2017
Shares	22.6%	22.6%
Non-linked assets	36.7%	36.9%
CPI linked assets	28.1%	28.7%
Foreign currency linked assets	12.6%	11.8%

Principal Economic Developments in January-February 2019[13]

Since the beginning of 2019, a recovery in the markets has been noted – following indications by the Fed that it would not be in a hurry to make further interest hikes and optimism regarding trade talks between the USA and China. Current data in the U.S. continue to be positive, though a slight weakness is noticed in industry. Nevertheless, concerns of a global downturn, together with market volatility, have caused the Fed to signal the markets that it will wait patiently and will not be in a hurry to raise interest. As a result, the markets have continued to lower interest expectations to stability in 2019 and an interest reduction in 2020. Concurrently, Eurozone data indicate a downturn, with lower growth forecast by the International Monetary Fund and by the European Commission. As a result, the chances are ever lessening that the Central Bank will raise interest during 2019. These developments have led to a decline in government bond yields worldwide.

In Israel, current data continue to indicate that the economy is growing at a rate in line with potential (approx. 3%), with the labor market at full employment and wages rising at a rapid pace. The government's budget deficit continues to be above target, standing at 3.3% for the 12 months ended in January 2019, against the background of a steep rise in expenditure and weakness in revenues. The shekel is again strengthening, and inflation is still around the bottom limit of the target range (an annualized rate of 1.2% in January 2019). At the beginning of 2019, the Bank of Israel has kept interest unchanged, at a level of 0.25%, and is indicating that it is endeavoring to bring inflation to the middle of the target range and is not satisfied with it hovering close to the bottom limit. As a result, and against the background of the worldwide decline in bond yields, yields in Israel have fallen steeply, with a widening of the differential between Israel and the USA. Equity prices on the Tel Aviv Stock Exchange have risen, in line with the global trend, and the TA-35 and TA-125 indices had risen by 7.3% and 7.4%, respectively, at the end of the period.

Legislation and Supervision

General

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, to the extent that these have an extraterritorial effect relating to its operations.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank's said operations.

Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).

Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc.

In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, liquidation and receivership laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.

[13] All the data in this chapter refer to the period from January 1, 2019 to February 28, 2019.

The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority, the Capital Market, Insurance and Savings Authority. These parties are authorized to conduct audits at the Bank and the subsidiaries relating to various fields of operation.
The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.
A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.
Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's or the Group's operations.

Legislation for increasing competition in banking and financial services

Strengthening Competition and Reducing Concentration in the Israeli Banking Industry, (legislation amendments) act, 2017

The recommendations of the Committee for the increase in competition in banking and financial services ("the Strum Committee") were published on September 1, 2016. In continuation thereof, the Increase in Competition and Reduction in Concentration in the Banking Market in Israel Act (legislation amendments), 2017, ("the Act" or "the Strum Law") was published on the Official Gazette on January 31, 2017. The major part of its provisions is based upon the recommendations of the Strum Committee.
The Act enters into effect on date of its publication ("the beginning date"); however, certain of the provisions have later effective dates.
Following are the principal issues of the Act:

1.1 Prohibiting of a bank, the value of its balance sheet assets on a consolidated basis exceeds 20% of the total balance sheet assets of the banking industry ("a bank with Wide-Ranging Activity"), from engaging in operating the issue of debit cards, from clearing of transactions made by debit cards and from controlling or holding means of control in a corporation engaged in the said operations. This instruction does not derogate from the possibility of a bank having a Wide-Ranging Activity to engage with another entity for the purpose of operating the issue of debit cards or to engage with a clearing agent as a supplier. The prohibition takes effect at the end of three years from the beginning date, and with respect to a large banking corporation, which had sold at least 60% of the shares held by it in a credit card company and on condition that at least 25% of its shares had been offered to the public – at the end of four years from the beginning date. It is noted that as of date of this report, the Bank is not considered a "bank having a Wide-Ranging Activity", as the term is defined in the Act.

1.2 In the period from the end of four years from the beginning date and until six years from this date, the Minister of Finance is authorized to determine, with the consent of the Governor of the Bank of Israel and with the approval of the Finance Committee of the Knesset, that, restrictions shall apply also to a banking corporation which holds less than 20%, though not under 10%, and this taking into consideration, inter alia, the state of competition existing in the credit market.

1.3 Various instructions applying to banking corporations were set, with the aim of ensuring increased competition in the granting of financial services, as detailed below:

- 1.3.1 A banking corporation shall not change to the worse the terms of engagement with a customer, only due to the fact that the customer has engaged or intends to engage with another financial body in an agreement for the provision of financial services.
- 1.3.2 A banking corporation is prohibited from preventing, either by an act of commission or omission, from a financial body engaged in operating the issue of debit cards issued by the banking corporation ("an operating body"), the granting of financial services, including the granting of credit, to customers of the banking corporation. A banking corporation shall also not restrict an operating body in providing of services, as stated above.
- 1.3.3 A banking corporation shall not prevent, either by commission or omission an operating body which is supervised under statutory provisions, the making use of information reaching the operating body while issuing or conducting the issue operation of debit cards, for the purpose of granting services as an issuer, for the purpose of granting credit, and for the purpose of operations related to the granting of services as an issuer or for the granting of credit, this on condition that the customer gave his consent in advance to the said use.
- 1.3.4 Starting with the end of two years from the beginning date, the banking corporation shall, at the request of the customer, present, on a daily basis or at longer intervals, the balance of the current account of the customer to a financial body supervised by law.

For the implementation of this directive, on December 25, 2017, the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking was published, deals with the transmission of information regarding the current account balance of a customer by a banking corporation to a financial body for the purpose of granting credit, made at the request of the customer. The Amendment took effect on July 31, 2018.

1.3.5 Starting with the end of two years from the beginning date, where a customer approached a banking corporation requesting entry into an agreement for the issue of a credit card, or where the banking corporation has approached a customer offering to engage in a credit card agreement, the banking corporation shall be required to distribute also credit cards of issuers engaged with the banking corporation in a distribution agreement.

1.3.6 A banking corporation shall not unreasonably refuse to engage with an issuer in a distribution agreement. In this respect it is proposed that stating unreasonable terms would be considered an unreasonable refusal.

1.3.7 Starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, starting with the end of two years from the beginning date, the banking corporation shall present, at the request of the customer, information regarding transactions made by means of a debit card of the customer (including transactions made using debit cards issued by another issuer, which is not the banking corporation) and that the payment therefore is settled by way of charging the current account of the customer at the banking corporation. On January 31, 2019, an order was published that deferred the application date of the aforesaid directive to January 31, 2020.

On November 13, 2018, an amendment to Proper Conduct of Banking Business Directive No. 470, "Debit Cards", was published, within the framework of which provisions regarding the presentation of the aforesaid information were added. In addition, on February 3, 2019 the Banking Regulations (Customer Service) (Transfer of Information from an Issuer to a Banking Corporation), 2019 were published which prescribe the obligations to which issuers are subject in relation to the types of information and the dates for transferring the information from the issuers to the banking corporations.

1.3.8 Starting with the end of two months from the beginning date, a banking corporation is not permitted to unreasonably refuse a request of the borrower for consent to register an additional pledge on an asset, a subordinate pledge on an asset, in favor of another creditor. It is also determined that the realization of a pledge in favor of another creditor shall be effected only with the consent of the banking corporation. The banking corporation shall not withhold such consent, unless on reasonable grounds.

These instructions do not apply to a pledge registered prior to the termination of two months from the beginning date.

1.4 During a transitional period beginning on the beginning date and ending at the end of five years from the said date, and with respect to a bank having a Wide-Ranging Activity – until the end of three years from date of separation or until the end of five years from the beginning date, whichever is later ("the transitional period"), restrictions shall apply to a bank issuing debit cards and which immediately prior to date of publication of the Act had controlled or held means of control in a debit card company, as follows:

1.4.1 A bank shall conduct the issuance operation of charge cards issued by it by means of an operating company, and shall allow the operating company to become a part to the charge card agreement.

1.4.2 As from the termination of a period of two years from date of publication of the Act and until the end of the transitional period, the bank shall not conduct, by means of one operating company, the issuance operation of more than 52% of the total new credit cards issued by the bank to its customers. The Minister of Finance is authorized to change the said rate at any time during the transitional period under the terms prescribed in the Act. The engagement of a bank with an operating company, for the purpose of conducting the issue operation of new credit cards issued by the bank to its customers shall be made only after conducting a process which allows every operating company the proper and fair opportunity to offer its services.

1.5 During the transitional period, also the following instructions will apply to a bank having a Wide-Ranging Activity which issues charge cards, additional instructions, inter alia, with respect to the division of income derived from issue operations of charge cards and from the activity of customers using charge cards, between a bank, as stated, and the charge card company; to the date of approach to the customer regarding the renewal of the Credit card; to restrictions regarding the total of credit facilities in charge cards of its customers.

1.6 From the termination of one year from the beginning date and until a date to be determined by the Minister of Finance, an operating company shall not unreasonably refuse to engage with a bank or with a license holder under the Supervision over Regulated Financial Services Act, in order to operate the issue of charge cards for the Bank or for the license holder.

1.7 During the transitional period, a charge card company is entitled to make use of the engagement details of a customer, which had legally reached it prior to date of publication of the Act or during the transitional period, while conducting issue operations of a debit card on behalf of a bank, in order to approach a customer offering service as an issuer or for the purpose of offering credit, even without obtaining the consent of the customer.

1.8 Instructions have been determined with respect to the prohibition on the acquisition of means of control in a credit charge cards company. Thus, among other things, a bank may not acquire from a bank with Wide-Ranging Activity, means of control in a charge card company. In addition, a person holding over 5% of a certain class of means of control in a single charge card company, shall not control another charge card company and shall not hold over 5% of a certain class of means of control therein. In this respect, charge card companies, which at eve of the beginning date were controlled by the same person, shall be considered as one charge card company.

1.9 Instructions have been determined in matters of control, the holding of means of control, and the appointment of directors in an interface system operator between the issuer and the clearing agent for confirming of charge card transactions – it is determined that one factor shall not control and shall not hold over 10% of a certain class of means of control in an interface system operator as stated. The Governor, under conditions specified in the Act, is entitled to determine a rate different than that stated above and where over 75% of the means of control in an operator as above. Whoever was the owner of means of control in the operator at the beginning date, shall be permitted to hold such means of control until the end of four years from date of publication, provided that the means of control held by him exceeding 10%, shall not entitle him to any voting rights and the right to appoint directors in the operator as from June 1, 2017.

Due to these restrictions, the Bank is required to sell its holdings in Automatic Banking Services Ltd. that exceed 10%, with this having to be done by June 1, 2021. In the interim period until the sale of the surplus holdings, the rate of the Bank’s holdings in voting at the general meeting and in the right to appoint directors shall be reduced to 10%.

In order to realize the surplus holdings in the company, as required by the Strum Act, the banks, being the shareholders in ABS are acting to publish a Prospectus by way of a sale offer (see below "Exemption from approval of a restrictive agreement in respect of the joint holding and operation within the framework of ABS").

1.10 Within the framework of the Act, amendments were made to the Supervision over Financial Services Act (Regularized Financial Services) Act, 2016, and a chapter was added thereto in the matter of service for comparing financial costs, the principal points of which are: the duty imposed on a financial body to allow a customer or the provider of a service for comparing financial costs, who obtained a power of attorney from the customer, at the request of the customer or of the provider of the service, as the case may be, to observe online the financial data pertaining to the customer maintained in the hands of the financial body; the use of the online financial information that is permitted to be made by a provider of the service for comparing costs; authorizing the Minister of Justice to determine Regulations regarding observation and use of financial data under the terms prescribed in the Act; authorizing the Supervisor of Financial Services to issue instructions concerning the use of online financial information; maintaining a registry of providers of cost comparing service; definition of fiduciary duties and care relating to providers of cost comparing service. The said Chapter will take effect on the date on which primary regulations would be set regarding the viewing and making use of online financial information. Preliminary regulations as aforesaid have yet to be published (see below “Statement of Principles for Strengthening Competition in the Financial System” regarding costs comparison service).

1.11 Prohibition on the unreasonable refusal of engagement between a clearing entity and an aggregator or the prevention of engagement between an aggregator and a supplier.

1.12 By January 31, 2018, the Ministry of Finance is to implement one of these: to publish, in consultation with the Bank of Israel, a tender for establishing a technological infrastructure to provide and operate computerization services to financial bodies; to prescribe criteria for conferring grants, loans or guarantees that will enable the provision and operation of computerization services to financial bodies (see hereunder "Letter of principles for increasing the competition in the financial system" regarding the provision of assistance for establishing a banking service and computerization bureau).

1.13 At the end of eighteen months from the beginning date, if certain conditions determined in the Act are fulfilled, the Minister of Finance, in consultation with the Governor and the Antitrust Commissioner, is entitled to determine that a bank not having a narrow-ranging activity (bank having a narrow-ranging activity - a bank, the value of balance sheet assets of which on a consolidated basis does not exceed 10% of the total value of balance sheet assets of the banking industry), is obligated to sell and operate computer services in use mostly by this bank, and rent out property in use by the bank for this purpose, to financial bodies.

Issues regulated by the Act have an impact upon the Bank and ICC and upon their operations. Notwithstanding that, at this stage it is not possible to estimate the said impact, neither in terms of materiality nor in terms of quantity. The Bank and ICC are studying the implications and ramification of the Act, are acting for its implementation and follow developments in legislation and regulation, as well as moves and developments in the market following the publication of the Act.

The Committee for the examination of competition in the credit market. In accordance with the law, a committee was formed for the examination of competition in the credit market has been determined, which would monitor the implementation of the Act since the beginning date, and until the end of six years since the said date. The duties of the committee are: conduct periodic examinations regarding the state of competition in the credit market and locate barriers in respect of development of competition in this market; to monitor the implementation of the provisions of the Act; to recommend in the matter of activating the authority of the Minister of Finance in respect of extending to additional banking corporations the prohibition on engagement in the operation of issuance and clearing of charge cards, on the control of or on the holding of means of control in a corporation engaged in the said operations.

A measurable test for the measuring success in increasing competition in the banking sector. In accordance with the Law, on October 25, 2017, the Committee for the Examination of Competition in the Credit Market published measurable tests for the examination of success in increasing competition in the banking market. These tests will serve as a basis for a semi-annual analysis and for the report that the Committee will submit to the Economic Committee of the Knesset, and are also expected to serve the Committee when recommending measures for improvement and increase in competition in the market, including also the matter of exercising the authority of the Minister of Finance, under the Strum Act, to change the definition of "a bank with Wide-Ranging Activity". The Committee retains the right to change, add or reduce tests. A set of general tests have been determined, as well as an additional test relating to the Bank and ICC.

The Committee has determined tests of different types, including – tests for the removal of entry barriers and transfer barriers for customers; tests examining the entry of new competitors and customer activity; tests regarding the distribution of market shares, volume and prices; tests regarding means of payment.

A test for the Bank and ICC. The Committee decided to test whether the cumulative rate of change in credit balances (excluding large business and operations abroad) of the Discount group at the end of 2020 would be in the range of 2.5 to 4.5 percentage points over the cumulative rate of change of the other four large banking groups and the two credit card companies that had been separated. This test would be monitored on a semi-annual frequency. It has been clarified that this test, as all other tests, would serve the Committee as indication for a decision regarding the detachment of ICC from the Bank, though in any event, the Committee retains discretion in the matter.

On May 1, 2018, a draft of additional testing was published that dealt with the implementation of the Strum Committee's conclusions regarding the opening of the overdrafts sector to competition.

The first half-yearly report of the committee for examining competition in the credit market. On May 22, 2018, the report was published. The report focuses on the progress in implementing the regulatory measures that were set out within the testing framework published by the committee (measures for removing entry barriers).

The report mentions the testing in respect of Discount Bank and ICC – it noted that, during 2017, Discount Group's credit balance grew by 7.05%, while the credit balance of the other four banking groups grew by only 4.05%.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published further amendments to Proper Conduct of Banking Business Directives. See below "Directives of the Supervisor of Banks".

For details regarding updates of Proper Conduct of Banking Business Directives intended to support the reform in the credit card market, see above "Credit Card Operations".

Letter of principles for increasing the competition in the financial system - Continuation of the plan for strengthening competition in the banking market. On December 13, 2017, the Ministry of Finance and the Bank of Israel published a continuation of the plan for strengthening competition in the banking market. The plan includes three measures: mobility between banks at the "press of a button", making it possible for the consumer to compare costs relating to his personal financial products, reliefs for new banks by means of assisting in setting up an office for banking computerization services.

For the purpose of implementing the aforesaid measures, the following documents have been published:

- **The Economic Program Act (Legislation amendments for the implementation of the economic policy for the budgetary year 2019), 2018 – An indirect amendment of the Banking Act (Customer service).** The Act was published on the Official Gazette on March 22, 2018. The Act will enter into effect following three years from date of publication. In accordance with the Act a bank shall be obliged to enable a customer wishing to transfer his financial activity to another bank, to do so in an online, convenient and safe manner and at no cost to the customer, all this within seven business days from date of approval of the customer's request by the transferee bank; on November 13, 2018, the Banking Rules (Customer Service) (Transferring a Customer's Financial Activity between Banks), 2019 were published, and these set out the types of accounts that will be mobilized by the Act; the Supervisor of Banks shall determine procedural instructions for fulfilling the mobility obligation; the Governor of Bank of Israel with the consent of the Minister of Finance, shall be authorized to determine that a small bank or digital bank (as defined in the Act), shall be exempt from the mobility duty, or would be permitted to postpone the date of application of the said duty because of cost or competition considerations and at the request of such bank, as stated.

- **Cost comparison service (Read only).** As stated above, the Supervision over Regularized Financial Services Act states that the effective date of the Chapter dealing with the service for comparing financing costs, shall be the day on which the first regulations regarding the viewing and use of online financial information take effect. In order that the delay in the publication of the Regulations shall not delay the start by the banks of the required implementation in the matter. The Bank of Israel informed on August 6, 2018 that it had started the project of regularizing the API Standard for open banking in Israel, which allows third parties, with the consent of the customer, to receive from the banks financial information regarding the customer. In accordance with the announcement, the project is expected to be implemented in full by the banking industry in Israel during the year 2020.
- **Banking services and computer service office.** Regarding a solution to the blocking of computerization for banks and deposit and credit unions through the establishment of a banking computerization infrastructure (IT), on September 12, 2018, the Ministry of Finance published the final criteria for awarding a government grant in the amount of NIS 200 million for the establishment of a service and banking computerization bureau that will serve the new banks and deposit and credit unions.

Policy for establishing new banks and guidelines for license applicants

On June 3, 2018, the Bank of Israel published a policy that arranges, clarifies and simplifies the process for establishing a bank and creates regulatory certainty at an early stage of the licensing process for the entrepreneur interested in establishing a bank.
The new policy enables an entrepreneur to receive – within a relatively short period and even before its preparations have been completed – a restricted bank license, under which it will be possible to conduct limited deposit receipt and credit granting operations. Following completion of all the processes required in accordance with the outline to be agreed with it, the restricted license will be exchanged for a permanent license.
The policy prescribes reduced regulation over new banks that conduct noncomplex operations, such as retail operations. In order to implement the set policy, a Licensing and New Banks Unit has been set up at the Banking Supervision Department.

Supervision over Financial Services Act (Regularized financial services), 2016

The Act was published on August 1, 2016, the essence of which being the regularization of the off-banking financial services sector – service regarding a financial asset or the granting of credit, and the activity of providers of financial services (hereinafter: "provider of financial services"). Among the principal issues of the Act are: establishing a supervisor over providers of financial services, and instructions regarding the supervision over their operations. In principle, the Act enters into effect on June 1, 2017, and with respect to entities engaged in providing service for financial assets – on June 1, 2018.
The Act was amended on December 29, 2016, in a way that the regulation and supervision under it shall apply to providers of interest bearing deposit and credit services as well as to the services provided by them. An additional area regularized within the framework of the amendment is the issue of credit cards by providers of credit, as determined in the Supervision over Regularized Financial Services Act.
On August 13, 2018, the Supervision over Financial Services Bill Memorandum (Regularized financial services)(Amendment)(Offering payment services), 2018, was published, within the framework of which, it is proposed to add a new chapter to the existing Act, which would regularize all operations pertaining to the offer of payment services. Such services include the management of a payment account allowing the transfer of payments for goods and services; issuance of means of payment; clearing of payment transactions as well as granting ATM services. For that purpose, inter alia, license holders for the granting of payment services would be permitted to participate as direct or indirect participants in supervised payment systems – BCC (Bank Clearing Center) and ABS (Automatic Bank Services).
Draft amendment of a circular regarding investment rules applying to institutional bodies. The draft amendment was published on April 6, 2017. The proposed amendment permits institutional bodies to establish companies that would operate as off-banking credit companies and would compete with the Banks. The aim of this move is to increase competition in the field of credit against banks, and to reduce the cost of loans.
Draft document of principles – Government assistance for the increase in competition in the retail credit market. The draft was issued in April 2017. The draft document states rules and terms for the granting of assistance by the Government (loans, which under certain conditions turn into grants) for designated companies providing retail credit (credit to small and medium businesses and credit to households, excluding housing loans), which are controlled by institutional bodies. The terms according to which such assistance would be offered include, inter alia, a restriction regarding the rate of financing that would be raised by the designated company from banking corporations, as well as a prohibition on the acquisition by the designated credit company, of external operating services (marketing, underwriting, loan granting and collection) from banking corporations.

Supervision over Financial Services Act (Regularized Financial Services) (Amendment No. 4), 2017 - credit brokering system

The Amendment was published on the Official Gazette on August 6, 2017. The Amendment establishes by legislation an additional segment of different financial services fields, which regularizes the off-banking credit sector by means of an on-line brokering system between lenders and borrowers for the purpose of conducting credit granting transactions (hereinafter: “the System”).
The Act included an additional provision – "infant entrant protection" – whereby, during a period of three years from date of the Act taking effect, a banking corporation and an auxiliary corporation shall not engage in the operation of a system for credit brokerage, shall not control or hold an operator of such a system, and if the operator of the system is an individual – shall not have an influence over him.
Notwithstanding the above, credit card companies being in the process of separation from banks and new banks would be permitted to hold, in the said period, up to a 20% of a certain class of means of control in the operator (in a fashion that does not create control of the said entity). The principal part of the Act takes effect on February 1, 2018.
Letter of the Supervisor of Banks regarding the policy of banking corporations’ activities vis-à-vis customers that are regulated financial service providers and offering coordinators. A letter determining rules for the opening and management of bank accounts for the above mentioned entities was published on April 15, 2018.

Bank of Israel Act (Amendment no. 7) (The Committee for Financial Stability), 2017

The Act was published on the Official Gazette on November 28, 2018. The Act regularizes the formation of a financial stability committee, with the aim of coordinating the different financial supervisory authorities – the Supervision of Banks, the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance, the Supervisor of Providers of Off-Institutional Financial Services providers, the Supervisor of Payment Systems and the Israeli Securities Authority, as well as between them and the Bank of Israel and the Ministry of Finance, and to bring about a coordination between them, in order to support the stability of the financial system and the regularity of its operation.

Regulation of Off-Banking Loans Act (Amendment No. 5), 2017 (“Fair Credit Law”)

On August 9, 2017, the Amendment was published in the Official Gazette. The main points of the amendment: changing the name of the law to the Fair Credit Law, extending the application of the Law to additional lenders, including banking corporations and auxiliary corporations. The Law applies to borrowers who are private individuals. However, the Minister of Justice is authorized to extend its application to types of corporations to be specified; a definition of a loan to which the Law applies has been added; a uniform ceiling has been set for the cost of the credit that is granted by lenders; a ceiling has been set for arrears interest; the addition of “criminal interest”, the charging of which is prohibited and constitutes a criminal offense punishable by imprisonment; broad disclosure obligations and borrower protections are prescribed. Criminal and financial sanctions have been determined for breaching the provisions of the Law; Offences under the Law that are punishable by three years’ imprisonment are defined as “predicate offences”; it states that in the period starting with the end of two years from the date of the Amendment and ending with the end of the third year from that date, the Bank of Israel would examine the average rate of the actual cost of the credit granted by banking corporations to borrowers. If the Bank of Israel finds that the maximum cost of credit, as determined by the Act, led to an unjustified increase in the average cost, as stated, then the Bank of Israel would recommend to the Minister of Finance whether to decrease the maximum cost rate of credit. After receiving the Bank of Israel's recommendation as stated, the Minister of Finance shall examine as to whether he should use his authority under the Act and reduce the maximum rate of cost of credit. The Amendment takes effect six months from date of publication of the initial regulations in this matter. The first Regulations, as stated, were published on February 25, 2019.

Principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof

On July 18, 2016, the Supervisor of Banks published a document containing principles and related actions for the development of a protocol regarding transactions made by use of a debit card and the use thereof. This, as part of promoting competition in the debit card market. The document of principles creates the terms allowing entrance of new players all along the line of performing transactions by use of debit cards.

Terms of access to controlled payment systems

On July 31, 2016, the Supervisor of Banks published the terms of access to the "debit card services" system, to the "automatic bank instruments" system operated by ABS, and to the "credit, debit and payment transfer" system operated by BCC – threshold terms for participation therein. This move is intended to allow off-banking entities to participate, either directly or indirectly, in these payment systems.

Legislation and Standards in the matter of Debt Collection

A trend of increasing legislation and standards in the matter of debt collection has been noticed in recent years. The intensive regulation in the realm of debt collection, the aim of which is relief for the borrower on account of the rights of lenders, and in particular, the "powerful" lenders, such as the banks, to recover their loan from the borrower. On the one hand, the sympathizing approach to insolvent debtors, with a less sympathizing approach to the banks on the other hand, alongside the accessible possibility of obtaining a discharge, and the fact that many proceedings are conducted with no judiciary control but by only an administrative body, may lead to it that many debtors will choose insolvency proceedings in order to get rid of past debts.
In this framework, the following legislation matters should be mentioned:

- **Debt Execution Act (Amendment No. 46), 2015,** in effect as from October 2015, which greatly encumbers the delivery of notice to debtors, in view of the duty imposed on the Appellants to serve the defendant, by registered mail with delivery confirmation, a warning notice of the intention to submit the claim to the Debt Execution Office.
- **Banking Act (customer service) (Amendment No. 19), 2014**, in effect as from September 2014, does not allow a bank to call for the immediate repayment of a loan or to institute legal proceedings against the borrower, unless a prior notice in writing is delivered to the borrower in person, and this 21 business days beforehand.
- **Debt Execution Act (Amendment No. 47 and provisional instruction), 2015,** in effect as from September 2015, allows a debtor of limited means (as defined in the Debt Execution Act, 1967) to obtain a discharge of his debts not only through bankruptcy proceedings but also through debt execution proceedings, subject to applying conditions. It is noted that whereas bankruptcy proceedings involve a payment by the debtor, proceedings for a discharge request at the debt execution office do not involve any cost to the debtor. The meaning of such a discharge is – an immediate write-off of debts of the debtor by the Debt Execution Registrar (excluding alimony debts, mortgage repayment, indeterminate damage, debt created by deceit and a criminal or administrative penalty – which are not dischargeable).
- **Reform applied by a Receiver in the management of bankruptcy files** – has significantly shortened the management period of a bankruptcy file from its inception to the grant of a discharge to the debtor, namely, within eighteen months, a debtor in bankruptcy proceedings may obtain a discharge leading to the write-off of his debts.
- **Proper Conduct of Banking Business Directive No. 450 of the Supervisor of Banks - debt collection procedures.** The directive was published on February 1, 2017, within its framework, rules, actions and various functions have been prescribed in proceedings for the collection of debts solely of households and small businesses (the directive does not apply to corporations), with the aim, inter alia, of enhancing the fairness and transparency with debtors. It is noted that though the Directive took effect on February 1, 2018, its first draft was published in the middle of 2015, and the Bank began implementation thereof a year ago.
- **Economic Recovery Act, 2016**, see below.

The Debt Execution Act (Amendment No. 63), 2019. On January 2, 2019, the amendment was published, according to which, a debtor is entitled to file a motion in an Execution Office case requesting that he be recognized as a “paying debtor” should he have paid on time the number of payments set for him. If the debtor has been recognized as a paying debtor, the interest that is added to his debt will be reduced by 25% from the date of recognition and thereafter.

Banking Act (Customer service) (Amendment No. 30), 2018 and Banking Act (Customer service) (Amendment No. 31), 2019. See above "Mortgage Activity".

For completion of the scene, the regularization initiative, being still a proposal, shall also be mentioned:

The Criminal Law Procedure Bill (Forfeiture of offence money), 2018. The Bill, which was published on July 11, 2018, states that the offset right of a bank shall be recognized as "a right to an asset", which would grant the bank priority to the right of forfeiture of the State. Notwithstanding this, the State's Attorney Office, in agreement with the Bank of Israel, requested to combine the said recognition pertaining to a bank claiming an offset right, with an internal audit to be conducted with respect to the funds deposited in the account of the customer, in respect of which a forfeiture order or seizure order had been issued. This in order to examine, in addition to the question of the propriety of the conduct of the bank in this matter, also as to whether it was possible to know beforehand that the customer was involved in criminal actions. The examination report, the scope and contents of which are not known at this stage, shall be delivered only to the Supervisor of Banks, who is supposed to examine whether an additional instruction should be issued reducing the possibility of the bank being used for money laundering purposes.

The Insolvency and Economic Recovery Act, 2018

The Act was published on the Official Gazette on March 15, 2018. Among other things, the object of the Act is to bring about the economic rehabilitation of the debtor, increasing the portion of the debt that would be repayable to the creditors, increasing the certainty and stability of the law, shortening proceedings and reducing the bureaucratic burden of insolvency procedures. The Act replaces the existing legislation on this topic, both as regards corporations and as regards individuals.

The principal changes introduced by the Act, are as follows:

- Personal responsibility would be imposed upon a director of a debtor corporation who knew or should have known that the corporation is insolvent and refrained from taking reasonable steps to reduce the scope of insolvency;
- A minimum amount of debt of NIS 50 thousand is required in order to start initiated proceedings by a debtor, which is a corporation;
- Debtors secured by a floating pledge shall be repaid only out of an amount equal to 75% of the proceeds of sale of the pledged assets, the remaining balance serving the debt of the non-secured debtors (with the object of promoting equality between the debtors);
- Reducing the recognition of preference existing under the present legislation, with respect to debts due to secured creditors – the obligation to file a debt claim applies even to a secured creditor
- As from date of the Order instituting insolvency proceedings, the arrears interest shall not be included as part of the secured debt, and the creditor would be entitled to collect it only after the unsecured creditors receive payment of the principal amount of the debt due to them together with linkage increments and interest in accordance with the Interest and Linkage Ruling Act (the arrears interest would still be considered part of the debt);
- A reporting corporation would be entitled to conduct protected negotiations prior to the debtor being declared insolvent, if it complies with the terms stated in the Act (determined as a provisional instruction for a period of four years).

The Act will come into effect on September 15, 2019.

Competition (Antitrust)

The Economic Competition Act (Amendment No. 21), 2019. The Amendment to the Act, which was published on January 10, 2019, determines, inter alia, the duty imposed upon an Officer of a corporation to supervise and do everything possible to prevent the violation of the Act by the corporation or its employees. Violation of this duty will be considered a criminal offence carrying imprisonment and a monetary penalty, and this even if the corporation itself has not violated the Act. In the event that an offence has been committed under the Act, the Officer may be deemed to have violated the said supervisory duty, unless he can prove that he had done the utmost to fulfill his duty. An Officer is an active manager in the corporation, a partner, excluding a limited partner, or a clerk responsible on behalf of the corporation for the area in which the offence had been committed. Furthermore, the amount of the monetary sanctions, which the Commissioner is authorized to impose upon a corporation, has been increased; the duty to report mergers has been reduced; and the definition stated in the Act of an owner of a monopoly has been updated, so as to apply also to a person who holds a significant share of market power in a particular market.

Exemption from approval of a restrictive agreement in respect of the holdings and joint operation within the framework of ABS. On September 24, 2017, the Competition Commissioner (in her former title: Antitrust Commissioner) issued a decision regarding the exemption from approval of a restrictive agreement in the matter of Automatic Bank Services (ABS) ("the exemption decision"). Within the framework of the exemption decision, the Antitrust Commissioner instructed the transfer of the rights of ABS in the communication protocol, according to which the various entities act in the field of charge cards, with no consideration, to an association, the members of which would be all entities active in the field of charge cards.

Moreover, the exemption decision states instructions as regards the distribution of dividends by ABS, according to which the banks would be permitted to distribute dividends out of previous years' profits accumulated at ABS. Receiving a part of the dividend, in respect of holdings exceeding 10% ("the excess holdings"), would be subject to the sale of the excess holdings (the Bank currently has a 19.3% holding in ABS). According to the terms of the exemption, an earlier sale of the surplus interests in ABS would accordingly increase the amount of the dividend distributable to the shareholders. The exemption decision further states that a future dividend distribution out of profits earned after the date of the exemption decision would be made possible only after the sale of all the surplus interests in ABS and completion of the transfer of the protocol activities to the association. The exemption is valid for a period of five years ending September 24, 2022. For additional details, see the 2016 Annual Report (p. 402).

Exemption from approval of a restrictive agreement with respect to the joint holdings in and operation of Bank Clearing Center (BCC). The Competition Commissioner (in her former title: Antitrust Commissioner) announced on September 28, 2017, that in view of the uncertainty regarding the structure of ownership of BCC, following the effect of the Strum Act on the structure of ownership of ABS, he extends the validity of the exemption issued to BCC on March 20, 2016 with no change in terms, for an additional period of one year ending on September 27, 2018. On September 20, 2018, a decision was taken to extend the validity of the exemption decision taken in 2017, in all its terms, until March 20, 2020 (hereinafter: “the 2018 Exemption Decision”). Further to the BCC’s application to the Competition Authority, on February 14, 2019, the Competition Commissioner has decided to amend the 2018 Exemption Decision, whereby the exemption will also apply to the establishment of an account portability system. The application and the decision come against the background of the Economic Program Act (Legislative Amendments for Implementing the Economic Policy for the 2019 Budget Year), 2018 - an indirect amendment of the Banking Act (Customer Service), as set forth above. The exemption is valid through March 20, 2020 and is contingent on the terms and conditions of the 2018 Exemption Decision.

Exemption relating to the mutual recognition agreement. A decision was taken on July 30, 2018, regarding a conditional exemption from approval of the restrictive agreement with respect to a mutual recognition agreement between the banks, which allows customers of each of the banks to withdraw cash from ATM machines of each of the other banks, this for a period of five years beginning on July 30, 2018. The exemption prescribes that the parties to the agreement are to include in the agreement, under equal terms and for no cost, every issuer or operator of automatic devices interested in being so included, provided that it fulfills the terms of the exemption. It has been determined that the rate of commission fee in respect of the withdrawal of cash would be identical for all parties to the agreement, including new parties joining it, and that it would not exceed twenty U.S. cents per transaction (which is the rate existing at present). The terms of the exemption also specify that the parties to the agreement shall not to unreasonably refuse to enter into an agreement for the provision of ATM clearing services with any issuer or operator of automatic devices and to enter into an agreement for the use of automatic devices with any operator of automatic devices. However, should ABS operate an interface for ATM clearing, the aforesaid shall not apply in relation to entering into agreements with issuer’s and operators of automatic devices, who have the opportunity to make use of the clearing interface for their operations.

Draft Opinion in the matter of cooperation between institutional investors conducted outside the competition field. In February 2019, the Competition Authority published a draft Opinion, permitting institutional bodies to cooperate within the framework of voting in general meetings of shareholders of public companies, the securities of which are being held by them, without fearing violation of the provisions of the Economic Competition Act. Cooperation, which conforms to all the following yardsticks, shall not be considered a restrictive arrangement: the cooperation in question is specific with respect to a concrete corporation and a concrete matter on the Agenda; no competitive attachment (horizontal or vertical) exists between the operations of the concrete corporation and the operations of the institutional body; conforming to the yardsticks relating to the identity of the factors involved in the cooperation between the institutional bodies and to the information to be exchanged within the framework of the cooperation.

Consortium Agreements for the Granting of Credit

The Antitrust Rules (Class Exemption for Joint Loan Arrangements) (Provisional Instruction), 2018. On May 9, 2018, the Class Exemption Rules for Joint Loans went into effect, in which credit is granted by a number of financial bodies, jointly, to a specific borrower from the business segment. The Rules are valid for three years.

Prohibition of money laundering and Prohibition of Financing Terror Activities

Prohibition of Money Laundering

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

Legislation and Regulation Amendments relating to the Capital Market

Securities Act (Amendment No. 60)(Change in structure of the Stock Exchange), 2016. The Act was published on the Official Gazette on April 6, 2017.

The Act is intended to enable the change in the structure of ownership of the Stock Exchange, held at present mostly by the banks, while turning it into a profit earning corporation. In order to diversify the composition of the shareholders of the Stock Exchange and to encourage the present Stock Exchange members to sell their holdings in the Stock Exchange it has been established that their holdings in excess of 5% will become dormant and shall not confer any rights. It has further been determined that when the present shareholders of the Stock Exchange would sell their holdings, they would be required to pay over to the Stock Exchange an amount equal to the full difference between the value of the shares they own, based on the equity capital of the Stock Exchange, and the sale price. This amount would serve the Stock Exchange to reduce commissions and for technological development, but may not be used for the payment of dividends. On September 7, 2017, the Court approved the arrangement for the change in the structure of the Stock Exchange.

Allotment of shares by the Stock Exchange. In accordance with the arrangement for the change in structure of the Stock Exchange, 5,570,834 ordinary shares in the Stock Exchange were allotted to the Bank and to MDB on September 13, 2017, comprising 5.57% of the issued and paid up share capital of the Stock Exchange, on a fully diluted basis. The Bank and MDB are required to reduce their holdings in the Stock Exchange to a rate of 5%, and this until the earlier of September 6, 2022 (the end of five years since date of approval of the arrangement) or date of issue of Stock Exchange shares to the public and their registration for trade.

Sale of shares in the Tel Aviv Stock Exchange. In response to the stock exchange's call to submit offers, the Bank and MDB submitted, on January 18, 2018, an offer for the sale of the major portion of their shares in the stock exchange (4,370,834 shares) for a total consideration of approx. NIS 21.8 million, under the terms and conditions set forth in the stock exchange's call. On April 16, 2018, the Stock Exchange informed the Bank and MDB of the acceptance in full of their offer of January 18, 2018, for the sale of shares in the Stock exchange, in a total consideration to the Bank and MDB of approx. NIS 22 million. On August 27, 2018, the transaction was concluded and the consideration for the shares sold was transferred to the Bank and to MDB, and accordingly, a gain in the amount of approx. NIS 22 million was recorded in the third quarter of 2018.

General Permit terms in accordance with Section 49A of the Securities Act. The Israel Securities Authority published on December 27, 2018, the version of the Permit terms, according to which, within four months from date of publication of the version of the Permit, the Bank has to apply to the Israel Securities Authority for permission to submit an offer for providing trade services by means of stock exchanges outside Israel.

The Mutual Investment Trust Act (Amendment No. 28), 2017. The Act was published on the Official Gazette on August 3, 2017. The object of the Amendment is to establish a legislative basis for a new class of a mutual fund – "ETF", with a view of turning existing ETN's into mutual funds, and the regulation of the ETN field under the Mutual Investment Trust Act. The amendment to the Act went into effect on October 3, 2018.

U.S. Legislation

As owners of a U.S. bank, IDB New York, the Bank is subject to a number of U.S. legislation provisions, which apply to entities, and companies related to them, and which have banking operations in the U.S., whether as a bank or as a branch office.
Within the framework of these provisions, significant exceptions have been determined with respect to non U.S. banking entities, such as the Bank, so that the regulation under these provisions relating to operations and investments, applies mostly to the said operations and investments of the bank in the U.S..
The operations of the Bank conform to the U.S. legislation provisions, to the extent that these apply to its operations, including conforming to the restriction imposed on the Bank under the Volcker Rule, enacted as part of the U.S. Dodd Frank reform.
Subject to certain exceptions the Volker Rule includes prohibition of proprietary trading and investment and sponsoring operations in private equity funds of certain types.
Following amendments made recently to the Dodd Frank reform, the Bank, including its subsidiaries, is no longer subject to enhanced prudential standards determined by the Dodd Frank reform.

Various Legislation Matters

Credit Data Bill, 2016

The Act was published on the Official Gazette on April 12, 2016. The Act is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. According to the Act, the Bank of Israel is to establish and manage a central credit data base. Data would be assembled from sources determined in the Act and including banking corporations, would be maintained and transferred to credit offices by the Bank of Israel. The credit offices would process the data and pass it on, among others, to the providers of credit in accordance with the regulations stated in the Act. Following the publication of the Act, further regulations have been published intended to supplement the regulations stated in the Act, as well as the setting out of supporting regulations with respect to specific arrangements which are not regulated by the Act itself. For the purpose of implementing the Act, the Bank of Israel has taken measures to establish a system for sharing credit information, which includes setting up a central credit database.
On September 20, 2018, an order was published postponing the effective date of the Act until April 12, 2019. The Bank is preparing for the implementation of the Act.
Credit Data Bill Memorandum (Amendment No. 1) (Amendment of a transitional instruction), 2018. The Bill Memorandum, which was published in December 2018, proposes to determine a transitional period of one year (with option for extension for an additional period of six months) during which a credit office may continue to provide credit data services under the provisions of the previous Act. It is noted, that at this stage, in view of the dispersal of the Knesset, the legislation proceedings have been stopped.

The Pledge Bill

The Bill was published and passed its first reading during the month of July 2015. For details, see 2015 Annual Report (p. 486).

Payment Services Act, 2019

The Act was published on the Official Gazette on January 9, 2019. The Act amalgamates, under a single legislative umbrella, the majority of the "payment services" that are currently provided and that will be provided in the future to the general public (payers, on the one hand, and beneficiaries – the recipient of the payment, on the other hand) by various "providers of payment services", including the banks, the credit card companies, off-banking operators of advanced payment applications, etc. The Act prescribes consumer regulation which will apply uniformly (subject to the secondary legislature of each regulator) to all the providers of payment services in the market – to the banks, and also to other providers of payment services that are competing (or are planned to compete) with the payment services that are provided (or that will be provided in the future) by the banks to their customers. The Act will take effect following one year from date of publication thereof, except for several provisions that would become effective in July 2020.

Customer Protection Act (Amendment No. 57) (Human professional response on the automatic answering service), 2018

On July 25, 2018, the Amendment was published in the Official Gazette. The subject matter of the Amendment requires businesses that operate a phone call service that includes an automatic call routing system, to enable customers to transfer to a human voice response already at the first menu of the conversation and limiting the waiting time for a human response, as regards certain matters (treatment of failure, account information and termination of engagement) to six minutes. This requirement takes effect by way of an amendment of the Banking Act (Customer service). Moreover, it has also been determined that the Banking Supervision Department will have the authority to prescribe directives relating to deviation from the waiting time at a percentage of all the calls or in the length of time specified. The amendment will take effect one year from its publication date.

Accordingly, on January 20, 2019, a draft of Proper Conduct of Banking Business directive regarding providing a telephone response was published. The draft proposes to allow the banks to exceed the call waiting time of six minutes, in relation to the aforementioned specific topics, on 15% of the calls received at the call center. In addition, it is proposed to apply a requirement giving preference to senior citizens and to those with disabilities by directing their calls to a fast-response extension; as well as a requirement is for the tracking and control of the response patterns at the call center; and that details thereof be published on the Internet site of the banking corporation.

Reduction in Use of Cash Act, 2018

The Act was published on the Official Gazette on March 18, 2018, and took effect on January 1, 2019, whereas the instructions regarding checks would take effect on July 1, 2019. Inter alia, the Act imposes restrictions on transactions the payment for which is in cash; A bank may not cash a check in which the name of the beneficiary is not stated (blank check); and may not cash a check in an amount exceeding NIS 10,000, if it had been assigned more than once (or twice, if the second assignment is in favor of a supervised financial body), or if it does not state the name of the assignor and his ID number as well as the name of the assignee. Whoever violates the provisions of the Act is exposed, inter alia, to penalties.

Directives of the Supervisor of Banks

Simplification of agreements for customers - Proper Conduct of Banking Business Directive No. 449. On July 10, 2018, the Banking Supervision Department published the Directive, the object of which is to simplify banking agreements. At the first stage, the Supervisor of Banks intends to focuses on agreements for the granting of credit, stating that a banking corporation has to present to the customer, on the first page of the agreement for the granting of credit, the variable and material details and terms for the granting of credit in accordance with the text and structure determined in attachments to the Directive. The Directive takes effect on May 9, 2019, however a banking corporation may act in accordance therewith at an earlier date.

Amendment of Proper Conduct of Banking Business Directive No. 422, Opening a current account with a credit balance and its management. On March 26, 2018, the Banking Supervision Department published an amendment to the directive, whereby it was prescribed, inter alia, as follows: a banking corporation is required to enable all its customers to manage their accounts via direct means. The banking corporation may impose restrictions on the customer's ability to perform transactions, as opposed to receiving information, according to the circumstances of the matter; In circumstances where a customer who has not paid a debt to the banking corporation in the past wishes to open a credit account, the banking corporation is required to examine the application on its own merits, while referring to the characteristics of the past debt and to the circumstances of opening the account, and should not comprehensively refrain from opening the account in such cases; upon a customer requesting the issuance of a checkbook, the banking corporation is to consider the application taking into account all the circumstances; if the banking corporation does not intend to advance credit to the customer, it must make this clear at the time of opening the account; a banking corporation that refuses to open an account for a customer is required to provide the customer with the reasons for its refusal in writing, within 10 days. The Directive went into effect on October 1, 2018.

Amendment to Proper Conduct of Banking Business Directive No. 367, “Banking via Means of Communication”. The the amendment was published on March 22, 2018, within the framework of which reliefs were granted in the digital (online) process for opening a bank account, such as cancellation of the order for a bank transfer from an existing account of the customer to the new account, as part of the verification process subject to the principles stated in the Directive. In addition, it will be possible to open a bank account online from the age of 16 (instead of 18, at present), subject to the provisions specified in the directive. The amendments to the Directive take effect as from date of their publication.

Amendment to Proper Conduct of Banking Business Directive No. 332, “Self-Purchase by Banking Corporations”. On February 28, 2019, an amendment was published, which removed the prohibition on the self-acquisition of shares of the banking corporation, allowing banking corporations to acquire their own shares, subject to certain conditions. Furthermore, an update was included of the restrictions applying to the granting of finance collateralized by securities that had been issued by the banking corporation.

Amendment of Proper Conduct of Banking Business Directive No. 301 regarding the ”Board of Directors”

The Supervisor of Banks published on July 5, 2017, an amendment to the Directive. Within the framework of the amendment the maximum number of directors of a banking corporation was reduced to ten, and additional instructions were included regarding the qualification of the Board and its composition, within the framework of which the number of directors required to have banking experience was increased from one fifth to one third, and it is required that at least one director must have proven experience in the field of information technology. In addition, additional directives have been prescribed aimed at making the work of the Board of Directors and its committees more efficient. The Amendment takes effect on date of publication thereof, excluding the instructions regarding the reduction in the number of Directors and qualification of its members, which will take effect on July 1, 2020.

On November 13, 2018, an update to the directive was published, within the framework of which a duty was determined to appoint a committee of the Board of Directors dealing with matters of IT and innovation, that at least one of the members of which should have knowledge and recognized experience in the field of IT. Furthermore, the draft adds a requirement for the adoption of a policy with respect to the maximum length of service of members of Board committees and their chairpersons. The amendments are to take effect on the date of publication of the Amendment, except for the requirement regarding the composition of the technology committee; the effective date thereof is July 1, 2020.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation – additional details", "Human Capital" above and in the Document "Disclosure according to the third pillar of Basel and additional information regarding risks" available for review on the Internet.

Abundance of Legislation Initiatives

The year 2018, as years preceding it, was characterized by numerous proposed legislations and new regulation provisions, published by the different Regulators, including the Supervisor of Banks. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Legal and Regulatory Risks" in Chapter "Risks Review" above.

Taxation

General. The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 17.0% of the payroll expense and of the profit, respectively.

Tax aspects of the Directive regarding impaired debts. An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual write-offs will be recognized in the two years following the year in which the allowance was made. On July 9, 2017, the validity of the agreement was extended up to and including the 2020 tax year.

In addition, on July 9, 2017, an agreement was signed with the Israeli Tax Authority regarding the timing of the recognition for tax purposes of allowances in respect to housing loans. As part of this agreement, which is valid up to and including the 2020 tax year, it is prescribed, inter alia, that 65% of the closing balances in respect problematic debts regarding housing loans granted, and for which an allowance was first recorded on January 1, 2014, will be adjusted for tax purposes.

A Qualified Intermediary (Q.I.) status. The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

Changes in global legislation regarding the prevention of tax offences. For details regarding changes in tax legislation in the United States – the FATCA legislation – and the Group's preparations to implement its provisions, see "exposure to cross-border risks" in the document "Disclosure according to the third pillar of Basel and additional information regarding risks".

For additional details regarding "taxation", see Note 8 to the financial statements.

Legal Proceedings

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 26 C to the financial statements.

Additional Legal Proceedings

Approach in accordance with Section 198A of the Companies Act. On December 14, 2016, the Bank received an approach headed "approach in accordance with Section 198A of the Companies Act, 1999 – request for clarifications and documents regarding the conduct of the Bank and of MDB regarding Australian customers, prior to the filing of a derivative action". The Bank responded to the approach on December 26, rejecting the request and the arguments raised therein (see Note 26 C to the financial statements, item 13.2).

On June 6, 2017, a motion was filed with the Tel Aviv District Court for the disclosure of documents under Section 198A of the Companies Act, in which the Court was asked to instruct Discount Bank and MDB to deliver to the petitioner the documents named in the motion, required by him in order to decide whether to file a motion for approval of a derivative action or a derivative defense in the name of Discount Bank and/or MDB.

On June 24, 2018, the power of a Court verdict was awarded to the agreement by the parties, according to which the motion shall be struck off with no order for expenses, while securing an exclusive right for the Appellant to file anew a disclosure motion under Section 198A of the Companies Act, and/or a motion for approval of a derivative action, this within ninety days from date of the verdict and/or approval of a compromise arrangement within the framework of one or more of the proceedings being conducted against the Respondents in Australia.

Petition for the grant of a decree nisi. On November 7, 2018, a petition was filed with the Supreme Court sitting as the High Court of Justice for the grant of a decree nisi against the Governor of the Bank of Israel, the Monetary Committee, the Supervisor of Banks and 10 commercial banks in Israel, including the Bank and MDB. Within the framework of the petition, an order was sought to instruct the respondents to determine that a detrimental change in the position of a debt holder in respect of a loan received in good faith is a condition requiring the write-off of a bank loan; to instruct respondents 1-3 to determine that a business that encounters economic difficulties and therefore finds it difficult to repay a bank loan received in good faith, is not required to repay the loan in an amount that exceeds the percentage of the overall loan multiplied by the capital adequacy ratio that respondents 1-3 prescribed for banking corporations; to instruct the Governor of the Bank of Israel to prescribe proper disclosure rules for a commercial bank as prescribed in the Banking Act (Customer Service). An interim ruling has been given whereby the first three respondents (the Governor of the Bank of Israel, the Monetary Committee of the Bank of Israel and the Supervisor of Banks) must file their response to the petition by January 13, 2019. The three respondents filed a response on February 19, 2019.

Motion for approval of a derivative claim. On May 7, 2015, the Bank received a claim together with a motion for approval of the claim as a derivative action (numerous), that had been filed with the Tel Aviv-Yafo District Court. The Court was requested to approve submission of a derivative action against sixteen officers and other executives officiating during the relevant period and by a subsidiary of the subsidiary "ICC International Ltd.", which on December 31, 2009, merged into ICC and was struck off ("the granddaughter company"), in respect of the alleged damage caused to ICC and the granddaughter company and further damage expected to be caused to it, as alleged, with respect to their international clearing operations in the years 2006-2009.

The Board of Directors of ICC, in its meeting of February 2, 2018, discussed the recommendations of the special ad-hoc committee in the matter of the international clearing operations (hereinafter: "the Committee"), with respect to the manner of operation that would benefit the company. The Board of Directors of ICC adopted the recommendations of the Committee and decided that on the background of all the considerations studied during the deliberations of the Committee, the promotion of the compromise agreement based on the proposed outline and the exercise of the rights of the company as regards the insurers, would be to the benefit of the company. Accordingly, the Board of Directors of ICC directed the representatives of ICC to promote the compromise outline.

The Board of Directors of ICC stated that the recovery amount within the framework of the proposed compromise outline is most fair and reasonable, and is even on the high side, considering the risks and prospects of the claim in itself and the cause for the claim; in relation to the proportion of the compromise taking in other proceedings; and in relation to cross-company considerations regarding the benefit to the company resulting from the efficient and exhaustive conclusion of the international clearing affair. The Board of Directors of ICC further stated that due to the reasons detailed in the opinion of the Committee as rendered to the Board, instituting legal proceedings against any of the Officers in lieu of the proposed compromise agreement, or alternatively, refraining from taking any action – shall not be in line with the benefit to the company.

The Bank's Board of Directors, in its meeting of February 27, 2018, adopted the recommendation of the Bank's ad-hoc Committee in respect of the motion for approval of a derivative action, as well as the recommendations of the authorized organs of ICC, and approved that, when taking into consideration all the arguments relating to the case, the promotion of a compromise agreement according to the proposed outline, is beneficial to the Bank and to ICC.

On March 28, 2018, the parties filed a joint motion for approval of a compromise arrangement regarding the derivative action, according to which, an amount of US$4.5 million would be paid to ICC (by the insurers and on behalf of the Officers), and the agreement would conclude the cause of action with respect to the international operation.

On June 3, 2018, the Court approved the compromise arrangement and gave it the force of a court verdict.

For additional details regarding different legal proceedings, see Note 26 C, items 12 and 13.

Significant Legal Proceedings settled in 2018

1. For details regarding a motion for approval of an action as a class action suit, in respect of which the appeal against the decision to dismiss such motion has been dismissed, see Note 10 B to the condensed financial statements as of March 31, 2018, item 4.4 (p. 124), and Note 26 C, item 12.4 to the financial statements as of December 31, 2017 (p. 215).
2. For details regarding a motion for approval of an action as a class action suit, from which the Claimant withdrew on March 13, 2018, see Note 10 B to the condensed financial statements as of March 31, 2018, item 4.8 (p. 125), and Note 26 C, item 12.10 to the financial statements as of December 31, 2017 (pp. 217-218).
3. For details regarding a motion for approval of an action against the Bank as a class action, in respect of which, the compromise arrangement reached by the parties was approved by the Court on November 1, 2018, see Note 26 C 12.1 to the financial statements as of December 31, 2017 (p.214) and Note 10 B 4.1 to the condensed financial statements as of September 30, 2018 (p.133).
4. For details regarding a motion for approval of an action against the Bank as a class action, in respect of which, the compromise arrangement reached by the parties was approved by the Court on December 23, 2018, see Note 26 C 12.8 to the financial statements as of December 31, 2017 (p.216) and Note 10 B 4.6 to the condensed financial statements as of September 30, 2018 (p.134).

For details regarding a motion for approval of an action as a class action suit, in respect of which, a verdict was given on January 15, 2019, approving a compromise arrangement between the parties, see above in Note 26 C to the financial statements, Item 12.2. For details regarding two motions for approval of actions as a class action suits, which were rejected by verdicts given on March 1, 2018, against which appeals were filed with the Supreme Court, see above Note 26 C, items 12.1 and 12.3, respectively. Furthermore, regarding the approval of the compromise arrangement see above in item "Additional Legal Proceedings", and regarding termination of the proceedings by a plea to the High Court of Justice in the matter of an arrangement in lieu of criminal proceedings at ICC, see the Report for the Third quarter of 2018 (p. 227).

Proceedings regarding Authorities

1) For details regarding various proceedings by the Competition Commissioner (in her former title: Antitrust Commissioner) and the Competition Tribunal (in its former name: Antitrust Tribunal) concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2) **ICC – demand for data – The Competition Authority (in its former name: Antitrust Authority).** On October 23, 2018, ICC received a demand, under Section 46(b) of the Economic Competition Act, 1988 (its former name: Antitrust Act, 1988) within the framework of which the company was asked to send to the Competition Authority “the company’s charge card operating agreements with all the banks in the State of Israel, including the appendices attached thereto”. On October 31, 2018, ICC submitted the required information to the Competition Authority.
3) **Monetary sanction.** The Supervisor of Banks informed the Bank on December 23, 2018, that a monetary sanction in the amount of NIS 750 thousand had been imposed upon the Bank, due to attaching the warning wording to the link and not to the Bank's advertisement, a matter constituting a violation of Section 5 (c) of the Banking Act (Customer service), 1981.
4) **The Competition Authority – Request for data regarding mortgages.** On September 6, 2018, the Bank received a request from the Competition Authority, according to which, for the purpose of an examination being made regarding the level of competition existing in the mortgage field, the Bank is required to provide the Competition Authority with information, documentation and data as detailed in the request. The requested material has been delivered to the Competition Authority.

Miscellaneous

Environmental Quality

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank. One of the Bank’s targets as regards the environment is to reduce the indirect effect, as stated.

Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time. For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

APPENDICES TO THE ANNUAL REPORT

Appendices – List of tables

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses

PART "A" - AVERAGE BALANCES AND INTEREST RATES - ASSETS

	2018			2017			2016		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:(3)									
In Israel	128,200	5,284	4.12	116,490	4,735	4.06	105,988	4,248	4.01
Abroad	21,366	1,040	4.87	20,816	830	3.99	21,220	776	3.66
Total credit to the public	**149,566**	***6,324**	**4.23**	**137,306**	***5,565**	**4.05**	**127,208**	***5,024**	**3.95**
Credit to the Government:									
In Israel	2,194	63	2.87	960	28	2.92	599	18	3.01
Abroad	-	-	-	2	-	-	12	-	-
Total credit to the Government	**2,194**	**63**	**2.87**	**962**	**28**	**2.91**	**611**	**18**	**2.95**
Deposits with banks:									
In Israel	3,007	27	0.90	3,236	26	0.80	3,229	11	0.34
Abroad	221	1	0.45	429	4	0.93	633	8	1.26
Total deposits with banks	**3,228**	**28**	**0.87**	**3,665**	**30**	**0.82**	**3,862**	**19**	**0.49**
Deposits with central banks:									
In Israel	15,426	17	0.11	18,266	18	0.10	16,362	16	0.10
Abroad	509	7	1.38	996	10	1.00	1,462	7	0.48
Total deposits with central banks	**15,935**	**24**	**0.15**	**19,262**	**28**	**0.15**	**17,824**	**23**	**0.13**
Securities borrowed or purchased under resale agreements:									
In Israel	758	-	-	604	-	-	295	-	-
Total securities borrowed or purchased under resale agreements	**758**	**-**	**-**	**604**	**-**	**-**	**295**	**-**	**-**
Bonds held for redemption and available for sale:(4)									
In Israel	23,049	328	1.42	23,905	294	1.23	23,500	295	1.26
Abroad	9,237	231	2.50	9,807	224	2.28	10,798	248	2.30
Total bonds held for redemption and available for sale	**32,286**	**559**	**1.73**	**33,712**	**518**	**1.54**	**34,298**	**543**	**1.58**
Trading bonds:(4)									
In Israel	1,997	33	1.65	2,228	23	1.03	3,167	11	0.35
Abroad	68	2	2.94	59	1	1.69	200	1	0.50
Total trading bonds	**2,065**	**35**	**1.69**	**2,287**	**24**	**1.05**	**3,367**	**12**	**0.36**
Other assets:									
Abroad	678	20	2.95	674	20	2.97	703	20	2.84
Total other assets	**678**	**20**	**2.95**	**674**	**20**	**2.97**	**703**	**20**	**2.84**
Total interest bearing assets	**206,710**	**7,053**	**3.41**	**198,472**	**6,213**	**3.13**	**188,168**	**5,659**	**3.01**
Debtors in respect of credit card operations	7,708			6,591			6,082		
Other non-interest bearing assets(5)	14,828			15,223			15,409		
Total assets	**229,246**			**220,286**			**209,659**		
Of which: Total interest bearing assets attributable to operations abroad	32,079	1,301	4.06	32,783	1,089	3.32	35,028	1,060	3.03
* Commissions included in interest income from credit to the public		330			308			306	

For footnotes see page 387.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

PART "B" – AVERAGE BALANCES AND INTEREST RATES – LIABILITIES AND EQUITY

	2018			2017			2016		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	34,544	5	0.01	31,981	5	0.02	29,429	4	0.01
In Israel - Time deposits	87,801	657	0.75	83,543	467	0.56	75,667	356	0.47
Total deposits from the public in Israel	**122,345**	**662**	**0.54**	**115,524**	**472**	**0.41**	**105,096**	**360**	**0.34**
Abroad - On call	11,447	118	1.03	12,279	74	0.60	13,462	65	0.48
Abroad - Time deposits	8,857	161	1.82	7,773	97	1.25	7,945	79	0.99
Total deposits from the public outside Israel	**20,304**	**279**	**1.37**	**20,052**	**171**	**0.85**	**21,407**	**144**	**0.67**
Total deposits from the public	**142,649**	**941**	**0.66**	**135,576**	**643**	**0.47**	**126,503**	**504**	**0.40**
Deposits from the Government:									
In Israel	187	2	1.07	208	2	0.96	234	3	1.28
Abroad	80	1	1.25	80	1	1.25	54	-	-
Total deposits from the Government	**267**	**3**	**1.12**	**288**	**3**	**1.04**	**288**	**3**	**1.04**
Deposits from banks:									
In Israel	4,084	18	0.44	3,282	14	0.43	3,017	11	0.36
Abroad	1,788	34	1.90	1,295	19	1.47	1,204	19	1.58
Total deposits from banks	**5,872**	**52**	**0.89**	**4,577**	**33**	**0.72**	**4,221**	**30**	**0.71**
Securities loaned or sold under repurchase agreements:									
Abroad	1,669	96	5.75	3,216	127	3.95	3,660	146	3.99
Total securities loaned or sold under repurchase agreements	**1,669**	**96**	**5.75**	**3,216**	**127**	**3.95**	**3,660**	**146**	**3.99**
Bonds and subordinated debt notes:									
In Israel	7,379	433	5.87	8,522	428	5.02	8,927	415	4.65
Total bonds and subordinated debt notes	**7,379**	**433**	**5.87**	**8,522**	**428**	**5.02**	**8,927**	**415**	**4.65**
Other liabilities:									
In Israel	47	2	4.26	74	4	5.41	89	4	4.49
Total other liabilities	**47**	**2**	**4.26**	**74**	**4**	**5.41**	**89**	**4**	**4.49**
Total interest bearing liabilities	**157,883**	**1,527**	**0.97**	**152,253**	**1,238**	**0.81**	**143,688**	**1,102**	**0.77**
Non-interest bearing deposits from the public	38,562			37,626			36,972		
Creditors in respect of credit card operations	8,220			7,094			6,651		
Other non-interest bearing liabilities(6)	7,726			8,008			8,554		
Total liabilities	**212,391**			**204,981**			**195,865**		
Total capital resources	**16,855**			**15,305**			**13,794**		
Total liabilities and capital resources	**229,246**			**220,286**			**209,659**		
Interest margin		**5,526**	**2.44**		**4,975**	**2.32**		**4,557**	**2.24**
Net return on interest bearing assets:(7)									
In Israel	174,631	4,635	2.65	165,689	4,204	2.54	153,140	3,806	2.49
Abroad	32,079	891	2.78	32,783	771	2.35	35,028	751	2.14
Total net return on interest bearing assets	**206,710**	**5,526**	**2.67**	**198,472**	**4,975**	**2.51**	**188,168**	**4,557**	**2.42**
Of which: Total interest bearing liabilities attributable to operations abroad	23,841	410	1.72	24,643	318	1.29	26,325	309	1.17

For footnotes see page 387.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

PART "C" - AVERAGE BALANCES AND INTEREST RATES - ADDITIONAL INFORMATION REGARDING INTEREST BEARING ASSETS AND LIABILITIES ATTRIBUTED TO OPERATIONS IN ISRAEL

	2018			2017			2016		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	139,675	4,496	3.22	131,656	4,131	3.14	117,415	3,707	3.16
Total interest bearing liabilities	(104,443)	(331)	(0.32)	(99,076)	(333)	(0.34)	(88,271)	(278)	(0.31)
Interest margin		**4,165**	**2.90**		**3,798**	**2.80**		**3,429**	**2.85**
CPI-linked shekels:									
Total interest bearing assets	18,212	730	4.01	19,182	580	3.02	19,708	[9]488	2.48
Total interest bearing liabilities	(10,684)	(505)	(4.73)	(11,124)	(436)	(3.92)	(12,679)	(408)	(3.22)
Interest margin		**225**	**(0.72)**		**144**	**(0.90)**		**80**	**(0.74)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	16,744	526	3.14	14,851	413	2.78	16,017	404	2.52
Total interest bearing liabilities	(18,915)	(281)	(1.49)	(17,410)	(151)	(0.87)	(16,413)	(107)	(0.65)
Interest margin		**245**	**1.65**		**262**	**1.91**		**297**	**1.87**
Total operations in Israel:									
Total interest bearing assets	174,631	5,752	3.29	165,689	5,124	3.09	153,140	4,599	3.00
Total interest bearing liabilities	(134,042)	(1,117)	(0.83)	(127,610)	(920)	(0.72)	(117,363)	(793)	(0.68)
Interest margin		**4,635**	**2.46**		**4,204**	**2.37**		**3,806**	**2.32**

For footnotes see next page.

Appendix no. 1 – Rates of Financial Income and Expenses on a consolidated basis and analysis of the changes in interest and expenses (continued)

PART "D" – ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

	2018 Compared to 2017			2017 Compared to 2016		
	Increase (decrease) due to change[8]			Increase (decrease) due to change[8]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	483	66	549	427	60	487
Abroad	27	183	210	(16)	70	54
Total credit to the public	**510**	**249**	**759**	**411**	**130**	**541**
Other interest bearing assets:						
In Israel	(28)	107	79	16	[9]22	38
Abroad	(31)	33	2	(40)	15	(25)
Total other interest bearing assets	**(59)**	**140**	**81**	**(24)**	**37**	**13**
Total interest income	**451**	**389**	**840**	**387**	**167**	**554**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	37	153	190	43	69	112
Abroad	3	105	108	(12)	39	27
Total deposits from the public	**40**	**258**	**298**	**31**	**108**	**139**
Other interest bearing liabilities:						
In Israel	(15)	22	7	(7)	22	15
Abroad	(39)	23	(16)	(10)	(8)	(18)
Total other interest bearing liabilities	**(54)**	**45**	**(9)**	**(17)**	**14**	**(3)**
Total interest expenses	**(14)**	**303**	**289**	**14**	**122**	**136**
Interest income, net	**465**	**86**	**551**	**373**	**45**	**418**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS (12) million and NIS (135) million, respectively; 2017 – NIS 1 million and NIS 110 million respectively. 2016 – NIS 6 million and NIS 282 million respectively.

(5) Including derivative instruments and other assets that are not interest bearing and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

Appendix no. 2 – Consolidated statement of profit and loss for each quarter – multi quarter data

Quarter	4	3	2	1
	In NIS millions			
	2018			
Interest income	1,852	1,782	1,883	1,536
Interest expenses	432	370	463	262
Interest income, net	1,420	1,412	1,420	1,274
Credit loss expenses	176	123	129	112
Net interest income after credit loss expenses	**1,244**	**1,289**	**1,291**	**1,162**
Non-interest Income				
Non-interest financing income	177	160	145	104
Commissions	732	(2)730	(2)697	(2)692
Other income	28	13	10	6
Total non-interest income	**937**	**903**	**852**	**802**
Operating and other Expenses				
Salaries and related expenses	903	826	838	818
Maintenance and depreciation of buildings and equipment	276	255	252	256
Other expenses	527	(2)413	(2)401	(2)383
Total operating and other expenses	**1,706**	**1,494**	**1,491**	**1,457**
Profit before taxes	475	698	652	507
Provision for taxes on profit	144	248	218	179
Profit after taxes	331	450	434	328
Bank's share in profit (loss) of affiliated companies, net of tax effect	4	1	2	(1)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	335	451	436	327
Attributed to the non-controlling rights holders in consolidated companies	(11)	(12)	(13)	(8)
Net Profit attributed to bank's shareholders	**324**	**439**	**423**	**319**
	2017			
Interest income	1,608	1,465	1,700	1,440
Interest expenses	311	258	396	273
Interest income, net	1,297	1,207	1,304	1,167
Credit loss expenses (reversal expenses)	31	187	211	145
Net interest income after credit loss expenses	**1,266**	**1,020**	**1,093**	**1,022**
Non-interest Income				
Non-interest financing income	94	197	79	225
Commissions	(2)685	(2)684	(2)648	(2)659
Other income	37	9	19	22
Total non-interest income	**816**	**890**	**746**	**906**
Operating and other Expenses				
Salaries and related expenses	(1)824	(1)789	(1)778	(1)813
Maintenance and depreciation of buildings and equipment	272	248	260	264
Other expenses	(1)(2)384	(1)(2)367	(1)(2)347	(1)(2)348
Total operating and other expenses	**1,480**	**1,404**	**1,385**	**1,425**
Profit before taxes	602	506	454	503
Provision for taxes on profit	222	180	163	182
Profit after taxes	380	326	291	321
Bank's share in profit (loss) of affiliated companies, net of tax effect	5	3	(3)	(4)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	385	329	288	317
Attributed to the non-controlling rights holders in consolidated companies	(14)	(16)	(16)	(14)
Net Profit attributed to bank's shareholders	**371**	**313**	**272**	**303**

Footnotes:

(1) Reclassified – see Note 1 C 6 (3) to the financial statements.

(2) Reclassified - see Note 1 C 5 to the financial statements.

Appendix no. 3 – Condensed Consolidated balance sheet – multi quarter data

	2018				2017			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	21,858	21,400	24,154	30,382	28,026	24,815	28,802	29,179
Securities	37,898	36,748	36,689	32,834	32,703	34,490	34,828	36,187
Securities borrowed or purchased under resale agreements	774	697	489	682	954	840	261	369
Credit to the public	167,078	163,334	158,613	155,681	150,868	151,059	146,292	145,548
Provision for credit loss	(2,274)	(2,181)	(2,143)	(2,114)	(2,111)	(2,119)	(2,075)	(2,089)
Credit to the public, net	164,804	161,153	156,470	153,567	148,757	148,940	144,217	143,459
Credit to Governments	3,336	2,915	2,444	1,515	1,493	1,200	946	795
Investments in affiliated companies	135	119	120	120	153	148	144	147
Buildings and equipment	2,437	2,396	2,399	2,387	2,366	2,265	2,277	2,318
Intangible assets and goodwill	160	160	160	160	160	160	160	160
Assets in respect of derivative instruments	3,726	3,606	4,081	3,472	2,953	3,310	3,206	3,034
Other assets	4,048	3,959	3,782	3,663	3,656	3,497	3,552	3,448
Total Assets	**239,176**	**233,153**	**230,788**	**228,782**	**221,221**	**219,665**	**218,393**	**219,096**
Liabilities and Equity								
Deposits from the public	188,916	184,826	183,210	181,111	175,170	173,356	171,598	171,642
Deposits from banks	6,886	6,013	6,009	5,924	4,804	4,284	4,506	5,184
Deposits from the Government	257	262	267	275	267	275	297	302
Securities loaned or sold under buy-back arrangements	1,126	1,600	1,519	1,478	1,943	2,968	3,116	3,340
Bonds and Subordinated debt notes	8,476	7,340	7,357	7,407	7,639	7,961	8,696	8,648
Liabilities in respect of derivative instruments	3,249	3,374	3,726	3,290	3,232	3,598	3,902	3,639
Other liabilities	12,597	12,601	11,939	12,919	12,098	11,468	10,860	11,156
Total liabilities	221,507	216,016	214,027	212,404	205,153	203,910	202,975	203,911
Equity capital attributed to the Bank's shareholders	17,151	16,630	16,266	15,896	15,594	15,294	14,972	14,754
Non-controlling rights in consolidated companies	518	507	495	482	474	461	446	431
Total equity	17,669	17,137	16,761	16,378	16,068	15,755	15,418	15,185
Total Liabilities and Equity	**239,176**	**233,153**	**230,788**	**228,782**	**221,221**	**219,665**	**218,393**	**219,096**

Appendix no. 4 - Consolidated statement of profit and loss for the last five years

	As at December 31				
	2018	2017	2016	2015	2014
	in NIS millions				
Interest income	7,053	6,213	5,659	5,265	5,731
Interest expenses	1,527	1,238	1,102	1,042	1,518
Interest income, net	5,526	4,975	4,557	4,223	4,213
Credit loss expenses	540	574	469	187	164
Net interest income after credit loss expenses	**4,986**	**4,401**	**4,088**	**4,036**	**4,049**
Non-interest Income					
Non-interest financing income	586	595	754	363	549
Commissions	2,851	(2)2,676	(2)2,556	2,611	2,586
Other income	57	87	100	79	18
Total non-interest income	**3,494**	**3,358**	**3,410**	**3,053**	**3,153**
Operating and other Expenses					
Salaries and related expenses	3,385	(1)3,204	(1)3,169	(1)3,393	(1)3,458
Maintenance and depreciation of buildings and equipment	1,039	1,044	1,067	1,158	1,161
Other expenses	1,724	(1)(2)1,446	(1)(2)1,549	(1)1,174	(1)1,795
Total operating and other expenses	**6,148**	**5,694**	**5,785**	**5,725**	**6,414**
Profit before taxes	2,332	2,065	1,713	1,364	788
Provision for taxes on profit	789	747	741	566	266
Profit after taxes	1,543	1,318	972	798	522
Bank's share in profit of affiliated companies, net of tax effect	6	1	15	9	27
Net Profit :					
Before attribution to non-controlling rights holders	1,549	1,319	987	807	549
Attributed to the non-controlling rights holders	(44)	(60)	(82)	(57)	(44)
Net Profit attributed to bank's shareholders	**1,505**	**1,259**	**905**	**750**	**505**
Total earnings per share attributed to Bank's shareholders	**1.29**	**1.09**	**0.84**	**0.71**	**0.48**
Total earnings per share attributed to Bank's shareholders	**1.29**	**1.09**	**0.84**	**0.71**	**0.48**

Footnotes:

(1) Reclassified, see Note 1 C 6 (3) to the financial statements.

(2) Reclassified, see Note 1 C 5 to the financial statements.

Appendix no. 5 – Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2018	2017	2016	2015	2014
	In NIS millions				
Assets					
Cash and deposits with banks	21,858	28,026	29,311	28,518	31,694
Securities	37,898	32,703	38,818	38,935	37,353
Securities borrowed or purchased under resale agreements	774	954	440	279	466
Credit to the public	167,078	150,868	142,904	129,268	122,172
Provision for credit loss	(2,274)	(2,111)	(2,144)	(2,052)	(2,049)
Credit to the public, net	164,804	148,757	140,760	127,216	120,123
Credit to Governments	3,336	1,493	737	515	1,533
Investments in affiliated companies	135	153	157	144	142
Buildings and equipment	2,437	2,366	2,322	2,204	2,356
Intangible assets and goodwill	160	160	160	142	142
Assets in respect of derivative instruments	3,726	2,953	3,283	3,208	4,596
Other assets	4,048	3,656	3,589	3,696	3,890
Noncurrent assets held for sale	-	-	-	403	4,890
Total Assets	**239,176**	**221,221**	**219,577**	**205,260**	**207,185**
Liabilities and Equity			-		
Deposits from the public	188,916	175,170	172,318	157,875	153,418
Deposits from banks	6,886	4,804	5,342	3,907	5,547
Deposits from the Government	257	267	303	306	357
Securities loaned or sold under buy-back arrangements	1,126	1,943	3,543	3,833	3,984
Bonds and Subordinated debt notes	8,476	7,639	8,498	9,570	10,638
Liabilities in respect of derivative instruments	3,249	3,232	3,570	3,475	4,475
Other liabilities	12,597	12,098	11,067	10,985	11,126
Liabilities held for sale	-	-	-	1,675	4,651
Total liabilities	221,507	205,153	204,641	191,626	194,196
Equity capital attributed to the Bank's shareholders	17,151	15,594	14,512	13,288	12,599
Non-controlling rights in consolidated companies	518	474	424	346	390
Total equity	17,669	16,068	14,936	13,634	12,989
Total Liabilities and Equity	**239,176**	**221,221**	**219,577**	**205,260**	**207,185**

Appendix no. 6 – Additional details – securities portfolio

1. Available for sale bonds – data according to economic sectors

DETAILS REGARDING TO THE DISTRIBUTION OF BONDS IN THE AVAILABLE-FOR-SALE PORTFOLIO ACCORDING TO ECONOMIC SECTORS

	December 31 ,2018			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors	2,141	2,113	4	32
Financial services[1]	8,407	8,230	7	184
Total non government bonds	**10,548**	**10,343**	**11**	**216**
Government bonds				
U.S. government	462	456	-	6
Israel Government	16,861	16,858	52	55
Other Governments	296	293	-	3
Total government bonds	**17,619**	**17,607**	**52**	**64**
Total bond in the available-for-sale portfolio	**28,167**	**27,950**	**63**	**280**
	December 31 ,2017			
Total non governmental bonds and bills	**8,521**	**8,471**	**46**	**96**
Total government bonds and bills	**16,443**	**16,602**	**165**	**6**
Total available-for-sale bonds	**24,964**	**25,073**	**211**	**102**

(1) DETAILS REGARDING BONDS IN THE FINANCIAL SERVICES SECTOR IN THE AVAILABLE-FOR-SALE PORTFOLIO

	December 31 ,2018			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	1,244	1,223	2	23
Ginnie Mae	5,848	5,720	4	132
Freddie Mac	322	313	-	9
Fannie Mae	470	458	-	12
Other	523	516	1	8
Total financial services	**8,407**	**8,230**	**7**	**184**

(2) DETAILS ACCORDING TO GEOGRAPHICAL AREAS OF INVESTMENT IN BONDS OF BANKS AND BANKING HOLDING COMPANIES IN THE AVAILABLE-FOR-SALE PORTFOLIO

	December 31 ,2018			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America	113	113	-	-
Western Europe[3]	804	787	2	19
Israel	39	39	-	-
Australia	288	284	-	4
Total banks and banking holding companies	**1,244**	**1,223**	**2**	**23**

Appendix no. 6 - Additional details - securities portfolio (continued)

1. Available for sale bonds - data according to economic sectors (continued)

(3) DETAILS BY COUNTRIES OF INVESTMENT IN BONDS OF BANKS AND BANK HOLDING COMPANIES IN THE AVAILABLE-FOR-SALE PORTFOLIO IN WESTERN EUROPE

Britain	222	218	1	5
Switzerland	23	22	-	1
Sweden	119	118	-	1
France	307	295	-	12
Netherlands	64	65	1	-
Denmark	69	69	-	-
Total	**804**	**787**	**2**	**19**

2. Held-to-maturity securities - data according to economic sectors

DETAILS REGARDING THE DISTRIBUTION OF BONDS IN THE HELD-TO-MATURITY SECURITIES PORTFOLIO ACCORDING TO ECONOMIC SECTORS

	December 31 ,2018			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Public and community services	(1)1,073	1,085	15	3
Financial services*	512	500	1	13
Total non government bonds	**1,585**	**1,585**	**16**	**16**
Total Government bonds	**5,137**	**5,206**	**89**	**20**
Total bonds in the held-to-maturity portfolio	**6,722**	**6,791**	**105**	**36**
	December 31 ,2017			
Total non governmental bonds and bills	**1,842**	**1,874**	**44**	**12**
Total government bonds and bills	**3,482**	**3,674**	**192**	**-**
Total held-to-maturity bonds	**5,324**	**5,548**	**236**	**12**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	146	144	1	3
Freddie Mac	221	214	-	7
Fannie Mae	84	81	-	3
Other	61	61	-	-
Total financial services	**512**	**500**	**1**	**13**

Footnote:

(1) Most of this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 160-202 million, each, in municipal bonds of Washington state, in bonds of New York City transitional authority ("TFA") and in bonds of the Texas state.

Appendix no. 6 – Additional details – securities portfolio (continued)

3. Trading Bonds – data according to economic sectors

DETAILS REGARDING THE DISTRIBUTION OF BONDS IN THE TRADING SECURITIES PORTFOLIO ACCORDING TO ECONOMIC SECTORS

	December 31 ,2018			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	74	70	-	4
Financial services	107	104	-	3
Total non government bonds	**181**	**174**	**-**	**7**
Total government bonds	**2,013**	**2,013**	**3**	**3**
Total bonds in the trading portfolio	**2,194**	**2,187**	**3**	**10**
	December 31 ,2017			
Total non governmental bonds	**177**	**178**	**2**	**1**
Total government bonds	**1,240**	**1,240**	**5**	**5**
Total trading bonds in the trading portfolio	**1,417**	**1,418**	**7**	**6**

Appendix no. 7 – Additional details

1. Activity in derivative financial instruments

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 28 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

(1) DETAILS ACCORDING TO RATING OF BALANCES OF ASSETS DERIVED FROM TRANSACTIONS IN DERIVATIVE INSTRUMENTS WHERE THE COUNTERPARTY IS A BANK

	As of December 31	
	2018	2017
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	3	6
With an AA- rating	179	139
With an A+ rating	390	579
With an A rating	99	191
With an A- rating	3	98
With a BBB+ rating	49	37
With a BBB- rating	-	4
Not rated	27	27
Total against foreign banks	**750**	**1,081**
Total against Israeli banks	**770**	**363**
Total Balance-sheet balances of assets deriving from derivative instruments	**1,520**	**1,444**

Appendix no. 7 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(2) DETAILS ACCORDING TO RATING OF OFF BALANCE SHEET CREDIT RISK IN RESPECT OF TRANSACTIONS IN DERIVATIVE INSTRUMENTS WHERE THE COUNTERPARTY IS A BANK

	As of December 31	
	2018	2017
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	1	1
With an A+ rating	126	68
With an A rating	31	15
With an A- rating	3	1
With an BBB+ rating	6	2
Total against foreign banks	**167**	**87**
Total against Israeli banks	**38**	**4**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**205**	**91**

Appendix no. 7 – Additional details (continued)

1. Activity in derivative financial instruments (continued)

(3) DETAILS OF THE COLUMN "OTHER" IN NOTE 28 B TO THE FINANCIAL STATEMENTS ACCORDING TO THE OVERALL CREDIT TO THE PUBLIC RISK PER ECONOMIC SECTORS

	As of December 31, 2018	As of December 31, 2017
	in NIS million	
Agriculture	1	1
Industry:		
Machines, electrical and electronic equipment	97	33
Mining, chemical industry and oil products	133	44
Other	23	20
Total industry	253	97
Construction and real estate:		
Acquisition of real estate for construction	60	33
Real estate holdings	66	46
Other	19	20
Total Construction and real estate	145	99
Electricity and water	291	398
Commerce	61	59
Hotels, hotel services and food	29	4
transportation and storage	36	8
Communications and computer services	23	25
Financial services:		
Financial institution (excluding banks)	370	[1]175
Private customers active on the capital market	567	365
Financial holding institutions	793	[1]691
Insurance and provident fund services	-	-
Total financial services	1,730	1,231
Business and other services	22	20
Public and community services	30	9
Private individuals - housing loans	-	-
Private individuals - other	12	20
Total credit risk in respect of derivative instruments	**2,633**	**1,971**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.	(747)	(243)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)	**1,886**	**1,728**

Footnote:

(1) Reclassified – The reclassification of a certain activity from "Financial institutions (excluding banks)" to "Financial holding institutions", following a reexamination of the nature of the activity.

Appendix no. 7 – Additional details (continued)

3. Credit levels in excess of NIS 800 million – additional details

Note 31 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

GENERAL DETAILS REGARDING THE LARGEST BORROWERS INCLUDED IN THE UPPER LEVELS (OVER NIS 800 MILLION) OF THE SAID NOTE[1] (CONSOLIDATED)

	As at December 31	
	2018	2017
	in NIS thousands	
Field of activity:		
Financial services[2]	5,933,043	5,541,767
Defense industries	2,527,899	2,346,455
Electricity and water	1,948,314	2,134,499
Financial services	1,451,281	1,604,674
Real estate	1,382,711	1,146,298
Financial services	2,151,297	923,792
Communication and Computer Services	826,226	827,686
Transportation and Storage	984,022	621,620
industry	757,376	948,274

Footnotes:

(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.

(2) Including mortgage backed securities issued by GNMA.

Appendix no. 7 - Additional details (continued)

4. Details of the investment in government bonds

Note 12 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

DETAILS DIVIDED BY GOVERNMENTS WITH RESPECT TO THE TOTAL SECURITIES PORTFOLIO

	December 31, 2018		December 31, 2017	
	Book value	Fair value(1)	Book value	Fair value(1)
	In NIS millions			
Of the Israeli Government	23,989	24,058	20,736	20,928
U.S. government	475	475	475	475
Other governments	293	293	113	113
Total	**24,757**	**24,826**	**21,324**	**21,516**

Footnote:
(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

Appendix no. 8 – Glossary

Option	A contract between two parties within the framework of which one of the parties (the option writer) grants the counterparty a right to acquire or a right to sell an asset specified in the contract, in consideration for a predetermined price on a date set in advance or prior thereto.
Bond	A security that includes a commitment by the issuer to pay the holder of the security (the bond) the principal specified in the bond with the addition of interest, on the dates prescribed or upon fulfillment of a certain condition (in accordance with the terms prescribed in the bond).
Least developed countries - LDC	Countries classified by the World Bank in a low or medium income group.
Regulatory capital	The capital components used in calculating the stability ratios (e.g., capital adequacy) and consisting of two tiers: Tier 1 capital that comprises the accounting common equity after regulatory adjustments (as defined in Proper Conduct of Banking Business Directive No. 202). Tier 2 capital that mainly comprises capital debt instruments and other regulatory adjustments.
Indebtedness	Credit and commitments to provide credit (balance-sheet and off-balance-sheet) as defined in Proper Conduct of Banking Business Directive No. 313). Special Mention Debt - A debt that has potential weaknesses for which Management’s special attention is required, and which, if not attended to, might adversely affect the repayment of the credit or the position of the Bank as a creditor.
Problematic debt	A debt that is classified as “impaired”, “substandard” or under “special mention”.
Substandard debt	A debt that is inadequately safeguarded by collateral or by the solvency of the debtor, and in respect of which there is a distinct possibility that the Bank will sustain a loss, if the deficiencies are not rectified.
Impaired debt	A debt in respect of which the Bank expects that it will be unable to collect the amounts due to it from the debtor, on the dates prescribed under the debt agreement.
Collateral dependent debt	An impaired debt whose repayment, in the Bank's opinion, is expected from the realization of only the collateral provided to secure the said debt, since the debtor has no other available resources for its repayment.
Total capital adequacy ratio	The ratio of the total capital resources (Tier 1 and Tier 2) to the Bank’s total risk weighted assets.
Recorded amount of a debt	The balance of a debt, including accrued interest that has been recognized, any premium or discount that has not yet been amortized, deferred net commissions or deferred net costs that have been added to the debt balance and have not yet been amortized, net of any part of the debt that has been subject to an accounting write-off.
Basel instructions	The instructions for the management of banks risks that have been prescribed by the Basel Committee that deals with supervision and the setting of standards for the supervision of the world’s banks.
Subordinated debt notes	Debt notes, in which the rights conferred thereunder are subordinate to claims by the rest of the Bank’s creditors, except for other debt notes of the same class.
Off-balance-sheet credit instruments	Debt instruments such as commitments to provide credit and guarantees (not including derivative instruments).
Derivative instrument	A financial instrument or other contract that contains three cumulative features: a. A basis and nominal value that determine the settlement amount of the instrument. b. The net initial investment required is less than that that would be required in other types of contracts that are exposed in a similar manner to changes in market factors (or where no investment is required). c. Its terms require or permit net settlement.

Appendix no. 8 – Glossary (continued)

Forward looking information	Some of the information detailed in the directors' report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968. The Bank's actual results might differ materially from those indicated in the forward-looking information, due to a large number of factors, including, among other things, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans. Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to…", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain. The information presented below relies, among other things, on information in the Bank's hands, inter-alia, publications by other entities such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing and other entities that publish data and assessments as to the Israeli and global financial and capital markets. The above reflects the Bank's and its subsidiaries point of view at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.
Financial instrument	Cash, evidence of the rights of ownership in a corporation, or a contract that fulfills the following two conditions: A. The instrument imposes a contractual obligation on one party to transfer cash or another financial instrument to the second party, or to exchange other financial instruments with the second party under terms that might be unfavorable to the first party. B. The instrument grants the second party a contractual right to receive cash or another financial instrument from the first party, or to exchange other financial instruments with the first party under terms that might be beneficial to the second party.
Average maturity	A weighted average of the time to the principal repayment and to the interest payments of interest-bearing financial instruments.
Over-the-counter (OTC) derivative	Derivative instruments which are not traded on an official stock exchange and are created within the framework of an agreement between two counterparties.
Counterparty credit risk - CVA (Credit Valuation Adjustment)	The exposure to a loss that might arise if the counterparty to a derivative instrument transaction does not fulfill the terms of the transaction.
Active market	A market in which transactions in an asset or a liability take place with sufficient frequency and volumes as to provide information regarding the pricing of the assets or liabilities on a current basis.
Financing rate - LTV (Loan To Value Ratio)	The ratio of the approved debt facility, at the time of granting the facility, to the value of the asset that secures the debt, as approved by the Bank at the time of granting the facility, which is used in calculating the "capital adequacy".
ICAAP (Internal Capital Adequacy Assessment Process)	The Bank's internal capital adequacy assessment process. The process combines, among other things, setting capital targets, capital planning measures and examining the capital position under a variety of stress tests.

Appendix no. 9 – Index

Main Office

Tel Aviv, 23 Yehuda Halevi Street
website: www.discountbank.co.il

Subsidiaries In Israel

BANKING

Mercantile Discount Bank

CAPITAL MARKET AND INVESTMENTS

Tafnit Discount Asset Management
Discount Capital
Discount Capital Underwriting
Discount Manpikim

CREDIT CARDS COMPANIES

Israel Credit Cards
Diners Club

Subsidiary Bank Abroad

Israel Discount Bank of New York, USA
website: www.idbbank.com
Head Office: 511 Fifth Avenue, New York
Staten Island, NY Branch:
201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
Aventura, FL Branch:
Harbour Centre, 18851 NE 29th Avenue,
Suite 600

Representative Offices: Israel /
Chile / Uruguay / Local representative
office in Long Island