2017 ANNUAL REPORT

Link to an accessible report

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

DR. YOSSI BACHAR
Chairman of the Board
(External Director)

AHARON ABRAMOVICH
(External Director)

ASHER ELHAYANY

ELI ELIEZER GONEN

YODFAT HAREL-BUCHRIS

MIRIAM (MIRI) KATZ

BARUCH LEDERMAN
(External Director)

YEHUDA LEVI
(External Director)

DAVID LEVINSON

EDITH LUSKY
(External Director)

SHAUL KOBRINSKY

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 GARIANI
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

LEVY HALEVY
Executive Vice President
Head of Technologies and Operations Division

Avraham (AVI) LEVY
Senior Executive Vice President
Chief Risk Officer and Head of Risk Management Division

RAN OZ
Senior Executive Vice President
Head of Financial Markets Division

NIR ABEL
Executive Vice President
Internal Auditor

MICHAL SOKOLOV-DANOCH
Corporate Secretary

BOARD OF DIRECTORS AND MANAGEMENT REPORT

Board of Directors and Management Report - List of tables

Board of Directors and Management Report – List of tables

Board of Directors and Management Report – List of charts

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders,

2017 was characterized by continued momentum in change and achievement at the Bank and the Group. The financial statements for 2017 reflect the results of the actions taken, both in the balance sheet data, which showed growth in credit and deposits and a stronger capital base, and also in the profitability data, which reflect a continuing trend of income growth, control over operating expenses and, consequently, an improvement in the efficiency ratio.

For the last four years, Discount Group has been resolutely consistently and relentlessly implementing its five-year strategic plan. Within the framework of the plan, the areas of focus for the Bank and for its subsidiaries have been clearly and simply defined: growth in the retail segment; operational efficiency; and focusing on the business activity of the Bank's customers. This concurrently with a continues process of assimilating an organizational culture that supports change, which constitutes a cornerstone for the plan's implementation. Already, one can point to a series of outstanding achievements, which have established Discount Group as a prominent player in the banking system.

During the past year, the Bank has developed a series of new tools and services that are intended to provide customers with an optimal service experience over a variety of channels. A number of collaborations have been launched with fintech companies: An agreement was signed with PayBox, providing access to the digital payments sphere; we have joined up with iCount company in order to expand and improve the service to small business customers. A digital assistant in Discount's app, "Didi", was recently lunched, which has the capability of providing every user with a response that is not only automatic but is also customized.

In addition, a new marketing concept has been launched – "Discount suits you better". This concept is in line with the Bank's commitment to its customers, which guarantees professionalism and excellence at every interface. We offer our customers, who are expecting an available, accessible and convenient service, a multi-focused and multichannel banking, providing optimal solutions over a variety of service channels.

In light of the consistent improvement in the business results and taking into account the Bank's continuing attainment of its capital goals, the Bank's Board of Directors approved, in December 2017, a dividend policy for the coming years, the main principle of which – at this stage – is a dividend distribution of up to 15% of the net profit.

Alongside its business activity, during 2017, the Bank launched the "Discount Spirit", which comprises the Bank's vision, values and principles of conduct. The organizational spirit molds the culture. The Bank's vision is an expression of its mission to be the best bank for its customers, and the Bank's values support the vision and its business and marketing concept.

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 to ensure continuation of the process of consistent improvement currently taking place at the Group, as well as to increase income and improve profitability, the return on capital and the efficiency ratios. The further implementation of the strategic plan in the coming years 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 is applied in the relationship between the Bank and its subsidiaries, places special emphasis on optimal utilization of the synergy with the subsidiaries. Mercantile Discount Bank applies a strategy of focusing on its target clientele; ICC has embarked on a new strategic plan, against the background of the Strum Committee's conclusions; with the new CEO taking up his duties, IDBNY approved a new, five-year strategic plan, which is intended to focus its business activity, concurrently with significantly improving its operational efficiency.

At the same time as continuing to implement the five-year strategic plan, 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 2017, 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.

Despite the ever-changing and dynamic external environment, we are doing our utmost to maintain the banking tradition bequeathed to us by the Bank's founders, which combines family values and a warm and personal connection with uncompromising fairness and professionalism. 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, we are committed to maintain that same and unique spirit of Discount that makes us special and differentiates us from our competitors.
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 the goals of the strategic plan and will successfully face the challenges posed by the business, economic and regulatory environment.

March 6, 2018

Dr. Yossi Bachar
Chairman of the Board of Directors

CHAPTER "A" – GENERAL OVERVIEW, GOALS AND STRATEGY

The meeting of the Board of Directors, held on March 6, 2018, resolved to approve and publish the Bank's 2017 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-two 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

Discount Bank offers its customers comprehensive banking services, in all areas of financial activity, through 111 branches in Israel, direct banking services, and digital banking.
The Bank has one banking subsidiary in Israel - Mercantile Discount Bank Ltd. ("MDB") - a commercial bank serving customers in all fields of financial activity through 77 branches.
The activities in Israel also include:

- 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;
- 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, 2017, 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, 2017	December 31, 2016
	In %	
Total assets	14.9	15.0
Credit to the public, net	15.4	15.2
Deposits from the public	15.0	15.1
Interest income, net	17.5	17.4
Total non-interest income	19.3	18.4

Condensed Financial Information regarding Financial Position and Operating Results

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

	2017	2016	2015	2014	2013
			In %		
Principal performance indices:					
Return on equity	8.4	6.6	5.8	4.2	7.2
Return on assets	0.6	0.4	0.3	0.2	0.4
Ratio of credit to the public, net to deposits from the public	84.9	81.7	80.6	78.3	77.5
Ratio of common equity tier 1 to risk assets	10.0	9.8	9.5	9.4	8.8
Ratio of total capital to risk assets	13.9	13.8	14.3	14.8	14.1
Leverage ratio(1)	6.8	6.6	6.5	-	-
Liquidity coverage ratio(1)	126.7	146.5	128.0	-	-
Efficiency ratio	68.5	72.7	78.7	87.1	78.2
Risk assets adjusted return(2)	8.7	6.7	5.8	4.3	7.8
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	1.4	1.5	1.6	1.7	1.8
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	1.7	2.4	2.6	2.7	3.7
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.4	0.3	0.1	0.2	0.4
Ratio of credit loss expenses to the average balance of credit to the public:	0.39	0.34	0.15	0.14	0.49
			In NIS millions		
Principal statements of profit and loss data for the reporting year:					
Net Profit Attributed to the Bank's Shareholders	**1,259**	**905**	**750**	**505**	**830**
Interest income, net	4,975	4,557	4,223	4,213	4,235
Credit loss expenses	574	469	187	164	580
Non-financing income	3,399	3,439	3,053	3,153	3,356
Of which: commissions	2,717	2,585	2,611	2,586	2,704
Non-financing expenses	5,735	5,814	5,725	6,414	5,937
Of which: salaries and related expenses	3,366	3,416	3,396	4,086	3,609
Comprehensive income, attributed to the Bank's shareholders	**939**	**613**	**719**	**905**	**32**
Total earnings per share attributed to Bank's shareholders (in NIS)					
Earnings per share	1.09	0.84	0.71	0.48	0.79
Diluted earnings per share(3)	1.08	0.84	0.71	0.48	0.79
Principal balance sheet data for the end of the reporting year:					
Total assets	**221,221**	**219,577**	**205,260**	**207,185**	**200,657**
Of which:					
Cash and deposits with banks	28,026	29,311	28,518	31,694	25,319
Securities	32,703	38,818	38,935	37,353	41,325
Credit to the public, net	148,757	140,760	127,216	120,123	115,859
Total liabilities	**205,153**	**204,641**	**191,626**	**194,196**	**188,658**
Of which:					
Deposits from the public	175,170	172,318	157,875	153,418	149,475
Deposits from banks	4,804	5,342	3,907	5,547	4,213
Bonds and Subordinated debt notes	7,639	8,498	9,570	10,638	11,664
Equity capital attributed to the Bank's shareholders	15,594	14,512	13,288	12,599	11,702
Total equity	**16,068**	**14,936**	**13,634**	**12,989**	**11,999**
Additional data:					
Share price	1,010	801	706	625	663
Average number of positions at the Group during the year	8,641	8,842	9,308	9,785	10,000
Ratio of commissions to total assets	1.2	1.2	1.3	1.3	1.4

Footnotes:

(1) The ratio is computed (since 2015) in respect of the three months ended at the end of the reporting period.

(2) Return on equity computed on the average balance of risk assets in accordance with the minimal capital target determined by the Bank for the end of the relevant period	9.18%	9.15%	9.06%	8.50%	8.00%

(3) Effect of option warrants that were outstanding until April 2, 2017 – see Note 24 D to the financial statements.

DEVELOPMENTS IN THE MARKET PRICE OF THE DISCOUNT SHARES

	Closing price at end of the trading day			Rate of
	February 27, 2018	December 31, 2017	December 31, 2016	change in 2017 in %
Discount share	1,000	1,010	801	26.1
The TA 5 Banks index	1,965.77	1,959.39	1,578.90	24.1
The TA 35 index	1,511.06	1,509.78	1,470.78	2.7
Discount market value (in NIS billions)	11.64	11.76	9.07	29.7

For details regarding the consolidated statement of profit and loss – multi-period information and consolidated balance sheet – multi-period information, 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. 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, and 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 in the Group's value and its ability to attain its goals, as a result of the deterioration in the ability of borrowers to honor their obligations.

- Quality of borrowers and collaterals. Risk of impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals.
- Industry concentration risk. Risk of impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the business activity of a certain economic sector.
- Borrower/groups of Borrowers. Risk of impairment in the Group's value and its ability to attain its goals, 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 in the Group's value and its ability to attain its goals, 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. The 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. The 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. The 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. The 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 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 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 2017 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 2017 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 in accordance with market developments (as extensively discussed in the 2016 financial report pp. 18-20).
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:
- a further narrowing of the gap with the banking system;
- a transformation in traditional banking;
- development of innovative banking models.

A further narrowing of the gap with the banking system

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;
   - closing 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:
   - growth in the retail segment, with emphasis on individual and small business customers, at the Bank and at the subsidiaries, MDB and CAL;
   - 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:

D. Focus and reducing non-core-business activities.

Transformation in traditional banking

In order to create a lead in the Bank's customer satisfaction by means of customer adapted banking, the Bank is focusing on a number of principal topics:
A. Development of communication channels, including upgrading of digital channels and the opening of new communication channels;
B. Upgrading of service centers (including the branch layout, the TeleBank and the back office);
C. The formation of a synchronized multichannel management platform that ensures customer service quality;
D. Producing information-based business perceptions aimed at enabling customers to receive the value proposition that is best and most suited to them.

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, in the years 2016-2017, the Group formed unique strategies for its principal subsidiaries – ICC, IDBNY and MDB – with the aim of aligning their modus operandi to the new competitive environment:

- ICC - ICC has formed an updated strategic plan for the years 2017-2021, taking into consideration the changes that are expected to happen in the credit card field, in view of the enactment of the Increase in Competition Act. See below "Israel Credit Cards Ltd." under "Main investee companies".
- MDB - a new strategy was approved during 2016, the main points of which are: focusing on and accelerating growth in designated segments of the population, in which considerable expertise has been gained over the years of providing banking services, as regard to both households and small businesses, segmentation and adjustment of customer value offer and a step up in online channels. See below "Mercantile Discount Bank Ltd." under "Main investee companies".
- New York - In December 2017, the Board of Directors of IDB New York approved a five-year strategic plan for the years 2018-2022. The plan is based upon growth while intensifying the old established personal relationship of IDB New York with its customers, in selected sectors in which the bank has expertise and many years of experience, as well as leveraging the position of IDB New York as the largest Israeli owned bank in the United States.

Assimilation of the Strategic Plan

With the refreshing of the strategy, the projects map was also updated so that at the end of 2017 the Group is managing 25 strategic projects. The "change administration" established in 2014, continues to lead the coordination of the change programs, to assist in their implementation, to monitor and control their progress and to report to Management and the Board of Directors.

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 some 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

2017 was the third year of operation in which was implemented the strategic plan announced by the Discount Group in August 2014. The Group continued in 2017 the implementation of the multi-annual strategic plan, including its three pillars: continuation of the closing of gaps, transformation of traditional banking and development of new banking models. Within the framework of the implementation of the strategic plan in 2017, are to be noted the formation of "Discount Spirit", introduction of several initiatives regarding the fintech and innovation field and the development and approval of new strategic plans for ICC and for IDB New York.

Issue of Subordinated Debt Notes (Series L)

On January 9, 2017, the Bank completed the issue of subordinated debt notes in a total amount of NIS 784 million, which include a mechanism for the absorption of capital losses, being capital instruments classified as Tier 2 capital for the purpose of inclusion in the Bank's regulatory capital. The said issue contributed approx. 0.5% to the overall capital ratio.

Formation of the "Discount Spirit"

In the beginning of 2017, with the passing of two and a half years since the beginning of the implementation of the strategic plan, which outlines the activity in all the core fields of operation and supporting fields of Discount Bank's operations, the need was found for the outlining of the organization's spirit, creation of a change supporting organizational culture, that would support the success of the organization in reaching its business goals, as a complementary process to the Bank's strategy. At the end of 2016, the Bank's Management decided to begin a process for the formation of the "Discount Spirit". The process was made of three tiers:
- Formation of a vision;
- Formation of values and conduct rules;
- Writing of code of ethics.

The vision, values and the code of ethics replaced the previous vision, values and code of ethics.
The vision of the Bank was formed and approved in the first quarter of 2017. All members of the Bank's senior forum participated in this process.
Following is the vision: 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.
The Bank has recently completed the move for the formation of the Bank's values, principles of conduct and the code of ethics. Values of the Bank: commitment to customers, leading change, making it happen, and succeeding together. Some 400 managers had participated in the move for the formation of the "Discount spirit", and who are committed to lead the integration process in all units of the Bank. The process of integration will continue also in 2018.

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. Within this framework, the Bank entered in 2017 into cooperation agreements with the fintech companies "PayBox" and "iCount". The cooperation with iCount comprises the first business-technological application in the banking sector in Israel, applying an open banking concept for an interface with third party suppliers, which is applied by way of the Application Programming Interface ("API") platform, which is of the most advanced in the world, enabling a secured connection on the basis of a global standard. Furthermore, as part of the actions for the promotion of innovation, the Bank initiated, developed and introduced in 2017 "Didi – the digital assistant in the Discount application", which enables customers to perform transactions, access information and get insights regarding the activity in their account, by means of a request in simple language, either in writing or orally. The service is based on advanced analytic capabilities and artificial intelligence, and is the first of its kind in the banking sector. See below under "Technological improvements and innovation".

The Uncompromising Implementation of the Strategic Plan

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. Moreover, weekly monitoring is regularly performed over the progress of the projects at several levels – project managers, the administration head, members of management in charge of the projects, and overall management.

Each of the projects is led by a project manager and a designated work team. The project teams at the Bank and at the subsidiary companies have acted and continue to act towards implementation of the many projects stemming from the strategic plan, including the business focus on growth, in greater efficiency, in a change in the organizational culture, in improvement in the infrastructure, in improved customer experience, developing the digital operation, and in the promotion of innovative aspects.

The Discount Group continued to grow in 2017, mainly in the field of credit granted to target populations, as defined in the strategic plan. The management of the capital of the Group is strict. The Group's financial base is robust and has become even stronger. As of December 31, 2017, the ratio of common equity tier I capital amounts to 10.0% and the liquidity coverage ratio amounts to 126.7% (on the basis of an observation average). This is the capital infrastructure that allows the Group to continue growing.

The implementation of efficiency measures continued in 2017, 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.

Additional Issues

- Both the Bank and ICC have reviewed the possible implications of changes in the financial system, following the conclusions and recommendations of the Committee for the Increase of Competitiveness in Banking and Financial Services in Israel ("the Strum Committee"; see below "Legislation and Supervision"). For details in respect of discussions regarding the signing of agreements between ICC and certain banks on the one hand, and between the Bank and factors in the credit card market on the other hand, see Note 36 B to the financial statements;
- ICC signed new agreements that would enable it to continue in its growth trend and establish its competitive position in the credit card market. Included in the above is the signing of a document of principles with Shufersal Company and the signing of an agreement with GAMA and with Alipay;
- The Bank has continued to devote and invest considerable managerial efforts and attention to the preparations and upgrading of the infrastructure required to deal with cyber risks and cross-border risks, all this alongside the continued integration and assimilation of the risk management, compliance and obedience and conduct culture.

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 2017.

Growth. The year 2017 was characterized by a significant improvement in the global economy, with synchronization between the leading economies in the world. The U.S. economy grew at the rate of 2.3%, following 1.5% in 2016. As estimated by the IMF, the global product grew in 2017 by 3.7%, and is expected to grow in 2018 by 3.9%. The Bank estimates that the Israeli economy would grow in 2018 by 3.5%, as compared with a growth of 3.3% in 2017.

Exchange rates. The U.S. dollar has weakened during the course of 2017 as against most currencies in the world. This following a significant strengthening against many currencies during 2016. The shekel maintained its strength with an appreciation of 9.8% and 4.2% against the U.S. dollar and against the effective currency basket, respectively. On the other hand, the shekel weakened by 2.7% against the Euro. The economy in real terms continues to support the strength of the shekel, this despite the expansionary monetary policy of the Bank of Israel and the negative interest margin against the U.S. dollar.

Inflation. The inflation in Israel amounted to 0.4% in 2017, following three years of negative inflation. Notwithstanding, the inflationary environment in Israel is still lower than the targeted inflation, and is also low in comparison to the inflation around the world. The reforms and increased competition supported an inflationary rate lower than excepted in the world. This despite impressive employment market data. The Bank estimates that at the end of 2018 the inflation rate would reach 0.6%.

Monetary policy. In 2017, certain of the central banks in the world turned their monetary policy towards a less expansionary direction.

In the United States, the FED declared three rises in interest during the year. Furthermore, members of the Committee estimate that there would be three rises in the interest rate also in 2018. In the Eurozone, the ECB declared that the purchase of bonds would continue at least until September 2018, though the volume thereof would be reduced to Euro 30 billion, starting in January 2018. The central bank in Britain has raised the interest rate. Notwithstanding, the global monetary environment remained expansionary. In Israel, the interest rate remained at an historic low of 0.1%, and the Bank estimates that as long as the Bank of Israel continues to adhere to the inflationary target, a rise in the interest rate would not take place before 2019.

Financial markets. The year 2017 was characterized by rising prices in the equities markets around the world. This on the background of the expanding global economic growth and the low interest environment. In the U.S., despite the increases in the interest rate and the beginning of a reduction in assets of the FED through the sale of bonds owned by it, in the passing year the return rate for ten years remained almost unchanged reaching at the end of the year 2.41%. On the other hand, the return rate for two years increased by 69 basis points to a level of 1.88%. This on the background of the economic growth and the determination of the FED to adhere to the rise in interest track. In contrast to the trend in Europe and in the U.S., Israeli government bonds were marked during the year by falling prices, this as a result of the low inflationary environment and investors' assessment that no change is expected in the monetary policy of the Bank of Israel in the coming year. At the end of the year, the return on shekel government bonds for ten years (Series 327) was 1.62%.

The first quarter of 2018. The global macro-economic environment remained positive, and the current macro-economic data since the beginning of the year indicate accelerated activity. In the U.S., the continuing improvement in the labor market continued and the high level of the consumer confidence index signaled the continuation of the private consumption expansion. Inflation in the U.S. is expected to continue rising, inter alia, following the expansionary fiscal policy adopted by the Administration, strong labor market data and the devaluation of the U.S. dollar. The rising inflation supports the continued raising of the interest rate. Concerns that the positive environment would be adversely affected, which up to now supported the equities market, following the rising inflation, the reduction by the central banks of the expansionary monetary policy and the rising returns in the government bonds market, resulted in sharp fluctuations in the markets. In Israel, the annual rate of inflation as of January dropped to 0.1%, and the Bank of Israel left the interest rate at the level of 0.1%.

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 2017" in "Corporate governance, audit, additional details regarding the business of the banking corporation and management thereof".

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.

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.

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.
Cross-border risks. Cross border operations of the Group in Israel with respect to customers, involves unique risks stemming, inter alia, from the non-reporting of accounts held with the Bank by foreign resident customers to the tax authorities in their countries of residence, where required, as well as from the need to adapt the services and products granted to foreign resident customers to the provisions of the foreign regulation applying to such services and products, in accordance with the place of operation and/or in accordance with the country of residence of the customer.
Exposure to cross-border risks has grown significantly in recent years, against the background of adding regulatory requirements, in Israel and abroad, 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, cooperation between authorities with respect to exchange of information, which has been established in Israeli legislation applying to the Group. These measures require the Group to obtain and manage personal details of customers, in order to comply with the different reporting duties.
Realization of this risk may have considerable implications for 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", primarily against a background of systemic characteristics and the scope of the potential exposure, in the case of an exposure event.
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 Bank's strategic plan, also contributed to the reduction of cross-border risks exposure.
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 and in Conflict of Interests 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 but only to its competitors (Isracard and LeumiCard). Only at the end of four years would the issue of separating the ownership of ICC be re-examined. This and more, if until now 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 would be required 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 would now have 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 the measures that will be taken, if at all, 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, 2017, is estimated at NIS 51 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".
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, relief granted to new players by means of assisting in setting up an office for banking computerization services. 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 will investigate 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.
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. In addition, an outline with respect to the reduction of the cross-commission regarding immediate charge transactions. 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 A 1.
For details regarding the draft exemption terms for the agreement (a new arrangement in the industry replacing the arrangement expected to expire on December 31, 2018), published by the 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.
2016 Efficiency plan. The efficiency plan approved in September 2016, comprises a significant expansion of the previous efficiency plan of the Group, forming a part of the strategic plan for the years 2015-2019. The approved efficiency plan includes early retirement of employees alongside natural retirement, which in total is expected to lead to a reduction in the workforce of some one thousand additional employees until 2021.
Following are the principal points of the early retirement plan and its implications:

1.1 According to the plan, some five hundred employees of the Group will retire an early retirement at beneficial terms, most of whom, until the end of 2016;
1.2 The total cost of the plan was estimated at approx. NIS 511 million (in excess of the cost of severance compensation under the law);
1.3 Approx. NIS 141 million, gross (about NIS 90 million net after tax) was recognized in the statement of income until the end of 2016, the balance being spread over the average maturity period of the liability, which stood at date of approval of the plan at twelve years, this in accordance with the accounting principles applying to the Bank;
1.4 The impact of the efficiency plan on the ratio of equity capital to risk assets was estimated at 0.15%, which is recognized in installments over a period of five years.

It is noted that the data stated above is considered forward looking information, within the meaning of the term in the Securities Act, 1968. The scope of the efficiency plan as well as its impact on the statement of income and on capital adequacy during the period of the plan and thereafter, are, inter alia, dependent on the extent of response of the employees to the voluntary retirement offer in accordance with the terms of the plan and the characteristics of the retiree group (seniority, gender and salary level). Accordingly, the actual impact of the efficiency plan may materially differ from the data presented above.

For additional details, see Note 23 I and J 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 D to the financial statements.

Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB). Some 23 additional employees retired in 2017, and 19 employees signed a retirement agreement and are expected to retire at the beginning of 2018, all of whom within the framework of the plan.

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 Supervisor of Banks would grant to a banking corporation relief in the matter of capital adequacy, in respect of the implementation of an efficiency plan as regards the real estate field, subject to all the terms stated in the instruction.

The relief regarding attainment of the capital adequacy goals, would be computed in accordance with the amount of capital gains earned on the sale of a real estate asset but not yet recognized in profit and loss, and accordingly not yet recognized in the regulatory capital, and the cumulative amount of direct costs recognized by the banking corporation in respect of the efficiency plan.

The relief stated in the instruction shall apply to efficiency plans 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 would be approved until June 30, 2018.

Opinion of the Independent Auditors

In the opinion provided by the independent auditors on the financial statements for the year 2017, the independent auditors drew attention to Note 26 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 2017 amounted to NIS 1,259 million, compared with NIS 905 million in 2016, an increase of 39.1%. Disregarding certain components (see table below), the profit for 2017 would amount to NIS 1,309 million, compared with NIS 980 million, an increase at a rate of 33.6%.

Return on equity, net, attributed to the Bank's shareholders for 2017 was 8.4%, compared with 6.6% in 2016. Disregarding certain components (see table below), the return in 2017 would have been 8.7%, compared with 7.2% in 2016.

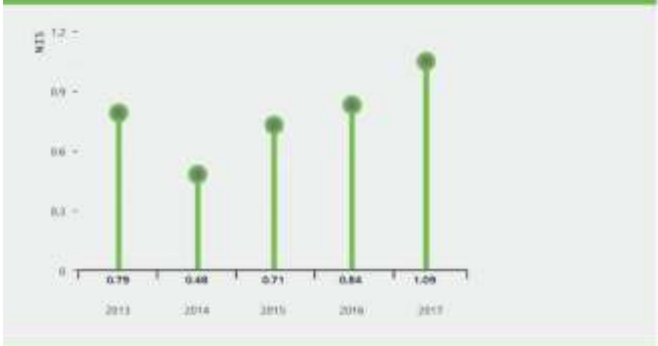
Net earnings per one share of NIS 0.1 par value amounted in 2017 to NIS 1.09, compared with NIS 0.84 in 2016.

The main factors that had an effect on the business results of the Group in 2017, compared with 2016:

a. An increase in interest income, net, in an amount of NIS 418 million (9.2%), mainly affected by the growth in the credit portfolio.
b. An increase in credit loss expenses, in an amount of NIS 105 million (22.4%), mainly the growth in the allowance on a group basis.
c. A decrease in the total non-interest income, of NIS 40 million (1.2%), affected mostly by a decrease of NIS 159 million in non-interest financing income (21.1%), the decrease was mainly affected by gains from the sale of rights in VISA Europe in the amount of NIS 360 million, which was recognized in 2016, and was partly offset by an increase of NIS 135 million in income from the realization of investments in Discount Capital. An increase of NIS 132 million in commissions (5.1%), mainly an increase in credit card commissions and a decrease of NIS 13 million in other income, mostly from the realization of assets (13.0%).
d. A decrease of NIS 79 million in operating and other expenses (1.4%), affected from the decrease in payroll and related expenses in the amount of NIS 50 million (1.5%), a decrease in the amount of NIS 23 million in maintenance and depreciation expenses of buildings and equipment (2.2%) and from a decrease of NIS 6 million in other expenses (0.5%).

e. Tax provision of NIS 747 million on earnings in 2017, compared with NIS 741 million in 2016. 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 and J to the financial statements). The provision for taxes in 2016 was impacted by a nonrecurring expense of NIS 109 million, following the reduction in the corporate tax rate (see Note 8 I to the financial statements).

Net Income Per Share



Net Income and Return on Equity

Net Profit Attributed to the Bank's Shareholders in the fourth quarter of 2017 amounted to NIS 371 million, compared with NIS 313 million in the third quarter of the year, an increase in a rate of 18.5%, and compared with NIS 145 million in the fourth quarter of 2016, an increase of 155.9%. With the elimination of certain components, see table below, the net profit in the fourth quarter of 2017 would have amounted to NIS 407 million, compared with a net profit of NIS 317 million in the third quarter of 2017, an increase of 28.4%, and compared with NIS 284 million in the fourth quarter of 2016, an increase of 43.3%.

The major factors affecting the business results of the Group in the fourth quarter of 2017, compared with the previous quarter, were:

A. An increase in interest income, net, in an amount of NIS 90 million (7.5%).
B. A decrease in credit loss expenses, in an amount of NIS 156 million (83.4%), stemming mostly from collections.
C. A decrease of NIS 73 million (8.1%) in non-interest income, which was affected mainly from the decline in realization gains and from adjustments to fair value of bonds in the amount of NIS 85 million, from a decrease of NIS 44 million in income from the sale of investments in Discount Capital and from the growth in other income in the amount of NIS 28 million, mainly due to the realization of assets.
D. An increase in operating and other expenses, in an amount of NIS 77 million (5.4%), which was effected mostly by an increase of NIS 35 million in other expenses (10.3%), from an increase of NIS 24 million in maintenance expenses and depreciation of buildings and equipment (9.8%) and from an increase of 19 million in salaries and related expenses (2.3%).
E. In the fourth quarter of 2017, provision for taxes on the profit was recorded, in the amount of NIS 222 million, compared with NIS 180 million in the previous quarter. 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 and J to the financial statements). The provision for taxes in the fourth quarter of 2016 was affected by the nonrecurring expense of NIS 59 million, following the reduction in the rate of corporate tax (see Note 8 I to the financial statements).

Developments in Income and Expenses

DEVELOPMENTS IN CERTAIN PROFIT AND LOSS STATEMENT ITEMS IN 2015-2017

	For the year ended December 31			Change in %	
	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
	In NIS millions				
Interest income	6,213	(1)5,659	(1)5,265	9.8	7.5
Interest expenses	1,238	1,102	1,042	12.3	5.8
Interest income, net	4,975	4,557	4,223	9.2	7.9
Credit loss expenses	574	469	187	22.4	150.8
Net interest income after credit loss expenses	**4,401**	**4,088**	**4,036**	**7.7**	**1.3**
Non-interest Income					
Non-interest financing income	595	754	363	(21.1)	107.7
Commissions	2,717	2,585	2,611	5.1	(1.0)
Other income	87	100	79	(13.0)	26.6
Total non-interest income	**3,399**	**3,439**	**3,053**	**(1.2)**	**12.6**
Operating and other Expenses					
Salaries and related expenses	3,366	3,416	3,396	(1.5)	0.6
Maintenance and depreciation of buildings and equipment	1,044	1,067	1,158	(2.2)	(7.9)
Other expenses	1,325	1,331	1,171	(0.5)	13.7
Total operating and other expenses	**5,735**	**5,814**	**5,725**	**(1.4)**	**1.6**
Profit before taxes	2,065	1,713	1,364	20.5	25.6
Provision for taxes on profit	747	(1)741	(1)566	0.8	30.9
Profit after taxes	1,318	972	798	35.6	21.8
Bank's share in profit of affiliated companies, net of tax effect	1	15	9	(93.3)	66.7
Net profit attributed to the non-controlling rights holders in consolidated companies	(60)	(82)	(57)	(26.8)	43.9
Net Profit attributed to Bank's shareholders	**1,259**	**905**	**750**	**39.1**	**20.7**
Return on equity attributed to the Bank's shareholders, in %	8.4	6.6	5.8		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**1,309**	**980**	**804**	**33.6**	**21.9**
Return on equity attributed to the Bank's shareholders, in % - disregarding certain components (see below)	8.7	7.2	6.2		

Footnote:

(1) Reclassified, see Note 1 C 7 to the financial statements.

PROFITABILITY - DISREGARDING CERTAIN COMPONENTS

		For the year ended December 31			Change in %	
		2017	2016	2015	2017 compared to 2016	2016 compared to 2015
	Notes	in NIS millions				
Net Profit Attributed to the Bank's Shareholders - as reported		1,259	905	750	39.1	20.7
Disregarding(1):						
Gains on the sale of rights in Visa Europe	36 G	-	(178)	-		
Effect of settlement	23 I	21	90	-		
loss from sale of operations of foreign investee companies and retirement plans	15 E	-	-	33		
Expense in ICC for arrangement replacing criminal proceedings	36 F	-	54	-		
Effect of the change in the tax rate	8 I and J	29	109	21		
Net Profit Attributed to the Bank's Shareholders - disregarding the above components		**1,309**	**980**	**804**	**33.6**	**21.9**

Footnote:

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

The effect of realizing investments in Discount Capital. Although the realization of investments in Discount Capital is considered ordinary operations of the Group, the volume of income from realizations made in 2017 reached a high amount compared with previous years. Income from realizations in 2017 amounted to NIS 215 million, compared with NIS 71 million in 2016 and NIS 87 million in 2015.

DEVELOPMENTS IN CERTAIN PROFIT AND LOSS STATEMENT ITEMS IN THE FOURTH QUARTER OF 2017, COMPARED WITH THE THIRD QUARTER OF 2017 AND THE FOURTH QUARTER OF 2016

	2017		2016	Q4 2017 compared to	
	Q4	Q3	Q4	Q3 2017	Q4 2016
	In NIS millions			in %	
Interest income	1,608	1,465	(2)1,428	9.8	12.6
Interest expenses	311	258	262	20.5	18.7
Interest income, net	1,297	1,207	1,166	7.5	11.2
Credit loss expenses	31	187	224	(83.4)	(86.2)
Net interest income after credit loss expenses	**1,266**	**1,020**	**942**	**24.1**	**34.4**
Non-interest Income					
Non-interest financing income	94	197	179	(52.3)	(47.5)
Commissions	696	694	653	0.3	6.6
Other income	37	9	6	311.1	516.7
Total non-interest income	**827**	**900**	**838**	**(8.1)**	**(1.3)**
Operating and other Expenses					
Salaries and related expenses	856	837	866	2.3	(1.2)
Maintenance and depreciation of buildings and equipment	272	248	254	9.7	7.1
Other expenses	363	329	338	10.3	7.4
Total operating and other expenses	**1,491**	**1,414**	**1,458**	**5.4**	**2.3**
Profit before taxes	602	506	322	19.0	87.0
Provision for taxes on profit	222	180	(2)168	23.3	32.1
Profit after taxes	380	326	154	16.6	146.8
Bank's share in profit of affiliated companies, net of tax effect	5	3	3	66.7	66.7
Net profit attributed to the non-controlling rights holders in consolidated companies	(14)	(16)	(12)	(12.5)	16.7
Net Profit attributed to Bank's shareholders	**371**	**313**	**145**	**18.5**	**155.9**
Return on equity attributed to the Bank's shareholders, in %(1)	10.0	8.6	4.1		
Net Profit attributed to Bank's shareholders - disregarding certain components (see below)	**407**	**317**	**284**	**28.4**	**43.3**
Return on equity attributed to the Bank's shareholders, in %(1) - disregarding certain components (see below)	11.0	8.7	8.2		

Footnote:

(1) On an annual basis.

(2) Reclassified, see Note 1 C 7 to the financial statements.

PROFITABILITY PER QUARTERS – DISREGARDING CERTAIN COMPONENTS

				2016	Q4 2017 compared to	
		Q4	Q3	Q4	Q3 2017	Q4 2016
	Notes	in NIS millions			Change in %	
Net income attributed to the Bank's shareholders - as reported		371	313	145	18.5	155.9
Disregarding(1):						
Effect of settlement	23 I	7	4	80		
Effect of the change in tax rate	8 I and J	29	-	59		
Net income attributed to the Bank's shareholders - disregarding the above components		**407**	**317**	**284**	**28.4**	**43.3**

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 F to the financial statements).
Effect of settlement. Acceleration of the amortization of "Actuarial profits and losses" following the implementation of the 2016 Efficiency Plan (see Note 23 I 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 E (2) 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 and J 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).

Following are details regarding material changes in statement of profit and loss items:
Interest income, net. In 2017, interest income, net, amounted to NIS 4,975 million compared with NIS 4,557 million in 2016, an increase of 9.2%. The rise in the interest income, net, in the amount of NIS 418 million, is explained by a positive price impact of approx. NIS 45 million, and from a positive quantitative effect in the amount of approx. NIS 373 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, excluding derivatives, reached a rate of 2.32% in 2017, compared with 2.24% in 2016.
The average balance of interest bearing assets has increased by a rate of approx. 5.5%, from an amount of NIS 188,168 million to NIS 198,472 million, and the average balance of interest bearing liabilities has increased by a rate of approx. 6.0%, from an amount of NIS 143,688 million to NIS 152,253 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

	2017			2016		
	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	66.3	3,798	2.80	62.4	3,429	2.85
CPI-linked shekels	9.7	144	(0.90)	10.5	80	(0.74)
Foreign Currency	24.0	1,033	2.03	27.1	1,048	1.89
Interest income, net and the interest margin	**100.0**	**4,975**	**2.32**	**100.0**	**4,557**	**2.24**

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

In the non-linked shekel segment, net interest income increased in 2017 at a rate of 10.8%. Income from this segment constituted 76.3% of total net interest income in 2017, compared with 75.2% in 2016.
The average balance of assets in this segment increased in 2017 by 12.1% compared with 2016.
The growth in profit of this segment stemmed from an increase in the volume of net interest bearing assets, which was offset by a decline in the interest margin. The decline in the interest margin was, inter alia, affected by the decrease of the non-linked interest rate in the market.
The CPI-linked Shekel segment net interest income increased in 2017 at a rate of 80.0% and its proportion of total net interest income in 2017 was 2.9%, compared with 1.8% in 2016.
The average asset balance in this segment in 2017 decreased by a rate of 2.7% compared with 2016.
The growth in profit of this segment stemmed from an increase in the volume of net interest bearing assets, which was offset by a decline in the interest margin. The decline in the interest margin was, inter alia, affected by the decrease of the linked interest rate in the market.
In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income decreased in 2017 by a rate of 1.4%. Its proportion of all Net profit was 20.8% in 2017, compared with 23.0% in 2016.
In 2017 the average balance of assets in this segment decreased at a rate of 6.7% compared to 2016.

The reduction in profits of the segment stemmed from a decrease in the volume of net interest bearing assets, which has been offset 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. In 2017, non-interest financing income decreased at a rate of 21.1%.

The decline in non-interest financing income stems mostly from a decline in gains on investment in shares (see Note 3 to the financial statements), resulting from the realization of rights in VISA Europe in the corresponding period last year, which was partly offset this year by the growth in income from the realization of investments in Discount Capital. With the elimination of the said realization, non-interest financing income rose by 17.6% as compared with the corresponding period last year.

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				
	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 income	**5,570**	**1,391**	**1,404**	**1,383**	**1,392**
	2016				
Interest income	5,659	(1)1,428	1,519	1,494	(1)1,218
Interest expenses	1,102	262	332	339	169
Interest income, net	4,557	1,166	1,187	1,155	1,049
Non-interest financing income	754	179	51	428	96
Total net financing profit	**5,311**	**1,345**	**1,238**	**1,583**	**1,145**

Footnote:
(1) Reclassified, see Note 1 C 7 to the financial statements.

ANALYSIS OF THE TOTAL NET FINANCING INCOME

	Annual	Q4	Q3	Q2	Q1
	in NIS millions				
	2017				
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 profit on the sale of loans	20	19	-	--	1
Total net financing income	**5,570**	**1,391**	**1,404**	**1,383**	**1,392**
*Of which: income from realizations in Discount Capital.	215	22	56	61	76
	2016				
Profit from current operations	4,594	(1)1,200	1,169	1,130	(1)1,095
	2	(12)	18	17	(21)
Net profit from realization and adjustment to fair value of bonds	141	(20)	43	43	75
Profit (loss) from investments in shares*	444	54	3	373	14
Adjustment to fair value of derivative instruments	(10)	77	(30)	(18)	(39)
Exchange rate differences, options and other derivatives	126	33	35	37	21
Net income on the sale of loans	14	13	-	1	-
Total net financing profit	**5,311**	**1,345**	**1,238**	**1,583**	**1,145**
*Of which: income from realizations in Discount Capital.	71	55	3	7	6

Footnote:
(1) Reclassified, see Note 1 C 7 to the financial statements.

Financing income, net, increased in 2017 at a rate of 4.9%.

The growth in financing income stemmed, mostly, from an increase of NIS 447 million in profit from current operations, from an increase of NIS 42 million in gains on investment in bonds, which were offset by a decrease in the amount of NIS 211 million in gains on investment in shares, mainly as a result of the realization of rights in VISA Europe in the corresponding period last year and the growth in income this year with respect to the realization of investments in Discount Capital, and from a decrease of NIS 57 million in gains on exchange rates, options and other derivatives.

Rates of income and expenses. In the appendices to the annual report – Appendix 1 are presented interest income, net. In explaining the Bank's interest rate gap from current operations, one should add the effect of operations in derivatives (not including exchange differences and operation in options).

Interest margin from current operations, including derivatives reached in 2017 a rate of 1.24%, compared with 1.13% in 2016.

Financing income, net, increased in the fourth quarter of 2017, at a rate of 2.8%, compared with the corresponding quarter last year, and decreased at a rate of 1.6% compared with the third quarter of 2017.

The interest margin, after elimination of the effect of derivatives, reached in the fourth quarter of 2017 a rate of 2.46%, compared to 2.31% in the corresponding quarter last year and compared to 2.30% in the third quarter of the year.

The interest margin on current operations, including ALM derivatives, reached 1.30% in the fourth quarter of 2017, compared to 1.16% in the corresponding quarter last year and compared to 1.25% in the third quarter of 2017.

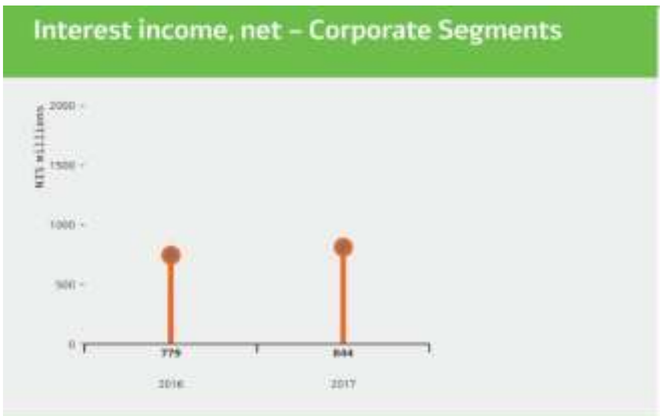
DEVELOPMENT OF INTEREST INCOME, NET, BY REGULATORY OPERATING SEGMENTS

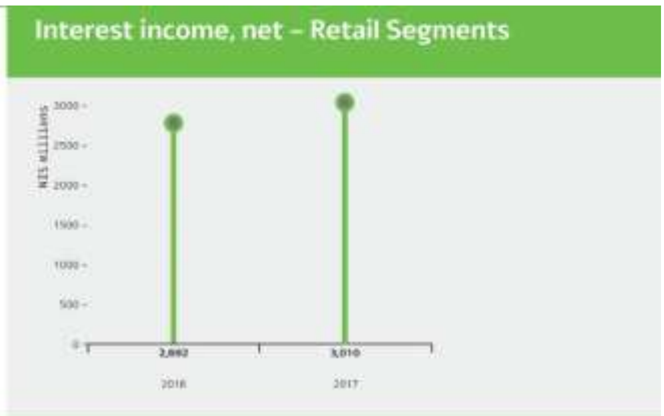
	For the year ended December 31,		
	2017	[2]2016	
	In NIS millions		Change in %
Domestic operations:			
Households	1,541	1,346	14.5
Private banking	52	45	15.6
Small and minute businesses	1,417	1,301	8.9
Medium businesses	300	288	4.2
Large businesses	544	491	10.8
Institutional bodies	42	32	31.3
Financial management	318	[1]310	2.6
Total Domestic operations	**4,214**	**3,813**	**10.5**
International operations:			
Private Individuals	122	139	(12.2)
Business operations	603	571	5.6
Other	36	34	5.9
Total International operations	**761**	**744**	**2.3**
Total	**4,975**	**4,557**	**9.2**

Footnotes:

(1) Reclassified - see Note 1 C (7) to the condensed financial statements..

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





Credit loss expenses amounted to NIS 574 million in 2017, compared with NIS 469 million in 2016, an increase of 22.4%.

The credit loss expense for 2017 was affected, mostly, by the following factors:

- Recording of expenses on a group basis, impacted mostly, from the increase in accounting write-offs, from changes in the rate of the allowance and from a growth in credit;
- Recording of expenses on a specific basis, which were offset by collections (mainly in the last quarter of the year).

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

	2017	2016
	In NIS millions	
On a specific basis		
Change in the balance of allowance for credit losses	(210)	(75)
Gross accounting write-offs	626	470
Collection	(391)	(353)
Total on a specific basis	**25**	**42**
On a group basis		
Change in the balance of allowance for credit losses	202	155
Gross accounting write-offs	551	444
Collection	(204)	(172)
Total on a group basis	**549**	**427**
Total	**574**	**469**
Rate of credit loss expenses to the average balance of credit to the public	0.39%	0.34%

DETAILS OF THE QUARTERLY DEVELOPMENT IN THE CREDIT LOSS EXPENSES

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis								
Change in the balance of allowance for credit losses	(19)	(27)	(53)	(111)	(104)	27	-	2
Gross accounting write-offs	141	118	193	174	310	38	55	67
Collection	(179)	(63)	(74)	(75)	(129)	(67)	(79)	(78)
Total on a specific basis	**(57)**	**28**	**66**	**(12)**	**77**	**(2)**	**(24)**	**(9)**
On a group basis								
Change in the balance of allowance for credit losses	9	65	65	63	76	66	16	(3)
Gross accounting write-offs	132	141	133	145	106	128	104	106
Collection	(53)	(47)	(53)	(51)	(35)	(51)	(38)	(48)
Total on a group basis	**88**	**159**	**145**	**157**	**147**	**143**	**82**	**55**
Total	**31**	**187**	**211**	**145**	**224**	**141**	**58**	**46**
Rate of credit loss expenses to the average balance of credit to the public(1):								
The rate in the quarter	0.08%	0.51%	0.58%	0.40%	0.66%	0.42%	0.18%	0.14%
Cumulative rate since the beginning of the year:	0.39%	0.49%	0.49%	0.40%	0.34%	0.24%	0.16%	0.14%

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 2,717 million in 2017, compared with NIS 2,585 million in 2016, an increase of 5.1%. The commissions were affected, primarily, from an increase in credit card commissions.

DISTRIBUTION OF COMMISSIONS

	For the year ended December 31		
	2017	2016	Change
	in NIS millions		in %
Account Management fees	483	489	(1.2)
Credit cards	1,119	1,024	9.3
Operations in securities and in certain derivative instruments	336	322	4.3
Commissions from the distribution of financial products	142	136	4.4
Handling credit	154	136	13.2
Conversion differences	137	138	(0.7)
Foreign trade services	52	53	(1.9)
Net income from credit portfolio services	7	11	(36.4)
Commissions on financing activities	198	181	9.4
Other commissions	89	95	(6.3)
Total commissions	**2,717**	**2,585**	**5.1**

Salaries and related expenses amounted to NIS 3,366 million in 2017, compared with NIS 3,416 million in 2016, a decrease of 1.5% (for details as to the components of this item, see Note 6 to the financial statements).

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

	For the year ended December 31		
	2017	2016	Change in %
	In NIS millions		
Salaries and Related Expenses - as reported	3,366	3,416	(1.5)
Awards	(231)	(114)	
Effect of settlement[1]	(32)	(141)	
Reversal of excess provisions	-	28	
Salaries and Related Expenses - Disregarding certain components	**3,103**	**3,189**	**(2.7)**

Footnote:

(1) Accelerating the amortization of "actuarial profits and losses" following the implementation of the 2016 efficiency plan - see Note 23 I to the financial statements.

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

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	856	837	814	859	866	830	861	859
Awards	(95)	(55)	(40)	(41)	(18)	(28)	(45)	(23)
Effect of change[1]	(11)	(6)	(6)	(9)	(125)	(16)	-	-
Reversal of excess provisions	-	-	-	-	[2]57	-	-	-
Salaries and Related Expenses - Disregarding certain components	**750**	**776**	**768**	**809**	**780**	**786**	**816**	**836**

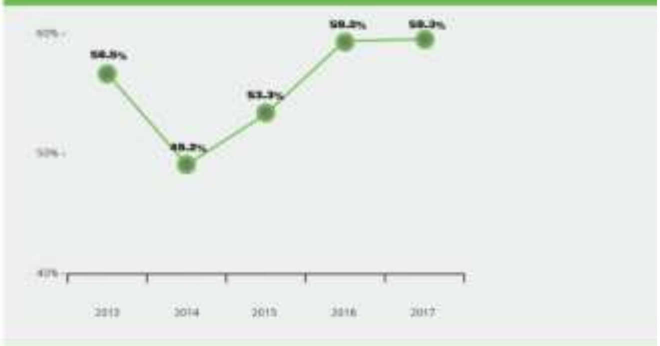
Footnotes:

(1) Accelerating the amortization of "actuarial profits and losses" following the implementation of the 2016 efficiency plan - See Note 23 I to the financial statements.

(2) Mostly actuarial components.

Efficiency Ratio

Coverage Ratio



Interest Income, net – Consolidated

Operating Expenses to Total Income

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, 2017				December 31, 2016			
	Consolidated							
	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	153	82	23	258	157	100	37	294
Acquisitions or license fees not capitalized to assets	123	4	-	127	115	2	-	117
Outsourcing expenses	38	41	12	91	46	24	9	79
Depreciation expenses	249	78	11	338	251	71	9	331
Other expenses	39	52	97	188	48	48	99	195
Total	**602**	**257**	**143**	**1,002**	**617**	**245**	**154**	**1,016**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	70	-	-	70	67	-	-	67
Outsourcing costs	219	-	-	219	118	-	-	118
Acquisition or license fee costs	69	2	-	71	48	10	-	58
Equipment, buildings and real estate costs	39	93	5	137	55	95	4	154
Total	**397**	**95**	**5**	**497**	**288**	**105**	**4**	**397**
Balances of assets in respect of the information technology system:								
Total amortized cost	791	214	145	1,150	736	199	168	1,103
Of which: in respect of salaries and related expenses	560	-	-	560	495	-	-	495

Developments in the Comprehensive Income

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended December 31,		
	2017	2016	
	in NIS millions		Change in %
Net Profit attributed to the Bank's shareholders	1,259	905	39.1
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive loss, before taxes[1]	(318)	(402)	
Effect of attributed taxes	(2)	110	
Other comprehensive loss, attributed to the Bank's shareholders, after taxes	(320)	(292)	
Comprehensive income, attributed to the Bank's shareholders	**939**	**613**	**53.2**

Footnote:

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

The other comprehensive income in 2017, was mainly impacted by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate. The comprehensive income in 2016, was mainly impacted by an actuarial loss, mostly affected by the 2016 efficiency plan, by negative exchange rates differences on the investment of the bank in New York, as a result of the decline in the U.S. dollar exchange rate and from realized gains 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, 2017 amounted to NIS 221,221 million, compared with NIS 219,577 million at the end of 2016, an increase of 0.7%.

DEVELOPMENTS IN THE PRINCIPAL BALANCE SHEET ITEMS

	December 31, 2017	December 31, 2016	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	28,026	29,311	(4.4)
Securities	32,703	38,818	(15.8)
Credit to the public, net	148,757	140,760	5.7
Liabilities			
Deposits from the public	175,170	172,318	1.7
Deposits from banks	4,804	5,342	(10.1)
Securities loaned or sold under repurchase arrangements	1,943	3,543	(45.2)
Subordinated debt notes	7,639	8,498	(10.1)
Equity attributed to the Bank's shareholders	15,594	14,512	7.5
Total equity	16,068	14,936	7.6

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, 2017, amounted to NIS 148,757 million, compared with NIS 140,760 million on December 31, 2016, an increase of 5.7%. The ratio of credit to the public, net, to total assets reached 67.2% at the end of 2017, compared with 64.1% at the end of 2016.

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, 2017		December 31, 2016		
	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	106,269	71.4	96,200	68.4	10.5
CPI-linked shekels	15,339	10.3	15,243	10.8	0.6
Foreign currency and foreign currency-linked shekels	27,149	18.4	29,317	20.8	(7.4)
Total	**148,757**	**100.0**	**140,760**	**100.0**	**5.7**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto decreased by 7.4% compared with December 31, 2016. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels increased by US$206 million as compared to December 31, 2016, an increase of 2.7%. 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 7.8% as compared to December 31, 2016.

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, 2017	September 30, 2017[(1)]	December 31, 2016[(1)]	Change compared to September 30, 2017	Change compared to December 31,2016
	In NIS millions			In %	
Domestic operations:					
Households*	56,129	54,724	50,773	2.6	10.5
Private banking*	217	200	214	8.5	1.4
Small and minute businesses	35,368	35,569	33,592	(0.6)	5.3
Medium businesses	12,406	11,943	12,234	3.9	1.4
Large businesses	25,400	26,508	22,944	(4.2)	10.7
Institutional bodies	642	944	1,047	(32.0)	(38.7)
Total Domestic operations	**130,162**	**129,888**	**120,804**	**0.2**	**7.7**
International operations:					
Private Individuals*	1,333		1,523		(12.5)
Business operations	19,373		20,577		(5.9)
Total International operations	**20,706**	**21,171**	**22,100**	**(2.2)**	**(6.3)**
Total credit to the public	**150,868**	**151,059**	**142,904**	**(0.1)**	**5.6**
Credit loss expenses	(2,111)	(2,119)	(2,144)	(0.4)	(1.5)
Total credit to the public, net	**148,757**	**148,940**	**140,760**	**(0.1)**	**5.7**
*Of which - Mortgages	28,893	28,057	25,764	3.0	12.1

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

The increase in credit to the public in 2017 reflects the Bank's strategy regarding growth in the household, alongside a growth in middle-market banking. Attainment of the Bank's capital adequacy goals, enabled the Bank to accelerate the rate of growth in credit.
The credit to the households segment, the growth therein comprises a focus point in the strategic plan, amounted at December 31, 2017 to NIS 56,129 million, an increase of approx. NIS 5.4 billion compared with December 31, 2016, which reflects a growth of 10.5%. This, in continuation to a growth at the rate of 15.6% during 2016.
Housing loans amounted at December 31, 2017 to NIS 28,893 million, an increase of NIS 3,129 million compared to December 31, 2016, reflecting a growth of 12.1%. This, in continuation to a growth at the rate of 18.1% during 2016.

COMPOSITION OF CREDIT TO THE PUBLIC BY ECONOMIC SECTORS

DEVELOPMENTS OF CREDIT EXPOSURE, BY MAJOR ECONOMIC SECTORS

	December 31, 2017		December 31, 2016		
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	20,005	8.5	19,648	8.7	1.8
Construction and real estate - construction	25,280	10.8	22,535	10.0	12.2
Construction and real estate - real estate activity	19,840	8.5	19,511	8.7	1.7
Commerce	26,791	11.6	26,650	11.8	0.5
Financial services	19,799	8.5	21,063	9.4	(6.0)
Private individuals - housing loans	30,780	13.2	27,761	12.3	10.9
Private individuals - other	55,901	24.0	53,382	23.7	4.7
Other sectors	34,721	14.9	34,649	15.4	0.2
Total overall credit to the public risk	**233,117**	**100.0**	**225,199**	**100.0**	**3.5**

The data presented above indicates that in 2017, the overall risk regarding credit to the public increased by 3.5% compared with the end of 2016. This growth applied mostly to credit granted to construction and real estate - construction, private individuals – housing loans and private individuals – other. In the meantime, a decrease occurred in the overall risk regarding credit to the financial services sectors.

In past years, Discount Bank's performance in the mortgage sector has been at lower rates than the Bank's estimated share in other sectors of the retail segment, which stand at approx. 10%. The growth in the Bank's share of the mortgage market in 2016-2017 constitutes in actual fact, "gap closure", as part of the strategic plan. The aforesaid growth was achieved while strictly adhering to underwriting procedures and looking after customers' needs

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, 2017 to NIS 2,130 million, compared to NIS 2,943 million at December 31, 2016, a decrease at the rate of 27.6% 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, 2017 to NIS 1,323 million, compared to NIS 2,394 million at December 31, 2016, a decrease at a rate of 44.7%.

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

	December 31, 2017			December 31, 2016		
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	20,005	510	2.5	19,648	657	3.3
Construction and real estate - construction	25,280	344	1.4	22,535	483	2.1
Construction and real estate - real estate activity	19,840	702	3.5	19,511	451	2.3
Commerce	26,791	869	3.2	26,650	1,105	4.1
Financial services	19,799	422	2.1	21,063	766	3.6
Private individuals - housing loans	30,780	312	1.0	27,761	328	1.2
Private individuals - other	55,901	495	0.9	53,382	440	0.8
Other Sectors	34,721	971	2.8	34,649	1,341	3.9
Total Public	**233,117**	**4,625**	**2.0**	**225,199**	**5,571**	**2.5**
Banks	5,472	31	0.6	9,189	93	1.0
Governments	25,553	-	-	26,575	-	-
Total	**264,142**	**4,656**	**1.8**	**260,963**	**5,664**	**2.2**

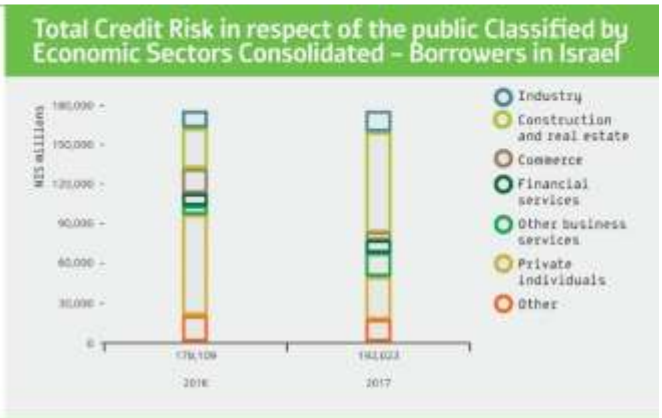
In 2017 the ratio of problematic credit risk to the overall credit risk decreased, as compared with 2016. The rate of the problematic debt declined in 2017, mostly in the sectors of the industry, construction and real estate - construction, commerce, financial services and other sectors. On the other hand, the rate of problematic debt increased in the construction and real estate - real estate activity sectors.

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 2,111 million as of December 31, 2017. The balance of this allowance constitutes 1.40% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,144 million, constituting 1.50% of the credit to the public as of December 31, 2016.

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 188 million on December 31, 2017, compared to NIS 389 million on December 31, 2016. The reduction stemmed, mostly, from the recording of accounting write-offs.

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, 2017 to NIS 1,745 million, compared to NIS 1,587 million as of December 31, 2016, comprising an increase in the current allowance in the amount of NIS 158 million, a rate of 10.0%. 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			
	2017		2016	
	Credit loss expense	Rate of expense (expense reversal)	Credit loss expense	Rate of expense (expense reversal)
sectors	In NIS millions	%	In NIS millions	%
Agriculture	5	0.5	(2)	(0.2)
Mining & Quarrying	(1)	(0.2)	(3)	(0.7)
Industry	(104)	(0.9)	35	0.3
Construction and real estate - construction	(54)	(0.5)	-	-
Construction and real estate - real estate activity	-	-	(103)	(0.6)
Electricity and water	7	0.4	-	-
Commerce	158	0.8	183	0.9
Hotels, hotel services and food	5	0.2	20	0.7
Transportation and storage	15	0.3	12	0.2
Information and communications	211	8.9	50	2.2
Financial services	(37)	(0.4)	35	0.4
Other business services	26	0.5	20	0.4
Public and community services	12	0.2	8	0.2
Private Individuals - Housing Loans	15	0.1	8	0.0
Private Individuals - Other	315	1.1	209	0.8
Total Public	**573**	**0.39**	**472**	**0.34**
Total Banks	1	-	(3)	-
Total credit loss expenses	**574**	**-**	**469**	**-**

The data shown above indicates that the increase in the credit loss expense in 2017 was focused on the information and communications, construction and real estate - real estate activity and private individuals - other sectors. On the other hand, a reduction in expenses (expenses reversal) took place in sectors of the industry, Financial services and real estate – construction and commerce.

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

Approx. 99.4% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 38.4% of total credit to the public as at December 31, 2017, compared with 37.0% as at December 31, 2016. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 47.8% of all credit as at December 31, 2017, compared with 48.3% as at December 31, 2016. The 58 largest borrowers, in the credit brackets between NIS 200 million and NIS 5,542 million, were granted credit constituting 13.8% of total

credit to the public as at December 31, 2017, compared with 59 borrowers that were granted credit constituting 14.7% of the total credit as at December 31, 2016. 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, 2017, amounted to approx. NIS 284 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 32,703 million as at December 31, 2017, compared with NIS 38,818 million at the end of 2016, a decrease of 15.8%. The decline reflects the management of the Bank's excess liquidity.
It is clarified that the "nostro" portfolio to the Discount Group as of December 31, 2017, 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, and security of the "government variable 1121" type, which amounted to 8.1% and 8.7% of the total portfolio, respectively.
As of December 31, 2017, some 62% of the portfolio is invested in Government bonds, and 5% 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.
Fluctuations were noted in the markets subsequent to balance sheet date, and prices of securities declined. An examination made as of February 15, 2018, shows that the decline in value of the securities portfolio of the Discount Group, is not material.
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.

Composition of the Securities Portfolio by Linkage Segments

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

	December 31, 2017	December 31, 2016	Rate of change in %
	In NIS millions		
Non-linked shekels	16,560	16,705	(0.9)
CPI-linked shekels	2,341	4,607	(49.2)
Foreign currency and foreign currency-linked shekels	12,914	16,530	(21.9)
Shares - non-monetary items	888	976	(9.0)
Total	**32,703**	**38,818**	**(15.8)**

Securities in foreign currency and in Israeli currency linked foreign currency decreased by 21.9% compared with December 31, 2016. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency decreased by US$574 million, a decrease of 13.4% as compared with December 31, 2016. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, decreased by 12.1% as compared with December 31, 2016.

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 ,2017			December 31 ,2016		
	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	5,324	5,548	5,324	6,267	6,559	6,267
Available for sale	24,964	25,073	25,073	28,671	28,753	28,753
Trading	1,417	1,418	1,418	2,827	2,822	2,822
Shares						
Available for sale	848	851	851	957	963	963
Trading	38	37	37	13	13	13
Total Securities	**32,591**	**32,927**	**32,703**	**38,735**	**39,110**	**38,818**

Corporate bonds. Discount Group's available for sale securities portfolio as of December 31, 2017, includes investments in corporate bonds in the amount of NIS 2,209 million (an amount of NIS 516 million is held by IDB New York, an amount of NIS 55 million was held by MDB, and an amount of NIS 1,637 million, directly by the Bank), compared with NIS 3,588 million as of December 31, 2016 (an amount of NIS 410 million was held at IDB New York, an amount of NIS 205 million held by MDB, and an amount of NIS 2,973 million is held directly by the Bank). 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, 2017 includes investment in mortgage backed securities in the amount of US$1,974 million (NIS 6,845 million), which are held by IDB New York, compared to an amount of US$2,217 million as at December 31, 2016 (NIS 8,523 million), a decrease of 10.9%. Approx. 99% 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 lowering of the rating of the said bonds from "AAA", stems from the lowering of the credit rating of the United States). The investment in the said bonds does not include exposure to the subprime market.
As of December 31, 2017, the portfolio of mortgage and assets backed securities included unrealized net losses of US$29 million (NIS 100 million), compared with US$18 million (NIS 70 million) as of December 31, 2016.
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 US$100 million. The said securities are rated AA-AAA by at least one rating agency. 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, 2017, 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, 2016 and 2017, unrealized accumulated losses in respect of available-for sale shares amounted to a negligible amount.

As of December 31, 2017, and December 31, 2016, unrealized accumulated losses on available-for-sale mortgage and assets backed securities amounted to total amounts of NIS 94 million and NIS 78 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 D to the financial statements.

Customer Assets

Deposits from the public as at December 31, 2017, amounted to NIS 175,170 million, compared with NIS 172,318 million at the end of 2016, an increase of 1.7%.

COMPOSITION OF DEPOSITS FROM THE PUBLIC BY LINKAGE SEGMENTS

	December 31, 2017		December 31, 2016		
	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	116,288	66.4	108,345	62.9	7.3
CPI-linked shekels	4,606	2.6	5,360	3.1	(14.1)
Foreign currency and foreign currency-linked shekels	54,276	31.0	58,613	34.0	(7.4)
Total	**175,170**	**100.0**	**172,318**	**100.0**	**1.7**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased at the rate of 7.4%, compared with December 31, 2016. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$411 million, an increase of 2.7% compared with December 31, 2016. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. Dollar terms, increased by 5.1%, as compared with December 31, 2016.

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

	December 31, 2017	[(1)]December 31, 2016	
	In NIS millions		Change in %
Domestic operations:			
Households	68,766	67,496	1.9
Private banking	15,656	16,221	(3.5)
Small and minute businesses	27,408	27,588	(0.7)
Medium businesses	8,056	6,944	16.0
Large businesses	15,618	14,464	8.0
Institutional bodies	14,645	13,185	11.1
Total Domestic operations	**150,149**	**145,898**	**2.9**
International operations:			
Private Individuals	8,789	10,670	(17.6)
Business operations	16,232	15,750	3.1
Total International operations	**25,021**	**26,420**	**(5.3)**
Total deposits from the public	**175,170**	**172,318**	**1.7**

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 84.9% as at December 31, 2017, compared with 81.7% at the end of 2016.

Deposits from the public of the three largest depositor groups amounted as of December 31, 2017, to NIS 8,344 million.

Securities held for customers. On December 31, 2017, the balance of the securities held for customers at the Bank amounted to approx. NIS 192.96 billion, including approx. NIS 4.66 billion of non-marketable securities, compared to approx. NIS 180.95 billion as at December 31, 2016, including approx. NIS 4.37 billion of non-marketable securities, an increase of 6.6%. 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, 2017, amounted to NIS 10.4 billion, compared with NIS 10.2 million in December 31, 2016, an increase of 2.4%.

Investment portfolio management. On December 31, 2017, Tafnit was managing investment portfolios, overall valued at approx. NIS 7,095 million, as compared to approx. NIS 6,515 million as at December 31, 2016, an increase of 8.9%.

Pension advisory services. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2017, amounting to NIS 15.9 billion, compared with NIS 13.9 as of December 31, 2016, an increase of 14.4%.

Development of Total Assets – Consolidated

Development of Credit to the Public and Deposits from the Public – Consolidated

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.

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 efficiency plan. For further details, see above "Efficiency of the banking industry – 2016 Efficiency plan" and Note 23 I and Note 25 D to the financial statements.

Restrictions on the granting of housing loans. For details regarding the amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on housing loans", in the framework of which, a banking corporation is required to increase their Common equity tier 1 target and total capital ratio, see Note 25 1 B to the financial statements.

For details regarding the effect of adoption of the Directive and the relief regarding the efficiency plan on ratio of common equity tier 1, see Note 25 J to the financial statements. Had the guidelines contained in the Directive been applied as of December 31, 2017, on the basis of the data for that date and the transitional instructions as would apply as of March 31, 2018, including the effect of implementation of the Directive regarding employee rights, but without taking into account the profits accumulated during the period, the Common Equity Tier 1 ratio would have been 9.9% (instead of 10%).

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 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 minimum level required by the Supervisor of Banks, and also higher than the rate required by the ICAAP result and according to a system stress test.

The Bank has adopted a capital outline for the gradual increase in the Common Equity Tier 1 goal up to a level of 10% at the end of 2019.

Capital Planning

As part of the capital planning process, the capital targets of the work plan have been set in a rising 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 2017 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, 2017, amounted to NIS 16,608 million, compared with NIS 14,936 million at December 31, 2016, an increase of 7.6%. The increase stems, mostly, from the profit for the year.

Equity attributed to the Bank's shareholders as at December 31, 2017, amounted to NIS 15,594 million, compared with NIS 14,512 million at December 31, 2016, an increase of 7.5%.

The change in equity attributed to the Bank's shareholders in 2017 was affected, among other things, by the net earnings during the year, by an increase of NIS 25 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect, from the exercise of option warrants during 2017 in the amount of NIS 143 million and from a decrease of NIS 335 million in financial statements translation adjustments.

The ratio of total capital, to total assets as at December 31, 2017, stood at 7.3%, compared with 6.8% as of December 31, 2016.

Components of the Regulatory Capital as of December 31, 2017

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.

Ratio of common equity tier 1 on December 31, 2017, amounted to 10%, as compared with 9.8% on December 31, 2016.

Total capital ratio as of December 31, 2017, amounted to 13.9%, as compared with 13.8% on December 31, 2016.

COMPONENTS OF THE REGULATORY CAPITAL AS OF DECEMBER 31, 2017

	December 31,	
	2017	2016
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	16,003	15,036
Additional tier 1 capital after deductions	890	1,068
Tier 1 capital	16,893	16,104
Tier 2 capital	5,395	5,020
Total capital	**22,288**	**21,124**
2. Weighted risk assets balance		
Credit risk	(2)143,176	(2)137,393
Market risk	3,443	2,483
CVA risk	1,116	942
Operational risk	12,335	12,072
Total weighted risk assets balance	**160,070**	**152,890**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	10.0	9.8
Ratio of total capital to risk assets	13.9	13.8
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1	(1)9.2	(1)9.2
Total capital ratio	(1)12.7	(1)12.7

Footnotes:

(1) With an addition of 0.18% (December 31, 2016: 0.15%), 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 (December 31,2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

Raising of Resources

Issue of capital. For details regarding the realization of option warrants, see Note 24 D to the financial statements.

Issuances of tier 2 capital. No Tier 2 capital was raised during 2015-2016. For details regarding the CoCo bonds issue at the beginning of January 2017, see Note 25 N to the financial statements.

Subtraction of regulatory capital instruments in 2018. 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 2018, in accordance with the transitional provisions, amount to NIS 613 million (in accordance with the Basel II instructions an amount of NIS 435 million would have been deducted).

Taking into consideration the deduction in 2018 of regulatory capital instruments (Tier 2 capital), the Bank may raise additional regulatory capital instruments in accordance with the Bank's work plan for 2018 and market conditions, in order to maintain the total capital targets for 2018.

Dividends Distribution

The Bank has not distributed dividends to its shareholders since 1996, excluding the distribution of dividend in October 2008 in the amount of NIS 250 million, and except on the Bank's cumulative preference shares, in an annual amount of £24 thousand (see Note 24 F (3) to the financial statements), which the Bank distributes each year. The main limitation affecting the Bank's ability to distribute a dividend was the capital base limitation.

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

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.

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.

Concise data regarding operations in the various segments, regulatory and managerial, is presented in Notes 29-30 to the financial statements, p. 231-251 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 2017 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, syndication and sale of credit risk unit and the financing of complex foreign trade transactions unit operate as part of the Division. 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, the Technologies and Operations Division is responsible for the online channels and the Planning, Strategy and Finance Division is responsible for pension advisory services.

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 188 branches located all over the country, in addition to a variety of direct channels. The customers are classified into a number of customer segments according to their age, financial wealth and additional parameters.

Scale of Operations and Net Profit of the Segment

The segment's loss in 2017 amounted to NIS 296 million, compared to a loss in an amount of NIS 427 million in 2016.
The credit loss expenses in this segment amounted to NIS 333 million in 2017, compared to NIS 217 million in 2016, an increase of 53.5%. 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,	
	2017	2016[1]
	in NIS millions	
Total income	2,887	2,629
Credit loss expenses	333	217
Total Operating and other expenses	2,944	2,903
Loss Attributed to the bank's shareholders	(296)	(427)

Footnote:
(1) Reclassified - see Note 29 C.

Developments in the segment

The Bank continued in 2017 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.
Several moves were made in 2017 in order to reach the multi-annual targets:

- The move was completed for the removal of the operational activity from the branches, with the aim of freeing time to be used for improvement of service and sales to customers;
- The communication channels of customers with the bankers by coded mail, communicating with the banker via mobile application and by telephone "call back" service were expanded and improved with the aim of improving availability of bankers at the branches;
- Installment began of a new CRM system at the Bank branches, which allows centralized documentation and management of customer approaches through all communication channels;
- A command and control center was established at the Banking Division intended to regulate the workload at the branches at all communication channels: frontal, telephonic and digital;
- The telephone center was expanded and improved by means of the establishment of a northern extension at Nesher, with the aim of increasing availability of the telephone service, while turning the TeleBank into a backup center, which supports the branch service at times of heavy workload, and provides service to customers who were not served at the branch.

Private Banking Segment (Domestic operations)

Scale of Operations and Net Profit of the Segment

The segment's loss in 2017 amounted to NIS 1 million, compared with NIS 12 million in 2016.

PRINCIPAL DATA REGARDING THE PRIVATE BANKING SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2017	2016[(1)]
	in NIS millions	
Total income	121	112
Credit loss expenses	-	1
Total Operating and other expenses	125	125
Loss Attributed to the bank's shareholders	(1)	(12)

Footnote:
(1) Reclassified - see Note 29 C.

Developments in the Segment

The Bank continued in 2017 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 in Herzliyah, Haifa, Jerusalem and Tel Aviv, 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. As part of 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, a process began in 2017 of merging the private banking wing with additional units dealing with deposits and enforcement into an investments and affluent customers wing, a process that will continue also into 2018.

This wing is responsible for all enforcement matters of the Banking Division, for investment consulting and pension consulting. In the last quarter private banking in Israel 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, and comprehensive services to customers holding deposits of NIS 4 million and over.

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 2017 amounted to NIS 367 million, compared with NIS 261 million in 2016, an increase of 40.6%. The increase in net profit for 2017, compared to the corresponding period last year, stems, inter alia, from the fact that in 2016 the segment recognized its share (of NIS 45 million) in the provision made by ICC in respect of an arrangement in lieu of criminal proceedings (see Note 36 F (2) to the financial statements).

The credit loss expenses in this segment amounted to NIS 144 million in 2017, compared to NIS 67 million in 2016, an increase of 114.9%.

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

	For the year ended December 31,	
	2017	2016[(1)]
	in NIS millions	
Total income	2,034	1,899
Credit loss expenses	144	67
Total Operating and other expenses	1,316	1,370
Net Profit Attributed to the bank's shareholders	367	261

Footnote:
(1) Reclassified - see Note 29 C.

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 2017 amounted to NIS 112 million, compared with NIS 51 million in 2016, an increase of 119.6%. The increase in net profit for 2017, compared to the corresponding period last year, stems, inter alia, from the fact that in 2016 the segment recognized its share (of NIS 10 million) in the provision made by ICC in respect of an arrangement in lieu of criminal proceedings (see Note 36 F (2) to the financial statements).

The credit loss expenses amounted to NIS 22 million in 2017, compared to NIS 46 million in 2016, a decrease of 52.2%.

PRINCIPAL DATA REGARDING THE MEDIUM BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2017	2016[1]
	in NIS millions	
Total income	454	435
Credit loss expenses	22	46
Total Operating and other expenses	256	294
Net Profit Attributed to the bank's shareholders	112	51

Footnote:
(1) Reclassified - see Note 29 C.

Goals and Points of Emphasis for 2018

- The medium business segment is one of the Bank's strategic focus segments for 2018. 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.

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 2017 amounted to NIS 331 million, compared with NIS 278 million in 2016, an increase of 19.1%. The net profit of the segment in 2016, was, inter alia, affected by its share (of NIS 30 million) in the provision made by ICC in respect of an arrangement in lieu of criminal proceedings (Note 36 F (2) to the financial statements).

The credit loss expenses in this segment amounted to an expense of NIS 23 million in 2017, compared to expenses reversal of NIS 18 million in 2016. The increase in credit loss expenses in 2017 was mainly the result of an increase in group write-offs and in the group credit loss allowances in certain segments. The elimination of the expense in 2016 was affected by the collection of prior years' debts (that were written-off) in high amounts.

PRINCIPAL DATA REGARDING THE LARGE BUSINESSES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2017	2016[1]
	in NIS millions	
Total income	832	734
Credit loss expenses (expenses reversal)	23	(18)
Total Operating and other expenses	291	310
Net Profit Attributed to the bank's shareholders	331	278

Footnote:
(1) Reclassified - see Note 29 C.

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, causes erosion in commission rates.

The segment's net profit in 2017 amounted to NIS 13 million, compared with a loss of NIS 30 million in 2016.

The credit loss expenses in this segment amounted to expenses reversal of NIS 21 million in 2017, compared to an expense of NIS 30 million in 2016. The change in expenses stemmed from one specific customer.

PRINCIPAL DATA REGARDING THE INSTITUTIONAL BODIES SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2017	2016
	in NIS millions	
Total income	55	49
Credit loss expenses (expenses reversal)	(21)	30
Total Operating and other expenses	58	64
Net Profit (Loss) Attributed to the bank's shareholders	13	(30)

Footnote:
(1) Reclassified - see Note 29 C.

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 2017 amounted to NIS 580 million, compared to NIS 592 million in 2016. The profit in 2017 was effected, inter alia, by an increase 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". Income and profits of the segment in 2016, were affected by the gain from sale of rights in VISA Europe (see Note 36 G to the financial statements).

PRINCIPAL DATA REGARDING THE FINANCIAL MANAGEMENT SEGMENT (DOMESTIC OPERATIONS)

	For the year ended December 31,	
	2017	2016(1)
	in NIS millions	
Total income	1,095	(2)1,169
Total Operating and other expenses	216	214
Net Profit Attributed to the bank's shareholders	580	592

Footnotes:
(1) Reclassified - see Note 29 C.
(2) Reclassified - see Note 1 C (7) .

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 2017 amounted to NIS 153 million, compared to NIS 192 million in 2016, a decrease of 20.3%.
The credit loss expenses in this segment in 2017 amounted to NIS 73 million, compared to NIS 126 million in 2016, a decrease of 42%.

PRINCIPAL DATA REGARDING THE INTERNATIONAL OPERATIONS SEGMENT

	For the year ended December 31,	
	2017	2016
	in NIS millions	
Total income	896	969
Credit loss expenses	73	126
Total Operating and other expenses	529	534
Net Profit Attributed to the bank's shareholders	153	192

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 acts to liquidate the corporation, and this in accordance with an approval of the Swiss Financial Market Supervisory Authority (FINMA).
The closing down of foreign extensions. The representative office of IDB New York in Peru was closed down in January 2017.

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, 2017, amounted to NIS 8.9 billion, compared with NIS 8.7 billion on December 31, 2016, an increase of 2.2%.

DISTRIBUTION OF NET PROFIT BY THE GROUP'S STRUCTURE

	Contribution to the Group's profit			
	2017		2016	
	Before tax	Net profit	Before tax	Net profit
	In NIS millions			
Banking Activity:				
Commercial banks:				
In Israel - the Bank	884	574	525	240
- Mercantile Discount Bank	342	220	336	193
Overseas - Bank offices	299	158	310	192
Other Activities:				
Israel Credit Cards	292	131	442	186
Discount Capital	228	165	82	78
Other financial services	19	11	18	16
Net profit	**2,065**	**1,259**	**1,713**	**905**

At the end of 2017, 20.28% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and approx. 14.57% were assets of the overseas consolidated company. The contribution to the Net profit by the consolidated companies in Israel amounted to NIS 526 million in 2017 (NIS 467 million in 2016). The contribution to the Net profit by overseas consolidated companies amounted to NIS 158 million in 2017 (NIS 192 million in 2016), and the contribution to the Net profit by affiliated companies amounted to NIS 1 million in 2017 (NIS 6 million in 2016).
The total contribution by both domestic and overseas investees companies to the Bank's net profit amounted to NIS 685 million in 2017, compared with NIS 665 million in 2016, an increase of 3.0%.
Following are the main developments in principal investee companies.

Discount Bancorp, Inc.

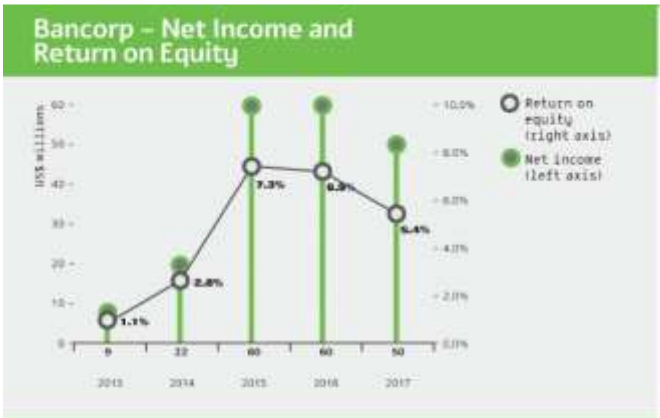
Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York), which is the largest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

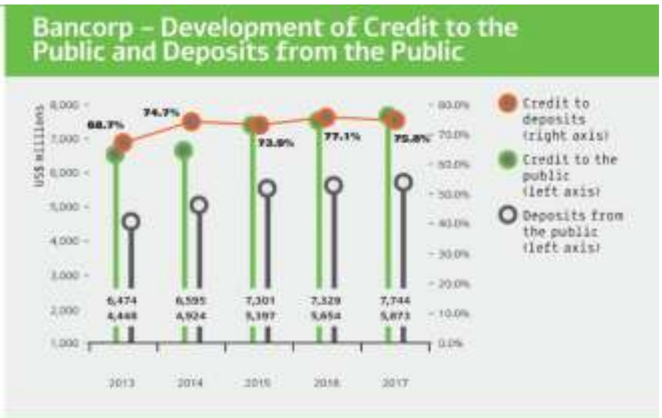
DISCOUNT BANCORP, INC. – PRINCIPAL DATA

	In US$ millions		
Profit and loss statement items for the year ended December 31	2017	2016	Change in %
Net profit attributed to the shareholders	50	60	(16.7)
Return on equity	5.4%	6.8%	
Profit and loss statement items disregarding Nonrecurring tax expenses(1) for the year of			
Net profit attributed to the shareholders – disregarding as aforesaid	65	60	8.3
Return on equity – disregarding as aforesaid	7.1%	6.8%	
Balance sheet items	December 31, 2017	December 31, 2016	Change in %
Total assets	9,322	9,272	0.5
Total credit(2)	5,873	5,654	3.9
Total deposits	7,744	7,329	5.7
Total equity	904	891	1.5
Ratio of total capital to risk assets	14.7%	14.2%	

Footnote:
(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 (2017 – US$8 million, 2016 – US$21 million).

Distribution of dividend. In 2017, Bancorp distributed dividend to Discount Bank in a total amount of US$30.6 million (2016 – US$15 million).
The contribution of Bancorp to the Bank's net results reached a profit of NIS 172 million in 2017, compared with NIS 193 million in 2016 (after deducting a provision for taxes of NIS 39 million).
Change of President & CEO. On May 1, 2017, Mr. Uri Levin started his service as President & CEO of IDB New York, in place of Mr. Ehud Arnon.
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.
At the end of 2017, MDB operated through 77 branches (78 branches at the end of 2016).

MERCANTILE DISCOUNT BANK LTD. – PRINCIPAL DATA

	In NIS millions		
Profit and loss statement items for the year ended December 31	2017	2016	Change in %
Net profit attributed to the shareholders	220	193	14.0
Return on equity	9.4%	8.9%	

Balance sheet items	December 31, 2017	2016	Change in %
Total assets	34,137	32,164	6.1
Total credit to the public, net	23,939	22,001	8.8
Total deposits from the public	28,836	27,199	6.0
Total equity	2,473	2,244	10.2
Ratio of total capital to risk assets	13.9%	13.8%	-

The ratio of capital to risk assets. The Board of Directors of MDB updated on March 28, 2017, the minimum rates of capital adequacy ratios, as follows: the Tier I equity capital ratio shall not be lower than 9.5% (December 31, 2016 – 9.2%); the comprehensive capital adequacy ratio shall not be lower than 13.0% (December 31, 2016 – 12.7%).

The principal factors affecting the business results. The profit in 2017 was affected, inter alia, from an increase of NIS 86 million in interest income; a decrease of NIS 26 million in non-interest financing income; from an increase of NIS 83 million in credit loss expenses; (an increase of NIS 47 million in expenses on a specific basis, stemming from the increase in allowances in respect of a small number of customers whose business condition had deteriorated, and from a decrease of NIS 19 million in the collection of debts that had been written off in the past, and an increase of NIS 36 million in expenses on a group basis); and from a decrease of NIS 21 million in operating and other expenses which resulted, mainly, from a decrease in expenses for Salaries and related expenses, at a rate of 4.0%.

Distribution of dividend. During 2016-2017 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.

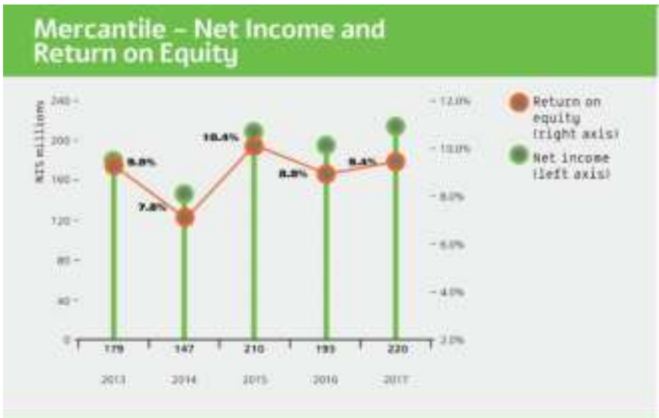
2016 plan. The Board of Directors of MDB approved in the second half of 2016, a strategic plan, prepared by Management of this bank with the assistance of external consultants. The plan is intended to intensify the activity in the retail segment, including the focusing on designated segments of population, in respect of which the bank has acquired over many years specialization in providing banking services.

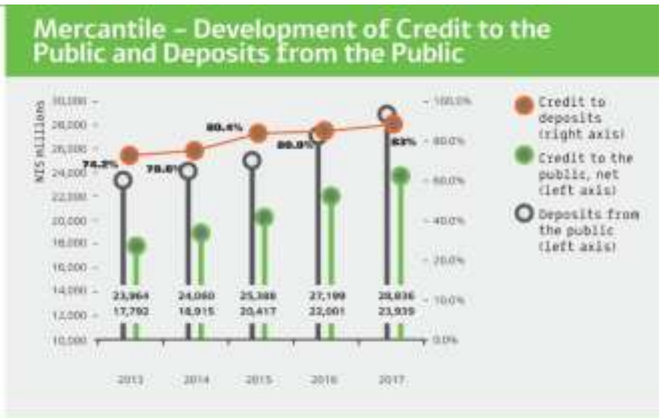
Major projects implementation. Execution of the said strategic plan involves the implementation of structural changes and changes in work processes, which are integrated at the Mercantile Discount Bank within the framework of projects, including:

- 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, for the purpose of increasing the resources of the branches available for customer 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.

Issue of a subordinated debt note. On December 27, 2017, MDB issued to Discount Bank a subordinated debt note (non-marketable) in the amount of NIS 100 million, which includes a loss absorption mechanism. This debt note has been recognized by the Supervisor of Banks as secondary capital in respect of capital adequacy.

For details regarding lawsuits and motions for approval of the lawsuits as class action suits, in the matter of: a unilateral increase in the interest rate on credit taken within an approved credit facility and the charging of a commission with respect to operations of conversion and transfer of foreign currency, see Note 26 C, items 12.3, and 12.5 respectively. For details regarding legal proceedings conducted in Australia in the matter of tax evasion by certain companies under liquidation proceedings, see Note 26 C item 13.2.
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, 2017, 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	2017	2016	Change in %
Total Income	1,511	1,622	(6.8)
Net profit attributed to the shareholders	211	292	(27.7)
The contribution to the Bank's business results[(2)]	131	186	(29.6)
Return on equity	13.4%	21.3%	
Profit and loss statement items disregarding gains on sale of rights in VISA Europe and an expense relating to an arrangement in lieu of criminal proceedings for the year of[(1)]	2017	2016	Change in %
Net profit attributed to the shareholders – disregarding as aforesaid	211	195	8.2
The contribution to the Bank's business results – disregarding as aforesaid[(2)]	131	124	5.6
Return on equity – disregarding as aforesaid	13.4%	14.2%	
Balance sheet items	December 31, 2017	2016	Change in %
Total assets	14,051	12,416	13.2
Total equity	1,680	1,504	11.7
Ratio of total capital to risk assets	15.6%	15.8%	

Footnotes:

(1) See Note 36 F and G to the financial statements.

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

The business results of ICC for 2017, compared with 2016, were mainly affected by the decrease in income of NIS 111 million (6.9%), with the elimination of the gains on sale of rights in VISA Europe – an increase in income of NIS 152 million, comprising a rise of 11.1%, principally income from credit card transactions (NIS 90 million; 9.2%) and net interest income (NIS 61 million; 16.9%), as a result of the growth in volume of consumer credit. On the other hand, an increase occurred in credit loss expenses (NIS 52 million; 70.0%), from a decrease in operating expenses (NIS 59 million; 11.5%) (with the elimination of an expense relating to an arrangement in lieu of criminal proceedings – an increase in operational expenses in the amount of NIS 40 million, comprising a rise of 5.1%), stemming mostly from the growth in payments to international organizations, and from an increase in sales and marketing expenses (NIS 39 million; 14.0%) explained mostly by the growth in customer attraction and retention. The growth in credit losses stems, according to the opinion of the Management of ICC, from many factors, including: an increase in the credit burden on households throughout the financial system, which its intensification itself, increases the probability for default; the proportionate share of the off-banking credit in the overall increase in the volume of credit in the past two years (particularly in 2017), is materially greater than its proportionate share in the balance of the credit to the public portfolio; the growth in the off-banking credit granted by the credit card companies had been created in a risk amplifying format – of increasing the volume of credit to a single borrower and extending the average period to maturity; the exceptional decrease in the scope of debt collection from private individuals, following the reform in the bankruptcy field, led to the increase in the non-secured credit losses in the financial system as a whole (both banking and off-banking).

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 the minimal Tier 1 equity ratio required from ICC is 8%, and the total capital ratio required from ICC is 11.5%. A resolution of the Board of Directors of ICC states a targeted core capital ratio of 9.85% and a targeted total capital ratio of 12.7%.

Distribution of dividend. In March 2017, ICC distributed a dividend in the amount of NIS 30 million (the Bank's share amounting to NIS 21.5 million).

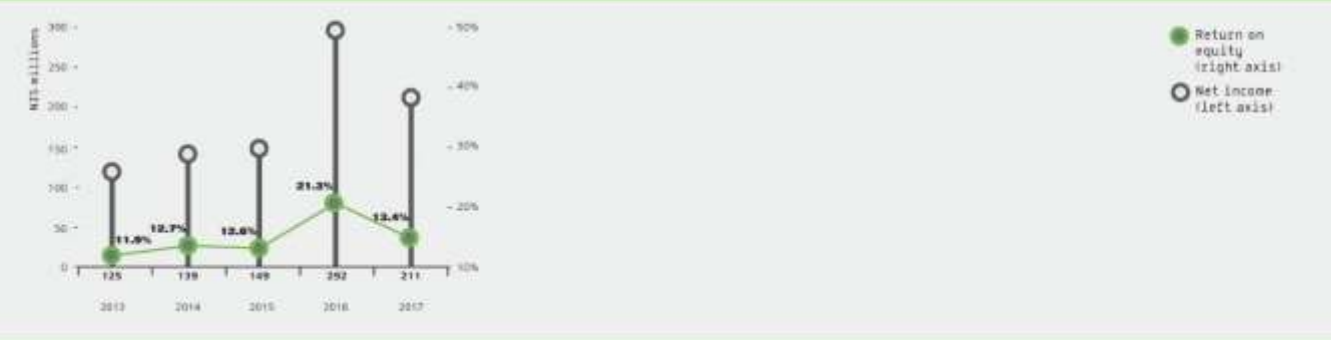
Strategic plan. On May 23, 2017, the Board of Directors of the company approved the strategic plan for the years 2017-2021. The formed plan, with the assistance of external consultants, took into consideration the changes expected to take place in the credit card market, in view of the enactment of the Increase in Competition and the Reduction in Concentration and in Conflict of Interests in the Banking Market in Israel Act, 2016. 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.

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, with respect of the following matters: allegation of a restrictive arrangement in the field of immediate debit cards ("debit"), and a claim regarding the manner of computing the points by the "Frequent Flyer" Club, see Note 26 C, items 12.4, and 13.3 respectively.
The annual and quarterly financial statements of ICC are available for review on the Internet website of the company.

ICC –Development of Net Income and Return on Equity



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	2017	2016	Change in %
Net profit attributed to the shareholders	186.5	76.3	144.4
The contribution to the Bank's business results[1]	165.2	78.0	111.8
Balance sheet items	December 31, 2017	December 31, 2016	Change in %
Total assets	1499.2	1288.3	16.4
Total equity	680.6	494.3	37.7

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 recognition of current tax liability due to investment in the company.

The profit in the years 2016-2017 was affected mainly by different realizations.
During 2017, Discount Capital, through a subsidiary, participated in 101 public offerings (of which one public offering for the Discount Group) and in 25 private placements, with a total volume of approx. NIS 41.8 billion (in 2016 - 95 public offerings and 24 private placements with a total of approx. NIS 42.2 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 view of similar efficiency measures adopted in the industry. The Group implements a multiannual efficiency plan, which includes efficiency measures regarding manpower, expenses and properties (reduction in the number of branches). 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, 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.

  The Group is engaged in the continuous improvement of the risk management processes and of the supporting tools, including the 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 2017 focus was directed towards completion of the preparations for the second and third lines of defense regarding risk management, and the integration of the group framework also at the principal subsidiaries;
- 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 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 made steps for improvements to models, and monitoring 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 promotes a strategic project that would lead to an improvement in retail models in order to support the continued growth in the retail segment focus;

- Continuing regulation and regulatory changes. The trend of numerous regulatory instructions intended to support higher competition, innovation and technology, efficiency and fairness continues. Also continues is international regulation that has domestic ramifications alongside increased enforcement and stricter personal responsibility.
  The Group is engaged in the implementation of the instructions and continuously improves the organizational culture in general, and the compliance culture in particular, while allocating to this effort administrative and budgetary resources;

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 2017, the Board of Directors approved the risk appetite declaration of the Discount Group for 2018. During 2017 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 2017 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 2017 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 risks concept in accordance with advanced systems accepted around the world, by means of statistical and qualitative models, which are based on the risk components for the evaluation of the borrower's quality (Probability of default – PD) and of the quality and scope of the collateral (Loss given default – LGD). The Bank uses a number of measurement and reporting systems that support credit risks management. Further progress in the integration of the new language was made in 2017, based on the products of the pricing project and Risk-adjusted return on capital evaluation (RAROC) at the Bank and at the Group, while making progress in the development and adoption of advanced models for the evaluation of credit risk.

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.

Credit Quality and Problematic Credit Risk

Problematic Credit Risk and Non-Performing Assets

	December 31, 2017			December 31, 2016		
	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]2,178	129	2,307	[3]3,053	187	3,240
Substandard credit risk[2]	752	14	766	572	6	578
Special mention credit risk[2]	1,341	242	1,583	1,557	289	1,846
Total Problematic Credit Risk	**4,271**	**385**	**4,656**	**5,182**	**482**	**5,664**
Of which: Non impaired debts, in arrears for 90 days or more[2]	407			440		
Non-performing assets:						
Impaired debts - non accruing interest income	1,371			2,504		
Assets received in respect of credit settlement	-			2		
Total Non-Performing Assets	**1,371**			**2,506**		

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 17 million, and non-accruing bank bonds of NIS 31 million (December 31, 2016- non accruing corporate bonds in an amount of NIS 17 million, and non-accruing bank bonds of NIS 93 million).

Changes in Balances of Impaired Debts

	2017	2016
	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	2,943	2,944
Debts classified as impaired during the period	864	1,075
Debts no longer classified as impaired(*)	(116)	(46)
Accounting write-offs	(550)	(355)
Collections	(981)	(642)
Other	(30)	(33)
Balance of impaired debts as of end of the year	**2,130**	**2,943**
(*) Of which: due to consequent restructure	(1)	(16)
Changes in allowances for credit losses on impaired debts:		
Balance of allowance for credit losses as of the beginning of the year	389	463
Increase in allowances	462	128
Collections and write-offs	(663)	(202)
Balance of allowance for credit losses as of end of the year	**188**	**389**

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

	December 31, 2017	December 31, 2016
Ratio of balance of impaired credit to the public to balance of credit to the public	1.4%	2.1%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.3%	0.3%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.4%	1.5%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	99.2%	72.9%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public	2.0%	2.5%
Ratio of credit loss expenses to the average balance of credit to the public	0.39%	0.34%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.4%	0.3%
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	27.6%	18.1%
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	83.2%	63.4%
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	1.7%	2.4%

The increase in the rate of the balance of the allowance for credit losses in respect of credit to the public from the balance of impaired credit to the public, stems mostly from the decrease in the balance of impaired credit to the public, compared to 2016. The increase 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 rise in net write-offs.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis

	December 31, 2017									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total Debts[2][11]	Of which:	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions									
Lending Activity in Israel										
Agriculture	1,199	1,151	10	1,194	945	10	3	5	4	17
Mining & Quarrying	1,098	1,097	-	1,089	440	-	-	(1)	(2)	2
Industry	15,226	14,616	361	15,135	9,184	361	63	(90)	(70)	228
Construction and Real Estate - Construction	[6]25,041	24,474	344	[6]25,014	10,897	344	156	(38)	(30)	174
Construction and Real Estate - Real Estate Activity	10,140	9,774	268	10,046	8,607	268	231	3	5	93
Electricity and Water	3,051	3,029	11	2,601	1,677	11	1	4	3	8
Commerce	20,200	19,462	569	20,123	16,251	569	326	140	125	371
Hotels, Hotel Services and Food	2,222	1,962	198	2,210	1,927	198	185	7	5	17
Transportation and Storage	5,568	5,451	54	5,558	4,501	50	28	13	10	58
Communication and Computer Services	2,653	2,238	430	2,623	2,153	430	331	193	257	126
Financial Services	10,839	10,435	349	9,205	7,422	349	347	(36)	(7)	98
Other Business Services	6,656	6,231	72	6,636	4,647	72	32	28	31	62
Public and Community Services	3,430	3,338	29	3,425	2,384	29	9	4	5	14
Total Commercial	**107,323**	**103,258**	**2,695**	**104,859**	**71,035**	**2,691**	**1,712**	**232**	**336**	**1,268**
Private Individuals - Housing Loans	30,572	29,656	308	30,572	28,687	308	-	14	5	175
Private Individuals - Other	54,128	51,448	495	54,110	27,527	495	88	318	217	556
Total Public	**192,023**	**184,362**	**3,498**	**189,541**	**127,249**	**3,494**	**1,800**	**564**	**558**	**1,999**
Banks in Israel	965	962	-	612	368	-	-	1	-	1
Israeli Government	23,252	23,252	-	2,520	770	-	-	-	-	-
Total Lending Activity in Israel	**216,240**	**208,576**	**3,498**	**192,673**	**128,387**	**3,494**	**1,800**	**565**	**558**	**2,000**

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2017									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of Allowance for Credit Losses
	in NIS millions									
Lending Activity Outside of Israel										
Agriculture	314	314	-	314	150	-	-	-	-	3
Mining & Quarrying	204	204	-	104	-	-	-	-	-	-
Industry	4,779	4,419	149	4,498	2,558	149	56	(14)	3	31
Construction and Real Estate - Construction	239	239	-	169	116		-	(16)	(15)	5
Construction and Real Estate - Real Estate Activity	9,700	8,908	434	9,632	8,485	434	138	(3)	(34)	138
Electricity and Water	396	389	7	144	126	7	-	3	-	2
Commerce	6,591	5,912	300	6,556	4,172	300	182	18	20	49
Hotels, Hotel Services and Food	1,010	859	49	1,007	990	49	-	(2)	-	10
Transportation and Storage	1,249	1,186	60	1,180	1,168	47	3	2	8	13
Communication and Computer Services	571	560	11	265	211	11	7	18	29	3
Financial Services	8,960	8,863	73	2,007	1,370	73	73	(1)	6	13
Of which: Federal agencies in the U.S. [7]	6,793	6,793	-	-	-	-	-	-	-	-
Other Business Services	795	791	4	794	450	4	-	(2)	-	5
Public and Community Services[8]	4,305	4,230	36	2,702	2,420	36	-	8	7	20
Total Commercial	**39,113**	**36,874**	**1,123**	**29,372**	**22,216**	**1,110**	**459**	**11**	**24**	**292**
Private Individuals - Housing Loans	208	197	4	208	206	4	-	1	-	3
Private Individuals - Other	1,773	1,768	-	1,771	1,197	-	-	(3)	-	10
Total Public	**41,094**	**38,839**	**1,127**	**31,351**	**23,619**	**1,114**	**459**	**9**	**24**	**305**
Banks Outside of Israel	4,507	4,475	31	2,757	2,693	-	-	-	-	-
Governments Outside of Israel	2,301	2,301	-	723	723	-	-	-	-	-
Total Lending Activity Outside of Israel	**47,902**	**45,615**	**1,158**	**34,831**	**27,035**	**1,114**	**459**	**9**	**24**	**305**
TOTAL	**264,142**	**254,191**	**4,656**	**227,504**	**155,422**	**4,608**	**2,259**	**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) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

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

(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) Including acquisition groups in an amount of NIS 111 million.

(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 mainly municipal bonds and bonds of states in the U.S.

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

(10) 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.

(11) 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.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2016									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Debts[2][11] Of which:	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions									
Lending Activity in Israel										
Agriculture	1,462	1,413	13	1,461	1,001	13	6	(2)	1	19
Mining & Quarrying	734	726	1	734	433	1	-	(3)	(3)	1
Industry	13,608	12,957	482	13,481	8,911	482	228	(12)	(36)	249
Construction and Real Estate - Construction	[6]22,308	21,632	438	[6]22,283	9,122	438	210	(4)	(28)	185
Construction and Real Estate - Real Estate Activity	9,554	9,182	302	9,460	8,081	302	268	(90)	(55)	94
Electricity and Water	3,180	3,171	1	2,709	1,834	-	-	-	-	5
Commerce	19,105	17,788	869	18,982	15,388	848	263	164	191	358
Hotels, Hotel Services and Food	1,868	1,538	257	1,853	1,549	257	171	1	7	17
Transportation and Storage	5,573	5,464	51	5,543	4,709	47	34	6	12	61
Communication and Computer Services	2,910	2,225	624	2,887	2,179	624	582	58	46	187
Financial Services	9,630	8,291	671	8,662	6,904	671	667	27	(6)	127
Other Business Services	6,381	5,935	101	6,368	4,495	101	57	19	13	64
Public and Community Services	2,920	2,814	31	2,917	2,051	31	13	12	6	14
Total Commercial	**99,233**	**93,136**	**3,841**	**97,340**	**66,657**	**3,815**	**2,499**	**176**	**148**	**1,381**
Private Individuals - Housing Loans	27,601	26,625	320	27,601	25,610	320	-	8	16	167
Private Individuals - Other	51,275	48,921	440	51,266	25,895	440	61	207	146	454
Total Public	**178,109**	**168,682**	**4,601**	**176,207**	**118,162**	**4,575**	**2,560**	**391**	**310**	**2,002**
Banks in Israel	1,207	1,205	-	374	130	-	-	(1)	-	-
Israeli Government	24,962	24,962	-	2,106	618	-	-	-	-	-
Total Lending Activity in Israel	**204,278**	**194,849**	**4,601**	**178,687**	**118,910**	**4,575**	**2,560**	**390**	**310**	**2,002**

For footnotes see next page.

Total Credit Risk Classified by Economic Sectors on a Consolidated Basis (continued)

	December 31, 2016									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2][11]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the Period	Balance of allowance for credit loss
	in NIS millions									
Lending Activity Outside of Israel										
Agriculture	32	32	-	32	32	-	-	-	-	-
Mining & Quarrying	331	331	-	111	-	-	-	-	-	-
Industry	6,040	5,774	175	5,352	2,815	175	16	47	36	51
Construction and Real Estate - Construction	227	176	45	227	171	45	45	4	-	5
Construction and Real Estate - Real Estate Activity	9,957	9,592	149	9,893	8,011	149	83	(13)	(25)	117
Electricity and Water	523	513	10	204	27	10	-	-	-	-
Commerce	7,545	7,171	236	7,541	4,692	236	230	19	32	56
Hotels, Hotel Services and Food	1,270	1,169	101	1,270	1,217	101	46	19	23	13
Transportation and Storage	1,116	1,050	67	1,041	1,017	52	13	6	-	13
Communication and Computer Services	834	808	26	204	138	26	26	(8)	-	16
Financial Services	11,433	11,331	95	2,735	1,707	95	75	8	10	21
Of which: Federal agencies in the U.S.[7]	8,117	8,117	-	-	-	-	-	-	-	-
Other Business Services	740	719	22	733	485	22	-	1	-	8
Public and Community Services[8]	4,775	4,680	36	3,152	2,831	36	36	(4)	-	21
Total Commercial	**44,823**	**43,346**	**962**	**32,495**	**23,143**	**947**	**570**	**79**	**76**	**321**
Private Individuals - Housing Loans	160	149	8	160	154	8	-	-	-	1
Private Individuals - Other	2,107	2,104	-	2,102	1,445	-	-	2	1	15
Total Public	**47,090**	**45,599**	**970**	**34,757**	**24,742**	**955**	**570**	**81**	**77**	**337**
Banks Outside of Israel	7,982	7,890	93	5,218	4,960	-	-	(2)	-	-
Governments Outside of Israel	1,613	1,613	-	119	119	-	-	-	-	-
Total Lending Activity Outside of Israel	**56,685**	**55,102**	**1,063**	**40,094**	**29,821**	**955**	**570**	**79**	**77**	**337**
TOTAL	**260,963**	**249,951**	**5,664**	**218,781**	**148,731**	**5,530**	**3,130**	**469**	**387**	**2,339**

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 148,731, 37,842, 440, 3,283, 70,667 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) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").
(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) Including acquisition groups in an amount of NIS 249 million.
(7) Including mortgage backed securities in the amount of NIS 6,164 million, issued by GNMA and in the amount of NIS 1,953 million, issued by FNMA and FHLMC.
(8) Including mainly municipal bonds and bonds of states in the U.S.
(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 5,298 million.
(10) 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.
(11) The balance of commercial debts includes housing loans in the amount of NIS 266 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

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of capital, the lower of the two – 2017[1]

	December 31, 2017		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	482	1,295	1,035
United Kingdom	-	1,455	769
PIGS[5]	-	6	4
Other	185	1,913	2,460
Total exposure to foreign countries	**667**	**4,669**	**4,268**
Of which - Total exposure to LDC countries	72	42	347

Notes:

(1) 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) Governments, official institutions and central banks.

(5) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers in the following countries: Switzerland – an amount of NIS 4,065 million and Germany – an amount of NIS 3,036 million.

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower

As of December 31, 2017 the Bank had no such exposure.

C. Information regarding balance-sheet exposure to foreign countries having liquidity problems, for the year ending December 31, 2017

1. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES

As of December 31, 2017 the Bank had no such exposure.

2. INFORMATION REGARDING BALANCE-SHEET EXPOSURES THAT HAVE UNDERGONE RESTRUCTURING

As of December 31, 2017 the Bank had no such exposure.

December 31, 2017									
Balance sheet exposure[2]						Off-balance sheet exposure[2][3]			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure[2]	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
30,838	21,053	9,785	12,597	979	355	6,894	58	1,899	913
-	-	-	2,224	29	29	126	-	1,780	444
-	-	-	10	-	-	392	-	8	2
-	-	-	4,558	11	1	(6)8,092	-	2,635	1,923
30,838	**21,053**	**9,785**	**19,389**	**1,019**	**385**	**15,504**	**58**	**6,322**	**3,282**
-	-	-	461	1	-	202	-	260	201

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.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

Exposure to Foreign Countries - Consolidated (continued)

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's capital, the lower of the two - 2016[1]

	December 31, 2016		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	487	1,642	1,151
United Kingdom	-	2,146	680
PIGS[5]	-	4	8
Other	433	3,254	2,772
Total exposure to foreign countries	**920**	**7,046**	**4,611**
Of which - Total exposure to LDC countries	129	119	501

Notes:

(1) 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, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals 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) Governments, official institutions and central banks.

(5) Portugal, Italy, Greece and Spain.

(6) Including the transfer of credit risk to a consortium of international insurers, as of December 31, 2016 in the following countries: Switzerland – an amount of NIS 3,319 million; and Germany – an amount of NIS 2,482 million.

B. Information regarding countries the overall exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of capital, whichever is lower

As of December 31, 2016, the Bank had no such exposure.

C. Information regarding the balance-sheet exposure to foreign countries having liquidity troubles for the year ended December 31, 2016

1. INFORMATION REGARDING BALANCE-SHEET EXPOSURE TO FOREIGN COUNTRIES

As of December 31, 2016, the Bank had no such exposure.

2. INFORMATION REGARDING BALANCE-SHEET EXPOSURES THAT HAVE UNDERGONE RESTRUCTURING

As of December 31, 2016, the Bank had no such exposure.

December 31, 2016									
Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
33,398	22,902	10,496	13,776	677	335	9,145	77	1,419	1,861
-	-	-	2,826	74	74	156	-	1,996	830
-	-	-	12	-	-	8	-	6	6
102	102	-	6,459	55	50	(6)7,056	2	3,799	2,660
33,500	**23,004**	**10,496**	**23,073**	**806**	**459**	**16,365**	**79**	**7,220**	**5,357**
-	-	-	749	2	-	325	-	421	328

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.

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount)

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. In the last quarter of 2017, the Eurozone grew at a rate of 2.4%, a strong and stable growth that covers all member states of the Eurozone. Concurrently, the inflationary environment recorded a growth to 1.4%. Nevertheless, the core inflation remained at a low level of 0.9%. Accordingly, the central bank gradually reduces its expansionary policy and has reduced the volume of the bond purchase plan to an amount of Euro 30 billion per month until the end of September 2018.

The strong and stable growth together with the toned down political tension, lead to a decrease in the spread of government bonds over the German bonds, both in the core countries, such as France and Belgium and in the peripheral countries, such as Spain and Italy.

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 might be adversely affected by the crisis in Europe.

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 92% of the exposure as of December 31, 2017, 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, 2017, include, inter-alia, the United States, Great Britain and Germany.

In 2017, 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, 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(8)	50	52	102
Total present credit exposure to foreign financial institutions	**4,459**	**746**	**5,205**
Balance of problematic bonds	32	-	32
	As of December 31, 2016		
Present credit exposure to foreign financial institutions(1)(6)			
External credit rating(7)			
AAA to AA-	2,904	920	3,824
A+ to A-	3,227	257	3,484
BBB+ to BBB-	288	-	288
BB+ to B-	22	12	34
Not rated(8)	58	86	144
Total present credit exposure to foreign financial institutions	**6,499**	**1,275**	**7,774**
Balance of problematic bonds	93	-	93

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.
(8) Most of the off-balance sheet credit risk which has no rating is in respect of guarantees by private Swiss banks and Swiss banks owned by banks in Western Europe that are rated A1 and above.

In addition to the exposure presented in the above table, as of December 31, 2017 and 2016 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 85 million and NIS 55 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 127 million as of December 31, 2017 and NIS 73 million as of December 31, 2016).

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 exist in the local market in recent months for moderation in the demand for new apartments and in activity in the housing market in general, which is reflected both in the decline in volume of sale of new residential units and in the decline in volume of mortgage loans granted.

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, 2017, amounted to NIS 29,143 million (December 31, 2016 - NIS 26,030 million).

CERTAIN RISK CHARACTERISTICS OF THE GROUP'S HOUSING LOANS PORTFOLIO

	December 31, 2017	December 31, 2016
	%	
Rate of housing loans financing over 75% of the value of the property	3.3	4.1
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	10.7	12.5
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio(1)	59.6	59.7

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

	For the year ended December 31,	For the year ended December 31,
	2017	2016
Average amount of loan (in NIS thousands)	698	712
Average financing ratio for housing loans (in %)	55.0	55.8
Average financing ratio for general purpose loans (in %)	38.8	36.6

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

	December 31,			
	2017		2016	
Credit limit (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	23,337	80.5	20,959	81.1
Between 1,200 and 4,000	5,260	18.2	4,479	17.3
Over 4,000	367	1.3	421	1.6
Total	**28,964**	**100.0**	**25,859**	**100.0**
Of which:				
Housing loans that were granted abroad	125		73	
Deduction of allowance for credit losses	179		171	
Housing loans[1]	250		266	

Footnote:

(1) Housing loans which are integrated in the layout of transactions and collaterals of commercial burrowers' business, or which were granted to acquisition groups, the project being built by them are in the course of construction.

VOLUME OF PROBLEMATIC DEBTS IN HOUSING CREDIT

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 %
2017	29,143	[4]312	74	1.1
2016	26,030	[4]328	77	1.3

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2017 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 71 million, and also an allowance over the extent of arrears in an amount of NIS 3 million (as of December 31, 2016: NIS 75 million and NIS 2 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 105 million as at December 31, 2017.(as at December 31, 2016: NIS 94 million).

(4) Including an amount of NIS 26 million, defined as problematic credit, which is not in arrears (December 31, 2016: NIS 29 million).

(5) The outstanding balance of credit to the public includes housing loans in the amount of NIS 250 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 31,2016:NIS 266 million).

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

	2017		2016	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	1,774	29.7	1,693	24.2
Between 45% and 60%	2,234	37.4	2,545	36.3
Over 60%	1,965	32.9	2,770	39.5
Total	**5,973**	**100.0**	**7,008**	**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.

In 2017 the downward trend in the rate of loans granted, having a financing ratio of over 60%, continued as compared to 2016, leading to a reduction in the difference between the Bank's performance and the performance of the industry with respect to this market segment.

DEVELOPMENTS IN HOUSING CREDIT BALANCES ACCORDING TO LINKAGE SEGMENTS

	Non-linked credit(2)			CPI linked credit(2)			Foreign currency linked credit(2)			
	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)
2017	7,101	11,666	64.8	4,311	5,669	34.5	1	216	0.7	28,964
2016	5,795	10,331	62.4	4,224	5,225	36.5	1	283	1.1	25,859

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, 2017, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 3,726 million, comprising 12.9% of the total housing loans portfolio (as of December 31, 2016, the balance amounted to NIS 3,076 million, comprising 11.9% of the total housing loans portfolio).

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

	2017		2016	
Ratio of payment to income (PTI)(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	5,334	99.9	6,497	99.8
Over 40%	5	0.1	11	0.2
Total	**5,339**	**100.0**	**6,508**	**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.

On the background of regulatory instructions regarding restricting the refund ratio to 50% and increasing the allotment of capital with respect to loans of a refund ratio exceeding 40%, a significant decline has occurred in the rate of credit granted at a refund ratio of over 40%.

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. It is noted that only recently the Bank began operating in accordance with the said definition, which is a more stringent and conservative definition of permanent income. As it was not practicable to restate the data for 2016 in accordance with the new definition, the amount of income per account data presented hereunder are the data as of December 31, 2017. The data for December 31, 2016, in accordance with the previous definition, were presented in the 2016 annual report (p. 83).

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, 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

	For the year ended December 31	
	2017	2016
	Balance of loans	
Fixed maturity date	in NIS millions	
Up to 1 year	1,650	1,696
Over 1 year and up to 3 years	4,792	4,663
Over 3 years and up to 5 years	4,303	3,866
Over 5 years	2,646	3,248
Total	**13,391**	**13,473**

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

	For the year ended December 31	
	2017	2016
Balance sheet credit upper limit (NIS thousands)	in NIS million	
Up to 40	6,638	6,535
Between 40 and 150	7,976	7,202
Over 150	3,891	3,631
Total	**18,505**	**17,368**

DISTRIBUTION BY EXPOSURE TO CHANGES IN INTEREST RATES

	December 31,	
	2017	2016
	in NIS million	
Fixed interest credit	5,839	5,488
Variable interest credit	12,666	11,880
Total	**18,505**	**17,368**

DISTRIBUTION OF COLLATERAL SECURING THE CREDIT

	For the year ended December 31	
	2017	2016
	Total collateral	
Type of collateral	in NIS millions	
Liquid financial assets	1,640	1,677
Other collaterals	911	843
Total	**2,551**	**2,520**

DEVELOPMENT OF PROBLEMATIC CREDIT RISK IN RESPECT OF PRIVATE INDIVIDUALS

				Rate from total balance-sheet credit to the public	
	December 31,			December 31,	
	2017	2016	Change in	2017	2016
	in NIS million		%	%	
Problematic credit risk	495	440	12.5	1.8	1.7
Of which: impaired credit risk	88	61	44.3	0.3	0.2
Debts in arrears of 90 days or more	70	82	(14.6)	0.3	0.3
Net accounting write-offs	217	146	48.6	0.8	0.6
Balance of allowance for credit losses	556	454	22.5	2.0	1.8

Credit risk regarding the purchase of motor vehicles. The balance of credit granted for the purchase of motor vehicles (only in the Bank), pledged, amounted to NIS 367 million at December 31, 2017, as compared to NIS 247 million, as of December 31, 2016. The balance of credit granted for the purchase of motor vehicles (in the Bank and MDB), pledged, amounted to NIS 511 million at December 31, 2017.

Quantitative data regarding credit granted to private individuals in ICC

A growth at the rate of 17.2% was recorded in 2017 in the balance of credit granted to private individuals in ICC. This credit amounted on December 31, 2017 to NIS 6,497 million, compared to NIS 5,545 million on December 31, 2016. The interest bearing credit to private individuals as of December 31, 2017, amounted to NIS 4,176 million, compared with NIS 3,578 at the end of 2016 (an increase of 16.7%), and comprises 64.3% 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 2,321 million, as compared to NIS 1,967 million as of December 31, 2016 (an increase of approx. 18%). 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 2017 in the volume of credit losses in respect of private individuals. Credit losses in respect of private individuals amounted in 2017 to NIS 123 million, compared to NIS 71 million in 2016. As estimated by the Management of ICC, the increase in credit losses 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.

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

Starting with the previous decade, the credit granted to households doubled its ratio in the credit portfolios of the five large banking groups. At the beginning of 2016, credit to households comprised nearly one half of the total credit portfolio of the banking industry in Israel. 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, taking effect in November 2018. 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.
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, 2017			December 31, 2016		
	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	9,772	246	2.5	10,936	399	3.6
Construction – general building contracting	1,733	248	14.3	1,938	290	15.0
Residential projects financing	15,866	46	0.3	13,990	97	0.7
Acquisition of building land	4,527	51	1.1	3,560	83	2.3
Other	10,025	264	2.6	9,956	350	3.5
Total(3)	**41,923**	**855**	**2.0**	**40,380**	**1,219**	**3.0**

Footnotes:
(1) Balance-sheet and off-balance-sheet credit to the public, excluding financial derivatives.
(2) The data in this table are more extensive 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.

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, 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, 2017. Disclosure is focused on exposure leverage transactions, each of which exceeds approx. NIS 80 million.

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

	December 31, 2017				December 31, 2016			
	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	109	99	208	-	345	52	397	-
Construction and real estate	440	251	691	-	605	245	850	-
Commerce	56	-	56	-	67	-	67	-
Transportation and storage	196	20	216	-	-	-	-	-
Total	**801**	**370**	**1,171**	**-**	**1,017**	**297**	**1,314**	**-**

Exposure to leveraged finance as of December 31, 2017 amounted to NIS 801 million, compared to NIS 1,017 million at the end of 2016, a decrease of 21.2%. The aforesaid decrease was due, primarily, to changes in the financial ratios and from a reduction in credit balances, which led to the fact that the credit is no longer considered leverage financing.

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

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.

Market Risks

Market risk is the risk of impairment to the Bank's capital and profitability stemming from changes in financial markets and from fluctuations in market risk factors, which affect the accounting or economic value of the Bank's assets and its liabilities (balance-sheet and off-balance-sheet) and it includes a number of sub-risks, as detailed below:

Interest risk – the risk to the profits or capital resulting from movements in interest rates. It is custom to examine interest risk by reviewing a number of components: yield curve risk, repricing risk, interest bases risk and interest optionality risk.

Linkage basis risk – the risk of impairment to the economic or accounting value of the capital that might occur as a result of changes in the exchange rates or in the CPI, due to the difference between the value of the assets and the value of the liabilities, including the off-balance-sheet activity.

Shares, commodities and non-financial investments risk – the risk of impairment to the value of the Bank and its profitability stemming from changes in the prices of shares, commodities and the value of its non-financial holdings.

Options risk – the risk of a loss resulting from changes in the parameters that affect the value of options, including embedded options and derivative financial instruments, while taking into account fluctuations in the prices of the underlying assets.

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 for defining 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 integrated Group perspective and within a framework of mandatory professional guidance.
The principal changes in policy during 2016, were focused on the definition of the Group's financial management roles (GT) and the interfaces between the subsidiaries and the parent company, of certain updating of methodologies and models and on the updating of a part of the quantitative limitations.
The changes in policy in 2017, focused on the updating of authority in connection with risk restrictions in order to allow administrative flexibility and more efficient work procedures at the Financial Markets Division, updates related to stress tests, methodology, determination of the tests and update of a part of the quantitative restrictions.

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.

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. Management of the aggregate Group risk is performed through the Global Treasury, which is responsible for the Group financial management of all the market risk takers in the Group, including the ALM, investment and dealing room units at the Bank, at IDB New York and at Mercantile Discount Bank. Measurement, control and operating units work as part of the first line of defense, which are entrusted with such activities and are operating independently of the risk takers.
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 (in addition to Management's activity as an organ): 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 to strengthen the capital adequacy in times of crisis and the plan for handling a liquidity crisis. The plans include both the organizational structure and monitoring processes when there is a rise in the risk level and also the alternative courses of action.

Measurement and Reporting

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments, is performed at the Bank by the first line of defense, on a weekly basis, using a designated system for market risk management.
Second line of defense controls the exposure to market risks by means of independent stress testing calculation at monthly intervals.
The risk management systems serve as a data base for financial data in which is assembled the financial information regarding the variety of financial instruments with which the Bank and its subsidiaries operate.

Models and Risk Indices

Management of the market risks is performed using a number of internal models and indices, which take into account additional factors to those used for the purpose of the disclosure in the financial statements. The Board of Directors has defined principal management indices that are used in the current management, as well as additional indices. Since the models are dependent on assumptions and limitations, their prudent management, in order to ensure proper use of the models, necessitates corporate governance and a framework for model risk management, including processes for challenging and validating the models.
The principal management indices include an index for sensitivity of the economic value to changes in interest, as well as an index for sensitivity of the accounting value in intermediate scenarios.
The additional indices and models include the Value at Fisk (VaR), an analysis of the losses in stress tests and an analysis of anticipated Net Interest Income (NII) and the Earnings at Risk (EaR). In addition, economic behavioral models have been defined that give expression to behavioral assumptions with regard to some of the balance-sheet items, where the balance-sheet balance do not correctly present the risk exposure. The additional models also include a model showing the spread of credit balances with undefined maturities and models to quantify asset prepayment risk and models for the early call of deposits.

Exposure to Interest Rate Risk

The interest rate risk is the risk of impairment in the Bank's profits and in its equity value, stemming from changes in the market interest rate. The risk derives from exposure to future changes in interest rates and their possible impact on the present value of assets and liabilities, including certain economic adjustments. Management of the interest rate exposure is conducted separately in each of the linkage segments as well as the exposure of all segments together.
Current management of interest rate exposure is conducted by way of a current examination of a set of risk indices that include sensitivity analysis of parallel and nonparallel shift in interest graphs, interim scenarios and stress tests.
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.

EXPOSURE TO CHANGES IN INTEREST RATES – CONSOLIDATED

	As at December 31, 2017					
	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 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years
	in NIS millions					
Non linked Israeli currency						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	108,051	9,773	7,379	9,899	5,259	5,177
Derivative financial instruments (except for options)	14,059	17,745	15,239	6,483	3,370	1,855
Options (in terms of base assets)	313	656	927	232	139	46
Total fair value	**122,423**	**28,174**	**23,545**	**16,614**	**8,768**	**7,078**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments						
Financial liabilities[1]	93,299	11,185	12,646	8,826	2,850	513
Derivative financial instruments (except for options)	18,736	20,410	11,818	7,638	5,062	6,987
Options (in terms of base assets)	223	817	677	9	7	-
Off-balance sheet financial instruments	-	-	-	-	-	-
Total fair value	**112,258**	**32,412**	**25,141**	**16,473**	**7,919**	**7,500**
Financial instruments, net						
Exposure to changes in interest rates in the segment	10,165	(4,238)	(1,596)	141	849	(422)
Cumulative exposure in the segment	**10,165**	**5,927**	**4,331**	**4,472**	**5,321**	**4,899**
CPI linked Israeli currency						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	456	559	3,321	6,420	4,285	2,365
Derivative financial instruments (except for options)	18	203	578	1,473	679	1,777
Options (in terms of base assets)	-	-	9	8	7	-
Total fair value	**474**	**762**	**3,908**	**7,901**	**4,971**	**4,142**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments						
Financial liabilities[1]	339	396	1,699	3,841	3,704	1,221
Derivative financial instruments (except for options)	124	720	3,197	2,124	822	910
Options (in terms of base assets)	19	16	91	191	121	35
Off-balance sheet financial instruments	-	-	-	-	-	-
Total fair value	**482**	**1,132**	**4,987**	**6,156**	**4,647**	**2,166**
Financial instruments, net						
Exposure to changes in interest rates in the segment	(8)	(370)	(1,079)	1,745	324	1,976
Cumulative exposure in the segment	**(8)**	**(378)**	**(1,457)**	**288**	**612**	**2,588**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	As at December 31, 2016 Total fair value	Internal rate of return In %	Effective average duration In years
1,368	125	347	147,378	3.10%	0.74	137,120	2.84%	0.68
-	-	-	58,751		2.11	69,422		1.27
1	-	-	2,314		0.02	1,573		0.01
1,369	**125**	**347**	**208,443**		**(2)1.12**	**208,115**		**(2)0.87**
118	-	-	129,437	0.25%	0.33	121,147	0.27%	0.32
-	-	-	70,651		1.33	81,756		1.31
-	-	-	1,733		0.01	1,084		0.01
-	-	-	-		-	-		-
118	**-**	**-**	**201,821**		**(2)0.68**	**203,987**		**(2)0.72**
1,251	125	347	6,622			4,128		
6,150	**6,275**	**6,622**						
882	86	8	18,382	2.57%	3.38	20,398	1.94%	3.47
2	-	-	4,730		3.96	4,699		4.29
-	-	-	24		0.05	104		0.01
884	**86**	**8**	**23,136**		**(2)3.50**	**25,201**		**(2)3.61**
361	-	-	11,561	0.42%	3.20	13,047	0.88%	3.36
21	-	-	7,918		2.04	7,844		2.15
-	-	-	473		0.07	498		0.01
-	-	-	-		-	-		-
382	**-**	**-**	**19,952**		**(2)2.67**	**21,389**		**(2)2.84**
502	86	8	3,184			3,812		
3,090	**3,176**	**3,184**						

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see Note 34 a-c to the financial statements.

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 34 a to the financial statements.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

EXPOSURE TO CHANGES IN INTEREST RATES – CONSOLIDATED (CONTINUED)

	As at December 31, 2017					
	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 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years
	in NIS millions					
Foreign currency[4]						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	26,479	5,329	2,697	4,478	3,159	4,185
Derivative financial instruments (except for options)	28,350	30,133	18,612	5,066	4,417	11,600
Options (in terms of base assets)	738	1,056	941	29	-	-
Total fair value	**55,567**	**36,518**	**22,250**	**9,573**	**7,576**	**15,785**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments						
Financial liabilities[1]	40,133	5,450	9,750	3,159	279	15
Derivative financial instruments (except for options)	19,206	27,715	15,493	5,184	4,528	11,339
Options (in terms of base assets)	802	881	1,106	62	13	7
Off-balance sheet financial instruments	-	-	-	-	-	-
Total fair value	**60,141**	**34,046**	**26,349**	**8,405**	**4,820**	**11,361**
Financial instruments, net						
Exposure to changes in interest rates in the segment	(4,574)	2,472	(4,099)	1,168	2,756	4,424
Cumulative exposure in the segment	**(4,574)**	**(2,102)**	**(6,201)**	**(5,033)**	**(2,277)**	**2,147**
Total exposure to changes in interest rates						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1],[3]	135,124	15,661	13,397	20,797	12,703	11,727
Derivative financial instruments (except for options)	42,427	48,081	34,429	13,022	8,466	15,232
Options (in terms of base assets)	1,051	1,712	1,877	269	146	46
Total fair value	**178,602**	**65,454**	**49,703**	**34,088**	**21,315**	**27,005**
Financial liabilities and amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments						
Financial liabilities[1]	133,909	17,031	24,095	15,826	6,833	1,749
Derivative financial instruments (except for options)	38,066	48,845	30,508	14,946	10,412	19,236
Options (in terms of base assets)	1,044	1,714	1,874	262	141	42
Off-balance sheet financial instruments	-	-	76	-	-	-
Total fair value	**173,019**	**67,590**	**56,553**	**31,034**	**17,386**	**21,027**
Financial instruments, net						
Exposure to changes in interest rates in the segment	5,583	(2,136)	(6,850)	3,054	3,929	5,978
Cumulative exposure in the segment	**5,583**	**3,447**	**(3,403)**	**(349)**	**3,580**	**9,558**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	As at December 31, 2016 Total fair value	Internal rate of return In %	Effective average duration In years
788	-	370	47,485	3.12%	1.46	52,818	3.12%	1.72
114	304	-	98,596		1.46	94,654		0.97
-	-	-	2,764		0.01	3,307		0.10
902	**304**	**370**	**148,845**		[2]**1.43**	**150,779**		[2]**1.21**
11	-	-	58,797	1.35%	0.26	64,852	1.05%	0.35
2	351	-	83,818		2.01	79,480		1.40
-	-	-	2,871		0.01	3,368		0.10
-	-	-	-		-	-		-
13	**351**	**-**	**145,486**		[2]**1.26**	**147,700**		[2]**0.91**
889	(47)	370	3,359			3,079		
3,036	**2,989**	**3,359**						
3,038	211	1,613	214,271	3.06%	1.13	211,610	2.82%	1.21
116	304	-	162,077		1.77	168,775		1.19
1	-	-	5,102		0.01	4,984		0.07
3,155	**515**	**1,613**	**381,450**		[2]**1.38**	**385,369**		[2]**1.18**
490	-	-	199,933	0.59%	0.48	199,344	0.56%	0.53
23	351	-	162,387		1.71	169,080		1.39
-	-	-	5,077		0.01	4,950		0.07
-	-	20	96		0.08	83		0.08
513	**351**	**20**	**367,493**		[2]**1.02**	**373,457**		[2]**0.91**
2,642	164	1,593	13,957			11,912		
12,200	**12,364**	**13,957**						

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see Note 34 a-c to the financial statements.

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 34 a to the financial statements.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

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 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 future 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 rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date.

Discounting the future cash flows was made, by discount 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.

Additionally, no consideration was given to commissions receivable or payable as part of the business activity, neither do they include the tax effect.

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 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.

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.

NET ADJUSTED FAIR VALUE OF FINANCIAL INSTRUMENTS OF THE BANK AND OF ITS CONSOLIDATED SUBSIDIARIES

	Israeli currency		Foreign currency[2]			
	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions					
	December 31, 2017					
Financial assets[1]	147,378	18,382	42,489	3,470	1,526	213,245
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	61,065	4,754	79,447	14,877	7,036	167,179
Financial liabilities[1]	(129,437)	(11,561)	(49,735)	(6,755)	(2,307)	(199,795)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(72,384)	(8,391)	(68,827)	(11,496)	(6,366)	(167,464)
Net fair value of financial instruments	**6,622**	**3,184**	**3,374**	**96**	**(111)**	**13,165**
	December 31, 2016					
Financial assets[1]	137,120	20,398	48,032	3,162	1,624	210,336
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	70,995	4,803	78,071	11,511	8,379	173,759
Financial liabilities[1]	(121,147)	(13,047)	(55,409)	(6,981)	(2,462)	(199,046)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(82,840)	(8,342)	(67,591)	(7,610)	(7,647)	(174,030)
Net fair value of financial instruments	**4,128**	**3,812**	**3,103**	**82**	**(106)**	**11,019**

For footnotes see next page.

THE EFFECT OF CHANGES IN INTEREST RATE SCENARIOS ON THE NET ADJUSTED FAIR VALUE OF THE BANK AND OF ITS CONSOLIDATED SUBSIDIARIES

	Net fair value of financial instruments, after the effect of changes in interest rate(4)							Change in fair value	
	Israeli currency		Foreign currency(2)						
Change in interest rate	Non-linked	CPI linked	US dollar	Euro	Other	Offsetting effects	Total	Total	Total
	in NIS millions								in %
	December 31, 2017								
Immediate parallel increase of 1%	6,232	2,984	2,963	73	(111)	(19)	12,122	(1,043)	(8%)
Immediate parallel increase of 0.1%	6,586	3,168	3,335	95	(111)	-	13,073	(92)	(1%)
Immediate parallel decrease of 1%	7,433	3,441	3,693	130	(108)	(19)	14,570	1,405	11%
	December 31, 2016								
Immediate parallel increase of 1%	3,855	3,573	2,656	78	(106)	(21)	10,035	(984)	(9%)
Immediate parallel increase of 0.1%	4,097	3,790	3,056	82	(107)	-	10,918	(101)	(1%)
Immediate parallel decrease of 1%	4,715	4,108	3,434	107	(105)	(22)	12,237	1,218	11%

Footnotes:

(1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 34 to the financial statements.

(4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

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.

CONCENTRATION OF EXPOSURE TO INTEREST

	As at December 31, 2017			As at December 31, 2016		
	Shekels			Shekels		
	Non-linked	CPI linked	Foreign currency and foreign currency linked	Non-linked	CPI linked	Foreign currency and foreign currency linked
	In NIS millions					
Total Assets	208,443	23,136	148,845	208,115	25,201	150,779
Total Liabilities	201,821	19,952	145,486	203,987	21,389	147,700
Average maturity (years):						
Assets	1.12	3.50	1.43	0.87	3.61	1.21
Liabilities	0.68	2.67	1.26	0.72	2.84	0.91
Average maturity gap	**0.44**	**0.83**	**0.17**	**0.15**	**0.77**	**0.30**
IRR gap	**2.84**	**2.15**	**1.77**	**2.57**	**1.07**	**2.07**

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 computation of Schedule "D" to the Management Review, hereunder.

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) The distribution of deposits with no maturity date is made only in computing the economic exposure. The retirement extends the liability side;

(b) The liability items in respect of employee rights are included in the economic measurement and not in the accounting measurement. These items extend the liabilities side;

(c) 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;

(d) Commitments to grant future credit to customers at fixed interest rates are included in economic exposure, but are not included in the fair value exposure;

(e) 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;

(f) 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.;

(g) 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, 2017		
An increase of 100BP in interest rates	(113)	(42)	(73)	(1)	(228)
A decrease of 100BP in interest rates	271	34	(126)	(6)	173
			December 31, 2016		
An increase of 100BP in interest rates	(178)	()	(90)	10	(258)
A decrease of 100BP in interest rates	242	2	(103)	1	141

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.

Exchange Rate and CPI Risks

The exposure to base risk is reflected in the loss which may incur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and liabilities, including the effect of forward transactions and the effect of options embedded. 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, 2017.

THE BANK'S CAPITAL SENSITIVITY OF CHANGES IN EXCHANGE RATES

	For the year ended December 31, 2017			
	in NIS millions			
Scenario	10%	5%	-5%	-10%
USD	358	182	(185)	(372)
EUR	(32)	(14)	17	42
Other Foreign Currencies	(14)	(7)	9	18

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. It should be noted that the cancellation of the hedge on the investment in IDB New York, decreased the sensitivity of the ratio of capital to risk assets to changes in exchange rate.

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, 2017.

SENSITIVITY OF THE CAPITAL TO CHANGES IN THE CPI

	For the year ended December 31, 2017 in NIS millions	
Scenario	Increase 3%	Decrease 3%
	62	(61)

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	
	2017	2016
	In NIS millions	
Investments in shares of affiliated companies[1]:		
Non marketable shares	153	157
Shares in the available-for-sale portfolio:		
Marketable shares	37	110
Non marketable shares	814	853
Total shares in the available for sale portfolio	851	963
Total investment in shares	**1,004**	**1,120**

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

CAPITAL REQUIREMENT REGARDING SHARE POSITION

	December 31	
	2017	2016
	In NIS millions	
In respect of investments in venture capital funds, in private equity funds and in a fund of hedge funds[2]	160	171
In respect of investments in other shares[3]	59	65
Total capital requirement regarding share position[1]	**219**	**236**

Footnotes:
(1) The capital requirement was computed according to 12.7% and does not include the 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 exposures created in the course of managing the Bank's assets and liabilities and an exposure to trading. Generally, trading exposures exist only at the parent company and are mainly concentrated on the dealing room as part of the Bank's activity as a "market maker" and the dynamic management of its liquid financial asset portfolio. Immaterial trading exposures exist from time to time at the subsidiaries. The trading activity is intended to generate income, while accepting exposure within the permitted risk limit for this activity and maintaining daily and intra-day monitoring and control.
The Board of Directors has set a separate series of limitations for trading activity and for assets and liabilities management activity. The limitations on the various trading activities have been set both in terms of the scope of the activity, and also in terms of the sensitivity to risk factors, among which, the VaR and the theoretical loss in the scenarios, including stress tests.
In 2017, no material deviations from limitations set by the Board of Directors were recorded.

Liquidity and Financing Risks

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. As this involves an uncertainty situation, in which the liquidity risk always exists, 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.
As part of its policy, the Bank has made arrangements to deal with all matters relating to the management of the liquidity risk and, in so doing, has prescribed: the appetite for liquidity risk, the organizational structure for managing the risk, the core processes and the policy implementation format (including a set of various limitations) in a normal situation and upon 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 different scenarios, which put pressure on the items of the Bank's resources and applications. 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:
- as part of the liquidity risk management, reviews are conducted of additional parameters that relate to the mix and concentration of the resources (in order to illustrate the limit for reliance on a single liquidity resource or the limit for reliance on specific types of resource, such as "financial deposits"), the mix and concentration of the assets, scenarios that complement the internal model (a forecast of liquidity gap Development under the work-plan assumptions and the Group liquidity gap) 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 different 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

Within the framework of approving the policy, a document setting out the "plan for dealing with a liquidity event/crisis" is also approved. The objective of this plan is to prescribe the strategy for contending with a liquidity crisis in such a way as to enable the Bank's liquidity sources to be suitably managed. The plan includes definitions of:
- Identifying and defining a variety of practical financial measures that can be utilized in times of emergency and which provide flexibility, while defining clear prioritization procedures;

- Outlining courses of policy for managing a range of problematic environments and the creation of a framework, including defining spheres of responsibility, that will facilitate a clear decision-making process for the purpose of prioritizing the measures that need to be taken, their timing and an authorities hierarchy for taking such decisions;
- Determining the identification and reporting processes, including specifications for reporting to the Management and the Board of Directors.

The detailed plan relates to Discount Bank, which manages the Group liquidity. The material subsidiaries approve an action plan at the company level using similar methodology to that of the Bank.

The main points in the management of liquidity in times of heightened pressure or crisis, include the following:

- Identification of a developing exceptional liquidity situation and the definition of different levels in a developing event;
- Identifying and announcing a liquidity crisis – including convening the various forums in accordance with the level of risk that has arisen, and distinguishing between a specific and a systemic event;
- Measures to improve the liquidity level – also in connection with the definition of the "state of the managed liquidity". The Bank has defined a number of different managed liquidity situations (heightened risk/crisis, a specific/systemic event) and has defined various response tools for each;
- Measurement and monitoring of the liquidity level;
- Announcements – in-house or public in accordance with the managed event;
- Group management mutual reporting and the transfer of liquidity between the companies.

Reporting – the various reporting obligations are detailed in the plan for the various management and oversight organs, in accordance with the managed event.

Group management

The policy document also regulates the way in which the Group liquidity risk is managed. 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, thereby providing sufficient flexibility for the transfer of liquidity.

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 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, 2017, the liquidity coverage ratio of the Discount Group on the basis of an observation average stood at 126.7%, compared with 146.5% as of December 31, 2016, higher than the minimum requirements according to the instructions. For additional details, see Note 25 to the financial statements, item D.

Liquidity and the Raising of Resources in the Bank

GENERAL

An increase of 13.2% was recorded during 2017 in the M1 money supply (cash held by the public and shekel current account deposits), of which current account deposits recorded a growth of 15%, while cash increased by 6%. The increase in the M2 money supply (M1 together with non-linked time deposits of up to one year) was more moderate – approx. 8%. In the last quarter of the year, current account deposits showed an accelerated growth (approx. 5%), following a moderate growth (approx. 1%) in the third quarter. It is noted that in 2016 the M1 and M2 money supply increased by 18% and 10%, respectively.
A rise of NIS 12.2 billion was recorded in 2017 in the monetary base, compared to NIS 10.8 billion in 2016. The growth in the monetary base stemmed from cash supply by the Bank of Israel in the amount of NIS 16 billion, as against cash absorption by the Government. The cash supply by the Bank of Israel was made through the purchase of foreign currency, open market operations (excess redemption of short-term loans (MAKAM) over the raising of new loans), and on the other hand, absorption through tenders for shekel deposits.

SOURCES FOR THE CHANGE IN THE MONETARY BASE

	2017	2016	change
	In NIS billion		in %
Operations on the Capital Market	13.1	11.1	17.8
The Shekel deposits tender	(22.0)	(28.0)	(21.4)
Foreign currency conversion	24.0	23.1	4.1
Government activity	(3.9)	3.5	-

THE BANK

During 2017, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus. The following trends were observed during the year:

- An increase of NIS 3.9 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 4.1%, of which an increase in retail deposits of NIS 2.3 billion and an increase in corporate deposits of NIS 3.2 billion. On the other hand, redemption of debt notes issued by Discount Manpikim in the amount of NIS 1.6 billion, which had been deposited with the Bank;
- Transition of liquidity from deposits to current accounts in an amount of NIS 1.5 billion in the shekel segment, due to the low interest environment;
- Eliminating the impact of the exchange rate, foreign currency deposits increased by an amount of US$100 million, most of the growth in retail deposits. Foreign currency deposits, including the effect of the exchange rate, decreased by NIS 2.6 billion.

Furthermore, the secondary capital of the COCO class (see Note 25, item 1 N to the financial statements) contributed approx. NIS 784 million to the Bank's financing resources.
Transferability of liquidity within the Group. The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity 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, 2017	December 31, 2016	Change compared to December 31, 2016	
	In NIS millions		In NIS millions	in %
Non-linked shekels	92,937	87,917	5,020	5.7
CPI-linked shekels	4,611	5,761	(1,150)	(20.0)
Foreign currency and foreign currency linked shekels	27,104	29,675	(2,571)	(8.7)
Total	**124,652**	**123,353**	**1,299**	**1.1**
Foreign currency and foreign currency linked shekels - In US$ millions	**7,818**	**7,718**	**100**	**1.3**

DEPOSITS FROM BANKS

	December 31, 2017	December 31, 2016	Change compared to December 31, 2016	
	In NIS millions		In NIS millions	in %
Non-linked shekels	446	945	(499)	(52.8)
CPI-linked shekels	207	293	(86)	(29.3)
Foreign currency and foreign currency linked shekels	837	468	369	78.9
Total	**1,490**	**1,706**	**(216)**	**(12.7)**

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 Group has integrated a computer system for the management of this 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 a period of three years) a comprehensive operational risks survey is performed, which includes, among other things, reference to embezzlement and fraud risks and business continuity risks. In 2017, a new survey, as stated, begun.

During 2017, 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 2017 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.

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. In 2017, an update to the Business Impact Analysis (BIA) was carried out in order to analyze and assess the risks in various scenarios, through identifying essential processes and services that are needed to safeguard the stability.

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. Against the aforesaid background, the outsourcing and supplier risk management policy document was updated in 2017 and 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 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 2016.

Automatic exchange of information (CRS). The Bank acts to identify countries to which its customers have a tax reporting duty as from 2015, while implementing the guidelines of the Supervisor of Banks in the matter, and making preparations to implement the regulation for automatic exchanges of information in accordance with the draft regulations. where required, would modify its activity in this respect in accordance with the Israeli Regulations in the matter, once published.

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, the formation of multi-annual work plans, as well as the prompt adjustment of the risk management strategy and the risk map, in accordance with changes occurring at the Bank and/or in its operating environment.

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 protection are 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 has a Group legal risks management policy which was recently updated and approved by the Board of Directors in 2017. The policy has been adopted by the principal subsidiaries in Israel and by the Bank's extensions abroad, mutatis mutandis. This policy is being updated once a year.

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. Within the framework of correspondent bank relationships between the Discount Group and the banks operating within the Palestinian Authority ("Palestinian banks"), representative services are provided to the Palestinian banks at the interbank shekel Clearing House, as well as other services.
Over the years, in light of concern regarding exposure to risks involved in such activity, the topic of the activity with the Palestinian banks has been discussed on a number of occasions at the board of directors of both the Bank and MDB, with the Discount Group's position having been that, in view of the risks pertaining to such activity, the activity with these banks should be discontinued.
In light of this, the Bank has announced, on the various occasions, its desire to discontinue its engagements with the Palestinian banks.

However, its requests to discontinue the engagement with the Palestinian banks has not been accepted and, on a number of occasions, the Bank of Israel has clarified that the aforesaid engagement is essential for the State of Israel and that the Bank of Israel attaches considerable importance to the continued provision of this service.
In November 2006, a specific permit was issued to the banks representing the Palestinian banks at the Clearing House, which exempts these banks from certain examination obligations. This permit is intended to provide an answer to the concerns of the representative banks and to provide them with certain protection against the risks involved in this activity.
In January 2009, all banking activity with the Gaza Strip was discontinued, including the clearing of checks, transfers in Israeli currency and in foreign currency, the clearing of electronic receivables and clearing through the Banking Clearing Center carried out within the framework of the banks' Clearing House. MDB followed the same course of action. Furthermore, the Bank discontinued its activities with banks in Judea and Samaria, apart from the clearing of checks, the transfer of funds to Israel through the Banking Clearing Center and the transfer of foreign currency to Israel.
On May 1, 2016, the Bank applied to the Supervisor of Banks and to the Director General of the Ministry of Finance and again made a request to discontinue providing services to Palestinian banks, including discontinuing representing them at the interbank shekel Clearing House. Alternatively, the Bank sought to receive an appropriate solution to the risks involved in the aforesaid activity.
In December of 2016, the Bank approached the Bank of Israel and the Director General of the Ministry of Finance, repeating its request, as stated, and informing of its decision to discontinue the supply of cash services to the Palestinian banks. During the course of January 2017, the Bank informed the Palestinian Banks of its decision to discontinue the engagement with them in everything related to the supply of cash services.
During 2017, a discourse took place with the aim of establishing tools for hedging the risk involved in providing 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.
As a result of additional requests by the Bank to the Ministry of Finance and the Bank of Israel regarding the aforesaid indemnification letter and letter of undertaking, drafts of the documents have been given to the Bank, and talks are being held on this topic.
With respect to the announcement of the Bank made to the Palestinian banks regarding the discontinuation of cash services, this following an approach by the Bank of Israel and following a presentation of an outline for providing cash services to the Palestinian banks with the involvement of the Bank of Israel, using the cash center of the Bank, the Bank has decided to grant an extension for the continuation of the cash operations.
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.
Following the suggestion of the Supreme Court to the Petitioners to withdraw their petition, while preserving their arguments in full, due to the fact that the time is not yet ripe to deal with their petition, the Petitioners had filed a motion requesting a hearing of their petition. The hearing of the petition was fixed for May 10, 2018.

Conduct Risk

Conduct risk arises from breach of the Bank's fairness, decency and transparency values vis-à-vis customers. The risk might materialize as a result of unfair treatment of customers and the harmful exploitation of the corporation's position. Fairness and decency values are an integral part of the Bank's definition of compliance risk.
As far as is understood by the Bank, the Banking Supervision Department is expecting the banks to make preparations to assimilate fairness and decency values.
The Bank is taking steps to adjust its policy on this topic and to assimilate the fairness and decency values through a spectrum of relevant measures and is raising awareness among its employees regarding the importance of fairness, decency and transparency vis-à-vis customers.

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, 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[1]	Medium-High	The competitive environment continues to be dynamic and complex. This alongside the continuous low interest environment. 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 and transparency 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, in accordance with 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	The growth in the volume of credit on the one part, and the increase in the risk environment on the other part, has led, inter alia, to a growth in the credit loss expenses. Action has been taken in recent quarters to tighten and improve underwriting processes, among other things by means of improving the CS models, improving control and treatment of problematic debts procedures and more.
2.2 Industry concentration risk	Medium	The Group complies with the regulatory restrictions.

1 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
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 decrease in exposure level reflected in the results of sensitivity and stress tests performed by the Group, alongside the establishing of the Group's global treasury management and the continuing improvement of tools, 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	An improvement in the mix and in the portfolio distribution indices and the reduction in the correlation of investments with the Group's credit activity.
4.	Liquidity risk	Low	The Group maintains higher liquidity ratios in relation to the industry. A high liquidity level in the markets. The Group is expected to reduce liquidity surplus in a controlled manner, with support for the continuation of growth in credit at the Bank and at the Group. Continuing improvements in the quality of management, including increased monitoring and control and improvement of the processes and infrastructure of the Group financial management.
5.	Operating risk	Medium	Realization of the strategic plan continues to present a challenge. Certain of the project are already being implemented on a current basis; however, the Group initiates new strategic projects in response to expected changes in competition. This, alongside approval of new strategic plans for the principal subsidiaries. Management of the strategic plan is conducted by means of a group methodology under a high level of managerial focus, while combining structured risk management processes in the implementation of the projects. Realization of the projects leads to the initiation of new products and activities in the field of innovation and digital banking, including cooperation with fintech entities, which create challenges in the management of exposure to third parties and outsourcing risks. These issues are being closely accompanied by control functions, including comprehensive new product processes. Furthermore, the Group acts in accordance with the suppliers and outsourcing policy that had been updated recently, and establishes infrastructure for current monitoring and control.
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 acts 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.
7.	Data protection and cyber risks	Medium-High[2]	The growth in threats and the increase in power, ingenuity, complexity and level of probability of cyber risks. The Group allocates resources for facing these risks, strengthens and improves the quality of risk management, including implementation of regulatory requirements, regulating policy and procedures and reinforcing the tools for the monitoring and control of risk. In addition, a multiannual defense plan has been formed and exercises and improvements are performed in the defense layout and in data protection at the Bank and the Group. The risk management concept in the second and third lines of defense was formed during the year.
8.	Legal risk	Medium	The continued toughness and the abundance of regulatory requirements together with increased enforcement in Israel and the world over, and this, given the high quality of management and the measures taken for the monitoring and control of the risk.

2 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
9. Cross-border risks	Medium-High[2]	The assessment reflects the system's risk level in light of trends in Israel and the world over for increased regulation and enforcement, the dynamics, complexity of application and expansion of the contents, including agreements for the exchange of information and exposure of banking groups to examination and investigation by foreign authorities. The Group has reduced its international presence and has allocated resources for the management of the risk within the different lines of defense, as well as completing the establishment of identification, monitoring and reporting procedures, including the progress made in the automation of procedures and controls.
10. Compliance, Money Laundering and Financing of Terror risks	Medium	The continued broadening of the regulatory duties alongside stricter regulation in Israel and abroad, with a focus on tax matters, and the increasing expectations for fairness and honesty towards customers. The Group continues its preparations for the implementation of the provisions of Proper Conduct of Banking Business Directives Nos. 308 and 411. Initiation and development of new projects and products involve aspects of compliance and prohibition of money laundering. On the other hand, there is continued improvement of risk management quality, including improvements in supporting tools and infrastructure, putting an emphasis on risk based training and controls and continuing the integration of compliance culture and fairness values in activities and processes.
11. Reputation risk	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, 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. New strategic plans were also approved during the year at the principal subsidiaries.

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, 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 FAS 5 - "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 "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. 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.

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments and the assumptions and features upon which they are based may have a significant effect upon 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 FAS 157. 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.

FAS 157 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 15.2% at December 31, 2017, compared with 16.5% at December 31, 2016.

The expense on assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 34 F (1), amounted to NIS 104 million in 2017, compared to income of NIS 445 million for 2016.

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 instruments led, in 2017, to a loss of NIS 3 million, compared to a loss of NIS 2 million in 2016.

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

	December 31, 2017	December 31, 2016
	in NIS millions	
Assets in respect of derivative instruments	2,975	3,304
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(16)	(10)
Liabilities in respect of derivative instruments	3,263	3,598
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(7)	(4)

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 have been implemented as from the financial statements as of June 30, 2014, and those 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, 2017.

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 should be noted that changes, if any, in the actual scope of retirements and/or in the characteristics of the retiring population (seniority, gender and salary level), compared to those assumed as aforesaid, could necessitate the revision of the actuarial assessment in the future.

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[3] 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 2017 Annual Report (This Report).

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 to the financial statements, item 3.2.

Mercantile Discount Bank. For details regarding the voluntary retirement plan at MDB, see Note 23 J to the financial statements.

2016 efficiency plan. For details, see "Efficiency of the banking industry – 2016 efficiency plan" above and Note 23 I 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 17 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. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", 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, 2017 to NIS 622 million (December 31, 2016: NIS 534 million).

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

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 2017, 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.

Change of the COSO model. Internal control over financial reporting was based on criteria formulated within the integrated framework of the COSO of 1992. In December 2014, the COSO model was updated to the COSO 2013 model. The Bank, ICC, MDB and IDB New York have completed the preparation for adoption of the new COSO model.

Changes in Internal Control

During the fourth quarter ended on December 31, 2017, 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 6, 2018	Dr. Yossi Bachar 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 2017 (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 6, 2018

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 2017 (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 6, 2018

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, 2017, 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, 2017, 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, 2017 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 114, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2017.

Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant	March 6, 2018

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, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for 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, 2017, 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, 2017 and 2016, 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, 2017, and our report dated March 6, 2018, 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.)
March 6, 2018

Ziv Haft
Certified Public Accountants (Isr.)

Somekh Chaikin

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, 2017 and December 31, 2016, 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, 2017. 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, 2017 and 2016, 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, 2017, 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, 2017, 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 6, 2018, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)
March 6, 2018

Ziv Haft
Certified Public Accountants (Isr.)

Statement of Profit and Loss for the Year ended December 31

		Consolidated		
	Notes	2017	2016	2015
		in NIS millions		
Interest income		6,213	(1)5,659	(1)5,265
Interest expenses		1,238	1,102	1,042
Interest income, net	2	4,975	4,557	4,223
Credit loss expenses	13,31	574	469	187
Net interest income after credit loss expenses		**4,401**	**4,088**	**4,036**
Non-interest Income				
Non-interest financing income	3	595	754	363
Commissions	4	2,717	2,585	2,611
Other income	5	87	100	79
Total non-interest income		**3,399**	**3,439**	**3,053**
Operating and other Expenses				
Salaries and related expenses	6	3,366	3,416	3,396
Maintenance and depreciation of buildings and equipment	16	1,044	1,067	1,158
Other expenses	7	1,325	1,331	1,171
Total operating and other expenses		**5,735**	**5,814**	**5,725**
Profit before taxes		2,065	1,713	1,364
Provision for taxes on profit	8	747	(1)741	(1)566
Profit after taxes		1,318	972	798
Bank's share in profit of affiliated companies, net of tax effect	15	1	15	9
Net profit:				
Before attribution to non-controlling rights holders		1,319	987	807
Attributed to the non-controlling rights holders		(60)	(82)	(57)
Net Profit Attributed to the Bank's Shareholders		**1,259**	**905**	**750**
Basic earnings per share of NIS 0.1 par value (in NIS)	9,24			
Total basic earnings per share attributed to the Bank's shareholders		**1.09**	**0.84**	**0.71**
Diluted earnings per share of NIS 0.1 par value (in NIS)	9,24			
Total diluted earnings per share attributed to the Bank's shareholders		**1.08**	**0.84**	**0.71**

Footnote:

(1) Reclassified, see Note 1 C 7 .

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

Date of approval of the financial statements:	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President, Chief Accountant
March 6, 2018			

Statement of Profit and Loss for the year ended December 31 (continued)

		The Bank		
	Notes	2017	2016	2015
		in NIS millions		
Interest income		3,521	(1)3,176	2,912
Interest expenses		764	669	640
Interest income, net	2	2,757	2,507	2,272
Credit loss expenses	13,31	258	232	75
Net interest income after credit loss expenses		**2,499**	**2,275**	**2,197**
Non-interest Income				
Non-interest financing income	3	371	321	221
Commissions	4	1,234	1,189	1,209
Other income	5	131	135	82
Total non-interest income		**1,736**	**1,645**	**1,512**
Operating and other Expenses				
Salaries and related expenses	6	2,139	2,163	2,064
Maintenance and depreciation of buildings and equipment	16	726	751	809
Other expenses	7	486	481	422
Total operating and other expenses		**3,351**	**3,395**	**3,295**
Profit before taxes		884	525	414
Provision for taxes on profit	8	310	(1)285	207
Profit after taxes		574	240	207
Bank's share in profit of affiliated companies, net of tax effect	15	685	665	543
Net profit attributed to bank's shareholders		**1,259**	**905**	**750**

Footnote:

(1) Reclassified, see Note 1 C 7 .

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,		
	2017	2016	2015
	in NIS millions		
Net profit before attribution to non-controlling rights holders	1,319	987	807
Net profit attributed to non-controlling rights holders	(60)	(82)	(57)
Net profit attributed to the Bank's shareholders	**1,259**	**905**	**750**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for-sale securities at fair value	33	(126)	(192)
Financial statements translation adjustments, net	(335)	(44)	36
Adjustments of liabilities in respect of employee benefits(2)	(17)	(239)	50
Net profit (loss) in respect of cash flows hedge	(1)	2	5
Other comprehensive loss, before taxes	**(320)**	**(407)**	**(101)**
Effect of attributed taxes	(2)	111	69
Other comprehensive loss, before attribution to non-controlling rights holders, after taxes	(322)	(296)	(32)
Other comprehensive loss attributed to non-controlling rights holders	(2)	(4)	(1)
Other comprehensive loss attributed to the Bank's shareholders, after taxes	**(320)**	**(292)**	**(31)**
Comprehensive income, before attribution to non-controlling interests holders	997	691	775
Comprehensive income, attributed to non-controlling interests holders	(58)	(78)	(56)
Comprehensive income, attributed to the Bank's shareholders(1)	**939**	**613**	**719**

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	2017	2016	2017	2016
		in NIS millions			
Assets					
Cash and deposits with banks	11,27	28,026	29,311	22,723	24,596
Securities (of which: 5,088, 4,859, 4,461, 4,103 respectively, pledged to lenders)	12,27	32,703	38,818	18,130	21,157
Securities borrowed or purchased under resale agreements		954	440	954	440
Credit to the public	13,31	150,868	142,904	99,056	92,070
Provision for credit loss	13,31	(2,111)	(2,144)	(1,302)	(1,377)
Credit to the public, net		**148,757**	**140,760**	**97,754**	**90,693**
Credit to Governments	14	1,493	737	1,493	732
Investment in investee companies (consolidated – affiliated companies)	15	153	157	8,855	8,667
Buildings and equipment	16	2,366	(2)2,322	1,676	(2)1,661
Intangible assets and goodwill	17	160	160	-	-
Assets in respect of derivative instruments	28	2,953	3,283	2,850	3,140
Other assets	18	3,656	3,589	2,032	2,119
Total Assets		**221,221**	**219,577**	**156,467**	**153,205**
Liabilities and Equity					
Deposits from the public	19	175,170	172,318	124,652	123,353
Deposits from banks	20	4,804	5,342	1,490	1,706
Deposits from the Government		267	303	50	68
Securities loaned or sold under repurchase agreements		1,943	3,543	-	-
Bonds and Subordinated debt notes	21	7,639	8,498	4,232	3,497
Liabilities in respect of derivative instruments	28	3,232	3,570	3,075	3,401
Other liabilities(1)	22	12,098	11,067	7,374	6,668
Total liabilities		**205,153**	**204,641**	**140,873**	**138,693**
Equity capital attributed to the Bank's shareholders	24	15,594	14,512	15,594	14,512
Non-controlling rights in consolidated companies		474	424	-	-
Total equity		16,068	14,936	15,594	14,512
Total Liabilities and Equity		**221,221**	**219,577**	**156,467**	**153,205**

Footnotes:

(1) Of which NIS 193 million and NIS 195 million in the consolidated, and NIS 147 million and NIS 148 million in the bank, as of December 31, 2017, and December 31, 2016, provision for credit loss in respect of off-balance sheet credit instruments. See Note 31 (E).

(2) Reclassified - see Note 16 M.

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

Statement of Changes in Shareholders' Equity

Balance at December 31, 2014
Net Profit for the year
Acquisition of rights that do not confer control[1]
Other comprehensive loss, net after tax effect
Balance at December 31, 2015
Net Profit for the year
Transactions with controlling shareholders
Issue of Shares[2]
Receipts on account of option warrants[2]
Exercise of options to Shares[2]
Other comprehensive loss, net after tax effect
Balance at December 31, 2016
Changes in 2017:
Net Profit for the year
Dividend to non-controlling interests holders
Exercise of options to Shares[2]
Other comprehensive loss, net after tax effect
Balance at December 31, 2017

Footnotes:

(1) See Note 36 H.

(2) See Note 24 D.

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

	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								
665	3,434	212	4,311	(74)	8,362	12,599	390	12,989
-	-	-	-	-	750	750	57	807
-	-	-	-	-	(30)	(30)	(100)	(130)
-	-	-	-	(31)	-	(31)	(1)	(32)
665	**3,434**	**212**	**4,311**	**(105)**	**9,082**	**13,288**	**346**	**13,634**
-	-	-	-	-	905	905	82	987
-	-	3	3	-	-	3	-	3
7	465	-	472	-	-	472	-	472
-	-	97	97	-	-	97	-	97
1	59	(21)	39	-	-	39	-	39
-	-	-	-	(292)	-	(292)	(4)	(296)
673	**3,958**	**291**	**4,922**	**(397)**	**9,987**	**14,512**	**424**	**14,936**
-	-	-	-	-	1,259	1,259	60	1,319
-	-	-	-	-	-	-	(8)	(8)
3	216	(76)	143	-	-	143	-	143
-	-	-	-	(320)	-	(320)	(2)	(322)
676	**4,174**	**215**	**5,065**	**(717)**	**11,246**	**15,594**	**474**	**16,068**

Statement of Cash Flows for the year ended December 31

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	1,319	987	807	1,259	905	750
Adjustments necessary to present cash flows from current operations:						
Bank's share in profits of investee companies (consolidated - affiliated)	(5)	(17)	(9)	(740)	(725)	(583)
Depreciation of buildings and equipment (including impairment in value)	433	426	512	298	296	341
Provision for impairment of securities	11	18	108	2	16	102
Credit loss expenses	1,168	994	780	698	601	519
Gain on sale of credit portfolio, net	(20)	(14)	(13)	(19)	(12)	(14)
Gain on sale of available-for-sale and held to maturity securities, net	(369)	(219)	(284)	(162)	(119)	(149)
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	18	9	(14)	17	9	(12)
Gain from realization at an investment in investee companies	(5)	-	-	-	-	-
Gain on realization of buildings and equipment, net	(64)	(80)	(50)	(68)	(72)	(17)
Net deferred taxes	(84)	4	173	(85)	19	147
Severance pay – increase (decrease) in excess of provision over the deposits	81	198	78	43	159	43
Net change in current assets:						
Deposits with banks	228	140	2,291	70	466	(130)
Credit to the public, net	(8,991)	[(1)](12,064)	(9,332)	(7,213)	[(1)](8,835)	(4,151)
Credit to the Governments	(756)	[(1)](222)	995	(761)	[(1)](230)	985
Securities borrowed or purchased under resale agreements	(514)	(161)	187	(514)	(161)	187
Assets in respect of derivative instruments	330	(75)	1,388	290	(72)	1,315
Trading securities	1,406	33	(1,554)	1,362	(790)	(760)
Other assets	9	237	4	152	144	52
Effect of changes in exchange rate on cash and cash equivalent balances	(181)	(110)	(99)	(169)	(88)	(76)
Accrual differences included in investment and financing activities	1,957	844	218	501	379	147
Net change in current liabilities:						
Deposits from banks	(538)	1,435	(1,640)	(216)	33	(1,800)
Deposits from the public	2,883	13,881	6,712	1,330	10,126	2,383
Deposits from the Government	(36)	(3)	(50)	(18)	(29)	(51)
Securities borrowed or purchased under resale agreements	(1,600)	(290)	(151)	-	-	-
Liabilities in respect of derivative instruments	(338)	95	(998)	(326)	127	(956)
Other liabilities	911	(447)	(97)	658	293	(430)
Adjustments in respect of exchange rate differences on current assets and liabilities	(185)	(18)	24	-	-	-
Net Cash Flows from (to) Operating Activities	**(2,932)**	**5,221**	**(14)**	**(3,611)**	**2,343**	**(2,158)**

Footnote:

(1) Reclassified - see Note 31 C.

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		
	2017	2016	2015	2017	2016	2015
			in NIS millions			
Cash Flows from Investing Activities						
Acquisition of held-to-maturity bonds	(91)	(184)	(738)	-	-	(738)
Proceeds from redemption of held-to-maturity bonds	648	794	539	-	-	157
Acquisition of available-for-sale securities	(10,271)	(14,608)	(17,836)	(6,367)	(7,486)	(12,062)
Proceeds from sale of available-for-sale securities	9,195	6,557	12,019	6,565	4,975	7,624
Proceeds from sale of rights in Visa Europe	-	286	-	-	77	-
Acquisition of credit portfolios	(1,632)	(1)(991)	(1,123)	(1,632)	(1)(991)	(1,123)
Proceeds from sale of credit portfolio	1,149	847	1,290	866	839	897
Proceeds from redemption of available-for-sale securities	4,029	5,071	6,064	1,426	3,096	3,720
Business combinations - see Annex A	-	9	-	-	-	-
Proceeds of the sale of investments in investee companies (consolidated - affiliated) and dividend	12	7	6	148	69	81
Dividend from a subsidiary in liquidation	-	-	-	154	-	-
Investment in subordinated debt notes of a subsidiary company	-	-	-	(100)	-	-
Proceeds of redemption of a subordinated debt note issued by a subsidiary company.	-	-	-	6	-	-
Sale of operations of an investee company	-	(1,272)	-	-	-	-
Acquisition of buildings and equipment	(521)	(533)	(395)	(347)	(343)	(245)
Proceeds from sale of buildings and equipment	125	113	101	114	96	20
Net Cash Flows from (to) Investing Activities	**2,643**	**(3,904)**	**(73)**	**833**	**332**	**(1,669)**
Cash Flows from Financing Activities						
Acquisition of shares in consolidated companies	-	-	(130)	-	-	-
Issuance of subordinated debt notes	811	282	407	811	29	407
Redemption of subordinated debt notes	(1,753)	(1,355)	(1,428)	(147)	(162)	(228)
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 to non-controlling rights holders	(8)	(3)	-	-	-	-
Net cash flows from (to) Financing Activities	**(807)**	**(468)**	**(1,151)**	**807**	**475**	**179**
Increase (decrease) in cash	(1,096)	849	(1,238)	(1,971)	3,150	(3,648)
Cash balance at beginning of period	28,819	27,886	29,013	24,301	21,063	24,635
Effect of changes in exchange rate on cash and cash equivalent balances	39	84	111	169	88	76
Cash balance at end of period	**27,762**	**28,819**	**27,886**	**22,499**	**24,301**	**21,063**
Interest and taxes paid and/or received						
Interest received	6,275	5,646	5,653	3,690	3,472	3,628
Interest paid	(1,212)	(1,231)	(1,503)	(863)	(897)	(1,115)
Dividends received	27	19	32	149	62	94
Taxes on income paid	(926)	(776)	(439)	(526)	(366)	(123)
Taxes on income received	90	302	56	38	262	-

Footnote:

(1) Reclassified - see Note 31 C.

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

Appendix A – Business Combinations[(1)]

	2017	2016	2015
	in NIS millions		
Net assets	-	(22)	-
Goodwill	-	(18)	-
Disregarding non-controlling rights	-	49	-
Business combinations	**-**	**9**	**-**

Footnotes:
(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

	2017	2016	2015
	in NIS millions		
The Bank:			
Income from sale of rights in Visa Europe	-	20	-
Purchase of fixed assets	14	42	15
Lending of securities	(241)	2,073	(614)
Consolidated:			
Income from sale of rights in Visa Europe	-	74	-
Purchase of fixed assets	26	45	21
Lending of securities	(328)	2,315	(927)

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 6, 2018.

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 FAS 168 (ASC 105-10). 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., shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" - within its meaning in section 80 of the Reporting to the Public Directives.

"Related party" – within its 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 1.2, 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;

1. Significant Accounting Policies (continued)

- Deferred tax assets and liabilities;
- 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 Bank's Management is required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Bank's Management bases itself 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. Change in the distribution of derivatives between ALM derivatives and other derivatives. ALM derivatives are defined in the public reporting directives as derivatives comprising a part of the Bank's asset and liability management layout and which are not intended for hedge relations. In accordance with the definitions of the financial management segment, trading activity would include transactions in derivative instruments that are not intended for hedge purposes and are not part of the Bank's asset and liability management, while the asset and liability management activity would include derivative instruments that are part of the asset and liability management. Most of the derivatives had in the past been presented in the financial statements as ALM derivatives. Within the framework of the preparations for providing, as from the year 2017, disclosure regarding the financial management segment, the Bank changed the manner of presentation in a way that would be more compatible with the distribution between the trading activity and the asset and liability management activity, and to the manner in which the trading portfolio is being defined for capital allocation purposes.

Whereas it is not possible to apply the said change to prior periods, the principal balance sheet and profit and loss data as of December 31, 2017, are presented below in accordance with the new presentation format, as stated in Note 3 and Note 28 below, compared to data as of December 31, 2017, had the Bank continued to present the data in accordance with the previous format of presentation.

Par value of derivative instruments

	December 31, 2017					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
ALM derivatives - according to the new presentation format	6,804	6,520	19,921	-	-	33,245
ALM derivatives - according to the previous presentation format	10,576	79,474	84,496	-	-	174,546
Other derivatives - according to the new presentation format	3,772	83,408	66,094	17,759	91	171,124
Other derivatives - according to the previous presentation format	-	10,454	1,519	17,759	91	29,823

Statement of profit and loss items

	For the year ended December 31 2017
	in NIS millions
	The bank and Consolidated
Net expenses in respect of ALM derivative instruments - according to the new presentation format	(589)
Net expenses in respect of ALM derivative instruments - according to the previous presentation format	(939)
Net expenses in respect of other derivative instruments - according to the new presentation format	(315)
Net income in respect of other derivative instruments - according to the previous presentation format	35

1. Significant Accounting Policies (continued)

6. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

Starting with the period beginning January 1, 2017, the Bank implements accounting standards and instructions as detailed hereunder:

(1) Reporting according to U.S. generally accepted accounting principles regarding income taxes (see item 1 below);

(2) Reporting according to U.S. generally accepted accounting principles regarding several issues - Circular dated March 21, 2016 (see item 2 below);

Starting with the period beginning July 1, 2017, the Bank implements accounting standards and instructions as detailed hereunder:

(3) An updated FAQ file regarding the implementation of the public reporting instructions in the matter of impaired debts, credit risk and allowance for credit losses (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) Income Taxes. The Supervisor of Banks issued on October 25, 2015, a circular in the matter of "reporting by banking corporations and credit card companies according to U.S. GAAP in the matter of Income Taxes". According to the circular, a banking corporation shall apply the accounting principles accepted by U.S. banks in the matter of income taxes. Upon its initial implementation, a banking corporation shall act in accordance with the transitional instructions determined with respect to such matters, mutatis mutandis, including the retroactive restatements of the comparative data, where required with respect to these matters.

On November 1, 2016, a circular was published in the matter of "reporting by banking corporations and credit card companies in Israel in accordance with U.S. GAAP". The circular amends the Reporting to the Public Directives in view of the change to the application of U.S. GAAP regarding taxes on income. In accordance with the circular, inter alia, temporary differences in respect of prior periods will continue to be treated according to the instructions in effect until December 31, 2016, and will not be restated.

The Bank implements the said rules as from January 1, 2017. The comparative data has been reclassified in order to agree with the manner of presentation in accordance with the new Directives.

Following the implementation of the amendments to the Directives, the Bank is required to recognize deferred tax liabilities in respect of certain affiliated companies (mostly in respect of current equity profits), except for certain defined circumstances.

The initial implementation and its effect. The implementation of the instructions did not have a material effect on the financial statements.

(2) Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated March 21, 2016. A circular was published on March 21, 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 830 of the Codification in the matter of "Foreign Currency Matters".
- Accounting principles accepted by U.S. banks regarding accounting policy, changes in accounting assessments and errors, including topic 250 of the Codification in the matter of "Accounting Changes and Error Corrections".
- Accounting principles accepted by U.S. banks regarding relating to events subsequent to balance sheet date, in accordance with topic 855-10 of the Codification in the matter of "Subsequent Events".

The provisions stated in the circular are in effect as from January 1, 2017 and thereafter. Upon the initial implementation thereof, it is required to follow the transitional instructions determined in these matters by the U.S. standards, with the required modifications, including the retroactive restatement of the comparative data, where required according to the U.S. standards in this matter. It is emphasized that when implementing the guidelines of topic 830 of the Codification regarding "foreign currency", in reported periods until January 1, 2019, banks shall not include exchange rate differences in respect of available-for-sale bonds as part of the adjustment to fair value of such bonds, but should continue to treat them as required by the Reporting to the Public Directives prior to the adoption of this matter.

The initial implementation and its effect. The implementation of the instructions did not have a material effect on the financial statements.

1. Significant Accounting Policies (continued)

(3) **An updated FAQ file regarding the implementation of the public reporting instructions in the matter of impaired debts, credit risk and allowance for credit losses.** The updated file was published on February 20, 2017, and, inter alia, includes a question regarding the definition of the primary repayment source and the manner in which it is reflected in the classification of the debt as problematic.

In accordance with the circular, a primary repayment source is a stable source of cash over a period of time that has to be under the control of the borrower, and must be separated, either explicitly or in substance, for the repayment of the debt. As a general rule, in order for the source of repayment to be recognized as a primary source of repayment, the bank has to show that a high probability exists for the expectations the borrower would produce, within a reasonable period of time, an appropriate cash flow from a continuous business activity, which would fully serve the debt on the date determined in the loan agreement. Alongside the primary repayment source, it is expected that nearly each of the credit transactions should have a secondary repayment source and even a third source (collateral, guarantor support, refinancing by a third party, etc.). Notwithstanding the support of the secondary and third repayment sources, the determination of the appropriate classification of the debt, until a default event occurs or until the probability thereof becomes expected at a high level, is generally based on the repayment ability of the borrower, namely, the expected strength of the primary repayment source.

These changes are in effect as from July 1, 2017 and thereafter.

The initial implementation and its effect. The implementation of the changes had no material effect.

7. **Reclassification.** Interest income earned on tax refunds have been reclassified from the item "interest income" to the item "provision for taxes on profit", following the implementation as from January 1, 2017, of the new instructions regarding taxes on income, as described in item 6 (1) above.

D. ACCOUNTING POLICY APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

1. **Foreign currency and linkage.** As from January 1, 2017, the Bank applies the provisions of Topic 830 of the Codification regarding Foreign Currency Matters.

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 available-for-sale debt instruments (AFS), stemming from a change in fair value and which are included as part of accumulated other comprehensive income (AOCI), subject to the transitional instructions.

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 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.

1. Significant Accounting Policies (continued)

Foreign banking extensions. The Bank has examined the classification of its overseas banking extensions based on the criteria determined by the Supervisor. In light of the examination, the banking extension Bancorp is classified, as from January 1, 2012, as foreign operations the functional currency of which is different from the shekel.

1.3 REPRESENTATIVE RATES OF EXCHANGE AND THE CPI AND THEIR ANNUAL RATES OF CHANGE

				Annual rate of change		
	2017	2016	2015	2017	2016	2015
CPI (in points):						
Known at balance sheet month	99.3	98.9	99.1	0.4	(0.3)	(0.9)
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.467	3.845	3.902	(9.8)	(1.5)	0.3
Euro	4.153	4.044	4.247	2.7	(4.8)	(10.1)

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 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 owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein. Total profit and other comprehensive income are allocated to the owners of a subsidiary company 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 is reflected directly in the equity.

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.

Loss of material influence. The bank discontinues the use of the equity method as from the date on which material influence no longer exists and treats the investment as a financial asset.

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.

1. Significant Accounting Policies (continued)

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.

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 (FAS 91)

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 existing terms, or if the transaction involves a change in the currency of the loan. In such cases, the refinanced loan is treated as a new loan, and accordingly 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 immediately 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. Early repayment commissions charged in respect of early repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years, or over the remaining period of the loan, whichever is shorter. Commissions charged in respect of early repayments made subsequently to January 1, 2014, 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".

1. Significant Accounting Policies (continued)

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.

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, 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".

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 a 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.

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 along 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 arrear 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. Implementation of the Directive is mandatory 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".

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.

1. Significant Accounting Policies (continued)

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 has formed a policy designed to ensure that it abides by the requirements, and that as from June 30, 2013, 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.

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.

1. Significant Accounting Policies (continued)

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.

Estimate of the group allowance at ICC. ICC updated its group allowance model at the end of 2017 and, among other things, the effect of the results of the last period losses compared to the average rates of losses in the past. The aforementioned change in the estimate did not have a material effect on the business results in 2017. Nevertheless, the effect of the change in the estimate on ICC's results in the coming years depends on an array of parameters, including the scope of transaction turnovers and the balance of interest-bearing credit, as well as the scope of write-offs for credit losses.

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 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 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.

1. Significant Accounting Policies (continued)

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.

The review is based on the following considerations:

- The ratio of loss to cost/depreciated cost (while examining developments subsequent to balance sheet date);
- 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.

   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)

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 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.

FAS 157 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, which are accessible to the Bank at measurement date;
- 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 on the most active 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 on the most efficient 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 a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation 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 banking corporation 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.

1. Significant Accounting Policies (continued)

The Bank does not offset the exposures in respect of derivative instruments in the balance sheet.

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 the U.S. Financial Accounting Standard FAS 140 (ASC 860-10) "Transfers and servicing of financial assets and extinguishments of liabilities" as amended by FAS 166 "Transfers of financial assets" (ASC 860-10), 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. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists; the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, except where all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

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. Where sale conditions do not exist, the transfer is treated as a collateralized debt. The difference between the amount of consideration received and the amount of the disposed assets is recognized in the statement of profit and loss. 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 losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset.

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 12 below.

1. Significant Accounting Policies (continued)

Depreciation. Depreciation is a methodical allocation of the depreciable amount of an asset over its useful life span. The depreciable amount is the cost of the asset, or another amount replacing cost, less the residual value of the asset. 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 inherent 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.

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined from time to time and 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. Costs incurred in the development stage of software intended for internal use are capitalized where Management is committed to finance the project, and it is expected that the project would be successfully completed and the software would fulfill its purpose. The public reporting instructions in the matter of capitalization of software costs for internal use are based, inter alia, on the U.S. standard SOP 98-1 (contained within the framework of ASC 350-40).

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.

Intangible assets created within the Bank (such as: software in the course of development) are not amortized so long as they are not ready for use. Accordingly, impairment of such intangible assets is reviewed once a year, until they become available 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;

1. Significant Accounting Policies (continued)

- 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.

13. Impairment of non-financial assets

Recognition of loss on impairment. Losses on impairment are recognized when the book value of an asset or of a cash producing unit exceeds the recoverable amount, and are recorded in profit and loss.

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 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 held for sale. Non-current assets (or realization groups comprising assets and liabilities) are classified as assets held for sale if expected to be realized through a sale or distribution and not by way of continued use (excluding assets foreclosed in respect of impaired debts). This applies also where the Bank is committed to the planning of a sale involving the loss of control over a subsidiary company, irrespective of whether the Bank remains with non-controlling rights in consolidated subsidiaries in the former subsidiary subsequent to the sale.

Immediately prior to the classification of the assets as held for sale or distribution, the assets (or the components of the groups intended for disposal) are measured according to the Bank's accounting policy. Subsequently, the assets (or the group intended for disposal) are measured according to the lower of the stated value or the fair value, net of selling expenses. In following periods, depreciable assets classified as held for sale or distribution are no longer depreciated periodically, and investments in affiliated companies held for sale are no longer treated by the equity method.

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 according to which the Bank deposits fixed amounts with a third party, thereby avoiding any legal or inferred liability for additional payments. 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.

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.

1. Significant Accounting Policies (continued)

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.

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 limits set by the Bank's management, within the framework of approval of the retirement plan in August 2014, which have been implemented as from the financial statements as of June 30, 2014:

- During the years 2015-2016, employees will not be entitled to retire under preferential terms, except in exceptional cases;
- The minimum age for retirement under preferred terms is 50;
- The special fund for exceptional retirement cases, which was created in the past and whose balance as of December 31, 2015 amounted to NIS 19 million (December 31, 2014: NIS 35 million), will be used for the retirement of employees in exceptional cases during the years 2015-2016.

The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the years 2004-2010. In view of the scope of natural retirement anticipated in the years 2017-2028, it had been assumed that the rate of voluntary retirement in these years will be 2% per year from the age of 50. The computation based on retirement rates has been applied retroactively.

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 aforesaid assumptions has resulted in an "actuarial gain" of NIS 125 million, which was recorded in other comprehensive income.

1. Significant Accounting Policies (continued)

16. Contingent liabilities. The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard SFAS-5 "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%.
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. 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 discontinuing operations, to other comprehensive income and to items directly recognized in equity.

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".

1. Significant Accounting Policies (continued)

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 will net 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.

18. 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.

19. 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".

20. Amortization of deferred expenses. Bond and subordinated debt notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

21. 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.

1. Significant Accounting Policies (continued)

E. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

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 ASU 2014-09, which adopts in U.S. GAAP a new standard in the matter of income recognition. The Standard states that income shall be recognized by the implementation of a five stage model, which, among other things, include rules for the identification of the contract with the customer and for the determination of the transaction price, rules defining how the different components of the contract should be separated and the manner by which the total transaction price should be attributed to each separate and identified component. Furthermore, in accordance with the provisions of the Standard, income is to be recognized in respect of each identified component separately, and this in accordance with rules stated by the Standard with respect to the timing of recognition of the income – at a specific date or over a period of time.

   The amendments in the Directives will apply as from January 1, 2018. In accordance with the transitional instructions of the circular, upon initial implementation it would be possible to elect the retroactive application alternative by way of a restatement of the comparative data, or using the alternative of from now onwards implementation by way of recording the cumulative effect of the initial implementation of the Standard, while attributing the cumulative effect, to be recognized at date of the initial implementation, to the equity.

   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 Bank estimates that the implementation of the amendments is not expected to have a material effect.
2. **Reporting by banking corporations in Israel in accordance with U.S. GAAP regarding several issues - Circular dated November 1, 2016.** A circular was published on November 1, 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" (it has been clarified in this regard that in accordance with the public reporting instructions, a banking corporation shall not capitalize interest costs, without having determined a policy and clear procedures and controls with respect to the criteria for the recognition of assets as qualified assets and with respect to the interest costs that would be capitalized);
   - Measurement and disclosure of guarantees in accordance with Topic 460 of the Codification regarding "Guarantees".

   The provisions stated in the circular will take effect as from January 1, 2018 and thereafter. Upon the initial implementation thereof, it is required to follow the transitional instructions determined in these matters by the U.S. standards, with the required modifications, including the retroactive restatement of the comparative data, where required according to the U.S. standards in this matter.

   The Bank estimates that the implementation of the Rules is not expected to have a material effect.
3. **Financial instruments and credit losses.** In the months of January and June 2016, new rules were published in the United States in the matter of the treatment of financial instruments and credit losses (ASU 2016-13 and ASU 2016-01). The Supervisor of Banks has informed of his intention to update the banking corporations as to the manner and date of implementation in Israel of the said rules. The Bank has not yet begun to study the impact of the rules upon its financial statements. At this stage, the banks were asked to prepare for the safekeeping of the basic data that would be required for the implementation of the new rules.
4. **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.

1. Significant Accounting Policies (continued)

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 non-operating expenses (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.

Implementation of the instructions determined in accordance with the circular is required as from January 1, 2018 and thereafter. Upon the initial implementation, it is required to follow the U.S. transitional instructions, mutatis mutandis.

2. Interest Income and Expenses

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
A. Interest Income[2]						
Credit to the public	5,565	5,024	4,598	3,175	2,858	2,628
Credit to the Governments	28	18	18	28	18	16
Deposits with the Bank of Israel and cash	28	23	29	16	13	21
Deposits with Banks	30	19	25	31	15	13
Securities borrowed or purchased under resale agreements	-	-	-	-	-	-
Bonds[1]	542	555	576	271	272	234
Other assets	20	[4]20	[4]19	-	[4]-	-
Total interest income	**6,213**	**5,659**	**5,265**	**3,521**	**3,176**	**2,912**
B. Interest Expenses						
Deposits from the public	(643)	(504)	(428)	(538)	(480)	(470)
Deposits from the Government	(3)	(3)	(3)	-	-	(1)
Deposits from banks	(33)	(30)	(30)	(5)	(6)	(4)
Securities loaned or sold under repurchase agreements	(127)	(146)	(149)	-	-	-
Bonds and subordinated debt notes	(428)	(415)	(427)	(217)	(179)	(161)
Other liabilities	(4)	(4)	(5)	(4)	(4)	(4)
Total interest expenses	**(1,238)**	**(1,102)**	**(1,042)**	**(764)**	**(669)**	**(640)**
Interest Income, Net	**4,975**	**4,557**	**4,223**	**2,757**	**2,507**	**2,272**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest expenses[3][5]	(11)	(36)	(32)	(11)	(36)	(32)
D. Accrual basis, interest income from bonds:						
Held-to-maturity	178	202	216	103	101	98
Available-for-sale	340	341	357	146	160	136
Trading	24	12	3	22	11	-
Total included in interest income	542	555	576	271	272	234

Footnotes:

(1) Interest Income generated by mortgage backed securities (MBS) - in US $ millions	44	42	41	-	-	-
Interest Income generated by mortgage backed securities (MBS) - in NIS millions	157	161	159	-	-	-

(2) Including the effective component of hedging relationships.

(3) Details of the effect of hedge derivative instruments on subsection A.

(4) Reclassified, see Note 1 C 7 .

(5) Reclassified - Beginning with January 1, 2017, the data includes interest expense relating to hedge derivative instruments. As of December 31, 2016, the data included also the adjustment to fair value of such instruments. The comparative data has been reclassified accordingly.

3. Non-Interest Financing Income

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
A. Non-interest financing income from operations not for trading purposes						
From operations in derivative instruments						
Net expenses in respect of ALM derivative instruments[4]	[7](589)	(333)	(378)	[7](538)	(321)	(335)
Total from operations in derivative instruments	(589)	(333)	(378)	(538)	(321)	(335)
From investments in bonds[3]:						
Gains on sale of available-for-sale bonds	180	163	243	165	133	176
Losses on sale of available-for-sale bonds	(20)	(3)	(14)	(4)	(2)	(2)
Provision for impairment of available-for-sale bonds	-	(14)	(4)	-	(14)	(3)
Total from investments in bonds	160	146	225	161	117	171
Net exchange rate differences	1,107	449	504	1,079	430	459
Net profit (losses) from investments in shares:						
Gains on sale of available-for-sale shares[3]	211	71	93	1	-	3
Gains on sale of rights in Visa Europe[8]	-	360	-	-	97	-
Losses on sale of available-for-sale shares	(2)	(12)	[9](38)	-	(12)	[9](28)
Provision for impairment of available-for-sale shares	(11)	(4)	[10](104)	(2)	(2)	[10](99)
Dividends from available-for-sale shares	24	11	24	1	1	13
Profit on sale of shares and activities of affiliated companies	8	19	-	3	1	-
Loss on sale of affiliated companies	-	-	(27)	-	-	-
Total from investment in shares	230	445	(52)	3	85	(111)
Net profit in respect of loans sold[11]	20	14	13	19	12	14
Total non-interest financing income from operations not for trading purposes	**928**	**721**	**312**	**724**	**323**	**198**
B. Non-interest financing income from operations for trading purposes[5]:						
Net income in respect of other derivative instruments	[7](315)	42	37	[7](336)	7	11
Net realized and non-realized profit (losses) on adjustment of trading bonds to fair value[1]	(21)	(8)	14	(21)	(8)	12
Net realized and non-realized profit on adjustment of trading shares to fair value[2]	3	(1)	-	4	(1)	-
Total from trading operations[6]	**(333)**	**33**	**51**	**(353)**	**(2)**	**23**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	15	11	26	6	(11)	12
Foreign currency exposure	(367)	12	14	(377)	-	-
Share exposure	19	10	11	18	9	11
Total according to risk exposure	(333)	33	51	(353)	(2)	23
Total non-interest financing income	**595**	**754**	**363**	**371**	**321**	**221**

Footnotes:

(1) Of which, a part of the profit relating to trading bonds that are still on hand at balance sheet date	1	(5)	(7)	2	(3)	(6)
(2) Of which, a part of the profit (loss) relating to trading shares that are still on hand at balance sheet date	(2)	-	(1)	(2)	-	(1)
(3) Reclassified from accumulated other comprehensive income, see Note 10:						
Of which profit, from investments in bonds, net	160	146	226	161	117	171
Of which, from investment in shares	1	-	(97)	1	-	(102)

(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 regarding the change in the format of presentation, see Note 1 C 5 above.
(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) Including an amount of NIS 34 million being the reimbursement to a borrower made by the Bank and MDB in 2015, of violation interest, which had been classified to this item in accordance with a guideline of the Supervisor of Banks. This in line with a guideline of the Supervisor of Banks issued in 2003, according to which, the Bank and MDB were required to classify the outstanding balance of the borrower's debt as "security" being part of the available-for-sale security portfolio, based on the market value of their share in the collateral (being shares of a certain corporation).
(10) Principally in respect of the shares in FIBI ,see Note 38 (3) and (4) .
(11) For details, see Note 31.

4. Commissions

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Account Management fees	483	489	523	301	306	300
Credit cards	1,119	1,024	977	149	137	131
Operations in securities and in certain derivative instruments	336	322	332	203	208	218
Commissions from the distribution of financial products	142	136	147	130	124	134
Management, operational and trusteeship services for institutional bodies	-	-	7	-	-	-
Handling credit	154	136	141	113	90	104
Conversion differences	137	138	146	107	108	114
Foreign trade services	52	53	50	41	42	40
Net income from credit portfolio services	7	11	11	7	11	9
Commissions on financing activities	198	181	175	142	122	115
Other commissions	89	95	102	41	41	44
Total fees	**2,717**	**2,585**	**2,611**	**1,234**	**1,189**	**1,209**

5. Other Income

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	5	5	6
Capital gain on sale of buildings and equipment	72	83	50	68	75	17
Capital loss on sale of buildings and equipment	-	(3)	-	-	(3)	-
Other income	15	20	29	58	58	59
Total other income	**87**	**100**	**79**	**131**	**135**	**82**

6. Salaries and Related Expenses

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Salaries	2,259	2,239	2,337	1,372	1,331	1,363
Other related expenses including further education fund, vacation and sick leave	128	135	145	52	61	53
Long-term benefits	42	18	(20)	42	27	22
National Insurance and payroll taxes	500	493	534	371	360	381
Pension expenses (including severance pay and provident fund contributions)(1):						
Defined Benefits (3)	190	302	154	140	229	92
Defined deposits	181	153	144	126	110	104
Other post-retirement benefits and non-pension post-retirement benefits(1)	36	45	48	32	41	44
Special benefits in respect of dismissal	-	-	(2)24	-	-	-
Expenses regarding other employee benefits	30	31	30	4	4	5
Total salaries and related expenses	**3,366**	**3,416**	**3,396**	**2,139**	**2,163**	**2,064**
Of which: overseas salaries and related expenses	338	347	514	-	-	12

Footnotes:
(1) See Note 23.
(2) Increased compensation to employees of an investee company overseas whose operations were sold.
(3) Of which settlement in 2017 - 32 million NIS in consolidated and in Bank, in 2016 - 141 million NIS in consolidated and 125 million NIS in Bank.

7. Other Expenses

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	In NIS millions					
Advertising	191	183	190	56	48	49
Communications	117	125	125	58	64	62
Computer services	131	149	133	50	69	53
Office expenses	28	34	30	17	19	17
Insurance	72	62	55	47	35	15
Professional services	160	155	139	82	82	65
Directors' fees	14	14	13	6	6	6
Instruction and training	12	11	11	9	7	5
Fees	283	233	195	28	28	29
Other	317	280	280	133	123	121
Provision in ICC for arrangement replacing criminal proceedings[1]	-	85	-	-	-	-
Total other expenses	**1,325**	**1,331**	**1,171**	**486**	**481**	**422**

Footnote:
(1) See Note 36 F 2 .

8. Provisions for Taxes on Profit

A. COMPOSITION

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Taxes for current year	852	[2]649	[2]461	468	[2]221	151
Taxes for previous years	(14)	[2]13	[2](62)	(19)	[2]1	(72)
Total current taxes	**838**	**662**	**399**	**449**	**222**	**79**
Addition (deduction):						
Deferred taxes for current year	(114)	76	79	(159)	51	44
Deferred taxes for previous years	23	3	88	20	12	84
Total deferred taxes[1]	**(91)**	**79**	**167**	**(139)**	**63**	**128**
Total provision for taxes on profit	**747**	**741**	**566**	**310**	**285**	**207**
Of which: tax provision abroad	141	118	119	-	-	1

Footnotes:

(1) **Composition of deferred tax expense (income):**

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Deferred tax expense (income), before the effect of the following items:	(149)	(48)	132	(142)	(40)	98
Decrease in tax carryforwards deductions	-	18	14	-	18	14
Effect of changes in tax laws	58	109	21	3	85	16
Total deferred taxes	**(91)**	**79**	**167**	**(139)**	**63**	**128**
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	29	(114)	4	45	(104)	(1)

(2) Reclassified – see 1 c 7

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		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
Profit before taxes	2,065	(1)1,713	(1)1,364	885	(1)525	414
Statutory tax rate on banks in Israel	35.04%	35.90%	37.58%	35.04%	35.90%	37.58%
Income tax at the statutory tax rate	724	(1)615	(1)512	310	(1)188	155
Income tax (tax savings) on:						
Income of foreign subsidiaries	(22)	10	2	-	-	(6)
Income exempt from tax or taxed at preferred rates	(8)	(2)	(8)	(3)	(1)	(5)
Adjustment differences on depreciation and capital gains	(9)	(6)	29	(7)	(4)	32
Other non-deductible expenses	9	27	6	6	4	4
Additional amounts payable with respect to problematic debts	14	28	16	10	22	12
Taxes for prior years	(10)	(4)	11	(16)	(3)	-
Income of Israeli subsidiaries	(1)	(22)	(17)	(1)	(1)	(1)
Change in the balance of deferred taxes resulting from the change in tax rates	58	109	21	3	85	16
Change in the balance of the provision for deferred tax asset	(13)	(6)	(5)	1	1	-
Net interest expense (income) for income tax	5	(8)	(1)	7	(6)	-
Total provision for taxes on profit	**747**	**741**	**566**	**310**	**285**	**207**

Footnote:
(1) Reclassified – see 1 c 7

C. (1) An income tax audit had been performed at the Bank for the tax years up to and including the year 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. Hearing of the appeal is fixed for November 2018.

Agreed tax assessments have also been issued to the Bank for the tax years 2011 and 2012, with the exception of the dispute regarding the dividend issue, in respect of which an appeal was filed with the District Court. At the request of the Tax Assessing Officer, the hearing of this appeal has been deferred until after a ruling is given by the Supreme Court in the said appeal by the Bank regarding the dividend issue for 2010. Agreed tax assessments were issued to the Bank for the years 2013-2015, with the exception of two issues, in respect of which the Bank has lodged an appeal.

(2) Agreed withholding tax assessments have been issued to the Bank for the years 2011 to 2013, with the exception of two issues in respect of which the Bank has filed an objection to the decision of the Assessing Officer. Subsequent to balance sheet date, the Bank was issued with agreed withholding tax assessments for years up to and including 2015.

(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. Based on its legal counsel's opinion and taking into consideration the provisions existing on the books of the company for reasons of care, Management of ICC estimate that the potential exposure to this case is not material.

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, 2017, deferred tax liabilities in the amount of NIS 423 million, in respect of temporary differences in the amount of 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 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)	23.0
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
	For the year of 2016					
Deferred tax asset						
On provision for credit losses	644	102	(44)	(2)	700	35.0
On provision for vacation pay, jubilee awards and provision of retirees	584	(2)	(42)	(20)	520	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	420	(28)	(21)	81	452	34.3
On securities	16	(10)	-	21	27	40.6
On income tax carry- forward deductions	50	(27)	(3)	-	20	24.0
Other	147	(69)	(4)	(2)	72	34.7
Balance of deferred tax assets, gross	**1,861**	**(34)**	**(114)**	**78**	**1,791**	**34.5**
Provision for deferred tax asset	(25)	6	2	-	-17	24
Balance of deferred tax assets deduction deferred tax liabilities	**1,836**	**(28)**	**(112)**	**78**	**1,774**	**34.6**
Deferred tax liability						
On securities	-	-	-	3	3	34.2
Fixed assets and leasing	113	(5)	(9)	-	99	27.5
In respect of investment in investee companies	105	(55)	-	-	50	11.7
Other	1	8	-	-	9	40.7
Balance of deferred tax liabilities, gross	**219**	**(52)**	**(9)**	**3**	**161**	**19.7**
Balance of deferred tax assets, net	**1,617**	**24**	**(103)**	**75**	**1,613**	**32.6**
Of which: in respect of foreign operations	161				172	40.7

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 2017					
Deferred tax asset						
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**
	For the year of 2016					
On provision for credit losses	378	70	(30)	-	418	34.2
On provision for vacation pay, jubilee awards and provision of retirees	507	24	(38)	(18)	475	34.2
From excess liabilities in respect of employee benefits over the assets of the plan	278	(41)	(14)	87	310	34.2
On income tax carry- forward deductions	25	(21)	(1)	-	3	24.0
Other	47	(20)	(3)	-	24	34.2
Balance of deferred tax assets, gross	**1,235**	**12**	**(86)**	**69**	**1,230**	**34.2**
Provision for deferred tax asset	(1)	(1)	-	-	(2)	24.0
Balance of deferred tax assets deduction deferred tax liabilities	**1,234**	**11**	**(86)**	**69**	**1,228**	**34.2**
Deferred tax liability						
On securities	-	-	-	2	2	34.2
Fixed assets and leasing	89	(5)	(7)	-	77	26.7
In respect of investment in investee companies	22	23	-	-	45	11.2
Balance of deferred tax liabilities, gross	**111**	**18**	**(7)**	**2**	**124**	**17.8**
Balance of deferred tax assets, net	**1,123**	**(7)**	**(79)**	**67**	**1,104**	**31.5**

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	First year of expiry
	in NIS millions				
	For the year ended December 31 2017				
Losses for tax purposes:					
The bank	2	2	-	10	(1)
Subsidiaries in Israel	2	2	-	9	(1)
	For the year ended December 31 2016				
Losses for tax purposes:					
The bank	3	2	1	14	2017
Subsidiaries in Israel	16	16	-	66	2017

Footnote:
(1) Cannot be estimated

I. **Tax legislation changes**

2015. On September 24, 2015, a Value Added Tax Order (Rate of tax on transactions and the import of goods) (Amendment), 2015, was published, according to which the VAT rate decreased to 17% as from October 1, 2015. On October 12, 2015, the Knesset approved the Value Added Tax Order (Rate of Tax applying to Non-profit Organizations and Financial Institutions) (Amendment), 2015. According to the Order the payroll tax is to be decreased to 17%, and it is applied to the payment of payroll in respect of October 2015 and thereafter. In addition profit tax will also be decreased to 17%, applying to a proportionate part of the profit for 2015. The legislation amendments reduced the current tax payments of the Bank and of the Israeli subsidiaries, immediately (payroll tax, profit tax and VAT on acquiring services and products).

Following the aforesaid decrease in tax rates, the statutory tax rate in 2015 decreased from 37.71% to 37.58%. From the beginning of 2016, the statutory tax rate will decrease to 37.18%.

The reduction in the rate of payroll tax reduced the liabilities of the Bank and of MDB for the payment of certain employee benefits. The reduction in the rate of profit tax reduced the balance of deferred taxes of the Bank and of MDB. The impact of the said changes, based on balances as of September 30, 2015, amounted to NIS 10 million (reduction in profit). The impact on the comprehensive income amounted to NIS 3 million (decrease in tax).

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 taxes paid abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of taxes that would have been paid in Israel based on the tax rate applicable to the Bank in Israel.

9. Earnings Per Share

	2017	2016	2015
		in NIS millions	
Basic earnings			
Total net income, attributed to bank's shareholders	1,259	905	750
		In Thousand	
Basic earnings Per share:			
Weighted average of shares of NIS 0.1 par value			
Balance to January 1	1,132,125	1,053,869	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	**1,157,227**	**1,073,099**	**1,053,869**
Total earnings per share attributed to the Bank's shareholders	**1.09**	**0.84**	**0.71**
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 Basic earnings	1,157,227	1,073,099	1,053,869
In addition:	-	-	-
The effect of option warrants	6,790	586	-
Weighted average of shares of NIS 0.1 par value, used for the Diluted earnings	**1,164,017**	**1,073,685**	**1,053,869**
Total earnings per share attributed to the Bank's shareholders (in NIS)	**1.08**	**0.84**	**0.71**

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 profit (loss) in respect of cash flows hedge	Adjustments in respect of employee benefits	Total		
			in NIS millions				
Balance at December 31, 2014	**261**	**30**	**(3)**	**(362)**	**(74)**	**-**	**(74)**
Net change during the year	(99)	36	3	28	(32)	(1)	(31)
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)**

Footnote:

(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.

10. Accumulated Other Comprehensive Income (Loss) (continued)

B. CHANGES IN OTHER COMPREHENSIVE INCOME (LOSS) COMPONENT BEFORE TAX EFFEXT AND AFTER TAX EFFECT

	2017			2016			2015		
	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 profit (loss) from adjustments to fair value	194	(64)	130	20	(3)	17	(63)	8	(55)
Profit on available-for-sale securities reclassified to the statement of income[2]	(161)	56	(105)	(146)	53	(93)	(129)	85	(44)
Net change during the year	**33**	**(8)**	**25**	**(126)**	**50**	**(76)**	**(192)**	**93**	**(99)**
Translation adjustments									
Financial statements translation adjustments[1]	(335)	-	(335)	(44)	-	(44)	9	-	9
Net loss reclassified to the statement of income including realized operations	-	-	-	-	-	-	27	-	27
Net change during the year	**(335)**	**-**	**(335)**	**(44)**	**-**	**(44)**	**36**	**-**	**36**
Cash flow hedging									
Net profit (loss) in respect of cash flow hedging	-	-	-	-	-	-	(2)	1	(1)
Net (profit) loss in respect of cash flow hedging reclassified to the statement of profit and loss	(1)	-	(1)	2	(1)	1	7	(3)	4
Net change during the year	**(1)**	**-**	**(1)**	**2**	**(1)**	**1**	**5**	**(2)**	**3**
Employee benefits									
Net actuarial profit (loss)	(102)	35	(67)	(430)	117	(313)	30	(13)	17
Loss reclassified to the statement of income[3]	85	(29)	56	191	(55)	136	20	(9)	11
Net change during the year	**(17)**	**6**	**(11)**	**(239)**	**62**	**(177)**	**50**	**(22)**	**28**
Total net change during the year	**(320)**	**(2)**	**(322)**	**(407)**	**111**	**(296)**	**(101)**	**69**	**(32)**
Changes in components of accumulated other comprehensive income (loss) attributed to non-controlling rights holders:									
Total net change during the year	**(2)**	**-**	**(2)**	**(5)**	**1**	**(4)**	**(1)**	**-**	**(1)**
Changes in components of accumulated other comprehensive income (loss) attributed to the Bank's shareholders:									
Total net change during the year	**(318)**	**(2)**	**(320)**	**(402)**	**110**	**(292)**	**(100)**	**69**	**(31)**

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 in the item "Salaries and related expenses".

11. Cash and Deposits with Banks

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	in NIS millions			
Cash and deposits with central banks	24,965	25,551	19,437	21,427
Deposits with commercial banks	3,061	3,760	3,286	3,169
Total cash and deposits with banks[1]	**28,026**	**29,311**	**22,723**	**24,596**
Of which: cash, deposits with banks and deposits with central banks for an initial period of up to three months	27,762	28,819	22,499	24,301

Footnote:

(1) See Note 27 C, D, E, G, H, J, K for pledges.

12. Securities

A. COMPOSITION OF THIS ITEM - CONSOLIDATED

	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**

	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[(8)]	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**

For footnotes see next page.

12. Securities (continued)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED[1] (CONTINUED)

	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 27c 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 a reduced cost of NIS 405 million (approx. US$ 117 million) and from the available for sale portfolio with a market value of NIS 2,793 million (approx. US$ 805 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) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,227 million (book value).

(8) Including U.S. Government agencies, in an amount of NIS 371 million (Book value).

	December 31, 2016				
	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	3,703	3,703	251	-	3,954
Of foreign governments	115	115	-	-	115
Of Israeli financial institutions	83	83	3	-	86
Of foreign financial institutions	35	35	-	1	34
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	779	779	7	12	774
Of others abroad[7]	1,552	1,552	47	3	1,596
Total held-to-maturity bonds	**6,267**	**[3]6,267**	**308**	**16**	**6,559**

For footnotes see next page.

12. Securities (continued)

A. COMPOSITION OF THIS ITEM - CONSOLIDATED[1] (CONTINUED)

	December 31, 2016				
			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	16,564	16,448	144	28	16,564
Of foreign governments	918	926	1	9	918
Of Israeli financial institutions	58	57	1	-	58
Of foreign financial institutions	1,154	1,152	8	6	1,154
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	7,683	7,747	14	78	7,683
Of others in Israel	353	344	10	1	353
Of others abroad[8]	2,023	1,997	30	4	2,023
Total bonds	28,753	28,671	208	126	(3)28,753
Shares	963	957	7	1	(5)963
Total available-for-sale securities	**29,716**	**29,628**	**(4)215**	**(4)127**	**29,716**

	December 31, 2016				
	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	2,568	2,570	2	4	2,568
Of foreign governments	21	21	-	-	21
Of Israeli financial institutions	14	14	-	-	14
Of foreign financial institutions	39	39	-	-	39
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	61	62	-	1	61
Of others in Israel	54	54	-	-	54
Of others abroad	65	67	-	2	65
Total bonds	2,822	2,827	2	7	2,822
Shares	13	13	1	1	13
Total trading securities	**2,835**	**2,840**	**(6)3**	**(6)8**	**2,835**
Total securities	**38,818**	**38,735**	**526**	**151**	**39,110**

Footnotes:
(1) See Note 27c 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 a reduced cost of NIS 587 million (approx. US$ 153 million) and from the available for sale portfolio with a market value of NIS 3,442 million (approx. US$ 895 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 853 million.
(6) Recorded in the statement of profit and loss.
(7) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,553 million (book value).
(8) Including U.S. Government agencies, in an amount of NIS 65 million (Book value).

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 31,2017				
	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	3,246	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 loans:					
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 loans:					
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	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**

*Loss amount lower then NIS 1 million.

Footnotes:

(1) See Note 27c 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 31,2016				
	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	3,480	3,480	227	-	3,707
Total held-to-maturity bonds	**3,480**	**3,480**	**227**	**-**	**3,707**

	December 31,2016				
			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 loans:					
Of the Israeli Government	11,366	11,247	137	18	11,366
Of foreign governments	526	533	1	8	526
Of Israeli financial institutions	58	57	1	-	58
Of foreign financial institutions	810	808	6	4	810
Of others in Israel	145	144	2	1	145
Of others abroad	1,956	1,929	30	3	1,956
Total bonds	14,861	14,718	177	34	14,861
Shares	94	89	5	-	[4]94
Total available-for-sale securities	**14,955**	**14,807**	**[3]182**	**[3]34**	**14,955**

	December 31,2016				
	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 loans:					
Of the Israeli Government	2,543	2,544	2	3	2,543
Of foreign governments	21	21	-	-	21
Of Israeli financial institutions	14	14	-	-	14
Of foreign financial institutions	39	39	-	-	39
Of others in Israel	42	42	-	-	42
Of others abroad	63	65	-	2	63
Total bonds	2,722	2,725	2	5	2,722
Shares[6]	-	-	-	-	-
Total trading securities	**2,722**	**2,725**	**[5]2**	**[5]5**	**2,722**
Total securities	**21,157**	**21,012**	**411**	**39**	**21,384**

Footnotes:
(1) See Note 27c 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 4 million.
(5) Recorded in the statement of profit and loss.
(6) An amount lower than NIS 1 million.

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[(1)]

	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								
Bonds and loans:								
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**

	December 31, 2016							
	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 foreign governments	96	-	-	-	-	-	-	-
Of foreign financial institutions	-	-	-	-	35	1	-	1
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	304	3	-	3	336	9	-	9
Of others abroad	225	3	-	3	-	-	-	-
Total held-to-maturity bonds	**625**	**6**	**-**	**6**	**371**	**10**	**-**	**10**

D. 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, 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	-	-	-
Of foreign governments	341	2	-	2	137	1	-	1
Of Israeli financial institutions	31	-	-	-	-	-	-	-
Of foreign financial institutions	108	1	-	1	69	-	-	-
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	3,381	40	-	40	2,122	54	-	54
Of others in Israel	-	-	-	-	15	-	-	-
Of others abroad	252	1	-	1	56	-	-	-
Total bonds	5,227	47	-	47	2,491	55	-	55
Shares	1	-	-	-	15	1	-	1
Total available-for-sale securities	**5,228**	**47**	**-**	**47**	**2,506**	**56**	**-**	**56**

12. Securities (continued)

D. 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[1] - CONSOLIDATED (CONTINUED)

	December 31, 2016							
	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	7,714	28	-	28	-	-	-	-
Of foreign governments	579	5	-	5	167	4	-	4
Of Israeli financial institutions	18	-	-	-	-	-	-	-
Of foreign financial institutions	370	3	-	3	113	3	-	3
Mortgage-backed-securities (MBS) or Assets - backed-securities (ABS)	4,962	58	-	58	592	20	-	20
Of others in Israel	62	-	-	-	20	1	-	1
Of others abroad	228	2	-	2	85	2	-	2
Total bonds	13,933	96	-	96	977	30	-	30
Shares	4	-	-	-	17	1	-	1
Total available-for-sale securities	**13,937**	**96**	**-**	**96**	**994**	**31**	**-**	**31**

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2017, 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.

In accordance with the IDBNY Policy, investments in MBSs, excluding GNMAs, are limited to 75% of the total investment portfolio. 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.

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).

12. Securities (continued)

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

	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 issued by FHLMC and FNMA	23	1	-	24
Securities guaranteed by GNMA	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)

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE and asset backed SECURITIES (CONTINUED)

	December 31, 2016			
	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:	1,984	7	7	1,984
of which:				
Securities guaranteed by GNMA	1,344	4	4	1,344
Securities issued by FHLMC and FNMA	640	3	3	640
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	5,378	4	71	5,311
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,373	4	70	5,307
Total available-for-sale MBS	**7,362**	**11**	**78**	**7,295**
Held-to-maturity securities				
Mortgage pass-through securities:	50	4	-	54
of which:				
Securities issued by FHLMC and FNMA	30	2	-	32
Securities guaranteed by GNMA	20	2	-	22
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	729	3	12	720
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	716	2	12	706
Total held-to-maturity MBS	**779**	**7**	**12**	**774**
Trading securities				
Mortgage pass-through securities:	1	-	-	1
Of which: Securities issued by FHLMC and FNMA	1	-	-	1
Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):	61	-	1	60
Of which Securities issued or guaranteed by FHLMC, FNMA and GNMA	61	-	1	60
Total mortgage-backed trading securities (MBS)	**62**	**-**	**1**	**61**
Total mortgage-backed securities (MBS)	**8,203**	**18**	**91**	**8,130**
2.Total Asset-backed available-for-sale securities (ABS)	385	3	-	388
Of which collateralized bonds CLO	385	3	-	388
Total mortgage and asset-backed securities	**8,588**	**21**	**91**	**8,518**

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

ADDITIONAL DETAILS REGARDING MORTGAGE AND ASSET BACKED SECURITIES IN UNREALIZED LOSS POSITION

	December 31 ,2017			
	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	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	-	19	1
Total mortgage-backed trading securities (MBS)	**25**	**-**	**19**	**1**
Total mortgage-backed securities (MBS)	**3,500**	**41**	**2,481**	**65**

	December 31 ,2016			
	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	685	4	-	-
Securities issued by FHLMC and FNMA	251	3	-	-
Total mortgage-backed pass through securities	**936**	**7**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	4,026	51	587	19
Other MBS securities	-	-	5	1
Total other mortgage-backed securities	**4,026**	**51**	**592**	**20**
Total available-for-sale MBS	**4,962**	**58**	**592**	**20**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	301	3	327	9
Total other mortgage-backed securities	**301**	**3**	**327**	**9**
Total held-to-maturity MBS	**301**	**3**	**327**	**9**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	43	1	1	-
Total mortgage-backed trading securities (MBS)	**43**	**1**	**1**	**-**
Total mortgage-backed securities (MBS)	**5,306**	**62**	**920**	**29**

12. Securities (continued)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

H. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 2,209 million (December 31, 2016: NIS 3,588 million). The balance of the said bonds included as of December 31, 2017, unrealized losses in the amount of NIS 2 million (December 31, 2016: NIS 11 million).

I. Most of the unrealized losses as at December 31, 2017 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, 2017 except for certain securities, in respect of which a provision for impairment in value has been included.

In 2017, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 33 million (2016: NIS 33 million; 2015: NIS 160 million). For details as to loss on an other than temporary impairment, in respect of the shares of FIBI, see Note 38 below.

j. Bonds held in the held-to-maturity portfolio of IDB (Swiss) Bank, the stated value of which as of December 31, 2015, amounted to NIS 100 million, had been transferred to the available-for-sale portfolio following the sale of the operations of the company and the intention to sell the remaining assets therein subsequently to the sale of the operations. A loss in a negligible amount was recognized as a result of the transfer.

K. **Fair value presentation.** The balances of securities as of December 31, 2017, and December 31, 2016, include securities amounting to NIS 26,565 million and NIS 31,698 million, respectively, that are presented at fair value.

L. DATA REGARDING IMPAIRED BONDS - CONSOLIDATED

	December 31, 2017	December 31, 2016
	In NIS millions	
Recorded amount of non-accruing interest income impaired bonds	48	110

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, 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 102 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, 2016					
	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]	63,292	-	482	63,774	4,024	67,798
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]261	25,696	-	25,957	-	25,957
Group - other	[2]26,247	68	26,858	53,173	1,803	54,976
Total debts*	**89,800**	**25,764**	**27,340**	**142,904**	**5,827**	**148,731**
* Of which:						
Restructured troubled debts	2,076	-	48	2,124	-	2,124
Other Impaired debts	806	-	13	819	-	819
Total balance of impaired debts	**2,882**	**-**	**61**	**2,943**	**-**	**2,943**
Debts in arrears of 90 days or more	59	299	82	440	-	440
Other problematic debts	1,366	29	294	1,689	-	1,689
Total Problematic debts	**4,307**	**328**	**437**	**5,072**	**-**	**5,072**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]3	[3]168	-	171	-	171
Group - other	362	-	423	785	-	785
Total allowance for Credit Losses	**1,541**	**168**	**435**	**2,144**	**-**	**2,144**
Of which: in respect of impaired debts	386	-	3	389	-	389

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 64,855 million and the allowance in its respect in an amount of NIS 799 million computed on a group basis.

(2) The balance of commercial debts includes housing loans in the amount of NIS 266 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 2 million, computed on a group basis, in amount of NIS 94 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, 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)

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, 2016					
Recorded amount of debts:						
Examined on a specific basis[1]	50,246	-	255	50,501	3,901	54,402
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	170	21,952	-	22,122	-	22,122
Group - other	6,247	-	13,200	19,447	-	19,447
Total debts*	**56,663**	**21,952**	**13,455**	**92,070**	**3,901**	**95,971**
* Of which:						
Restructured troubled debts	1,488	-	26	1,514	-	1,514
Other Impaired debts	834	-	2	836	-	836
Total balance of impaired debts	**2,322**	**-**	**28**	**2,350**	**-**	**2,350**
Debts in arrears of 90 days or more	28	303	49	380	-	380
Other problematic debts	530	-	40	570	-	570
Total Problematic debts	**2,880**	**303**	**117**	**3,300**	**-**	**3,300**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	916	-	5	921	-	921
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]3	[2]151	-	154	-	154
Group - other	90	-	212	302	-	302
Total allowance for Credit Losses	**1,009**	**151**	**217**	**1,377**	**-**	**1,377**
Of which: in respect of impaired debts	363	-	1	364	-	364

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 52,138 million and the allowance in its respect in an amount of NIS 620 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 1 million, computed on a group basis, in amount of NIS 81 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, 2014[1]	1,545	263	411	2,219	5	2,224
Credit loss expenses (expenses reversal)	115	5	69	189	(2)	187
Accounting write-offs	(390)	(92)	(262)	(744)	-	(744)
Collection of debts written-off in previous years	404	-	189	593	-	593
Net accounting write-offs	14	(92)	(73)	(151)	-	(151)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at December 31, 2015[1]	**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**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2015	170	3	33	206	-	206
as at December 31, 2016	161	-	34	195	-	195
as at December 31, 2017	155	-	38	193	-	193

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - as described in Note 18A to the financial statements as of December 31,2016.

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, 2014	1,039	251	204	1,494	-	1,494
Credit loss expenses	35	1	39	75	-	75
Accounting write-offs	(301)	(92)	(150)	(543)	-	(543)
Collection of debts written-off in previous years	339	-	105	444	-	444
Net accounting write-offs	38	(92)	(45)	(99)	-	(99)
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 September 30, 2017	**1,010**	**157**	**282**	**1,449**	**1**	**1,450**
Of which: in respect of off-balance sheet credit instruments						
as at December 31, 2015	142	3	14	159	-	159
as at December 31, 2016	134	-	14	148	-	148
as at December 31, 2017	132	-	15	147	-	147

14. Credit granted to Governments

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	in NIS millions			
Credit to Israel government	770	617	770	617
Credit to foreign governments	723	120	723	115
Total credit granted to Governments	**1,493**	**737**	**1,493**	**732**

15. Investment in Investee Companies and Details Regarding These Companies

A. CONSOLIDATED

	December 31, 2017			December 31, 2016		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Total Shares stated on equity basis[1]	153	-	153	157	-	157
Of which:						
Earnings accumulated since January 1, 1992	98	-	98	98	-	98
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustment for translation of foreign currency financial statements	(5)	-	(5)	-	-	-
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, 2017			December 31, 2016		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Total Shares stated on equity basis (including goodwill)[(1)]	83	7,752	7,835	79	7,663	7,742
Other investments:						
Subordinated debt notes and Capital notes	-	1,020	1,020	-	925	925
Total investments	**83**	**8,772**	**8,855**	**79**	**8,588**	**8,667**
Of which:						
Earnings accumulated since January 1, 1992	81	5,467	5,548	77	4,875	4,952
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	-	(29)	(29)	-	(32)	(32)
Financial statements translation adjustments	-	(315)	(315)	-	20	20
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Adjustment for Employee benefits	-	(107)	(107)	(1)	(91)	(92)
Transactions with controlling shareholders	-	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		
	2017	2016	2015	2017	2016	2015
	In NIS millions					
Bank's share in profit of investee companies (consolidated - affiliated companies)	5	17	9	740	725	583
Provision for taxes:						
Current taxes	-	-	-	3	[(1)]37	[(1)]28
Deferred taxes	4	2	-	52	23	12
Total provision for taxes	4	-	-	55	60	40
Bank's share in profit net of tax effect of investee companies (consolidated - affiliated companies)	**1**	**15**	**9**	**685**	**665**	**543**

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 company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares on Equity basis[1]	
		2017	2016	2017	2016	2017	2016
		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	23
Israel Discount Bank of New York[3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,111	3,402
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	2,472	2,244
Israel Credit Cards Ltd.[4]	Credit card service	[12]71.83	[12]71.83	79.00	79.00	1,043	974
Discount Capital Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	664	470
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	63	62
IDB (Swiss) in Liquidation[11][10]	Commercial bank, Switzerland	100.00	100.00	100.00	100.00		166
Companies held by Israel Discount Bank of New York:							
Discount Bank (America Latin)[5][7]	Commercial bank, Uruguay	100.00	100.00	100.00	100.00	-	-
IDBNY Realty (Delaware) Inc.[5]	Holding company, USA	100.00	100.00	100.00	100.00	2,677	2,938
IDB Realty LLC[6]	Investment company, USA	100.00	100.00	100.00	100.00	5,579	6,122
Companies held by Israel Credit Cards Ltd.:							
Diners (Club) Israel Ltd.[13]	Credit card service	100.00	100.00	100.00	100.00	220	192
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	87	56

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.

	Of which: excess of cost balance		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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	In NIS millions											
	-	-	-	-	1	1	-	-	-	-	-	-
	-	-	-	-	172	192	109	58	(350)	4	-	-
	-	-	184	84	220	193	-	-	(89)	(97)	-	-
	(9)142	(9)142	23	29	65	115	22	-	(14)	(10)	10	12
	(9)18	(9)18	721	721	165	78	-	-	3	3	73	69
	-	-	-	-	-	1	-	-	-	-	-	-
	-	-	-	-	-	(1)	-	-	-	-	-	-
	-	-	-	-	-	4	-	-	-	-	-	-
	-	-	-	-	(15)	31	-	-	(137)	109	-	-
	-	-	-	-	56	4	-	-	(613)	(14)	-	-
	-	-	-	-	35	35	-	58	-	-	-	-
	-	-	84	84	31	36	-	72	-	-	-	-

(7) For details regarding the agreement for sale of the company and regarding the loss recorded on this sale, see Section D below.
(8) For details, see Note 10 A.
(9) Goodwill.
(10) For details regarding the agreement for sale of the company , see Section E below.
(11) For details regarding the agreement between the Swiss authorities and the United States Department of Justice, see Note 26 C 14 below.
(12) The remainder is held by FIBI.
(13) For details regarding the holding of a controlling interest in Diners, see Note 36 A below.

15. Investment in Investee Companies and Details Regarding These Companies (continued)

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, following the fulfillment of the conditions precedent, including obtaining the various regulatory approvals. 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 which comprised 60% according to the agreement; a second payment, in an amount of CHF 0.7 million was received in September 2017; the third payment, which is supposed to be paid presently, depends on the asset position and therefore is unknown at this stage, though it is not expected to be a material amount.

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 acts to liquidate the corporation and this in accordance with an approval of the Swiss Financial Market Supervisory Authority (FINMA).

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] [2]	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Asset cost:					
Balance as at December 31, 2015	2,288	842	974	3,653	7,757
Additions	156	49	104	270	579
Translation adjustments	(1)	(1)	(1)	(2)	(5)
Disposals	(62)	(26)	(73)	(60)	(221)
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**
Depreciation and impairment loss:					
Balance as at December 31, 2015	1,192	592	810	2,959	5,553
Depreciation for the year	64	41	72	252	429
Reversal of impairment loss	(3)	-	-	-	(3)
Financial statements translation adjustments	(1)	(1)	(1)	(1)	(4)
Disposals	(33)	(26)	(71)	(57)	(187)
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**
Carrying amount:					
Balance as at December 31, 2015	**1,096**	**250**	**164**	**694**	**2,204**
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**
Average weighted depreciation rate for year 2016	4.3%	9.4%	21.0%	20.2%	11.9%
Average weighted depreciation rate for year 2017	4.5%	9.3%	21.0%	20.3%	12.0%

Footnote:

(1) Includes installations and leasehold improvements.

(2) See item M below.

16. Buildings and Equipment (continued)

A. COMPOSITION (CONTINUED)

	The Bank				
	Buildings and land (1) (2)	Equipment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Asset cost:					
Balance as at December 31, 2015	1,706	436	710	2,735	5,587
Additions	98	30	86	171	385
Disposals	(48)	(22)	(54)	(39)	(163)
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**
Depreciation and impairment loss:					
Balance as at December 31, 2015	888	276	580	2,248	3,992
Depreciation for the year	40	25	52	181	298
Reversal of impairment loss	(2)	-	-	-	(2)
Disposals	(27)	(22)	(52)	(39)	(140)
Balance as at December 31, 2016	**899**	**279**	**580**	**2,390**	**4,148**
Depreciation for the year	43	25	59	174	301
Assets designated for sale	(3)	-	-	-	(3)
Disposals	(87)	(37)	(138)	(96)	(358)
Balance as at December 31, 2017	**852**	**267**	**501**	**2,468**	**4,088**
Carrying amount:					
Balance as at December 31, 2015	**818**	**160**	**130**	**487**	**1,595**
Balance as at December 31, 2016	**857**	**165**	**162**	**477**	**1,661**
Balance as at December 31, 2017	**807**	**163**	**191**	**515**	**1,676**
Average weighted depreciation rate for year 2016	3.3%	9.0%	20.3%	20.0%	11.1%
Average weighted depreciation rate for year 2017	3.4%	9.1%	20.3%	20.0%	11.3%

Footnote:

(1) Includes installations and leasehold improvements.

(2) See item M below.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2018-2058.

16. Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	101	127	41	38
Balance of provision for impairment loss	10	13	8	11
D. Financial leasing rights:				
Balance of non-capitalized leasehold	7	9	5	7
Balance of capitalized leasehold	155	232	76	87
E. Depreciated balance of not yet registered buildings	244	246	131	141
F. Depreciated balance of buildings not in use by the bank, the majority of which are rented to other parties	11	12	10	11
G. Depreciated balance of buildings and equipment designated for sale	15	27	14	25
Reversal of impairment loss during the year	3	3	3	2
H. The cost of in-house development of computer software:				
The cost of software put into operation	3,101	2,858	2,718	2,537
Accumulated depreciation	(2,617)	(2,416)	(2,316)	(2,156)
Depreciable amount	484	442	402	381
Accumulated costs in respect of software under development	138	92	61	19
Total cost of in-house development of computer software	622	534	463	400
I. Gross value of fully depreciated fixed assets still in use	3,086	3,058	2,282	2,182
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	126	111	111	97
Cost of equipment	37	61	37	61

	for the year ended December 31		
	2017	2016	2015
	in NIS millions		
K. Detail of operating lease contracts[1]:			
Recognized operating lease expenses [2]			
Consolidated	129	138	140
The Bank	86	89	91

Footnotes:

(1) Details of future non-cancellable lese expenses, see note 26 C 1 below.

(2) Includes minimum lease payment and contingent rent.

L. **Buildings and equipment held for sale**. The balance sheet balance of buildings and equipment held for sale amounted at December 31, 2017, to NIS 15 million (December 31, 2016, NIS 27 million). No loss on the sale of buildings and equipment held for sale is expected, in excess of the provisions created therefore.

M. **Reclassification.** Buildings and equipment held for sale were separately presented in the past, in the item "Noncurrent Assets held for sale". In view of the amounts involved, the separate presentation has been abolished.

17. Intangible Assets and Goodwill

	Consolidated
	Goodwill[1]
	in NIS millions
Cost	
Balance as at December 31,2015	**283**
Acquisitions in the framework of business combination	18
Balance as at December 31,2016 and 2017	**301**
Amortization and losses on impairment	
Balance as at December 31,2015 , 2016 and 2017	**141**
Book value	
Balance as at December 31,2015	**142**
Balance as at December 31,2016 and 2017	**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	
	2017	2016	2017	2016
	In NIS millions			
Net deferred tax assets (see Note 8 G)	1,712	1,636	1,203	1,123
Excess advance tax payments over current provisions	144	218	83	174
Issue costs and discount expenses of subordinated capital notes	11	10	12	9
Income receivable	175	146	82	64
Surrender value of life assurance policies owned by a consolidated subsidiary	656	715	-	-
Assets in respect of the "Maof" market operations	138	298	138	298
Gold deposit	336	336	336	336
Other debtors and debit balances	484	230	178	115
Total other assets	**3,656**	**3,589**	**2,032**	**2,119**

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			
	2017	2016	2017	2016
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	33,753	32,673	27,088	27,012
Interest bearing	32,027	30,957	30,146	29,115
Total demand deposits	**65,780**	**63,630**	**57,234**	**56,127**
Time deposits	84,369	82,268	67,418	67,226
Total deposits in Israel*	**150,149**	**145,898**	**124,652**	**123,353**
* Of which:				
Private individuals deposits	84,422	83,717	72,152	71,769
Institutional bodies deposits	14,645	13,185	10,325	9,070
Corporations and others deposits	51,082	48,996	42,175	42,514
Outside Israel				
Demand deposits:				
Non-interest bearing	4,538	4,489	-	-
Interest bearing	12,419	13,499	-	-
Total demand deposits	**16,957**	**17,988**	**-**	**-**
Time deposits	8,064	8,432	-	-
Total deposits outside Israel	**25,021**	**26,420**	**-**	**-**
Total deposits from the public	**175,170**	**172,318**	**124,652**	**123,353**

B. DEPOSITS FROM THE PUBLIC ACCORDING TO SIZE, ON A CONSOLIDATED BASIS

	December 31	
	2017	2016
Deposit limit	Balance	
In NIS millions	In NIS millions	
Up to 1	67,768	65,085
Over 1 up to 10	47,938	49,980
Over 10 up to 100	25,703	24,462
Over 100 up to 500	17,886	19,998
Over 500	15,875	12,793
Total	**175,170**	**172,318**

20. Deposits from Banks

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	2,539	2,451	203	189
Time deposits	4	101	207	299
Outside Israel				
Commercial banks:				
Deposits on demand	816	1,093	809	1,080
Schedule deposits	1,226	1,437	133	38
Acceptances	195	183	138	100
Central banks:				
Time deposits	24	77	-	-
Total deposits from banks	**4,804**	**5,342**	**1,490**	**1,706**

21. Bonds and Subordinated Capital Notes

	Average maturity(1)	Internal rate of return(1)	Consolidated		The Bank	
			December 31		December 31	
	years	%	2017	2016	2017	2016
			in NIS millions			
Bonds and subordinated capital notes not convertible into shares:						
In non-linked Israeli currency	3.62	2.07	1,710	1,823	1,138	327
In Israeli currency, linked to CPI	3.44	5.36	3,852	4,569	1,017	1,064
Bonds and subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI(2)	4.09	5.71	1,793	1,787	1,793	1,787
Credit-linked notes (CLN):						
In non-linked Israeli currency	0.01	2.43	207	229	207	229
In foreign currency, Euro	1.85	3.80	77	90	77	90
Total bonds and capital notes(3)(4)			**7,639**	**8,498**	**4,232**	**3,497**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. 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 period to maturity relates to the consolidated statements as of December 31, 2017.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 5,804 million in the consolidated, listed for trade on the Tel Aviv Stock Exchange (2016: NIS 6,580 million)

(4) Of which: NIS 7,381 million in the consolidated, are subordinated capital notes (2016: NIS 8,241 million)

22. Other Liabilities

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	in NIS millions			
Net provision for deferred taxes (see Note 8 G)	15	23	14	19
Excess of current tax provisions over advance payments	65	41	-	-
Excess liabilities in respect of employee benefits over assets of the plan (see Note 23 B)	2,637	2,531	2,055	1,988
Deferred income	199	139	139	79
Payables for credit card activity	6,528	5,668	3,319	3,074
Provision for doubtful debts in respect of guarantees	194	195	147	148
Expenses payable	673	764	338	382
Liabilities in respect of "Maof" market operations	138	298	138	298
Liabilities stemming from "Market making" activity	824	285	824	285
Other payables and receivables	825	1,123	400	395
Total other liabilities	**12,098**	**11,067**	**7,374**	**6,668**

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 fully 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 redemption value of the insurance policies and amounts accumulated in pension funds are not included in the balance sheet since they are neither controlled nor managed 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" days, 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 regular 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 Law - 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.

23. Employee Benefits (continued)

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees of the Bank who were engaged as or converted to the status of regular 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.

(8) Several of the subsidiaries have adopted employee remuneration plans, according to which the General Managers and/or other employees of these subsidiaries 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 retirees as of December 31, 2017) 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 (123 employees as of December 31, 2017), 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, 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 payment to kinsmen;
- 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, 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) IDB New York had 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 and by the employees were deposited. The annual deposits with the fund were based on calculations made by an independent actuary. A decision was taken by the company during the third quarter of 2016, to withhold the rights accumulated to that date in the said budgetary pension plan. This move led to the reduction in the actuarial liability by an amount of US$13.5 million (approx. NIS 51 million).

23. Employee Benefits (continued)

FOLLOWING ARE PRINCIPAL DETAILS CONCERNING THE SAID LIABILITY:

	As at December 31	
	2017	2016
	in US$ millions	
The liability amount	51	48
Fair value of the program's assets	45	43
Excess liabilities over the program's assets	**6**	**5**
	%	%
The annual discount rate	3.64	4.15
The anticipated annual rate of return on the funds assets	4.58	5.36

(14) Until September 30, 2017, the Bank had discounted the liability in respect of severance compensation and jubilee allowances on the basis of a specific discount rate determined according to the average period to redemption 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			
	2017	2016	2017	2016
	in NIS millions			
Severance pay:				
The liability amount	3,430	3,367	2,472	2,461
Fair value of the program's assets	2,034	2,052	1,526	1,558
Excess liabilities over the program's assets	**1,396**	**1,315**	**946**	**903**
Excess liabilities of the program included in the item "other liabilities"	**1,396**	**1,315**	**946**	**903**
Amount that included in the other liabilities item:				
Long-service ("jubilee") awards	362	352	361	350
Post-retirement benefits to retirees	734	715	652	636
Vacation	137	142	96	99
Illness	8	7	-	-
Total Excess liabilities included in the other liabilities item (Note 22)	**2,637**	**2,531**	**2,055**	**1,988**
Of which – in respect of benefits to employees abroad	53	56	-	-

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			
	2017	2016	2017	2016
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Commitment in respect of anticipated benefits at the beginning of the year	3,367	3,420	715	762
Cost of service	81	89	6	7
Cost of interest	100	106	27	31
Actuarial loss (profit)	135	504	23	(35)
Changes in foreign currency exchange rates	(18)	(3)	(3)	(1)
Benefits paid	(235)	(697)	(34)	(45)
Reductions	-	(52)	-	(4)
Commitment at the end of the year in respect of anticipated benefits	**3,430**	**3,367**	**734**	**715**
Commitment at the end of the year in respect of accumulated benefits[1]	**2,926**	**2,870**	**734**	**715**

Footnote:
(1) The obligation in respect of a cumulative benefit differs from the obligation in respect of a contractual 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	
	2017	2016
	Severance pay, retirement and pension	
	in NIS millions	
Fair value of the program's assets at the beginning of the period	2,052	2,307
Actual return on the program's assets	132	60
Changes in foreign currency exchange rates	(16)	(2)
Deposits by the Bank to the plan	25	37
Benefits paid	(159)	(350)
Fair value of the program's assets at the end of the year	**2,034**	**2,052**
Financing status - liability, net, recognized at the end of the year	**(1,396)**	**(1,315)**

1.3 AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET

	December 31			
	2017	2016	2017	2016
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Net liability recognized in the item "other liabilities" at the end of the year	**(1,396)**	**(1,315)**	**(734)**	**(715)**

1.4 AMOUNTS RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE INCOME, BEFORE TAX EFFECT

	December 31			
	2017	2016	2017	2016
	Severance pay, retirement and pension		Post retirement retiree benefits	
	in NIS millions			
Actuarial loss, net	(667)	(658)	(88)	(68)
Net liability in respect of the transition[1]	(41)	(52)	-	-
Net cost in respect of prior service	-	-	5	6
Closing balances of accumulated other comprehensive income	**(708)**	**(710)**	**(83)**	**(62)**

Footnote:
(1) Stems from the change in the discount rate in calculating the provisions in respect of employee rights, at date of the initial implementation of the directives.

23. Employee Benefits (continued)

C. DEFINED BENEFIT PLAN – CONSOLIDATED (CONTINUED)

1. COMMITMENT AND FINANCING STATUS (CONTINUED)

1.5 PLANS IN WHICH THE COMMITMENT IN RESPECT OF CUMULATIVE BENEFITS EXCEEDS THE PLAN'S ASSETS

	December 31	
	2017	2016
	Severance pay, retirement and pension	
	in NIS millions	
Commitment in respect of anticipated benefits	3,274	3,228
Commitment in respect of cumulative benefits	2,802	2,758
Fair value of the program's assets	1,887	1,919

1.6 PLANS IN WHICH THE COMMITMENT IN RESPECT OF ANTICIPATED BENEFITS EXCEEDS THE PLAN'S ASSETS

	December 31	
	2017	2016
	Severance pay, retirement and pension	
	in NIS millions	
Commitment in respect of anticipated benefits	3,430	3,367
Fair value of the program's assets	2,034	2,051

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		
	2017	2016	2015
	in NIS millions		
Severance pay, retirement and pension payments			
Cost of service	81	89	136
Cost of interest	100	106	118
Anticipated return on assets of the plan	(73)	(77)	(111)
Amortization of unrecognized amounts:			
Net actuarial loss	50	40	10
Cost of prior service	-	1	1
Total amortization of unrecognized amounts	**50**	**41**	**11**
Other, including loss from reduction or settlement	32	(1)143	-
Total net cost of benefits	**190**	**302**	**154**
Total expense regarding defined deposits pension plans	**181**	**153**	**144**
Total expenses included in respect Severance pay, retirement and pension payments	**371**	**455**	**298**
Severance pay, retirement and pension payments			
Cost of service	6	7	15
Cost of interest	27	31	32
Amortization of unrecognized amounts:			
Net actuarial loss	4	9	6
Cost of prior service	(1)	(1)	(1)
Total amortization of unrecognized amounts	**3**	**8**	**5**
Other, including income from reduction or settlement	-	(1)	(4)
Total net cost of benefits	**36**	**45**	**48**
Total expenses included in respect Severance pay, retirement and pension payments	**407**	**500**	**346**

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					
	2017	2016	2015	2017	2016	2015
	Severance pay, retirement and pension payments			Post retirement retiree benefits		
	in NIS millions					
Net actuarial loss (profit) for the year	87	542	310	23	(29)	86
Amortization of actuarial loss	(50)	(40)	(9)	(4)	(9)	(11)
Amortization of credit (cost) in respect of prior service	-	(1)	(1)	1	1	1
Amortization of net liability in respect of the transition	(11)	(73)	(295)	-	(10)	(131)
Changes in foreign currency exchange rates	4	-	(1)	1	-	-
Other, including loss (profit) from reduction or settlement	(32)	(143)	-	-	1	-
Total recognized in other comprehensive loss (income)	**(2)**	**285**	**4**	**21**	**(46)**	**(55)**
Total net cost of benefits[1]	**190**	**302**	**154**	**36**	**45**	**48**
Total amount recognized in net cost of benefits and in other comprehensive income	**188**	**587**	**158**	**57**	**(1)**	**(7)**

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 2018 AS AN EXPENSE (INCOME), BEFORE TAX EFFECT

	Severance pay, retirement and pension	Post retirement retiree benefits
	in NIS millions	
Net actuarial loss	50	5
Reduction	30	-
Total amount expected to be amortized from other comprehensive income	**80**	**5**

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			
	2017	2016	2017	2016
	Severance pay, retirement and pension		Post retirement retiree benefits	
Discount rate	1.06%-1.87%	1.66%-2.22%	0.66%-1.99%	1.32%-2.32%
Retirement rate	0.36%-19.78%	0.35%-19.65%		
Remuneration growth rate	1.78%	2.11%		

3.1.2 Principal assumptions used in measuring the net cost of benefit for the period

	December 31					
	2017	2016	2015	2017	2016	2015
	Severance pay, retirement and pension			Post retirement retiree benefits		
Discount rate	1.32%-2.36%	1.32%-2.49%	1.10%-2.65%	0.91%-2.52%	1.07%-2.59%	0.78%-2.76%
Anticipated long-term return on the plan's assets	3.43%	3.37%	4.47%			
Remuneration growth rate	1.91%	2.11%	2.36%			

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		Post retirement retiree benefits		Severance pay, retirement and pension		Post retirement retiree benefits	
	December 31							
	2017	2016	2017	2016	2017	2016	2017	2016
	in NIS millions							
Discount rate	(313)	(329)	(50)	(48)	325	341	51	49
Retirement rate	109	120	(1)	(1)	(109)	(121)	(1)	1
Remuneration growth rate	333	339	-	-	(298)	(304)	-	-

4. THE PLAN'S ASSETS

4.1 COMPOSITION OF THE FAIR VALUE OF THE PLAN'S ASSETS

	December 31, 2017			December 31, 2016		
	level 1	level 2	Total	level 1	level 2	Total
	in NIS millions					
Type of asset						
Cash and deposits with banks	79	7	86	46	7	53
Shares	706	14	720	655	14	669
Bonds:	-	-	-	-	-	-
Government	507	18	525	562	16	578
Corporate	570	89	659	595	120	715
Total bonds	1,077	107	1,184	1,157	136	1,293
Other	10	34	44	9	28	37
Total	**1,872**	**162**	**2,034**	**1,867**	**185**	**2,052**

4.2 FAIR VALUE OF THE PLAN'S ASSETS BY TYPE OF ASSET AND ALLOCATION TARGET FOR THE YEAR 2018

	Allocation target	of the plan's assets	
	Year 2018	December 31, 2017	December 31, 2016
Type of asset			
Cash and deposits with banks	0.8-9.9	4.2	2.6
Shares	27.7-38.3	35.4	32.6
Bonds:			
Government	22.4-31.5	25.8	28.2
Corporate	30.3-40.8	32.4	34.8
Total bonds	52.7-72.3	58.2	63.0
Other	0.7-8.2	2.2	1.8
Total		**100%**	**100%**

5. CASH FLOW

5.1 DEPOSITS

	Forecast(1)	Actual deposits	
		For the year ended December, 31	
	2018	2017	2016
	Severance pay, retirement and pension payments		
	in NIS millions		
Deposits	59	25	37

Footnote:
(1) Assessment of expected deposits with defined benefit pension plans during balance in 2018.

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
2018	174
2019	190
2020	152
2021	149
2022	190
2022-2027	917
2028 and thereafter	1,488
Total	**3,260**

D. Remuneration policy for officers of the Bank (2014-2016). A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve the remuneration policy for officers of the Bank, and in accordance with Section 267A of the Companies Act, 1999, after its approval by the Board of Directors with the recommendation of the Remuneration Committee. Among other things, the plan included the following components: the maximum monthly salary and the considerations in determining it; 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 of up to eight monthly salaries, where the engagement terminates within a period of up to two years from inception, and up to four monthly salaries following the end of two years, as stated; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; 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, upon a basic award component and a discretionary award component. Special instructions have been determined, within the framework of the remuneration 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 all officers together and to each one of the officers has been determined, also included is the possibility for the distribution of special awards: award in respect of special profits or losses (positive or negative award), an award for special contribution and an award in special circumstances. In the framework of the policy arrangements for the spreading of the annual award were determined, including – a cash payment of 50% of the total awards granted in respect of an award year, to be made soon after the publication of the Bank`s financial statements for the award year, and deferment of the remaining 50% paid in three equal installments over the three years following the entitlement date, and which were linked to changes in the price of the Bank`s shares; instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO.

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.

E. 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 replaces the Bank's previous remuneration policy (see above), effective for a period of three years since date of approval by the General Meeting. The formation of a new remuneration policy is intended to modify the remuneration policy at the Bank to the changes made in Directive 301A and to the provisions of the Remuneration Act.

23. Employee Benefits (continued)

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.

The main differences between the approved remuneration policy and the previous remuneration policy are:

- Limitations were added regarding the scope of remuneration for officers, minding the rules and limitations stated in the Remuneration Act.
- Changes were made in the terms of the award plan for officers who are subject to the President & CEO, as determined in the remuneration policy. In this framework, changes have been made to the threshold terms for the payment of awards, to the components of the annual award, and the maximum amounts for the annual awards to officers, as above, have been reduced.
- An authority was added to the Remuneration Committee and to the Board of Directors 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.
- An authority was added to the President & CEO 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.
- Directives were introduced whereby a variable remuneration that would be awarded and paid, would be refundable in accordance with criteria determined in the remuneration policy, in accordance with the terms of Directive 301A.
- The mechanism for deferment and the spreading of variable retirement benefits and awards was revised so as not to require the deferment and spreading of variable remuneration that does not exceed 40% of the fixed annual remuneration, where the remuneration agrees with the requirements of the Remuneration Act regarding the maximum amount of remuneration. Furthermore, it is no longer required that one half of the variable remuneration in respect of a calendar year shall be granted in the form of a capital remuneration.
- The possibility for the granting of a thirteen's month salary to officers of the Bank was added.
- Additional instructions were introduced allowing the granting of capital remuneration to officers, subject to the restrictions on the scope of remuneration stated in the remuneration policy.

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 received 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 received the recommendations of the remuneration committee and approved also the targets for the purpose of the awards at the Bank for the said years. The remuneration committee and the Board of Directors are entitled to examine from time to time the components of the plan and to make changes or modifications to the plan or to the determined indices. The plan is subject to amendments which may apply from time to time under the law or instructions applying to the Bank. The plan prescribes instructions regarding the computation in cases of beginning or termination of office.

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 23F 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) includes 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").

The annual award shall be approved in each year by the remuneration committee and the Board of Directors, proximate to the date of publication of the financial statements.

B. Minimum terms for entitlement to the annual award. Entitlement of the Executive Vice Presidents to annual awards in respect of a particular award year is conditional upon the cumulative fulfillment in that year of all the following minimum terms:

23. Employee Benefits (continued)

(1) The rate of return on equity shall not be lower than the higher of 7% or the weighted return on equity (computed according to instructions prescribed in the plan) at the other four major banks in the award year, after deducting 2%.

(2) The Bank's total capital adequacy ratio and the core capital ratio, in accordance with the Bank's annual consolidated financial statements for the year of award, shall not be lower than the minimum ratios determined in the instructions of the Supervisor of Banks.

(3) The efficiency ratio shall not exceed 78%.

(4) The Executive Vice President has obtained a "pass" mark for the qualitative index, which includes the contribution of the Executive Vice President to the implementation of processes in matters of corporate governance, attainment of the Bank's general targets in matters of risk management, compliance with the law, regulatory instructions and procedures of the Bank.

3. The basic award

The basic award shall be 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 is conditional upon fulfillment 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 are 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"). The award in respect of an Executive Vice President shall be computed as the difference between the annual award for the award year and the annual award as would have been computed had not the extraordinary profit or losses been eliminated for the purpose of computing the collective indices (including any tax liability expected in their respect), with the addition of up to 20% of the said difference. Notwithstanding the above, the amount of the positive award to a single Executive Vice President in respect of extraordinary income or losses, shall not exceed an amount of six monthly salaries, and the amount of the negative award in respect of a single Executive Vice President, shall not exceed the amount of entitlement to an annual award of Executive Vice Presidents, who are not supervision and control Executive Vice Presidents, or the amount of the extra award in respect of a supervision and control Executive Vice President.

(b) **Award in respect of a special contribution.** The remuneration committee and the Board of directors are 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 are 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.

23. Employee Benefits (continued)

5. **Upper limit of the awards**
   The total amount of awards to all Executive Vice Presidents, with the addition of the fixed awards (as defined in item 7 above) to supervision and control Executive Vice Presidents, shall not exceed an amount equal to the product of the number of Executive Vice Presidents entitled to an annual award (in accordance with item 2 above) multiplied by eleven average monthly salaries of those Executive Vice Presidents.
   In accordance with the remuneration policy, the total amount of awards to all officers (including the Chairman of the Board and the President & CEO) in respect of an 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 in an awards year, in respect of an Executive Vice President who is not supervision and control Executive Vice President, shall not exceed thirteen monthly salaries. The total extra award, the fixed award and the special award in respect of an award year, granted to a supervision and control Executive Vice President, shall not exceed twelve monthly salaries.
6. **Granting, deferral and payment of the total amount of awards**
   The total amount of the variable remuneration in an award year shall not exceed the amount of the fixed remuneration of the Executive Vice President in the award year.
   50% of the total amount of awards for the award year shall be paid in cash, no later than 45 business days following the publication of the Bank's financial statements for that year.
   50% of the total amount of awards for the year of award shall be linked to changes in the price of shares of the Bank, and shall be deferred and paid in three equal installments ("deferred award installment") in the three consecutive years following the date of entitlement to the total amount of awards.
   Payment of the consideration for the deferred award installment is conditional upon the rate of return on equity in the award year preceding the date of payment in full of the consideration for the deferred award installment.
7. **Authority of the Board of Directors to reduce the total amount of awards.** The Board of Directors is empowered, for special reasons, to reduce the total amount of awards for all Executive Vice Presidents or for a particular Executive Vice President, following the recommendation of the remuneration committee and after consultation with the Bank's President & CEO.
   The plan contains also provisions for the amendment and refund of awards short-paid or paid in excess.
8. **Awards in respect of 2015.** The entitlement to awards did not materialize in respect of the year 2015. The Remuneration Committee and the Board of Directors have decided to grant to five members of Management an award for their special contribution in respect of 2015, in a total amount of NIS 500 thousand (see item 4 (b) above).
9. **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 bonus in an amount equivalent to one month's basic salary for each of the vice presidents, in a total amount of NIS 998 thousand for all the vice presidents (see item 3 above); a special circumstances bonus package in an amount of NIS 987 thousand for the vice presidents (see item 4 (c) above); and a special contribution bonus, for three vice presidents, in a total amount of NIS 500 thousand (see item 4 (b) above). The special circumstances bonus package was divided differentially by the President & CEO between the vice presidents.
   The approved bonuses totaled NIS 2,495 thousand. The Remuneration Committee 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 bonuses.
   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 2016 bonuses. Accordingly, the installment mechanism has been applied to three members of Management, in whose case the variable remuneration exceeded 40% of the fixed remuneration.

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").

23. Employee Benefits (continued)

(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.

   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 Bank's remuneration 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.

In accordance with this, 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 his 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.

23. Employee Benefits (continued)

3. **Special awards**
   (a) Award in respect of a special contribution – The Remuneration Committee and the Board of Directors is 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.
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 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 basket 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 basket 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.

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 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 said Act, there will be an increase in number of cases of early retirement, for exceptional retirement cases of employees belonging to the said group. In accordance with the said estimate, in the 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 some five hundred 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 is 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 income 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 some fifty 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, thirty 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).

24. Shareholders' Equity, Preferred Shares, Share Based Payment Transactions and Dividends

A. THE AUTHORIZED, ISSUED AND PAID-UP NOMINAL CAPITAL (IN NEW ISRAELI SHEKELS):

	December 31,2017		December 31, 2016	
	Authorized	Issued and Fully Paid-Up	Authorized	Issued and Fully Paid-Up
Ordinary "A" Shares of NIS 0.1 par value each	225,515,000	116,401,699	225,515,000	113,212,487
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202	202	202
Total shareholders' equity	**225,515,202**	**116,401,901**	**225,515,202**	**113,212,689**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

24. Shareholders' Equity, Preferred Shares, Share Based Payment Transactions and Dividends (continued)

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.

(3) **Increase of the authorized share capital in February 2014.** A special general meeting of shareholders held on February 17, 2014, resolved to increase the Bank`s authorized share capital by 294.15 million ordinary "A" shares.

D. **Issuance of shares and option warrants.** On September 28, 2016, the Bank completed a public offering pursuant to a shelf offering report dated September 27, 2016, 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.

E. **Share based payment transactions – an option plan for officers of the Bank**

(1) **Phantom plan for the acting Chairman of the Board and for the former President & CEO**

Within the framework of an approved remuneration plan in respect of the Chairman of the Board and to the President & CEO who held office until February 19, 2014 (hereinafter: the former President & CEO), it had been determined that the Chairman of the Board and the former President & CEO were entitled to a phantom type remuneration, which was dependent on the performance of the Bank's shares. All the options expired gradually until January 1, 2017. For further details, see item (3) below.

(2) **Awards, the payment of which is linked to the price of the Bank's shares**

For details regarding deferred awards, the payment of which is linked to the price of the Bank's shares, see Note 23 F 10.

24. Shareholders' Equity, Preferred Shares, Share Based Payment Transactions and Dividends (continued)

(3) LIABILITIES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS - PHANTOM PLANS - QUANTITATIVE DATA

PHANTOM PLAN FOR THE CHAIRMAN OF THE BOARD AND THE FORMER PRESIDENT & CEO

	December 31	
	2017	2016
	in NIS thousands	
Total liabilities arising from share-based payment transactions	-	-
Intrinsic value of liabilities in respect of which the counterparty's right to cash has vested by the end of the year	-	-
Total reversal of expense charged to the statement of profit and loss	-	(247)

F. 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 August 8, 2017, resolved to approve a dividend for the year 2017, 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, 2017.

(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.

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, 2017 and December 31, 2016) 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).

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)

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 will be deducted in 2018.

B. **Restrictions on the granting 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. This requirement was applied gradually in equal quarterly installments, over eight consecutive quarters, starting on January 1, 2015 and until January 1, 2017.

The said requirement increased the total minimum equity capital requirement and the total capital by approx. 0.18% (for the whole period).

C. **The effect of implementing the amended instructions in the matter of "capital requirements in respect of exposure to central counterparties".** The amendments in this respect apply as from January 1, 2017 and thereafter. The effect of the initial implementation was negligible.

D. **Relief regarding the efficiency plan.** 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 53 million have been amortized to December 31, 2017. For additional details regarding the Bank's efficiency plan, see Note 23 H.

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.

F. CAPITAL FOR CALCULATING RATIO OF CAPITAL

	December 31,	
	2017	2016
	in NIS millions	
Common equity tier 1 after deductions	(1)16,003	(1)15,036
Additional tier 1 capital after deductions	890	1,068
Tier 1 capital	16,893	16,104
Tier 2 capital after deductions	5,395	5,020
Total capital	**22,288**	**21,124**

Footnote:
(1) See item "D" 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)

G. WEIGHTED RISK ASSETS BALANCE

	December 31,	
	2017	2016
	in NIS millions	
Credit risk	(1)143,176	(1)137,393
Market Risk	3,443	2,483
CVA risk	1,116	942
Operational risk	12,335	12,072
Total weighted risk assets balance	**160,070**	**152,890**

Footnote:

(1) The total weighted balances of the risk assets have been reduced by NIS 32 million (December 31,2016: NIS 64 million) due to adjustments in respect to the efficiency plan.

H. RATIO OF CAPITAL TO RISK ASSETS

	December 31,	
	2017	2016
	In %	
A. Consolidated		
Ratio of common equity tier 1 to risk assets	10.0	9.8
Ratio of total capital to risk assets	13.9	13.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.2	(4)9.2
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.7	(4)12.7
B. Significant subsidiaries		
1. Mercantile Discount Bank LTD. and its consolidated companies		
Ratio of common equity tier 1 to risk assets	10.9	10.9
Ratio of total capital to risk assets	13.9	13.8
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 Bakcorp Inc. (1)		
Ratio of common equity tier 1 to risk assets	13.6	13.1
Ratio of total capital to risk assets	14.7	14.2
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	14.4	14.4
Ratio of total capital to risk assets	15.6	15.8
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	9.0	9.0
Minimum total capital adequacy ratio required by the Supervisor of Banks	(3)12.5	(3)12.5

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) 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. Capital ratios as of January 1, 2015 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 view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) With an addition of 0.18% (December 31, 2016: 0.15%), in accordance with the additional capital requirements with respect to housing loans - see item 1 (b) above.

(5) With an addition of 0.18% (December 31, 2016: 0.16%), 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,	
	2017	2016
	in NIS millions	
A. Tier 1 capital		
Common equity	16,068	14,936
Difference between common equity and common equity tier 1	(59)	104
Total common equity tier 1 before supervisory adjustments and deductions	16,009	15,040
Supervisory adjustments and deductions		
Goodwill and other intangible assets	160	160
Deferred tax assets	-	-
Supervisory adjustments and other deductions	6	2
Total supervisory adjustments and deductions before adjustments in respect to the efficiency plan	166	162
Total adjustments in respect to the efficiency plan	160	158
Total common equity tier 1 after supervisory adjustments and deductions	**16,003**	**15,036**
B. Additional tier 1 capital		
Additional tier 1 capital before deductions	890	1,068
Total additional tier 1 capital after deductions	**890**	**1,068**
C. Tier 2 capital		
Instruments before deductions	3,543	3,301
Provision before deductions	1,804	1,719
Minority interests in a subsidiary	48	-
Total tier 2 capital before deductions	5,395	5,020
Deductions	-	-
Total tier 2 capital	**5,395**	**5,020**

J. THE EFFECT OF THE TRANSITIONAL INSTRUCTIONS ON THE RATIO OF COMMON EQUITY TIER 1

	December 31,	
	2017	2016
	In %	
Ratio of common equity tier 1 to risk assets before applying the effect of the transition provisions in Directive 299[(1)] and before the effect of the adjustments in respect to the efficiency plan	9.8	9.5
Effect of the provisional instructions	0.1	0.2
Ratio of common equity tier 1 to risk assets after applying the effect of the transition provisions in Directive 299 and before the effect of the adjustments in respect to the efficiency plan	9.9	9.7
Effect of the adjustments in respect to the efficiency plan	0.1	0.1
Ratio of common equity tier 1 to risk assets after applying the effect of the transition provisions in Directive 299 and after the effect of the adjustments in respect to the efficiency plan	10.0	9.8

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.

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) 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%.

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).

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)

Following are part of the basic conditions for recognition of the capital notes as upper tier 1 capital:

(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, as described in 6 above, 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.

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.

General. In accordance with an amendment to the Reporting to the Public Directives, commencing from the report for the second quarter of 2015, banking corporations and credit card companies in Israel are required to include in their reports a disclosure regarding the leverage ratio. Concurrently, Proper Conduct of Banking Business Directive No. 218, regarding "Leverage Ratio", entered into effect on April 1, 2015. The Directive takes effect on January 1, 2018. Notwithstanding the above, a banking corporation, which on date of publication of the Directive matched the minimum leverage ratio, shall not fall below the minimum determined by the Directive.

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 (CONTINUED)

	December 31,	
	2017	2016
	in NIS millions	
A. Consolidated		
Tier 1 capital	(1)16,893	(1)16,104
Total exposures	248,020	243,900
	In %	
Leverage ratio	6.8	6.6
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	6.8	6.6
Leverage ratio required by the Supervisor of Banks	5.0	5.0
2. Discount Bakcorp Inc.		
Leverage ratio	10.0	9.6
Leverage ratio required by the Supervisor of Banks	4.0	4.0
3. Israel Credit Cards LTD.		
Leverage ratio	10.1	10.1
Leverage ratio required by the Supervisor of Banks	5.0	5.0

Footnote:
(1) For the effect of the transition provisions and the effect of the adjustments in respect to the efficiency plan, 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. In accordance with the Proper Conduct of Banking Business Directive No. 221, regarding "Liquidity Coverage Ratio", the minimum requirement stood at 60%, and increased to 80% on January 1, 2016 and to 100% on January 1, 2017.

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; 2015 - with the exception of IDB (Swiss) Bank and ICC).

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,	
	2017	2016
	In %	
A. Consolidated		
Liquidity coverage ratio	126.7	146.5
Liquidity coverage ratio required by the Supervisor of Banks	100.0	100.0
B. The Bank		
Liquidity coverage ratio	143.7	178.1
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	139.6	142.1
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	
	2017	2016	2017	2016
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[2]				
Israeli currency - non linked	451	701	451	701
Israeli currency - linked to the CPI	393	457	373	439
Foreign currency	46	139	46	139
Total	**890**	**1,297**	**870**	**1,279**

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 21 million (2016: NIS 26 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							
	2017							2016
	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	-	-	-	2	4	-	6	7
Expected future flows based on Management's estimates of early repayments	-	-	-	2	4	-	6	7
Discounted expected future flows based on Management's estimates of early repayments[1]	-	-	-	2	3	-	5	6
In Israeli currency, CPI-linked:								
Future contractual flows	4	8	4	3	1	-	20	25
Expected future flows based on Management's estimates of early repayments	4	6	2	2	-	-	14	18
Discounted expected future flows based on Management's estimates of early repayments[2]	4	6	2	2	-	-	14	18
In foreign currency:[3]								

Footnotes:

(1) (2.41% :2016) The capitalization was performed according to weighted rate of 1.97%

(2) (0.52% :2016) The capitalization was performed according to weighted rate of 0.40%

(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	
	2017	2016
Loans out of deposits repayable according to the repayment of loans	20	6
Standing loans	4	2

C. CONTINGENT LIABILITIES AND OTHER SPECIAL COMMITMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	110	114	44	44
Second year	94	103	33	42
Third year	72	84	26	28
Fourth year	56	63	21	22
Fifth year	49	56	20	17
Sixth year and thereafter	215	242	83	85
Total	**596**	**662**	**227**	**238**
2. Commitment to acquire buildings and equipment	101	70	65	46
3. Commitment to invest in private investment funds and in venture capital funds	466	519	-	-

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, 2017, amounts to approx. NIS 221 million, comprising 25.22% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2017, amounted to NIS 5 million, comprising 0.17% 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.

   It should also be noted, regarding Tafnit's commitments, as stated, 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. A consolidated subsidiary of the Bank is engaged in providing a variety of trusteeship services and serves, inter alia, as a trustee for certain debentures issued to the public according to a prospectus and which is traded on the Stock Exchange. It is noted that the Trust Company undergoes a process of reduction in its operations.
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).

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 mobilization 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.

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.

26. Contingent Liabilities and Special Commitments (continued)

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 503 million as of December 31, 2017.

    12.1 A lawsuit was filed against the Bank on July 31, 2013, at the Central-Lod District Court, together with a motion for approval of the suit as a class action suit. The Claimant allege that the practice of the Bank is to open foreign currency accounts supplemental to the principal current account without informing the customers and without bringing to their notice the engagement terms including the related cost of managing these accounts. It was further argued that the practice of the Bank charges the said foreign currency accounts with minimum ledger fees even if no debit balances entries are made in these accounts with debt balance interest fees and more debt balance occur in the accounts. The amount of the claim in respect of all class members is stated by the Claimants at NIS 170 million.

    A motion for approval of a compromise agreement was filed on January 23, 2018 and on February 26, 2018, the Court requested additional details regarding the arrangement.

26. Contingent Liabilities and Special Commitments (continued)

12.2 A lawsuit against the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank, the First International Bank, 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 binding arrangement in contradiction to the provisions of the 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.

On May 4, 2014, the Court decided that this case will be heard together with the motion described in item 12.5 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. The response of the banks to the shortened motion was filed on October 18, 2015.

Following evidence proceedings conducted in the case, the parties submitted their summing-up briefs. On March 1, 2018, a verdict was given rejecting the motion for approval of the action as a class action suit.

12.3 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.

On July 23, 2017, the parties applied to the Court for approval of a compromise arrangement reached through mediation proceedings. On December 27, 2017, the Attorney General for the Government submitted his position, according to which he does not oppose the arrangement. The hearing of the compromise arrangement was fixed for April 9, 2018.

12.4 A lawsuit, together with a motion for approval of the lawsuit as a class action suit was filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC.

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy. The Appellant stated the amount of the claim in respect of all group members at NIS 2,225 million.

The action against the Bank was dismissed in limine, and on January 20, 2016 the Supreme Court dismissed the appeal submitted by the Appellant and left as is the decision of the District Court to dismiss the action in limine.

On December 8, 2016, the District Court dismissed the action as well as the motion for its approval as a class action suit. On January 22, 2017, the Claimant filed an appeal against the verdict with the Supreme Court. On February 5, 2018, the Supreme Court rejected the appeal.

12.5 A lawsuit against DMB 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 binding arrangement in contradiction to the provisions of the 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.

The summing-up briefs on behalf of MDB were submitted on January 17, 2017. Response summations on behalf of the Appellants were submitted on January 29, 2017.

12.6 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.

26. Contingent Liabilities and Special Commitments (continued)

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. On December 22, 2016, ICC submitted its response to the motion for approval. The Appellant submitted his response on February 22, 2017.

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.

12.7 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.

12.8 A lawsuit against the Bank was filed on June 14, 2015, with the Tel Aviv District Court, together with a motion for its approval as a class action suit. The motion raises an argument with respect to the charging of excessive interest on arrears relating to CPI linked loans. The Claimant argues that the Bank charges interest on arrears at rates exceeding the contractual rate, and in contravention of the provisions of the Interest Order (Determination of the maximum interest rate), 1970.

The Claimant assesses the amount of the claim for all class members at NIS 155 million.

On January 29, 2018, a motion for the approval of a compromise arrangement was filed with the Court. On January 31, 2018, the Court instructed the publication of the motion in two newspapers and submission of the motion for obtaining the position of the Attorney General for the Government, who within 45 days has to inform whether he opposes the motion and refer to the question whether the appointment of an examiner is required.

12.9 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, contrary to the instructions 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.

12.10 On December 8, 2016, an action was filed with the Central Region District Court against the Bank and against four additional banks, together with a motion for approval of the action as a class action suit. The Claimant argues that that the banks charge foreign currency transfer and handling fees that are not in accordance with the instructions of the full pricelist, as detailed in the Banking Rules (Customer Service)(Commissions), 2008. It is argued that the pricelist instructions require banks to provide details of a particular fee rate (%), giving the possibility to state a minimum and maximum amount for the fee charged. It is argued that in actual fact, the banks charge a minimum fee on a gradual basis, the grading being based on the size of the amount transferred. It is alleged that the charging of a minimum fee in this manner is against the law. The Claimants state the amount of the claim against all the banks and for all class members at approx. NIS 500 million.

An amended request for approval was submitted on September 3, 2017, which was joined by additional Claimants. The Bank submitted its response on April 23, 2017.

26. Contingent Liabilities and Special Commitments (continued)

A preliminary hearing by the Court was held on December 24, 2017, within the framework of which the Court decided to obtain the position of the Supervisor of Banks with respect to the interpretation of minimum and maximum fees. After obtaining the position of the Supervisor of Banks, the Court will give instructions as to the continuation of the proceedings in this case. On February 12, 2018, the Supervisor of Banks presented her position, which supports the position of the banks and stated that the determination of gradual minimum fees with respect to foreign currency transactions is not considered violation of bank commission rules. At the end of February 2018, the parties informed the Court that the decision in the case would be given on the basis of the documents on file. A hearing in the presence of representatives of the parties was fixed for March 13, 2018.

12.11 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.

The response of the Bank was submitted on July 23, 2017.

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 decision was given dismissing the motion for exemption from fees. The appeal against this decision was rejected on May 14, 2017. On February 4, 2018, the motion for permission to appeal against the decisions that had dismissed the motion for exemption from Court fees was rejected in full. On February 5, 2018, the Trustee applied to the District Court for a deferment in the payment of Court fees, until 30 days following the date of the decision in the motion for instructions in the bankruptcy case, which he intends to file in the matter of the amount of the claim and the manner of allocation of the funds collected by the Receiver in Bankruptcy. On February 5, 2018, the Court ruled that the Trustee in the bankruptcy case would submit until March 6, 2018, an updated notice regarding the motion for instructions, which he intends to file.

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. A decision in the matter has not yet been given.

(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.

26. Contingent Liabilities and Special Commitments (continued)

A hearing held on November 30, 2017, fixed dates for submission of documents by the Plaintiffs. A hearing of the preliminary arguments was held on March 1, 2018. The Court stated that the parties have to complete their arguments in writing, prior to a decision by the Court in the matter of the preliminary arguments.

(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.

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. ICC has to respond to the request for approval by March 20, 2018. A preliminary hearing is fixed for May 6, 2018.

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.

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 is a partner in several venture capital funds, private investment funds and in this respect is obligated to invest in these funds. As of December 31, 2017, Discount Capital has a commitment to additional investments in 19 such entities amounts totaling US$134 million (as of December 31, 2016: US$134 million).

26. Contingent Liabilities and Special Commitments (continued)

(b) Discount Capital owns approx. 19.6% of the equity of Menif. The Board of Discount Capital had approved in the past granting guarantees for projects of Menif Company up to an amount of NIS 72.8 million. As of December 31, 2017, guaranties have been provided in the amount of NIS 72.2 million (December 31, 2016: NIS 69.5 million).

(c) In addition, MDB has a commitment to invest in four active venture capital funds in a negligible amount.

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, 2017, to NIS 257 million.

17. **An agreement for provision of services to the teaching staff.** 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, 2017, to NIS 38 million.

18. **Discount Campus.** In 2016, Discount Leasing, ICC and MDB began initiating the Discount Campus in Rishon Le'Tzion, which is intended to house in the future the Head Office of the Bank and of its principal subsidiaries in Israel – MDB and ICC. To date, agreements have been signed for the purchase of land, for the management of the project, for consultation and for the planning of the project. 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. Different processes were promoted in 2017 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 a planning team and the attraction of additional consultants. As part of the contract for the acquisition of the land from the Rishon LeZion Municipality, it has been specified that at least 25,000 square meters will be constructed by the acquirer 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.

    Discount Leasing has entered into agreements with suppliers with respect to the construction of the "Discount Campus", in a total amount of NIS 41 million. The balance of the liability as of December 31, 2017, amounts to NIS 39 million.

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, 2017 amounted to US$1,298 million (NIS 4,500 million) [December 31, 2016: US$1,205 million (NIS 4,632 million)].

In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of US$100 million (NIS 348 million) as of December 31, 2017 as a collateral for deposits received from it [as at December 31, 2016: US$97 million (NIS 376 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of US$636 million (NIS 2,205 million) as of December 31, 2017 [as at December 31, 2016: US$1,048 million (NIS 4,029 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 US$15 million (NIS 52 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 2016-2017.

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, 2017, was NIS 1 million. The highest balance of the collateral was NIS 1 million, and the average balance was NIS 1 million.

27. Pledges, Restrictive Terms and Collateral (continued)

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, 2017, amounted to NIS 221 million (December 31, 2016: NIS 96 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, 2017, was NIS 775 million (2016: NIS 400 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, 2017, totaled NIS 1,099 million (December 31, 2016: NIS 637 million; Reclassified – classifying amounts pledged to the Stock Exchange Clearing House to pledges to the Maof Clearing House).

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, 2017, to NIS 48 million (December 31, 2016: NIS 48 million). In addition, pledged in favor of the Maof Clearing House were cash the balance of which amounted at December 31, 2017, to NIS 2 million (December 31, 2016: NIS 2 million).

BALANCE OF COLLATERAL PROVIDED TO THE MAOF CLEARING HOUSE:

	Balance as of December 31, 2017	Highest balance during the year 2017	Average balance* in 2017	Balance as of December 31, 2016
	In NIS millions			
Cash	57	57	48	26
Securities	1,092	1,111	960	**661

* The reporting is made on the basis of the month-end balances.

** Reclassified – classifying amounts pledged to the Stock Exchange Clearing House to pledges to the Maof Clearing House.

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, 2017, the Bank allocated in favor of various banks deposits in a total amount of NIS 689 million (December 31, 2016: NIS 783 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, 2017, IDB New York provided in favor of various banks deposits in a total amount of US$0.2 million (NIS 0.7 million) [December 31, 2016: US$3 million (NIS 12 million)].

(3) MDB also engages in CSA type agreements. As of December 31, 2017, MDB provided in favor of various banks deposits in a total amount of NIS 9 million (December 31, 2016: NIS 3 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, 2017, to NIS 88 million (as at December 31, 2016: NIS 81 million; Reclassified – classifying amounts pledged to the Stock Exchange Clearing House to pledges to the Maof Clearing House).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2017, amounted to NIS 17 million (December 31, 2016: NIS 17 million).

BALANCE OF COLLATERAL PROVIDED TO THE STOCK EXCHANGE CLEARING HOUSE

	Balance as of December 31, 2017	Highest balance during the year 2017	Average balance* in 2017	Balance as of December 31, 2016
	In NIS millions			
Cash	27	32	26	20
Securities	78	108	90	**78

* The reporting is made on the basis of the month-end balances.

** Reclassified – classifying amounts pledged to the Stock Exchange Clearing House to pledges to the Maof Clearing House

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, 2017, at NIS 3.3 billion (December 31, 2016: NIS 3.367 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 in the amount of NIS 298 million (December 31, 2016: NIS 296 million).

27. Pledges, Restrictive Terms and Collateral (continued)

DETAILS OF THE PLEDGE AGREEMENT

	Balance as of December 31, 2017	Highest balance during the year 2017	Average balance* in 2017	Balance as of December 31, 2016
	In NIS millions			
Pledged securities (market value)	3,598	3,644	3,603	3,663

* The report is based on outstanding monthly balances.

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 2016-2017 in the said credit tenders.

DETAILS OF THE DEPOSITS

	Balance as of December 31, 2017	Highest balance during the year 2017	Average balance* in 2017	Balance as of December 31, 2016
	In NIS millions			
Deposits with the Bank of Israel	21,253	24,748	21,132	22,400

* 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, 2017 was NIS 954 million (December 31, 2016: NIS 440 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	
	2017	2016	2017	2016
	In NIS millions			
The sources:				
Securities against cash	954	440	954	440
Total	**954**	**440**	**954**	**440**
The uses:				
Securities sold under repurchase arrangements	2,205	4,029	-	-
Total	**2,205**	**4,029**	**-**	**-**

M. DETAILS OF SECURITIES PLEDGED TO THE LENDERS:

	Consolidated		The Bank	
	December 31		December 31	
	2017	2016	2017	2016
	In NIS millions			
Available for sale securities	2,541	2,236	1,920	1,491
Held-to-maturity bonds	2,547	2,623	2,541	2,612
Total	**5,088**	**4,859**	**4,461**	**4,103**

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, 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. Market 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. Where a derivative instrument is not intended as a qualified hedging, it is stated according to its fair value, and changes in fair value being taken currently to the statement of profit and loss. Some of these 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[3]

	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.
(3) For details regarding the change in presentation format, see Note 1 C 5 above.

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[3] (CONTINUED)

	December 31, 2016					
	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	-	3,599	-	-	-	3,599
Total	**-**	**3,599**	**-**	**-**	**-**	**3,599**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,599				
B. ALM derivatives[1][2]						
Futures contracts	-	385	-	-	-	385
Forward contracts	10,237	400	11,072	-	-	21,709
Marketable option contracts						
Options written	-	-	1,406	-	-	1,406
Options purchased	-	-	1,433	-	-	1,433
Other option contracts						
Options written	-	2,375	6,237	-	-	8,612
Options purchased	-	1,120	6,220	-	-	7,340
Swaps	228	76,312	58,468	-	-	135,008
Total	**10,465**	**80,592**	**84,836**	**-**	**-**	**175,893**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	228	37,576				
C. Other derivatives[1]						
Futures contracts	-	45	-	90	9	144
Forward contracts	-	-	2,477	-	-	2,477
Marketable option contracts						
Options written	-	-	4	6,998	-	7,002
Options purchased	-	-	4	6,998	-	7,002
Other option contracts						
Options written	-	74	295	616	32	1,017
Options purchased	-	85	288	625	33	1,031
Swaps	-	7,849	-	-	-	7,849
Total	**-**	**8,053**	**3,068**	**15,327**	**74**	**26,522**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	3,890				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,051			

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.

(3) For details regarding the change in presentation format, see Note 1 C 5 above.

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(4)

	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

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[4] (CONTINUED)

	December 31, 2016					
	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	-	88	-	-	-	88
Negative gross fair value	-	34	-	-	-	34
B. ALM derivatives[1]						
Positive gross fair value	178	1,457	1,101	-	-	2,736
Negative gross fair value	160	1,694	1,234	-	-	3,088
C. Other derivatives						
Positive gross fair value	-	61	39	380	-	480
Negative gross fair value	-	61	36	379	-	476
D. Total						
Positive gross fair value[2]	178	1,606	1,140	380	-	3,304
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**178**	**1,606**	**1,140**	**380**	**-**	**3,304**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	35	356	-	391
Negative gross fair value [3]	160	1,789	1,270	379	-	3,598
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**160**	**1,789**	**1,270**	**379**	**-**	**3,598**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	1	70	356	-	427

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 22 million (December 31, 2016: NIS 21 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 31 million (December 31, 2016: NIS 28 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

(4) For details regarding the change in presentation format, see Note 1 C 5 above.

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, 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)	(4)166	91	92	-	562	911
Total credit risk in respect of derivative instruments(5)	**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**
	December 31, 2016					
Balance sheet balance of assets in respect of derivative instruments(2)	130	2,164	23	-	987	3,304
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(1,794)	(6)	-	(307)	(2,108)
Credit risk mitigation in respect of cash collateral received	-	(280)	(3)	-	(34)	(317)
Net amount of assets in respect of derivative instruments	**129**	**90**	**14**	**-**	**646**	**879**
Off-balance sheet credit risk in respect of derivative instruments(1)	-	242	21	22	332	617
Total credit risk in respect of derivative instruments(5)	**130**	**2,406**	**44**	**22**	**1,319**	**3,921**
Balance sheet balance of liabilities in respect of derivative instruments(3)	192	2,638	45	10	713	3,598
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(1,794)	(6)	-	(307)	(2,108)
Pledged cash collateral	-	(700)	-	(5)	-	(705)
Net amount of liabilities in respect of derivative instruments	**191**	**144**	**39**	**5**	**406**	**785**

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 2,953 million included in the item assets in respect of derivative instruments (December 31, 2016: NIS 3,283 million).
(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 3,232 million included in the item liabilities in respect of derivative instruments (December 31, 2016: NIS 3,570 million).
(4) The amount stems from an amendment to Proper Conduct of Banking Business Directive in the matter of capital requirement for exposures to central counterparties, which came into effect on January 1, 2017.
(5) 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, 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**
	December 31, 2016				
Interest rate contracts					
Shekel/CPI	1,131	2,145	4,517	2,672	10,465
Other	7,804	19,624	37,191	27,625	92,244
Foreign currency contracts	49,420	29,967	6,990	3,578	89,955
Contracts on shares	14,004	300	1,023	-	15,327
Commodities and other contracts	1	32	41	-	74
Total	**72,360**	**52,068**	**49,762**	**33,875**	**208,065**

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.

"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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

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, 2016, and for the year ended therein, have been improved in this report, including improvement 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.

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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

Taxes on income. The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 35.04% (2016: 35.9%). 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: 9.15% in 2016, 9.18% in 2017.

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)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED

	For the year ended December 31, 2017				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income From external sources	1,994	4	1,577	362	769
Interest expenses To external sources	201	88	69	18	55
Interest income, net From external sources	1,793	(84)	1,508	344	714
Interest income, net Intersegmental	(252)	136	(91)	(44)	(170)
Total Interest income, net	**1,541**	**52**	**1,417**	**300**	**544**
Non-interest financing income From external sources	1,868	575	1,003	194	324
Non-interest financing income Intersegmental	(522)	(506)	(386)	(40)	(36)
Total Non-interest financing income	**1,346**	**69**	**617**	**154**	**288**
Total income	**2,887**	**121**	**2,034**	**454**	**832**
Credit loss expenses (expenses reversal)	333	-	144	22	23
Operating and other expenses	2,944	125	1,316	256	291
Profit (loss) before taxes	(390)	(4)	574	176	518
Provision for taxes (tax savings) on profit	(139)	(3)	197	62	180
Profit (loss) after taxes	(251)	(1)	377	114	338
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(251)	(1)	377	114	338
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	**(296)**	**(1)**	**367**	**112**	**331**
Average Assets	55,628	255	33,989	11,353	23,901
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[(3)]	54,787	188	33,524	11,293	23,920
Balance of credit to the public at the period end[(3)]	56,129	217	35,368	12,406	25,400
Balance of impaired debts	88	-	733	261	394
Balance of debts (not impaired) in arrear for over ninety days	357	-	45	5	-
Average Liabilities	73,786	14,541	33,172	8,228	16,665
Of which - Average Deposits from the public	69,079	14,431	28,943	7,425	14,652
Balance of deposits from the public at the period end	68,766	15,656	27,408	8,056	15,618
Average Risk-assets[(1)]	41,604	422	36,608	15,172	27,139
Balance of Risk-assets at the period end [(1)]	44,115	446	37,165	15,556	27,080
Average assets under management[(2)]	35,835	19,099	24,716	7,897	36,046
Interest income, net:					
Margin from credit activity to the public	1,363	2	1,330	281	517
Margin from deposits activity from the public	178	50	87	19	27
Other	-	-	-	-	-
Total Interest income, net	**1,541**	**52**	**1,417**	**300**	**544**

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.

Institutional bodies	Financial management	Total Domestic operations	International operations				Total
			Private Individuals	Business operations	Other	Total International operations	
31	393	5,130	45	800	238	1,083	6,213
35	450	916	64	106	152	322	1,238
(4)	(57)	4,214	(19)	694	86	761	4,975
46	375	-	141	(91)	(50)	-	-
42	**318**	**4,214**	**122**	**603**	**36**	**761**	**4,975**
96	(796)	3,264	44	81	10	135	3,399
(83)	1,573	-	-	-	-	-	-
13	**777**	**3,264**	**44**	**81**	**10**	**135**	**3,399**
55	**1,095**	**7,478**	**166**	**684**	**46**	**896**	**8,374**
(21)	-	501	(3)	76	-	73	574
58	216	5,206	211	263	55	529	5,735
18	879	1,771	(42)	345	(9)	294	2,065
5	304	606	(17)	153	5	141	747
13	575	1,165	(25)	192	(14)	153	1,318
-	1	1	-	-	-	-	1
13	576	1,166	(25)	192	(14)	153	1,319
-	4	(60)	-	-	-	-	(60)
13	**580**	**1,106**	**(25)**	**192**	**(14)**	**153**	**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	15,008	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
1,384	12,107	134,436	1,365	20,018	1,499	22,882	157,318
860	12,908	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
-	318	318	-	-	36	36	354
42	**318**	**4,214**	**122**	**603**	**36**	**761**	**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	1,476	360	683
Interest expenses To external sources	171	72	53	11	34
Interest income, net From external sources	1,534	(69)	1,423	349	649
Interest income, net Intersegmental	(188)	114	(122)	(61)	(158)
Total Interest income, net	**1,346**	**45**	**1,301**	**288**	**491**
Non-interest financing income From external sources	1,599	283	575	155	235
Non-interest financing income Intersegmental	(316)	(216)	23	(8)	8
Total Non-interest financing income	**1,283**	**67**	**598**	**147**	**243**
Total income	**2,629**	**112**	**1,899**	**435**	**734**
Credit loss expenses (expenses reversal)	217	1	67	46	(18)
Operating and other expenses	2,903	125	1,370	294	310
Profit (loss) before taxes	(491)	(14)	462	95	442
Provision for taxes (tax savings) on profit [5]	(105)	(2)	204	45	166
Profit (loss) after taxes	**(386)**	**(12)**	**258**	**50**	**276**
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net income (loss) from ordinary operations before Attributed to the non-controlling rights holders	(386)	(12)	258	50	276
Net income (loss) from ordinary operations Attributed to the non-controlling rights holders	(41)	-	3	1	2
Net Income (loss) Attributed to the bank's shareholders	**(427)**	**(12)**	**261**	**51**	**278**
Average Assets	49,501	228	31,813	10,393	21,597
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public[3]	48,557	162	31,363	10,441	21,854
Balance of credit to the public at the period end[3]	50,773	214	33,592	12,234	22,944
Balance of impaired debts	61	-	813	316	821
Balance of debts (not impaired) in arrear for over ninety days	381	-	51	7	1
Average Liabilities	71,388	14,595	30,666	6,900	13,968
Of which - Average Deposits from the public	66,917	14,485	26,739	6,151	12,162
Balance of deposits from the public at the period end	67,496	16,221	27,588	6,944	14,464
Average Risk-assets[1]	37,499	403	33,403	15,097	24,951
Balance of Risk-assets at the period end [1]	39,772	381	34,093	15,052	25,992
Average assets under management[2]	37,354	18,658	22,360	7,795	31,576
Interest income, net:					
Margin from credit activity to the public	1,183	1	1,238	274	472
Margin from deposits activity from the public	163	44	63	14	19
Other	-	-	-	-	-
Total Interest income, net	**1,346**	**45**	**1,301**	**288**	**491**

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 - see Note 1 C (7).
(6) Reclassified - see C above.

Institutional bodies	Financial management	Total Domestic operations	International operations: Private Individuals	International operations: Business operations	International operations: Other	Total International operations	Total
28	(5)347	4,602	50	727	280	1,057	5,659
23	425	789	59	85	169	313	1,102
5	(78)	3,813	(9)	642	111	744	4,557
27	388	-	148	(71)	(77)	-	-
32	**310**	**3,813**	**139**	**571**	**34**	**744**	**4,557**
50	317	3,214	91	74	60	225	3,439
(33)	542	-	-	-	-	-	-
17	**(4)859**	**3,214**	**91**	**74**	**60**	**225**	**3,439**
49	**1,169**	**7,027**	**230**	**645**	**94**	**969**	**7,996**
30	-	343	1	125	-	126	469
64	(4)214	5,280	226	240	68	534	5,814
(45)	955	1,404	3	280	26	309	1,713
(15)	331	624	13	100	4	117	741
(30)	**624**	**780**	**(10)**	**180**	**22**	**192**	**972**
-	15	15	-	-	-	-	15
(30)	639	795	(10)	180	22	192	987
-	(47)	(82)	-	-	-	-	(82)
(30)	**592**	**713**	**(10)**	**180**	**22**	**192**	**905**
1,181	60,005	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
11,009	15,908	164,434	10,867	15,542	5,022	31,431	195,865
10,973	-	137,427	10,838	15,210	-	26,048	163,475
13,185	-	145,898	10,670	15,750	-	26,420	172,318
1,269	11,421	124,043	2,399	21,347	233	23,979	148,022
1,428	11,582	128,300	2,039	21,410	1,141	24,590	152,890
57,708	6,326	181,777	13,139	-	-	13,139	194,916
18	-	3,186	27	284	-	311	3,497
14	-	317	112	287	-	399	716
-	(5)310	310	-	-	34	34	344
32	**310**	**3,813**	**139**	**571**	**34**	**744**	**4,557**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

E. INFORMATION REGARDING REGULATORY OPERATING SEGMENTS, CONSOLIDATED (CONTINUED)

	For the year ended December 31, 2015				
	Domestic operations				
	Households	Private Banking	Small and minute businesses	Medium businesses	Large businesses
	in NIS millions				
Interest income From external sources	1,510	3	1,387	352	580
Interest expenses To external sources	139	67	49	10	26
Interest income, net From external sources	1,371	(64)	1,338	342	554
Interest income, net Intersegmental	(184)	99	(131)	(60)	(139)
Total Interest income, net	**1,187**	**35**	**1,207**	**282**	**415**
Non-interest financing income From external sources	1,677	264	624	124	208
Non-interest financing income Intersegmental	(390)	(190)	(26)	12	8
Total Non-interest financing income	**1,287**	**74**	**598**	**136**	**216**
Total income	**2,474**	**109**	**1,805**	**418**	**631**
Credit loss expenses (expenses reversal)	75	1	52	84	(40)
Operating and other expenses(7)	2,766	119	1,253	261	246
Profit (loss) before taxes	(367)	(11)	500	73	425
Provision for taxes (tax savings) on profit (5)	(104)	(3)	200	31	155
Profit (loss) after taxes	(263)	(8)	300	42	270
Bank's share in operating income of affiliated companies	-	-	-	-	-
Net Profit (loss) from ordinary operations before Attributed to the non-controlling rights holders	(263)	(8)	300	42	270
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	(38)	-	(14)	(3)	(9)
Net Profit (loss) Attributed to the bank's shareholders	**(301)**	**(8)**	**286**	**39**	**261**
Average Assets	44,048	239	29,504	10,561	19,317
Of which - Investment in Investee companies	-	-	-	-	-
Of which - Average credit to the public(3)	43,485	165	28,970	10,473	19,049
Balance of credit to the public at the period end(3)	43,923	240	31,473	11,507	19,714
Balance of impaired debts	64	-	1,112	576	949
Balance of debts (not impaired) in arrear for over ninety days	384	1	21	6	-
Average Liabilities	64,891	14,451	28,275	6,790	11,440
Of which - Average Deposits from the public	62,789	14,324	24,837	5,933	9,578
Balance of deposits from the public at the period end	62,916	16,185	25,055	6,159	10,203
Average Risk-assets(1)	(4)33,507	380	(4)29,415	(4)13,984	24,471
Balance of Risk-assets at the period end (1)	(4)35,592	472	(4)31,319	(4)14,328	24,336
Average assets under management(2)	41,728	19,163	24,079	8,591	29,433
Interest income, net:					
Margin from credit activity to the public	1,019	2	1,146	271	401
Margin from deposits activity from the public	168	33	61	11	14
Other	-	-	-	-	-
Total Interest income, net	**1,187**	**35**	**1,207**	**282**	**415**

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- Improvement of compatibility between the classification of risk assets between the different segments and the classification of the assets to those segments.

(5) Reclassified - see Note 1 C (7).

			International operations				
Institutional bodies	Financial management	Total Domestic operations	Private Individuals	Business operations	Other	Total International operations	Total
26	[5]306	4,164	150	665	286	1,101	5,265
23	423	737	59	70	176	305	1,042
3	(117)	3,427	91	595	110	796	4,223
26	389	-	110	(66)	(44)	-	-
29	**272**	**3,427**	**201**	**529**	**66**	**796**	**4,223**
11	(116)	2,792	185	71	5	261	3,053
1	585	-	-	-	-	-	-
12	**469**	**2,792**	**185**	**71**	**5**	**261**	**3,053**
41	**741**	**6,219**	**386**	**600**	**71**	**1,057**	**7,276**
5	-	177	(3)	13	-	10	187
62	238	4,945	467	245	68	780	5,725
(26)	503	1,097	(78)	342	3	267	1,364
(8)	177	448	(16)	131	3	118	566
(18)	326	649	(62)	211	-	149	798
-	9	9	-	-	-	-	9
(18)	335	658	(62)	211	-	149	807
-	7	(57)	-	-	-	-	(57)
(18)	**342**	**601**	**(62)**	**211**	**-**	**149**	**750**
908	62,814	167,391	6,806	18,773	12,698	38,277	205,668
-	140	140	-	-	-	-	140
878	-	103,020	1,854	19,726	-	21,580	124,600
1,089	-	107,946	1,425	19,897	-	21,322	129,268
-	-	2,701	-	243	-	243	2,944
-	-	412	-	-	-	-	412
11,181	20,603	157,631	16,204	13,579	5,271	35,054	192,685
11,147	-	128,608	16,117	13,553	-	29,670	158,278
11,735	-	132,253	10,502	15,120	-	25,622	157,875
1,027	[4]13,804	116,588	[4]1,762	[4]22,123	[4]1,640	25,525	142,113
1,127	[4]11,141	118,315	[4]1,258	[4]21,552	[4]1,335	24,145	142,460
47,974	3,937	174,905	15,673	-	-	15,673	190,578
17	-	2,856	133	280	-	413	3,269
12	-	299	68	249	-	317	616
-	[5]272	272	-	-	66	66	338
29	**272**	**3,427**	**201**	**529**	**66**	**796**	**4,223**

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED

	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	Total
	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	16	832	1,020	1,868	-	1	574	575	2,443
Non-interest financing income Intersegmental	-	-	(522)	(522)	-	-	(506)	(506)	(1,028)
Total Non-interest financing income	**16**	**832**	**498**	**1,346**	**-**	**1**	**68**	**69**	**1,415**
Total income	**236**	**1,244**	**1,407**	**2,887**	**1**	**1**	**119**	**121**	**3,008**
Credit loss expenses	14	130	189	333	-	-	-	-	333
Operating and other expenses	113	881	1,950	2,944	-	1	124	125	3,069
Profit (loss) before taxes	109	233	(732)	(390)	1	-	(5)	(4)	(394)
Provision for taxes (tax savings) on profit	38	92	(269)	(139)	-	-	(3)	(3)	(142)
Profit (loss) after taxes	71	141	(463)	(251)	1	-	(2)	(1)	(252)
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	**71**	**96**	**(463)**	**(296)**	**1**	**-**	**(2)**	**(1)**	**(297)**
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	69,058	69,079	-	-	14,431	14,431	83,510
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)]	15,288	10,316	16,000	41,604	40	36	346	422	42,026
Balance of Risk-assets at the period end [(1)]	16,396	11,691	16,028	44,115	42	38	366	446	44,561
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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

F. PRIVATE INDIVIDUALS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	(4) For the year ended December 31, 2016								
	Households sector				Private banking sector				
	Mortgages	Credit cards	Other	Total households	Mortgages	Credit cards	Other	Total private banking	Total
	in NIS millions								
Interest income From external sources	549	386	770	1,705	1	-	2	3	1,708
Interest expenses To external sources	-	(2)	173	171	-	-	72	72	243
Interest income, net From external sources	549	388	597	1,534	1	-	(70)	(69)	1,465
Interest income, net Intersegmental	(395)	(35)	242	(188)	(1)	-	115	114	(74)
Total Interest income, net	**154**	**353**	**839**	**1,346**	**-**	**-**	**45**	**45**	**1,391**
Non-interest financing income From external sources	15	752	832	1,599	-	-	283	283	1,882
Non-interest financing income Intersegmental	-	-	(316)	(316)	-	-	(216)	(216)	(532)
Total Non-interest financing income	**15**	**752**	**516**	**1,283**	**-**	**-**	**67**	**67**	**1,350**
Total income	**169**	**1,105**	**1,355**	**2,629**	**-**	**-**	**112**	**112**	**2,741**
Credit loss expenses	8	74	135	217	-	-	1	1	217
Operating and other expenses	125	790	1,988	2,903	-	-	125	125	3,028
Profit (loss) before taxes	36	241	(768)	(491)	-	-	(14)	(14)	(505)
Provision for taxes (tax savings) on profit (5)	17	95	(217)	(105)	-	-	(2)	(2)	(107)
Profit (loss) after taxes	19	146	(551)	(386)	-	-	(12)	(12)	(398)
Net Profit (loss) from ordinary operations Attributed to the non-controlling rights holders	-	(41)	-	(41)	-	-	-	-	(41)
Net Profit (loss) Attributed to the bank's shareholders	**19**	**105**	**(551)**	**(427)**	**-**	**-**	**(12)**	**(12)**	**(439)**
Average Assets	23,382	10,434	15,685	49,501	69	35	124	228	49,729
Of which - Average credit to the public(3)	23,484	10,320	14,753	48,557	69	35	58	162	48,719
Balance of credit to the public at the period end(3)	25,624	10,999	14,150	50,773	72	36	106	214	50,987
Balance of impaired debts	-	22	39	61	-	-	-	-	61
Balance of debts (not impaired) in arrear for over ninety days	299	-	82	381	-	-	-	-	381
Average Liabilities	19	2,341	69,028	71,388	-	32	14,563	14,595	85,983
Of which - Average Deposits from the public	-	18	66,899	66,917	-	-	14,485	14,485	81,402
Balance of deposits from the public at the period end	-	19	67,477	67,496	-	-	16,221	16,221	83,717
Average Risk-assets(1)	(6)12,456	(6)9,826	(6)15,217	(6)37,499	43	55	305	403	37,902
Balance of Risk-assets at the period end (1)	(6)14,138	(6)8,782	(6)16,852	(6)39,772	31	34	316	381	40,153
Average assets under management(2)	533	-	36,821	37,354	-	-	18,658	18,658	56,012
Interest income, net:									
Margin from credit activity to the public	154	353	676	1,183	-	-	1	1	1,184
Margin from deposits activity from the public	-	-	163	163	-	-	44	44	207
Total Interest income, net	**154**	**353**	**839**	**1,346**	**-**	**-**	**45**	**45**	**1,391**

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 Note 1 C (7) to the condensed financial statements.

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, 2017									
	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	445	1,132	1,577	96	266	362	168	601	769	2,708
Interest expenses From external sources	9	60	69	6	12	18	2	53	55	142
Interest income, net From external sources	436	1,072	1,508	90	254	344	166	548	714	2,566
Interest income, net Intersegmental	(63)	(28)	(91)	(13)	(31)	(44)	(47)	(123)	(170)	(305)
Total Interest income, net	**373**	**1,044**	**1,417**	**77**	**223**	**300**	**119**	**425**	**544**	**2,261**
Non-interest financing income From external sources	118	885	1,003	95	99	194	48	276	324	1,521
Non-interest financing income Intersegmental	(30)	(356)	(386)	(5)	(35)	(40)	27	(63)	(36)	(462)
Total Non-interest financing income	**88**	**529**	**617**	**90**	**64**	**154**	**75**	**213**	**288**	**1,059**
Of which - Credit Card income	-	144	144	-	27	27	-	82	82	253
Total income	**461**	**1,573**	**2,034**	**167**	**287**	**454**	**194**	**638**	**832**	**3,320**
Credit loss expenses (expenses reversal)	7	137	144	(14)	36	22	(85)	108	23	189
Operating and other expenses	150	1,166	1,316	28	228	256	6	285	291	1,863
Profit before taxes	304	270	574	153	23	176	273	245	518	1,268
Provision for taxes on profit	105	92	197	52	10	62	95	85	180	439
Profit after taxes	199	178	377	101	13	114	178	160	338	829
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	(10)	(10)	-	(2)	(2)	-	(7)	(7)	(19)
Net Profit Attributed to the bank's shareholders	**199**	**168**	**367**	**101**	**11**	**112**	**178**	**153**	**331**	**810**
Average Assets	10,805	23,184	33,989	2,886	8,467	11,353	5,736	18,165	23,901	69,243
Of which - Average credit to the public(3)	10,760	22,764	33,524	2,882	8,411	11,293	5,786	18,134	23,920	68,737
Balance of credit to the public at the period end(3)	11,115	24,253	35,368	3,058	9,348	12,406	6,087	19,313	25,400	73,174
Balance of impaired debts	267	466	733	79	182	261	14	380	394	1,388
Balance of debts (not impaired) in arrear for over ninety days	8	37	45	4	1	5	-	-	-	50
Average Liabilities	4,725	28,447	33,172	1,977	6,251	8,228	1,517	15,148	16,665	58,065
Of which - Average Deposits from the public	4,627	24,316	28,943	1,957	5,468	7,425	1,501	13,151	14,652	51,020
Balance of deposits from the public at the period end	4,606	22,802	27,408	2,253	5,803	8,056	2,371	13,247	15,618	51,082
Average Risk-assets(1)	11,836	24,772	36,608	4,598	10,574	15,172	9,457	17,682	27,139	78,919
Balance of Risk-assets at the period end (1)	12,033	25,132	37,165	4,726	10,830	15,556	10,623	16,457	27,080	79,801
Average assets under management(2)	421	24,295	24,716	394	7,503	7,897	325	35,721	36,046	68,659
Interest income, net:										
Margin from credit activity to the public	360	970	1,330	73	208	281	116	401	517	2,128
Margin from deposits activity from the public	13	74	87	4	15	19	3	24	27	133
Total Interest income, net	**373**	**1,044**	**1,417**	**77**	**223**	**300**	**119**	**425**	**544**	**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.

29. Regulatory Operating Segments and Geographical Areas Information (continued)

G. SMALL, MINUTE, MEDIUM AND LARGE BUSINESS - OPERATIONS IN ISRAEL, CONSOLIDATED (CONTINUED)

	(4) For the year ended December 31, 2016									
	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	407	1,069	1,476	99	261	360	136	547	683	2,519
Interest expenses From external sources	8	45	53	1	10	11	5	29	34	98
Interest income, net From external sources	399	1,024	1,423	98	251	349	131	518	649	2,421
Interest income, net Intersegmental	(66)	(56)	(122)	(17)	(44)	(61)	(37)	(121)	(158)	(341)
Total Interest income, net	**333**	**968**	**1,301**	**81**	**207**	**288**	**94**	**397**	**491**	**2,080**
Non-interest financing income From external sources	61	514	575	59	96	155	42	193	235	965
Non-interest financing income Intersegmental	27	(4)	23	6	(14)	(8)	20	(12)	8	23
Total Non-interest financing income	**88**	**510**	**598**	**65**	**82**	**147**	**62**	**181**	**243**	**988**
Of which - Credit Card income	-	134	134	-	25	25	-	77	77	236
Total income	**421**	**1,478**	**1,899**	**146**	**289**	**435**	**156**	**578**	**734**	**3,068**
Operating and other expenses	148	1,222	1,370	27	267	294	9	301	310	1,974
Profit (loss) before taxes	300	162	462	142	(47)	95	247	195	442	999
Provision for taxes (tax savings) on profit (5)	108	96	204	49	(4)	45	86	80	166	415
Profit (loss) after taxes	192	66	258	93	(43)	50	161	115	276	584
Net Profit from ordinary operations Attributed to the non-controlling rights holders	-	3	3	-	1	1	-	2	2	6
Net Profit (loss) Attributed to the bank's shareholders	**192**	**69**	**261**	**93**	**(42)**	**51**	**161**	**117**	**278**	**590**
Average Assets	9,849	21,964	31,813	2,938	7,455	10,393	4,652	16,945	21,597	63,803
Of which - Average credit to the public(3)	9,818	21,545	31,363	2,965	7,476	10,441	4,702	17,152	21,854	63,658
Balance of credit to the public at the period end(3)	10,140	23,452	33,592	2,919	9,315	12,234	5,230	17,714	22,944	68,770
Balance of impaired debts	420	393	813	98	218	316	10	811	821	1,950
Balance of debts (not impaired) in arrear for over ninety days	6	45	51	5	2	7	-	1	1	59
Average Liabilities	4,235	26,431	30,666	1,230	5,670	6,900	1,492	12,476	13,968	51,534
Of which - Average Deposits from the public	4,139	22,600	26,739	1,213	4,938	6,151	1,477	10,685	12,162	45,052
Balance of deposits from the public at the period end	4,320	23,268	27,588	1,486	5,458	6,944	1,900	12,564	14,464	48,996
Average Risk-assets(1)	10,654	22,749	33,403	4,791	10,306	15,097	7,716	17,235	24,951	73,451
Balance of Risk-assets at the period end (1)	11,187	22,906	34,093	5,006	10,046	15,052	8,193	17,799	25,992	75,137
Average assets under management(2)	343	22,017	22,360	624	7,171	7,795	84	31,492	31,576	61,731
Interest income, net:										
Margin from credit activity to the public	323	915	1,238	79	195	274	93	379	472	1,984
Margin from deposits activity from the public	10	53	63	2	12	14	1	18	19	96
Total Interest income, net	**333**	**968**	**1,301**	**81**	**207**	**288**	**94**	**397**	**491**	**2,080**

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 Note 1 C (7) to the condensed financial statements.

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, 2017				
	Trading activity	Asset and liability management activity	Non-financial investments activity	Other financial activity	Total
	in NIS millions				
Interest income From external sources	22	363	-	8	393
Interest expenses To external sources	-	446	-	4	450
Interest income, net From external sources	**22**	**(83)**	**-**	**4**	**(57)**
Interest income, net Intersegmental	(8)	383	-	-	375
Total Interest income, net	**14**	**300**	**-**	**4**	**318**
Non-interest financing income From external sources	61	(1,248)	235	156	(796)
Non-interest financing income Intersegmental	60	1,514	-	(1)	1,573
Total Non-interest financing income	**121**	**266**	**235**	**155**	**777**
Total income	**135**	**566**	**235**	**159**	**1,095**
Operating and other expenses	122	61	22	11	216
Profit (loss) before taxes	**13**	**505**	**213**	**148**	**879**
Provision for taxes (tax savings) on profit	4	172	57	71	304
Profit (loss) after taxes	**9**	**333**	**156**	**77**	**575**
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	**9**	**337**	**157**	**77**	**580**
Average Assets	5,920	52,763	1,813	1,096	61,592
Of which - Investment in Investee companies	-	-	148	-	148
Average Liabilities	3,443	10,376	-	1,189	15,008
Average Risk-assets(1)	4,319	5,916	1,364	508	12,107
Balance of Risk-assets at the period end (1)	4,743	6,072	1,336	757	12,908
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)	-	-	-
Net CPI linkage differences	26	(11)	-	-	-
Net interest exposure	(61)	470	-	-	-
Net share exposure	3	-	-	-	-
Total net interest income and non-interest income, on an accrual basis	**23**	**416**	**-**	**-**	**-**
Profits or losses on sale or on impairment in value	-	177	-	-	-
Change in the difference between fair value and the accrual basis	-	(23)	-	-	-
Other non-interest income	112	(4)	-	-	-
Total net interest income and non-interest income	**135**	**566**	**235**	**159**	**1,095**

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)

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	
	2017	2016	2015	2017	2016	2015	2017	2016
	in NIS millions							
Israel	7,478	7,024	6,223	1,106	713	599	188,988	183,778
Europe	(10)	17	63	(15)	(1)	(39)	15	194
North America	906	951	834	168	193	186	32,218	35,605
South America	-	4	156	-	-	4	-	-
Total Overseas	**896**	**972**	**1,053**	**153**	**192**	**151**	**32,233**	**35,799**
Total Consolidated	**8,374**	**7,996**	**7,276**	**1,259**	**905**	**750**	**221,221**	**219,577**

Footnote:

(1) Income - Interest income, net, before credit loss expenses and non-interest income.

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.

30. Managerial Operating Segments (continued)

- **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.

  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. **Change in the organizational structure.** Until December 31, 2016, the Commercial Banking Division of MDB included two operating segments: commercial banking and corporate banking. Respectively, these segments had been presented within such framework in the Note relating to managerial operating segments.

   Following the reorganization made in the Commercial Banking Division of MDB, with effect as from January 1, 2017, the activity of the corporate wing of this Division has been merged into two commercial wings. Respectively, as from January 1, 2017, the activity of the corporate banking segment was merged into the commercial banking segment. The comparative data has been reclassified accordingly.
4. 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.

30. Managerial Operating Segments (continued)

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Retail banking	Middle market banking	Corporate banking	Financial management	Discount Capital(1)
	In NIS millions				
	For the year ended December 31, 2017				
Interest income, net	2,214	513	754	295	1
Non-interest income	1,126	142	386	369	268
Total income	**3,340**	**655**	**1,140**	**664**	**269**
Credit loss expenses (expenses reversal)	389	54	(65)	-	-
Operating and other expenses	3,242	406	382	166	41
Income (loss) before taxes	(291)	195	823	498	228
Provision for taxes (tax saving) on income	(120)	68	287	201	62
Income (loss) after taxes	(171)	127	536	297	166
Bank’s share in income of affiliated companies, net of tax effect	1	-	-	2	(1)
Net income (loss) before attributed to the non-controlling rights holders	(170)	127	536	299	165
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	**(170)**	**127**	**536**	**299**	**165**
Balance of Assets	69,358	18,052	39,518	63,855	1,483
Balance of credit to the public	67,508	18,219	37,619	-	-
Balance of deposits from the public	111,598	14,569	24,656	2,909	-

	Retail banking(2)	Middle market banking	Corporate banking	Financial management	Discount Capital(1)
	For the year ended December 31, 2016				
Interest income, net	1,946	(2)469	(2)700	(4)323	1
Non-interest income	1,104	(2)135	(2)342	367	109
Total income	**3,050**	**604**	**1,042**	**690**	**110**
Credit loss expenses (expenses reversal)	239	(2)(1)	(2)29	-	-
Operating and other expenses	(5)3,287	(2)(5)422	(2)(5)410	(5)151	28
Income (loss) before taxes	(476)	183	603	539	82
Provision for taxes (tax saving) on income	(4)(100)	(2)(4)75	(2)(4)226	(4)228	13
Income (loss) after taxes	(376)	108	377	311	69
Bank’s share in income of affiliated companies, net of tax effect	1	-	-	7	9
Net income (loss) before attributed to the non-controlling rights holders	(375)	108	377	318	78
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	**(375)**	**108**	**377**	**318**	**78**
Balance of Assets	63,733	(2)16,277	(2)37,645	67,941	1,267
Balance of credit to the public	61,690	(2)16,379	(2)36,349	-	-
Balance of deposits from the public	109,485	(2)13,024	(2)(5)23,778	(5)4,510	-

Footnotes:

(1) The contribution to the Bank's business results.

(2) See item A 3 above.

(3) The effects of an arrangement in lieu of criminal proceedings, and the transaction for the acquisition of VISA Europe, as described in Note 36 Sections F (2) and G, respectively.

(4) Reclassified - see Note 1 C 7.

(5) Reclassified- improvement of customers attribution to segments.

	Discount Bancorp[(1)]	Israel Credit Cards[(1)]	other	Adjustments	Total
	765	423	4	6	4,975
	146	[(4)]1,087	41	(166)	3,399
	911	**1,510**	**45**	**(160)**	**8,374**
	73	124	-	(1)	574
	526	1,094	38	(160)	5,735
	312	292	7	1	2,065
	140	102	7	-	747
	172	190	-	1	1,318
	-	1	-	(2)	1
	172	191	-	(1)	1,319
	-	(60)	(2)	2	(60)
	172	**131**	**(2)**	**1**	**1,259**
	32,288	14,053	3,288	(20,674)	221,221
	20,706	13,668	-	(6,852)	150,868
	25,021	22	-	(3,605)	175,170

	Discount Bancorp[(1)]	Israel Credit Cards[(1)]	other	Adjustments	Total
	747	362	3	6	4,557
	208	[(3)]1,260	71	(157)	3,439
	955	**1,622**	**74**	**(151)**	**7,996**
	127	75	-	-	469
	527	[(3)]1,105	35	(151)	5,814
	301	442	39	-	1,713
	108	174	16	1	741
	193	268	23	(1)	972
	-	-	-	(2)	15
	193	268	23	(3)	987
	-	(82)	(2)	2	(82)
	193	**186**	**21**	**(1)**	**905**
	35,609	12,416	5,038	(20,349)	219,577
	22,100	12,043	-	(5,657)	142,904
	26,384	19	-	(4,882)	172,318

30. Managerial Operating Segments (continued)

B. INFORMATION REGARDING MANAGERIAL OPERATING SEGMENTS (CONTINUED)

	Retail banking(2)	Middle market banking	Corporate banking	Financial management	Discount Capital(1)
	For the year ended December 31, 2015				
	In NIS millions				
Interest income, net	1,753	(2)454	(2)615	305	1
Non-interest income	1,147	(2)126	(2)324	241	101
Total income	**2,900**	**580**	**939**	**546**	**102**
Credit loss expenses (expenses reversal)	119	(2)24	(2)2	-	-
Operating and other expenses	3,097	(2)406	(2)371	192	13
Income (loss) before taxes	(316)	150	566	354	89
Provision for taxes (tax saving) on income	(79)	(2)62	(2)212	147	11
Income (loss) after taxes	(237)	88	354	207	78
Bank’s share in income of affiliated companies, net of tax effect	1	-	-	7	3
Net income (loss) before attributed to the non-controlling rights holders	(236)	88	354	214	81
Net income attributed to the non-controlling rights holders	-	-	-	-	-
Net Income (loss) Attributed to the bank's shareholders	**(236)**	**88**	**354**	**214**	**81**
Balance of Assets	55,692	(2)15,784	(2)31,375	68,015	1,110
Balance of credit to the public	54,117	(2)16,147	(2)31,366	-	-
Balance of deposits from the public	101,973	(2)12,728	(2)17,988	5,654	-

footnotes:

(1) The contribution to the Bank's business results.

(2) See item A 3 above.

	Discount Bancorp[(1)]	Israel Credit Cards[(1)]	other	Adjustments	Total
	774	288	29	4	4,223
	216	950	102	(154)	3,053
	990	**1,238**	**131**	**(150)**	**7,276**
	11	34	(1)	(2)	187
	665	965	163	(147)	5,725
	314	239	(31)	(1)	1,364
	124	88	1	-	566
	190	151	(32)	(1)	798
	-	1	-	(3)	9
	190	152	(32)	(4)	807
	-	(57)	(2)	2	(57)
	190	**95**	**(34)**	**(2)**	**750**
	36,353	10,991	7,970	(22,030)	205,260
	21,321	10,718	-	(4,401)	129,268
	25,582	17	-	(6,067)	157,875

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					
	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)]	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
	2015					
Balance of allowance for credit losses, as at December 31, 2014[(1)]	1,545	263	411	2,219	5	2,224
Expenses (expenses reversal) for credit loss	115	5	69	189	(2)	187
Accounting write-offs	(390)	(92)	(262)	(744)	-	(744)
Collection of debts written-off in previous years	404	-	189	593	-	593
Net accounting write-offs	14	(92)	(73)	(151)	-	(151)
Financial statements translation adjustments	1	-	-	1	-	1
Balance of allowance for credit losses, as at December 31, 2015[(1)]	**1,675**	**176**	**407**	**2,258**	**3**	**2,261**
Of which: In respect of off-balance sheet credit instruments	170	3	33	206	-	206

Footnote:

(1) Excluding balance classified as assets and liabilities held for sale - as described in Note 18A to the financial statements as of December 31,2016.

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 31,2017					
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**
	December 31,2016					
Recorded amount of debts:						
Examined on a specific basis[1]	63,292	-	482	63,774	4,024	67,798
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[2]261	25,696	-	25,957	-	25,957
Group - other	[2]26,247	68	26,858	53,173	1,803	54,976
Total debts	**89,800**	**25,764**	**27,340**	**142,904**	**5,827**	**148,731**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	1,176	-	12	1,188	-	1,188
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	[3]3	[3]168	-	171	-	171
Group - other	362	-	423	785	-	785
Total allowance for Credit Losses	**1,541**	**168**	**435**	**2,144**	**-**	**2,144**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 70,155 million (December 31, 2016 - NIS 64,855 million) and the allowance in its respect in an amount of NIS 889 million (December 31, 2016 - NIS 799 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 (as of December 31, 2016 – an amount of NIS 266 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 3 million (December 31, 2016 - NIS 2 million), and computed on a group basis, in an amount of NIS 102 million (December 31, 2016 - NIS 94 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					
	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
	2015					
Balance of allowance for credit losses, as at December 31, 2014	1,039	251	204	1,494	-	1,494
Credit loss expenses	35	1	39	75	-	75
Accounting write-offs	(301)	(92)	(150)	(543)	-	(543)
Collection of debts written-off in previous years	339	-	105	444	-	444
Net accounting write-offs	38	(92)	(45)	(99)	-	(99)
Balance of allowance for credit losses, as at December 31, 2015	**1,112**	**160**	**198**	**1,470**	**-**	**1,470**
Of which: In respect of off-balance sheet credit instruments	142	3	14	159	-	159

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 31,2017					
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**
	December 31,2016					
Recorded amount of debts:						
Examined on a specific basis[1]	50,246	-	255	50,501	3,901	54,402
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	170	21,952	-	22,122	-	22,122
Group - other	6,247	-	13,200	19,447	-	19,447
Total debts	**56,663**	**21,952**	**13,455**	**92,070**	**3,901**	**95,971**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis[1]	916	-	5	921	-	921
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	[2]3	[2]151	-	154	-	154
Group - other	90	-	212	302	-	302
Total allowance for Credit Losses	**1,009**	**151**	**217**	**1,377**	**-**	**1,377**

Footnotes:

(1) Including credit examined on a specific basis and found not to be impaired in an amount of NIS 56,673 million (December 31, 2016 - NIS 52,138 million) and the allowance in its respect in an amount of NIS 662 million (December 31, 2016 - NIS 620 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 (December 31, 2016 - NIS 1 million), computed on a group basis, in amount of NIS 87 million (December 31, 2016 - NIS 81 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, 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 Outside of Israel						
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 Outside of Israel	**22,570**	**644**	**405**	**23,619**	**5**	**12**
Foreign banks	2,693	-	-	2,693	-	-
Foreign governments	723	-	-	723	-	-
Total Activity Outside of Israel	**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**

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, 2016					
		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	8,928	58	136	9,122	10	29
Construction and Real Estate - Real Estate Activity	7,809	7	265	8,081	1	13
Financial Services	6,234	4	666	6,904	3	7
Commercial - Other	40,248	985	1,317	42,550	44	129
Total Commercial	**63,219**	**1,054**	**2,384**	**66,657**	**58**	**178**
Private Individuals - Housing Loans	25,290	[5]320	-	25,610	292	73
Private Individuals - Other Loans	25,458	376	61	25,895	82	190
Total Public - Activity in Israel	**113,967**	**1,750**	**2,445**	**118,162**	**432**	**441**
Banks in Israel	130	-	-	130	-	-
Government of Israel	618	-	-	618	-	-
Total Activity in Israel	**114,715**	**1,750**	**2,445**	**118,910**	**432**	**441**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	7,990	64	128	8,182	-	1
Commercial - Other	14,284	307	370	14,961	1	1
Total Commercial	**22,274**	**371**	**498**	**23,143**	**1**	**2**
Private Individuals	1,591	8	-	1,599	7	2
Total Public - Activity Outside of Israel	**23,865**	**379**	**498**	**24,742**	**8**	**4**
Foreign banks	4,960	-	-	4,960	-	-
Foreign governments	119	-	-	119	-	-
Total Activity Outside of Israel	**28,944**	**379**	**498**	**29,821**	**8**	**4**
Total public	**137,832**	**2,129**	**2,943**	**142,904**	**440**	**445**
Total banks	**5,090**	**-**	**-**	**5,090**	**-**	**-**
Total governments	**737**	**-**	**-**	**737**	**-**	**-**
Total	**143,659**	**2,129**	**2,943**	**148,731**	**440**	**445**

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 123 million, were classified as unimpaired problematic debts (December 31, 2016 - NIS 110 million).

(5) Including housing loans in amount of NIS 12 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, 2016 - 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, 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	21	25	67	88	445
Total Public - Activity in Israel	**1,019**	**186**	**706**	**1,725**	**8,079**
Total Activity in Israel	**1,019**	**186**	**706**	**1,725**	**8,079**
Lending Activity Outside of Israel					
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 Outside of Israel	**11**	**2**	**394**	**405**	**939**
Total Activity Outside of Israel	**11**	**2**	**394**	**405**	**939**
Total public	**1,030**	**188**	**1,100**	**2,130**	**9,018**
Total	**1,030**	**188**	**1,100**	**2,130**	**9,018**
Of which:					
Measured according to present value of cash flows	755	154	293	1,048	
Debts under troubled debt restructurings	832	109	785	1,617	

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, 2016				
	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	45	20	91	136	3,126
Construction and Real Estate - Real Estate Activity	99	12	166	265	1,208
Financial Services	663	51	3	666	792
Commercial - Other	854	280	463	1,317	4,433
Total Commercial	**1,661**	**363**	**723**	**2,384**	**9,559**
Private Individuals - Other Loans	15	3	46	61	431
Total Public - Activity in Israel	**1,676**	**366**	**769**	**2,445**	**9,990**
Total Activity in Israel	**1,676**	**366**	**769**	**2,445**	**9,990**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	-	-	128	128	637
Commercial - Other	80	23	290	370	553
Total Commercial	**80**	**23**	**418**	**498**	**1,190**
Private Individuals	-	-	-	-	1
Total Public - Activity Outside of Israel	**80**	**23**	**418**	**498**	**1,191**
Total Activity Outside of Israel	**80**	**23**	**418**	**498**	**1,191**
Total public	**1,756**	**389**	**1,187**	**2,943**	**11,181**
Total	**1,756**	**389**	**1,187**	**2,943**	**11,181**
Of which:					
Measured according to present value of cash flows	1,077	219	304	1,381	
Debts under troubled debt restructurings	1,384	225	740	2,124	

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.

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

	2017			2016			2015		
	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	157	2	-	174	4	2	133	2	2
Construction and Real Estate - Real Estate Activity	256	5	4	349	9	8	416	9	7
Financial Services	591	14	10	690	4	2	206	3	3
Commercial - Other	1,313	16	11	1,652	34	29	2,124	18	9
Total Commercial	**2,317**	**37**	**25**	**2,865**	**51**	**41**	**2,879**	**32**	**21**
Private Individuals - Other Loans	102	3	2	73	1	1	89	3	2
Total Public - Activity in Israel	**2,419**	**40**	**27**	**2,938**	**52**	**42**	**2,968**	**35**	**23**
Total Activity in Israel	**2,419**	**40**	**27**	**2,938**	**52**	**42**	**2,968**	**35**	**23**
Lending Activity Outside of Israel									
Public - Commercial									
Construction and Real Estate	133	7	1	206	6	4	312	4	2
Commercial - Other	338	7	-	333	16	-	268	8	-
Total Commercial	**471**	**14**	**1**	**539**	**22**	**4**	**580**	**12**	**2**
Private Individuals	-	-	-	1	-	-	5	-	-
Total Public - Activity Outside of Israel	**471**	**14**	**1**	**540**	**22**	**4**	**585**	**12**	**2**
Total Activity Outside of Israel	**471**	**14**	**1**	**540**	**22**	**4**	**585**	**12**	**2**
Total	**2,890**	**(3)54**	**28**	**3,478**	**(3)74**	**46**	**3,553**	**(3)47**	**25**

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 99 million (31.12.2016 - NIS 127 million, 31.12.2015 - NIS 134 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, 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 Outside of Israel					
Public - Commercial					
Construction and Real Estate	11	-	-	99	110
Commercial - Other	-	-	49	145	194
Total Commercial	**11**	**-**	**49**	**244**	**304**
Total Public - Activity Outside of Israel	**11**	**-**	**49**	**244**	**304**
Total Activity Outside of Israel	**11**	**-**	**49**	**244**	**304**
Total	**810**	**-**	**52**	**755**	**1,617**

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, 2017, to NIS 13 million (December 31, 2016– NIS 41 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, 2016				
	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	-	-	41	59
Construction and Real Estate - Real Estate Activity	101	-	2	26	129
Financial Services	598	-	-	63	661
Commercial - Other	814	-	1	182	997
Total Commercial	**1,531**	**-**	**3**	**312**	**1,846**
Private Individuals - Other Loans	21	-	1	26	48
Total Public - Activity in Israel	**1,552**	**-**	**4**	**338**	**1,894**
Total Activity in Israel	**1,552**	**-**	**4**	**338**	**1,894**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	21	-	-	-	21
Commercial - Other	2	-	15	192	209
Total Commercial	**23**	**-**	**15**	**192**	**230**
Total Public - Activity Outside of Israel	**23**	**-**	**15**	**192**	**230**
Total Activity Outside of Israel	**23**	**-**	**15**	**192**	**230**
Total	**1,575**	**-**	**19**	**530**	**2,124**

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)

	2017			2016			2015		
	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	100	23	22	99	17	17	73	10	6
Construction and Real Estate - Real Estate Activity	13	7	7	9	3	3	11	40	40
Financial Services	5	(1)-	(1)-	5	597	597	3	112	112
Commercial - Other	505	246	245	379	225	223	391	693	691
Total Commercial	**623**	**276**	**274**	**492**	**842**	**840**	**478**	**855**	**849**
Private Individuals - Other Loans	3,609	75	72	2,553	37	33	2,476	39	38
Total Public - Activity in Israel	**4,232**	**351**	**346**	**3,045**	**879**	**873**	**2,954**	**894**	**887**
Total Activity in Israel	**4,232**	**351**	**346**	**3,045**	**879**	**873**	**2,954**	**894**	**887**
Lending Activity Outside of Israel									
Public - Commercial									
Construction and Real Estate	10	105	105	2	1	1	-	-	-
Commercial - Other	4	110	110	6	129	129	1	29	29
Total Commercial	**14**	**215**	**215**	**8**	**130**	**130**	**1**	**29**	**29**
Private Individuals	1	(1)-	(1)-	-	-	-	2	(1)-	(1)-
Total Public - Activity Outside of Israel	**15**	**215**	**215**	**8**	**130**	**130**	**3**	**29**	**29**
Total Activity Outside of Israel	**15**	**215**	**215**	**8**	**130**	**130**	**3**	**29**	**29**
Total	**4,247**	**566**	**561**	**3,053**	**1,009**	**1,003**	**2,957**	**923**	**916**

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)

	2017		2016		2015	
	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	32	12	17	1	10	[2]-
Construction and Real Estate - Real Estate Activity	7	4	1	[2]-	1	[2]-
Financial Services	-	-	2	[2]-	1	[2]-
Commercial - Other	154	11	98	48	104	26
Total Commercial	**193**	**27**	**118**	**49**	**116**	**26**
Private Individuals - Other	2,160	17	1,362	6	1,348	8
Total Public - Activity in Israel	**2,353**	**44**	**1,480**	**55**	**1,464**	**34**
Total Activity in Israel	**2,353**	**44**	**1,480**	**55**	**1,464**	**34**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1	13	1	[2]-	-	-
Commercial - Other	1	5	-	-	-	-
Total Commercial	**2**	**18**	**1**	**[2]-**	**-**	**-**
Total Public - Activity Outside of Israel	**2**	**18**	**1**	**[2]-**	**-**	**-**
Total Activity Outside of Israel	**2**	**18**	**1**	**[2]-**	**-**	**-**
Total	**2,355**	**62**	**1,481**	**55**	**1,464**	**34**

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. 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;
- Exposure to foreign competition;
- 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 period, 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.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

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

(B) INDICATION OF CREDIT QUALITY

	December 31, 2017				December 31, 2016			
		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	96.3%	98.9%	98.3%	97.2%	95.2%	98.8%	98.4%	96.4%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	1.5%	1.1%	1.4%	1.4%	1.6%	1.2%	1.4%	1.5%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	2.2%	-	0.3%	1.4%	3.2%	-	0.2%	2.1%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.5%	0.6%	1.8%	1.4%	1.7%	0.7%	1.6%	1.5%
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)	37.1%	57.1%	106.7%	46.0%	32.4%	51.2%	98.9%	38.8%

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.

4. ADDITIONAL INFORMATION REGARDING HOUSING LOANS

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 31,2017			
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**
		December 31,2016			
First degree pledge: financing ratio	Up to 60%	16,298	307	9,882	148
	Over 60%	8,683	66	5,512	46
Second degree pledge or without pledge		783	(3)68	(3)394	1,803
Total		**(2)25,764**	**441**	**15,788**	**1,997**

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 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 (December 31, 2016 - NIS 266 million).

(3) Reclassified due to improvement of data.

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

General. The format of this part of the Note has been changed as from the financial statements as of December 31, 2017. The comparative data was reclassified accordingly.

1. SALE AND PURCHASE OF CREDIT (CONSOLIDATED)

	Credit risk sold					Credit risk purchased[1]		
	Credit sold during the current year	Off-balance sheet credit risk[2] sold during the 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 during the current year	Off-balance sheet credit risk[2] purchased during the year	Of which: problematic credit
	In NIS millions							
	2017							
Total commercial	1,008	150	120	(3)25	2,851	1,632	67	-
Private individuals – housing loans	-	-	-	-	-	-	-	-
Private individuals – other	116	-	-	-	-	-	-	-
Total credit to the public	**1,124**	**150**	**120**	**25**	**2,851**	**1,632**	**67**	**-**
Credit to banks and governments	-	-	-	-	-	-	-	-
Total debts	**1,124**	**150**	**120**	**25**	**2,851**	**1,632**	**67**	**-**
	2016							
Total commercial	833	98	6	14	1,965	991	147	-
Private individuals – housing loans	-	-	-	-	-	-	-	-
Private individuals – other	-	-	-	-	-	-	-	-
Total credit to the public	**833**	**98**	**6**	**14**	**1,965**	**991**	**147**	**-**
Credit to banks and governments	-	-	-	-	-	-	-	-
Total debts	**833**	**98**	**6**	**14**	**1,965**	**991**	**147**	**-**

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 171 million as of December 31, 2017 (December 31, 2016: NIS 147 million).

(2) Credit risk in off-balance sheet financial instruments, as computed for the purpose of restriction on indebtedness of a borrower, excluding in respect of derivative instruments.

(3) Not including receipts of NIS 91 million, that has been recorded as a reduction in credit loss expenses.

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 (CONTINUED)

2. 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					
	31.12.2017					
Total commercial	3,478	798	8,065	1,606	4,343	1,970
Private individuals – housing loans	-	-	-	-	-	-
Private individuals – other	-	-	-	-	-	-
Total credit to the public risk	**3,478**	**798**	**8,065**	**1,606**	**4,343**	**1,970**
Credit to banks and governments	349	291	148	125	-	-
Total debts	**3,827**	**1,089**	**8,213**	**1,731**	**4,343**	**1,970**
	31.12.2016					
Total commercial	3,264	1,541	7,174	1,514	1,264	95
Private individuals – housing loans	-	-	-	-	-	-
Private individuals – other	-	-	-	-	-	-
Total credit to the public risk	**3,264**	**1,541**	**7,174**	**1,514**	**1,264**	**95**

Footnote:

(1) Credit risk in off-balance sheet financial instruments, as computed for the purpose of restriction on indebtedness of a borrower, excluding in respect of derivative instruments.

For details regarding profit (loss) net in respect of loans sold, see Note 3.

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					
				2017			2016		
				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	1,146,384	1,814	1,270	1,103,459	1,703	1,420
Over	10	Up to	20	423,743	2,457	4,497	406,472	2,285	4,333
Over	20	Up to	40	394,997	5,017	6,706	369,272	4,646	6,306
Over	40	Up to	80	240,189	7,512	5,492	225,269	7,119	5,069
Over	80	Up to	150	87,690	7,022	2,604	82,527	6,570	2,417
Over	150	Up to	300	47,562	8,033	1,849	43,793	7,408	1,691
Over	300	Up to	600	29,364	10,878	1,821	27,490	10,201	1,704
Over	600	Up to	1,200	24,478	17,646	2,862	21,977	15,592	2,770
Over	1,200	Up to	2,000	6,443	7,958	1,674	5,750	6,952	1,658
Over	2,000	Up to	[4]4,000	3,153	6,732	1,896	2,968	6,188	1,918
Over	4,000	Up to	[4]8,000	1,368	5,970	1,976	1,294	5,526	1,843
Over	8,000	Up to	[4]20,000	1,094	10,690	3,214	1,033	9,805	3,139
Over	20,000	Up to	[4]40,000	651	13,897	4,541	661	13,611	4,697
Over	40,000	Up to	[4]200,000	640	33,471	16,969	664	33,562	17,405
Over	200,000	Up to	[4]400,000	41	7,821	3,467	39	7,358	3,023
Over	400,000	Up to	[4]800,000	*10	*4,600	1,042	12	4,273	1,834
Over	800,000	Up to	[4]1,200,000	3	2,341	557	*4	*3,497	292
Over	1,200,000	Up to	[4]1,600,000	-	-	-	1	754	665
Over	1,600,000	Up to	[4]2,000,000	1	1,487	118	-	-	-
Over	2,000,000	Up to	[4]2,400,000	2	1,382	3,098	2	3,567	936
Over	[4]3,200,000			*1	*5,542	-	*1	*6,164	-
Total				**2,407,814**	**162,270**	**65,653**	**2,292,688**	**156,781**	**63,120**
*Mortgage backed securities issued by:									
GNMA				1	5,542		1	6,164	
FNMA				1	622		1	1,044	
FHLMC				1	628		1	909	

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, as of December 31, 2017 - 5,194 NIS million, as of December 31, 2016 - NIS 5,298 million).

(4) Consolidated - by combining specific balances.

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					
				2017			2016		
				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	219,241	227	365	219,272	233	516
Over	10	Up to	20	107,879	568	1,135	106,977	563	1,085
Over	20	Up to	40	122,702	1,513	2,116	121,429	1,518	2,009
Over	40	Up to	80	104,352	3,357	2,644	101,959	3,328	2,480
Over	80	Up to	150	65,206	4,965	2,147	61,960	4,707	2,003
Over	150	Up to	300	35,732	5,889	1,520	32,998	5,444	1,392
Over	300	Up to	600	22,200	8,134	1,508	20,964	7,694	1,409
Over	600	Up to	1,200	20,144	14,439	2,491	18,073	12,683	2,440
Over	1,200	Up to	2,000	5,137	6,206	1,431	4,541	5,358	1,411
Over	2,000	Up to	4,000	2,251	4,553	1,558	2,075	4,039	1,605
Over	4,000	Up to	8,000	985	3,805	1,695	927	3,502	1,626
Over	8,000	Up to	20,000	632	5,647	2,176	630	5,489	2,338
Over	20,000	Up to	40,000	358	7,094	3,019	328	6,485	2,776
Over	40,000	Up to	200,000	358	18,449	12,008	337	16,858	10,415
Over	200,000	Up to	400,000	31	5,737	2,913	34	6,280	2,793
Over	400,000	Up to	800,000	7	3,177	799	10	4,238	1,280
Over	800,000	Up to	1,200,000	4	3,172	540	2	1,544	288
Over	1,200,000	Up to	1,600,000	-	-	-	2	2,070	669
Over	1,600,000	Up to	2,000,000	1	1,487	118	-	-	-
Over	2,000,000	Up to	2,800,000	3	3,395	3,102	2	3,357	936
Total				**707,223**	**101,814**	**43,285**	**692,520**	**95,390**	**39,471**

Footnotes:
(1) Including investments in bonds 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 2,346 million (2016: NIS 2,164 million).

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 31,2017				December 31,2016			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,091	5	699	4	1,195	4	677	3
Credit guarantees	2,010	27	1,314	21	2,544	23	1,421	16
Guarantees for home purchasers	7,282	2	5,903	2	6,861	2	5,620	1
Other guarantees and obligations	8,031	55	7,149	45	6,240	55	5,451	46
Unutilized facilities for transactions in derivative instruments	1,028	-	930	-	954	-	860	-
Unutilized facilities credit line for credit cards	22,905	28	5,764	6	21,922	25	5,451	6
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,805	24	7,429	19	8,986	27	7,648	22
Irrevocable commitments to extend credit approved but not yet granted[3]	21,553	48	15,431	46	22,470	54	14,588	50
Commitment to issue guarantees	6,148	4	5,654	4	4,446	5	3,565	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".

32. Assets and Liabilities according to Linkage Terms

CONSOLIDATED

	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)

CONSOLIDATED (CONTINUED)

	December 31, 2016						
	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	23,739	51	4,181	611	729	-	29,311
Securities	16,705	4,607	15,972	538	20	976	38,818
Securities borrowed or purchased under resale agreements	440	-	-	-	-	-	440
Credit to the public, net	96,200	15,243	27,050	1,752	515	-	140,760
Credit to the Government	224	206	102	205	-	-	737
Investments in affiliated companies	-	2	-	-	-	155	157
Buildings and equipment	-	-	-	-	-	[2]2,322	2,322
Intangible assets and goodwill	-	-	-	-	-	160	160
Assets in respect of derivative instruments	1,499	79	1,254	70	33	348	3,283
Other assets	1,766	23	948	31	360	461	3,589
Total assets	**140,573**	**20,211**	**49,507**	**3,207**	**1,657**	**4,422**	**219,577**
Liabilities							
Deposits from the public	108,345	5,360	49,396	6,770	2,447	-	172,318
Deposits from banks	3,303	5	1,908	117	9	-	5,342
Deposits from the Government	133	57	113	-	-	-	303
Securities loaned or sold under repurchase agreements	-	-	3,543	-	-	-	3,543
Bonds and Subordinated debt notes	2,052	6,356	-	90	-	-	8,498
Liabilities in respect of derivative instruments	1,608	152	1,284	145	28	353	3,570
Other liabilities	9,913	186	466	26	41	435	11,067
Total liabilities	**125,354**	**12,116**	**56,710**	**7,148**	**2,525**	**788**	**204,641**
Difference	15,219	8,095	(7,203)	(3,941)	(868)	3,634	14,936
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(12,291)	(3,076)	10,749	3,919	699	-	-
Options in the money, net (in terms of underlying asset)	160	-	(189)	1	28	-	-
Options out of the money, net (in terms of underlying asset)	(91)	-	45	33	13	-	-
Total	**2,997**	**5,019**	**3,402**	**12**	**(128)**	**3,634**	**14,936**
Options in the money, net (discounted par value)	225	-	(232)	(43)	50	-	-
Options out of the money, net (discounted par value)	(466)	-	152	288	26	-	-

Footnote:

(1) Includes those linked to foreign currency.

(2) Reclassified - see Note 16 M.

32. Assets and Liabilities according to Linkage Terms (continued)

THE BANK

	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
Debit balances of derivative financial 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 capital notes	1,345	2,810	-	77	-	-	4,232
Credit balances of derivative financial 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.

32. Assets and Liabilities according to Linkage Terms (continued)

THE BANK (CONTINUED)

	December 31,2016						
	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	21,109	12	2,527	479	469	-	24,596
Securities	13,202	2,992	4,436	433	-	94	21,157
under resale agreements Securities borrowed or purchased	440	-	-	-	-	-	440
Credit granted to the public, net	70,952	13,086	4,693	1,594	368	-	90,693
Credit granted to Governments	225	206	97	204	-	-	732
Investments in affiliated companies	802	122	-	-	-	7,743	8,667
Buildings and equipment	-	-	-	-	-	[1]1,661	1,661
Debit balances of derivative financial instruments	1,496	76	1,122	69	33	344	3,140
Other assets	1,415	3	2	6	358	335	2,119
Total assets	**109,641**	**16,497**	**12,877**	**2,785**	**1,228**	**10,177**	**153,205**
Liabilities							
Deposits from the public	87,917	5,761	21,210	6,253	2,212	-	123,353
Deposits from banks	945	293	352	108	8	-	1,706
Deposits from the Government	11	57	-	-	-	-	68
Subordinated capital notes	555	2,852	-	90	-	-	3,497
Credit balances of derivative financial instruments	1,605	94	1,182	144	27	349	3,401
Other liabilities	6,081	110	77	4	21	375	6,668
Total liabilities	**97,114**	**9,167**	**22,821**	**6,599**	**2,268**	**724**	**138,693**
Difference	12,527	7,330	(9,944)	(3,814)	(1,040)	9,453	14,512
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(11,556)	(3,104)	10,138	3,781	741	-	-
Options in the money, net (in terms of base asset)	151	-	(180)	1	28	-	-
Options out of the money, net, (in terms of base asset)	(91)	-	45	33	13	-	-
Total	**1,031**	**4,226**	**59**	**1**	**(258)**	**9,453**	**14,512**
Options in the money, net, (discounted nominal value)	216	-	(223)	(43)	50	-	-
Options out of the money, net, (discounted nominal value)	(466)	-	152	288	26	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified - see Note 16 M.

33. Assets and Liabilities according to Currency and Maturity Periods[5]

CONSOLIDATED - IN NIS MILLIONS

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2017

	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]	53,560	13,570	22,269	19,241	16,909
Liabilities	93,961	12,782	22,389	4,496	3,737
Difference	**(40,401)**	**788**	**(120)**	**14,745**	**13,172**
Derivative instruments (excluding options)	(3,557)	(5,107)	(3,959)	(2)	(1,001)
Options (in terms of underlying assets)	171	(47)	336	8	-
Difference after effect of derivative instruments:	(43,787)	(4,366)	(3,743)	14,751	12,171
Foreign currency[8]:					
Assets[11]	10,312	3,175	7,874	5,579	4,659
Liabilities	40,362	5,727	10,324	1,886	1,150
Difference	**(30,050)**	**(2,552)**	**(2,450)**	**3,693**	**3,509**
Of which: Difference in dollar	(25,139)	(2,182)	(1,896)	3,571	2,956
Of which: Difference in respect of foreign activity	(15,061)	(209)	2,010	2,620	2,291
Derivative instruments (excluding options)	3,557	5,107	3,959	2	1,001
Options (in terms of underlying assets)	(171)	47	(336)	(8)	-
Difference after effect of derivative instruments	(26,664)	2,602	1,173	3,687	4,510
Total:					
Assets[1]	63,872	16,745	30,143	24,820	21,568
Liabilities[2]	134,323	18,509	32,713	6,382	4,887
Difference	**(70,451)**	**(1,764)**	**(2,570)**	**18,438**	**16,681**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of underlying assets)	-	-	-	-	-
(1) Of which: Credit to the public	32,830	15,674	25,070	19,689	15,435
(2) Of which: Deposits from the public	124,241	15,589	29,205	3,842	1,038
B. Balance Sheet Amount as December 31, 2016					
Total:					
Assets[3]	61,280	17,410	28,901	25,561	18,674
Liabilities[4]	132,764	15,773	33,726	9,155	3,860
Difference	**(71,484)**	**1,637**	**(4,825)**	**16,406**	**14,814**
(3) Of which: Credit to the public	30,565	15,090	23,180	20,591	14,022
(4) Of which: Deposits from the public	123,370	12,720	27,740	5,757	1,590

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base 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 settled, net.

(7) Includes past-due receivables totaling NIS 347 million (2016: NIS 406 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 5,856 million (2016: NIS 5,536 million) and an amount of NIS 760 million with no due date (2016: NIS 673 million).

(11) Including current loan account credit facilities in the amount of NIS 134 million (2016: NIS 200 million) and an amount of NIS 193 million with no due date (2016: NIS 209 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]		The contractual rate of return,in percentages[9]
						No fixed maturity date[7]	Total	
11,994	8,488	19,535	15,711	4,427	185,704	1,635	168,471	2.92
1,456	4,413	1,469	1,146	272	146,121	-	144,511	0.64
10,538	**4,075**	**18,066**	**14,565**	**4,155**	**39,583**	**1,635**	**23,960**	**2.28**
(219)	(527)	(121)	61	-	(14,432)	-	(14,517)	-
-	-	-	-	-	468	-	183	-
10,319	3,548	17,945	14,626	4,155	25,619	1,635	9,626	-
3,384	3,419	8,384	5,099	1,500	53,385	1,337	48,193	2.68
276	230	159	17	2	60,133	51	59,688	0.50
3,108	**3,189**	**8,225**	**5,082**	**1,498**	**(6,748)**	**1,286**	**(11,495)**	**2.18**
2,740	3,008	7,476	5,064	1,498	(2,904)	1,260	(7,321)	-
2,165	2,165	5,074	4,811	1,495	7,361	1,070	3,743	-
219	527	121	(61)	-	14,432	-	14,517	-
-	-	-	-	-	(468)	-	(183)	-
3,327	3,716	8,346	5,021	1,498	7,216	1,286	2,839	-
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
17,624	13,659	30,832	18,480	5,025	237,446	2,645	215,155	2.90
3,846	2,019	4,477	1,145	269	207,034	54	203,853	0.60
13,778	**11,640**	**26,355**	**17,335**	**4,756**	**30,412**	**2,591**	**11,302**	**2.30**
10,765	8,085	18,637	13,737	3,582	158,254	1,518	140,760	3.95
626	569	305	140	-	172,817	-	172,318	0.22

33. Assets and Liabilities according to Currency and Maturity Periods[5] (continued)

THE BANK - IN NIS MILLIONS

A. ANTICIPATED FUTURE CONTRACTUAL CASH FLOWS AS OF DECEMBER 31, 2017

	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]	44,706	8,379	15,061	14,534	12,252
Liabilities	73,269	8,767	16,484	3,425	3,269
Difference	**(28,563)**	**(388)**	**(1,423)**	**11,109**	**8,983**
Derivative instruments (excluding options)	(3,427)	(5,158)	(3,662)	27	(973)
Options (in terms of base assets)	171	(47)	336	8	-
Difference after effect of derivative instruments:	(31,819)	(5,593)	(4,749)	11,144	8,010
Foreign currency[8]:					
Assets[11]	6,456	1,548	633	1,152	1,317
Liabilities	19,602	3,555	4,934	397	166
Difference	**(13,146)**	**(2,007)**	**(4,301)**	**755**	**1,151**
Of which: Difference in dollar	(8,499)	(1,622)	(3,770)	695	807
Of which: Difference in respect of foreign activity	-	-	-	-	-
Derivative instruments (excluding options)	3,427	5,158	3,662	(27)	973
Options (in terms of underlying assets)	(171)	47	(336)	(8)	-
Difference after effect of derivative instruments	(9,890)	3,198	(975)	720	2,124
Total:					
Assets[1]	51,162	9,927	15,694	15,686	13,569
Liabilities[2]	92,871	12,322	21,418	3,822	3,435
Difference	**(41,709)**	**(2,395)**	**(5,724)**	**11,864**	**10,134**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of base assets)	-	-	-	-	-
(1) Of which: Credit to the public	25,965	9,142	12,153	11,673	9,154
(2) Of which: Deposits from the public	87,728	11,270	19,886	2,608	2,287
B. Balance Sheet Amount as December 31, 2016					
Total:					
Assets[3]	49,380	10,722	15,685	13,947	11,093
Liabilities[4]	90,982	10,642	22,811	4,451	2,455
Difference	**(41,602)**	**80**	**(7,126)**	**9,496**	**8,638**
(3) Of which: Credit to the public	23,712	8,815	12,016	11,129	7,854
(4) Of which: Deposits from the public	86,554	9,120	20,881	3,271	1,389

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base 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 settled, net.

(7) Includes past-due receivables totaling NIS 273 million (2016: NIS 327 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 3,710million (2016: NIS 3,570 million) and an amount of NIS 551 million with no due date (2016: NIS 533 million).

(11) Including current loan account credit facilities in the amount of NIS 100 million (2016: NIS 194 million) and an amount of NIS 190 million with no due date (2016: NIS 206 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]	Balance sheet amount[6] Total	The contractual rate of return,in percentages[9]
9,014	6,692	16,290	13,492	3,864	144,284	1,640	131,112	2.51
1,314	3,845	1,170	827	172	112,542	-	111,256	0.42
7,700	**2,847**	**15,120**	**12,665**	**3,692**	**31,742**	**1,640**	**19,856**	**2.08**
(184)	(527)	(121)	61	-	(13,964)	-	(14,050)	-
-	-	-	-	-	468	-	183	-
7,516	2,320	14,999	12,726	3,692	18,246	1,640	5,989	-
1,015	786	2,932	284	5	16,128	214	14,933	2.81
140	94	102	17	2	29,009	2	28,726	0.50
875	**692**	**2,830**	**267**	**3**	**(12,881)**	**212**	**(13,793)**	**2.31**
539	517	2,195	251	3	(8,884)	188	(9,734)	-
-	-	-	-	-	-	-	-	-
184	527	121	(61)	-	13,964	-	14,050	-
-	-	-	-	-	(468)	-	(183)	-
1,059	1,219	2,951	206	3	615	212	74	-
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
11,257	8,549	21,697	12,086	3,334	157,750	1,631	143,028	2.48
2,896	1,324	3,749	834	169	140,313	2	137,969	0.46
8,361	**7,225**	**17,948**	**11,252**	**3,165**	**17,437**	**1,629**	**5,059**	**2.02**
6,604	4,815	13,910	11,270	3,106	103,231	889	90,693	3.36
1,993	520	333	41	-	124,102	-	123,353	0.40

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 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, in arriving at the fair value amounts, 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 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 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, 2017, 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, 2016: 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 16 million and NIS 0.5 million, respectively, as of December 31, 2016).

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, decreased the fair value of the mortgages, particularly in the CPI linked segment, by NIS 20 million (compared to an increase of NIS 110 million at December 31, 2016). 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 3.88 years on December 31, 2017, compared to 3.5 years, taking into consideration the forecast for early redemptions (December 31, 2016: 4.06 years and 3.61 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 41 million (compared to NIS 57 million at December 31, 2016). 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, 2017 to 2.85 years, compared to 2.67 years, taking into consideration the forecast for early redemption (December 31, 2016: 3.04 years and 2.84 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, 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	96	-	-	96	96

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 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 E and F below.

34. Balances and Fair Value Estimates of Financial Instruments (continued)

D. COMPOSITION - CONSOLIDATED(3) (CONTINUED)

	December 31, 2016				
	Book	Fair value			
	value	Level 1(1)	Level 2(1)	Level 3(1)	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	29,311	8,886	-	20,448	29,334
Securities(2)	38,818	21,706	16,551	853	39,110
Securities borrowed or purchased under resale agreements	440	-	-	440	440
Credit to the public, net	140,760	3,336	1	136,790	140,127
Credit to Governments	737	-	-	799	799
Assets in respect of derivative instruments	3,283	365	2,075	843	3,283
Other financial assets	1,803	298	21	1,484	1,803
Total financial assets	**(3)215,152**	**34,591**	**18,648**	**161,657**	**214,896**
Financial liabilities					
Deposits from the public	172,318	19,173	116,222	37,120	172,515
Deposits from banks	5,342	-	4,166	1,182	5,348
Deposits from the Government	303	-	123	189	312
Securities loaned or sold under repurchase agreements	3,543	-	-	3,712	3,712
Bonds and Subordinated debt notes	8,498	7,271	265	1,958	9,494
Liabilities in respect of derivative instruments	3,570	365	2,910	295	3,570
Other financial liabilities	7,963	583	28	7,352	7,963
Total financial liabilities	**(3)201,537**	**27,392**	**123,714**	**51,808**	**202,914**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	83	-	-	83	83

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 50,609 million and NIS 87,982 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 E and F 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, 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)

1. ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS (CONTINUED)

	December 31, 2016					
	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	14,671	1,893	-	-	16,564	16,564
Of foreign governments	197	721	-	-	918	918
Of Israeli financial institutions	10	48	-	-	58	58
Of foreign financial institutions	-	1,154	-	-	1,154	1,154
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	7,683	-	-	7,683	7,683
Of others in Israel	200	153	-	-	353	353
Of others abroad	-	2,023	-	-	2,023	2,023
Shares	110	-	-	-	110	110
Total available-for-sale securities	**15,188**	**13,675**	**-**	**-**	**28,863**	**28,863**
Trading Securities						
Of the Israeli Government	2,424	144	-	-	2,568	2,568
Of foreign governments	-	21	-	-	21	21
Of Israeli financial institutions	14	-	-	-	14	14
Of foreign financial institutions	-	39	-	-	39	39
Mortgage-backed-securities (MBS) or Assets -backed-securities (ABS)	-	61	-	-	61	61
Of others in Israel	46	8	-	-	54	54
Of others abroad	-	65	-	-	65	65
Shares	13	-	-	-	13	13
Total trading securities	**2,497**	**338**	**-**	**-**	**2,835**	**2,835**
Credit to the public in respect of securities loaned	3,336	1	-	-	3,337	3,337
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	178	-	178	178
Other Interest Rate Contracts	-	1,359	247	-	1,606	1,606
Foreign Currency Contracts	12	689	418	-	1,119	1,119
Shares Contracts	353	27	-	-	380	380
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	365	2,075	843	-	3,283	3,283
Other	-	21	-	-	21	21
Assets in respect of the "Maof" market operations	298	-	-	-	298	298
Total assets	**21,684**	**16,110**	**843**	**-**	**38,637**	**38,637**
Liabilities						
Deposits from the public in respect of securities borrowed	1,185	20	-	-	1,205	1,205
CLN deposits	-	-	319	-	319	319
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	160	-	160	160
Other Interest Rate Contracts	-	1,788	-	-	1,788	1,788
Foreign Currency Contracts	12	1,122	135	-	1,269	1,269
Shares Contracts	353	-	-	-	353	353
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	365	2,910	295	-	3,570	3,570
Other	-	28	-	-	28	28
Commitments in respect of the "Maof" market operations	298	-	-	-	298	298
Short sales of securities	285	-	-	-	285	285
Total liabilities	**2,133**	**2,958**	**614**	**-**	**5,705**	**5,705**

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

	December 31, 2017				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2017
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	1,082	1,082	(133)
Other	-	-	13	13	-

	December 31, 2016				
	Level 1	Level 2	Level 3	Total fair value	Loss for the year ended December 31, 2016
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	1,562	1,562	(211)
Other	-	-	16	16	-

F. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN ITEM 3 – CONSOLIDATED

1. FOR THE YEAR ENDED DECEMBER 31, 2017

	Fair value as at December 31, 2016	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 December 31, 2017	Unrealized gains (losses) in respect of held instruments as at December 31, 2017
	in NIS millions								
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)

34. Balances and Fair Value Estimates of Financial Instruments (continued)

F. CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRING BASIS INCLUDED IN ITEM 3 – CONSOLIDATED (CONTINUED)

2. FOR THE YEAR ENDED DECEMBER 31, 2016

	Fair value as at December 31, 2015	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 December 31, 2016	Unrealized gains (losses) in respect of held instruments as at December 31, 2016
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	19	(1)2	-	-	(3)	-	-	18	(1)12
Other Interest Rate Contracts	154	(1)154	-	-	(50)	(13)	2	247	(1)155
Foreign Currency Contracts	230	(1)320	-	(99)	(172)	4	-	283	(1)229
Total	**403**	**476**	**-**	**(99)**	**(225)**	**(9)**	**2**	**548**	**396**
Liabilities									
CLN Deposits	(345)	(2)(14)	(29)	-	69	-	-	(319)	(2)(14)

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 2016 and 2017, 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, 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 (Liabilities) 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	

	Fair value as at December 31, 2016	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	1,562	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	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 0.74%- to 2.57% (0.08%-)
			Counterparty credit risk (CVA)	From 0.00% to 3.09% (0.42%)
Other Interest Rate Contracts	247	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 9.92% (0.07%)
Foreign Currency Contracts	283	Discounted cash flow	The interest curve in the CPI linked segment	From 0.73%- to 2.38% (0.41%-)
		Discounted cash flow, Models for the pricing of options.	Counterparty credit risk (CVA)	From 0.00% to 18.40% (0.16%)
Liabilities				
CLN Deposits	319	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, 2017													
	Interested parties(1)										Related parties(1)			
											Held by the Bank			
	Controlling Shareholders(2)		Other shareholders(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	-	-	-	-	-	-	-	-	-	-	-	-	3	36
Securities(12)	-	-	-	-	-	-	-	-	-	-	-	-	539	539
Credit to the public	-	-	2	9	1	2	3	3	113	138	311	324	228	297
Provision for credit losses	-	-	-	-	-	-	-	-	(1)	(7)	(1)	(2)	(2)	(3)
Credit to the public, net	-	-	2	9	1	2	3	3	112	131	310	322	226	294
Investments in affiliated companies(12)	-	-	-	-	-	-	-	-	-	-	153	153	-	-
Other assets – receivables and other debit balances	-	-	-	4	-	-	-	-	-	-	14	15	6	25
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	62	84	4	4	7	8	-	-	19	79	356	1,279
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	900	900
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities – payables and other credit balances	-	-	-	1	28	28	-	-	-	-	15	18	42	86
Shares (included in equity)(13)	-	-	931	931	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments(12)(14)	-	-	12	12	4	4	1	1	-	-	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)

A. BALANCES (CONTINUED)

	December 31, 2016													
	Interested parties[1]										Related parties[1]			
	Shareholders										Held by the Bank[1]			
	Controlling Shareholders[2]		Other shareholders[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	-	-	-	-	-	-	-	-	-	-	-	-	5	15
Securities	-	-	-	-	-	-	-	-	-	-	-	-	547	985
Credit to the public	-	-	-	-	2	4	4	4	131	151	259	299	223	296
Provision for credit losses	-	-	-	-	-	-	-	-	(7)	(7)	(2)	(2)	(3)	(4)
Credit to the public, net	-	-	-	-	2	4	4	4	124	144	257	297	220	292
Investments in affiliated companies[12]	-	-	-	-	-	-	-	-	-	-	157	157	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	13	15	12	25
Liabilities:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from the public	-	-	-	-	3	4	8	9	-	-	32	78	338	439
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	800	800
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	25	25	-	-	-	-	19	19	27	76
Shares (included in equity)[13]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[12][14]	-	-	-	-	4	4	1	1	-	-	71	71	210	217

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 shareholders[3]	Officers[4]	Others[6][7]	Affiliated companies[8]	Others[9]
	in NIS millions					
	For the year ended December 31, 2017					
Interest income (expenses), net (See item D)	-	(2)	-	-	2	-
credit loss expenses	-	-	-	-	1	2
Non-interest income	-	[15]80	-	-	8	81
Operating and other expenses (See item C)	-	(3)	(34)	(3)	(8)	(33)
Total	**-**	**75**	**(34)**	**(3)**	**3**	**50**
	For the year ended December 31, 2016					
Interest income, net (See item D)		-	-	-	3	2
credit loss expenses		-	-	-	17	-
Non-interest income		-	-	-	10	58
Operating and other expenses (See item C)		-	(32)	(4)	(7)	(32)
Total		**-**	**(32)**	**(4)**	**23**	**28**
	For the year ended December 31, 2015					
Interest income, net (See item D)		-	-	-	-	5
credit loss expenses		-	-	-	(15)	(2)
Non-interest income (expenses)		-	-	-	5	(8)
Operating and other expenses (See item C)		-	(30)	(3)	(8)	(31)
Total		**-**	**(30)**	**(3)**	**(18)**	**(36)**

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					
	2017		2016		2015	
	Officers[4]		Officers[4]		Officers[4]	
	Total benefit	Number of benefit Recipients	Total benefit	Number of benefit Recipients	Total benefit	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf*	30	13	26	12	24	13
Directors who are not employed by the Bank or on its behalf*	5	12	6	13	6	12
Total	**35**	**25**	**32**	**25**	**30**	**25**

*The amounts of the remuneration do not include payroll tax.

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		
	2017	2016	2015	2017	2016	2015
	in NIS millions					
A. On assets						
Credit to the public	9	8	7	2	3	-
Total	**9**	**8**	**7**	**2**	**3**	**-**
B. On liabilities						
Deposits from the public	(6)	(1)	-	-	-	-
Deposits from the banks	(3)	(2)	(2)	-	-	-
Subordinated capital notes	-	-	-	-	-	-
Total	**(9)**	**(3)**	**(2)**	**-**	**-**	**-**
Total Interest income, net	**-**	**5**	**5**	**2**	**3**	**-**

Footnotes: relating to Note 35 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.

E. (1) On December 3, 2013, following a sale of shares transaction, the Bronfman-Schron group ceased to be in control of the Bank, and the Bank became a bank with no core controlling interest.

(2) The holding permit states that during the cooling-off period (the year ended September 3, 2015), the individual members of the Bronfman Group and Mr. Schron would be considered as related parties having a controlling interest for the purpose of Proper Conduct of Banking Business Directive No. 312. Accordingly, in 2015 (until September 3) they were considered related parties for the purpose of reporting of related parties and interested parties and accordingly, transactions with them, if at all, have been presented as part of other related parties.

(3) During 2017, two entities managing customer funds became interested parties in the Bank (one of these entities ceased being an interested party several months later), 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 new policy, 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 Chairman of the Board and to the President & CEO

Employment agreement with the Chairman of the Board. The Bank's Chairman of the Board took office on January 3, 2010. The General Meeting of Shareholders approved on November 10, 2010, the Bank's engagement in a personal employment agreement with the Bank's Chairman of the Board. The period of the agreement was five years beginning on January 3, 2010 (hereinafter: "the first agreement period").

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

The Chairman of the Board of Directors is engaged in a full-time position and is not entitled to engage in any other fully paid occupation without the prior consent of the Board of Directors. In consideration for executing his duties, the Chairman is entitled to a monthly salary of NIS 150,000, in the first period of the agreement, to be updated every three months in accordance with the rise in the CPI as compared with the CPI published in January of 2010.

The Chairman was entitled to an annual award, and remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 24 E (1). 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.

The Chairman is entitled to paid vacation, (the accumulation of which, during the first period of the agreement, was limited to 66 days) 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.

Upon termination of office, the Chairman is entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension to be created by the Bank. In addition, the Chairman is entitled to early notice of six months, during which he will be entitled to remuneration and related benefits in accordance with the agreement and to an adaptation period of six months. During the adaptation period the Chairman will be entitled to a monthly salary and related benefits in accordance with the engagement agreement. In the event that the agreement period comes to its end and is not extended, the Chairman will be entitled to an early notice period as well as to an adaptation period of six months.

The Bank's annual meeting of shareholders held on October 2, 2014, the terms of office and employment of the Chairman of the Board were reapproved. The terms of service and employment preserve the fixed remuneration and termination of employment agreements of the 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).

The terms of office and employment of the Chairman do not include a variable remuneration of the annual award or share based remuneration type. This, in accordance to the amendment to Proper Conduct of Banking Business Directive No. 301A in the matter of remuneration policy of a banking corporation, in the framework of which the chairman of the board of directors shall receive a fixed remuneration only.

Following the enactment of the Remuneration Act, the Bank was required to make modifications to the engagement terms of the 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 Chairman of the Board, as from October 12, 2016 and until the end of the term of office of the Chairman as Chairman of the Bank's Board of Directors. Nothing in the new engagement terms may impair the rights of the Chairman that had accumulated to October 12, 2016.

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 include a reduction in the scope of remuneration applying to the Chairman, in order to comply with the restrictions determined by the Remuneration Act.

The following updates were made to the new engagement terms as against the previous engagement terms described above: salary – the Chairman of the Board of Directors continues to be entitled to a monthly salary of NIS 162,802, though no longer linked to the CPI. The Chairman of the Board is also entitled to a thirteen month's salary, including allowances in respect thereof; severance pay – at the end of his period of office, for whatever reason, the Chairman of the Board would be 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; annual vacation may not be accumulated, excluding the redemption of 66 vacation days, accumulated to the credit of the Chairman of the Board in accordance with the previous engagement terms up to the beginning date and which were provided for in the financial statements of the Bank; moreover, 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 new engagement terms also state 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.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

Employment agreement of the President & CEO. A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve in accordance with the remuneration policy for the Bank`s officers (see Note 23 D), which had been approved by the said meeting, the terms of office and employment of the Bank`s President & CEO, for a period of five years since the date on which the tenure of office begins ("the original agreement"). 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.

In accordance with the original agreement, in consideration for the fulfillment of her duties, the President & CEO is entitled to a monthly salary of NIS 180,000 (gross), to be updated once in every quarter in accordance with the rise in the CPI as compared with the CPI published in January 2014. In each calendar year during her employment period, the President & CEO will be entitled to an additional monthly salary (13th month salary) in respect of which she will not be entitled to social benefits.

The President & CEO is entitled to paid vacation days (the accumulation of which, in accordance with the original agreement, is limited to fifty days), 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.

In accordance with the original agreement, the President & CEO was entitled to an annual award, current award and to special awards, as detailed in item G below.

As part of the termination of employer/employee relations, whether initiated by the President & CEO or by the Bank, the President & CEO would be entitled to severance pay, in addition to the current contributions made to her pension arrangement funds in respect of severance compensation during the period of employment, which shall be computed as a multiplication of her last monthly salary by the number of years in office. 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 and to a prior notice period of six months.

The said severance pay and one half of the said adaptation award are considered variable retirement terms, which the entitlement thereto is conditional upon terms stated in the agreement.

Following the enactment of the Remuneration Act, the Bank was required to make modifications to the previous engagement terms 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. Nothing in the new engagement terms may impair the rights of the President & CEO that had accumulated to October 12, 2016 (including the variable remuneration in respect of the year 2016). The President & CEO will continue to be 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 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.

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. The following updates were made to the new engagement terms as against the previous engagement terms described above: salary – the President & CEO continues to be entitled to a monthly salary of NIS 180,000, though no longer linked to the CPI; 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; a thirteen month's salary – entitlement to a thirteenth month's salary, including also allowances in respect thereof; annual vacation may not be accumulated; moreover, following the amendment of the agreement, the terms for the payment of retirement terms comprising variable remuneration were also updated. The new 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.

The new engagement terms state that the President & CEO is not entitled to an annual award. However, the Remuneration Committee and the Board of Directors may, at their discretion, grant her an annual award in an amount not exceeding three monthly salaries.

G. **Awards to the President & CEO.** As stated, in accordance with 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:

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(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.

(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.

35. Related and Interested Parties of the Bank and its Consolidated Subsidiaries (continued)

(5) **The annual award for 2015.** The entitlement to awards did not materialize in respect of the year 2015.

(6) **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.

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, 2017, amounted to NIS 2,546 million (as at December 31, 2016 – NIS 4,140 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. On July 6, 2008, the Board of Directors, following approval of the Audit Committee, approved the payment of annual remuneration and remuneration for participation in meetings to external directors and to other present and future Directors of the Bank (excluding the Chairman of the Board), in an amount equal to the "maximum amount" stipulated in the Second Addendum and in the Third Addendum to the Companies Regulations (Rules for remuneration and expenses to an external director), 2000, as amended in the Companies Regulations (Amendment) (Rules for remuneration and expenses to an external director), 2008, in accordance with the Bank's grade.

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 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 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 Antitrust Tribunal. This agreement has been extended from time to time by the Tribunal.

   Amended cross clearing arrangement – reduction of the issuer commission rate. The Antitrust 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, as follows:

   - The Commissioner informs that in view of the exogenous changes that have occurred since the submission to the Tribunal of the complementary opinion, and following his examination of the arguments detailed in the complementary opinion, he is of the opinion that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement;
   - The reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement:

   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 to an average rate not exceeding 0.7%.

   The arrangement is expected to expire on December 31, 2018.

   Draft exemption terms for the agreement. On January 16, 2018, the Antitrust Commissioner published a draft containing terms for the granting of exemption for the agreement by the Commissioner (a new arrangement in the sector, replacing the one expected to expire on December 31, 2018). The draft states, inter alia, restrictions on issuers and clearing agents with wide-ranging activity (as defined in the draft), regarding discrimination or regarding operations resulting in the discrimination of other issuers and clearing agents. The draft also states that a clearing agent having a wide-ranging activity shall not be a party to agreements with a trading house preventing the trading house or limiting the trading house in granting discounts to his customers, where these are dependent on the means of payment used by the customer, and that starting with a certain date (not yet determined), the transfer of funds between an issuer and a clearing agent, in respect of transactions made by a single payment, shall be effected no later than one day following the date of the transaction.

   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 Antitrust Tribunal, 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%;

36. Credit Card Activity (continued)

- from January 1, 2023, the commission will be at an average rate of not more than 0.25%.

As stated in the notice, should there be significant changes in the structure of the clearing market, either in the costs or in the clearing mechanism, the need to update the fee level will be re-examined.

It should be noted that the effect of reducing the rate of the cross commission is affected by 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.

2. **"IsraCard" credit cards clearing arrangement.** 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. In accordance with the license, ICC would be entitled to clear transactions made at trading houses in Israel by means of IsraCard credit cards, using the cross-clearing interface, and for this purpose, engage with trading houses in Israel for the supply of clearing services, and to supply services related to the clearing of transactions made through the cards (card services). The agreement will be in force from May 15, 2012 and until May 15, 2017 (as regards the matter of the extension of the agreement period, see below). In consideration for the license, ICC is committed to pay a one-off license fee plus an annual fee computed in accordance with a mechanism determined in the agreement (as a function of the clearing turnover).

   Concurrently, the parties signed a cross-clearing agreement with respect to transactions to be effected by IsraCard credit cards, according to which the said clearing will be effected using the joint interface under the terms of the agreement relating to the clearing of transactions made by the VISA and MaterCard credit cards (as they apply from time to time) (hereinafter: "the Arrangement").

   The cross-clearing agreement entered into effect upon its approval in accordance with the Antitrust Act, and shall expire on date of expiry of the license or on date of expiry of the Arrangement, whichever is earlier.

   On September 13, 2012, the Antitrust Commissioner granted an exemption, for a period of three years, in respect of the arrangement between the company and IsraCard Ltd. as well as to the arrangement between LeumiCard Ltd. and IsraCardLtd., under the terms stated in the Commissioner's decision, including:

   - IsraCard will not collect from the company and from LeumiCard any additional payment in excess of the issuer commission, a one-time license fee and an additional payment being a percentage of the turnover of clearing "IsraCard" transactions, as determined in the exemption;
   - The cross-clearing commission rates ("issuer commission") payable by the clearing agent of the IsraCard brand to the Issuer of this brand, shall not exceed the rates specified in the cross-clearing arrangement approved on March 7, 2012, in a ruling of the Antitrust Tribunal;
   - The cross-clearing of the IsraCard brand shall be subject to the terms for approval of the cross-clearing arrangement for the MasterCard and VISA brands approved by the said ruling.

   In its decision of March 9, 2014, the Antitrust Tribunal approved the decision of the Commissioner with all its terms. Accordingly, in accordance with the provisions of Section 11 of the Antitrust Act, 1988, the agreement is exempt for a period of three years from date of the decision, until March 9, 2017. On January 17, 2017 the parties signed an agreement extending the arrangement between them until May 15, 2018. On March 9, 2017, the Commissioner granted an exemption from approval of a restrictive agreement for the extension of the agreement.

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 will be valid for 5-year periods and are extendable under certain circumstances determined in the agreements.

   The grant of an option to FIBI to purchase up to 10% of ICC's share capital. Within the framework of the joint issuance agreement described above, FIBI was granted an option to purchase from ICC, by way of a share issue, up to 121,978 ordinary shares in ICC, comprising at date of the agreement, 10% of the fully diluted ordinary share capital of ICC. The option expired on December 31, 2017, without being exercised.

36. Credit Card Activity (continued)

4. **A joint issuance agreement with Mizrahi-Tefahot Bank and the updating of its terms.** In continuation of a joint issuance agreement of November 18, 2008, between ICC and Diners, on the one part, and Mizrahi-Tefahot Bank, on the other part, (hereinafter: "the previous agreement"), the parties signed on March 2, 2014, an agreement extending and updating the previous agreement (hereinafter: "the updated agreement"). The updated agreement is in force for a period of five years, from January 1, 2014 to December 31, 2018.

   The updated agreement includes reference and updated of the provisions of the previous agreement, such as operating arrangements and the granting of services, royalties and awards payable by ICC and Diners to Mizrahi-Tefahot Bank, as well as a compensation instrument, according to which, Mizrahi-Tefahot Bank will receive a monetary compensation depending on the growth in turnover of use of credit cards under the joint issuance, as compared to the turnover in 2013.
5. **A joint issue agreement with Union Bank.** On July 1, 2010, ICC and Diners Club signed agreements with Union Bank of Israel Ltd. (hereinafter - "Union Bank"). The agreements are for a period of ten years and they replace a previous agreement between the parties, which expired on that date. Under these agreements, ICC and Diners club will issue credit cards, bank cards and combined cards to customers of Union Bank. The agreement determined operating arrangements and the granting of services by ICC and/or Diners Club for credit cards issued by them and distributed by Union Bank to its customers.

   On October 27, 2015, ICC and Diners signed on addendums to the agreements existing between them and Union Bank of Israel Ltd. Within the framework of the Addendums, the option that had been granted in the past to Union Bank to purchase shares in ICC was abolished. As part of the amendments and addendums, it has been agreed that Union Bank would receive from ICC and Diners compensation and an annual award, subject to business terms relating to the joint issuance of credit cards. The validity of the updated agreements has been extended to December 31, 2021, subject to the terms therein, including terms for their cancellation.

   The amendment of the agreements in accordance with the addendums, took effect upon receipt from the Antitrust Commissioner of an exemption from a restrictive agreement, as well as approvals of the Supervisor of Banks relating to ICC and Union Bank. The Antitrust Commissioner granted on December 30, 2015, an exemption from the duty to receive the approval of the Antitrust Tribunal to the restrictive agreement signed between ICC and Diners and Union Bank, within the framework of the Addendum to a joint issuer agreement signed between the parties. The exemption is in effect for three years.

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. **Agreements between the Bank and Leumi Card.** The Bank and Leumi Card reached commercial agreements in principle with respect to the joint issue of credit cards, subject to signing an agreement between the parties and to approval of the relevant regulatory authorities.
2. **An agreement in principle between ICC and Bank Hapoalim.** On January 30, 2018, ICC and Hapoalin Bank B.M. signed a letter of agreement for cooperation in the preliminary work towards the signing of a binding agreement for the granting of credit card operating services by ICC to Bank Hapoalim. It is the intention of the parties to reach the signing of a detailed arrangement by April 30, 2018. An issue agreement, if at all signed, would be subject to approval of the Supervisor of Banks.
3. **A joint issue agreement between ICC and Bank Leumi.** ICC, Diners and Bank Leumi Le-Israel B.M. (hereinafter: "Leumi") have recently reached agreements, within the framework of a memorandum of understanding, which includes the basic terms for the engagement of the parties in an agreement for the issue of bank debit cards to customers of Leumi. The memorandum states that the parties shall act towards the signing of a detailed joint issue agreement ("the detailed agreement").

   The memorandum states that the parties would jointly issue debit cards to Leumi customers and that ICC would operate the issue of such cards. The memorandum states the distribution between the parties of the income and expenses resulting from the joint issue operation.

   The period of the detailed agreement is from February 1, 2019 to December 31, 2024 (approx. 6 years). Leumi is entitled to terminate the period of the agreement one year prior to the date of termination of the said period. The parties may agree to extend the period of the agreement by four additional periods of one year each.

   It is further determined that in the case that Leumi reaches certain targets of operation, it shall be entitled to an additional award at the beginning of the sixth year of the period of the detailed agreement. The issue agreement, if at all signed, would be subject to approval of the Supervisor of Banks.

C. **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").

36. Credit Card Activity (continued)

Under this agreement, Diners and ICC exclusively issue brand name credit cards to the public at large, in accordance with marketing targets defined by the parties. Moreover, Diners and ICC issue, not exclusively, brand name credit cards to prestigious customers fulfilling appropriate entitlement terms.

The brand name credit cards entitle holders thereof unique benefits in accordance with the type of card and the volume of transactions made by use of the card, everything in accordance with the commercial terms determined by the parties. The said benefits include, inter alia, the accumulation of frequent flyer points in respect of transactions made by use of the brand name credit cards.

In accordance with the agreement, EL-AL is entitled to consideration also based on the volume of use of the brand name credit cards. The agreement also regulates participation in advertising, marketing and sales promotion expenses as well as customer service to holders of the brand name credit cards.

The agreements are valid for a preliminary engagement period of five years, and include the possibility of extension for different additional periods, subject to termination rights, to which the parties are entitled in certain circumstances.

The customer club began operation in September 2014.

D. **Memorandum of principles with Shufersal Company.** On November 2, 2017, ICC and Diners (hereinafter together: "ICC") and Shufersal Company Ltd. (hereinafter: "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). To the best knowledge of ICC, the Credit Club numbers at present, approx. 500,000 customers.

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.

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 both by ICC and by Shufersal or by Supersol Finance, Limited Partnership (Hereinafter: "Supersol Finance"), the instructions relating to the attraction of customers to the Credit Club, marketing and advertising budgets, 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 or of Supersol Finance, 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 Finance 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.

The club was launched on January 18, 2018 (date of termination of a previous agreement of Shufersal with Leumi Card, in terms of which credit cards have been issued until now to customers of Shufersal).

36. Credit Card Activity (continued)

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) **Events regarding the clearing of international electronic trade transactions and other matters.** In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management.

A number of trading houses and clusterers had raised demands regarding the burden of monetary sanctions applying to them and the reduction in electronic trade clearing operations conducted with them, which as alleged by them, resulted in heavy damage.

(2) **Notices by the State Attorney.** In continuation of the investigation conducted by the police, ICC received on December 3, 2014, a notice from the economic department of the State Attorney Office, according to which a file with regards to an investigation of suspicions against ICC, had been delivered for perusal of the State Attorney.

On April 20, 2015, ICC received a notice from the State Attorney Office, to which was appended a "suspicion letter", according to which the State Attorney is considering the filing of an indictment against ICC, in respect of perpetrating offences of fraudulent conversion under aggravating circumstances and money laundering. On that date, the Supervisor of Banks informed ICC, that in view of the notice of the State Attorney as stated and the "suspicions letter" attached to it, he instructs ICC not to distribute a dividend until the termination of the proceedings, clarification of the consequences thereof and its impact on the financial position of ICC. The Supervisor of Banks announced on March 9, 2017, the removal of the restriction.

The suspicion brief describes two cases in which, according to the Prosecution, ICC was involved together with others. In the first affair it has been alleged that during 2006 through 2009 (hereinafter: "the relevant period"), ICC, through who has officiated as CEO of ICC in the relevant period and the CEO of ICC International in the relevant period (jointly and severally: "the Officers"), together or with others, acted fraudulently regarding false coding of transactions cleared by ICC, and also acted in contradiction with the Prohibition of Money Laundering Act. In the second affair it has been alleged that ICC, through the Officers and together or with others, has presented false display with regards the splitting of trading houses records who has cleared through ICC, thus receiving funds and producing gains fraudulently, as well as acting in contradiction with the Prohibition of Money Laundering Act. The transactions turnover that as alleged is attributed to ICC in relation with the alleged offences is NIS billions.

Arrangement replacing criminal proceedings. A conditional arrangement, in terms of Item A1 of Chapter "D" of the Criminal Proceedings Act (Combined version), 1982, was signed on November 3, 2016, between the economic department of the State Attorney Office and ICC. This agreement will lead to the closure of the investigation case by an arrangement, replacing criminal proceedings, subject to the terms stated below.

Within the terms of the arrangement, ICC admitted the facts relating to two affairs involving international electronic clearing, made by ICC International (a subsidiary of ICC that was merged into ICC in December 2009), in the years 2007 to 2009. The arrangement clarifies that the facts to which ICC refers in the arrangement, were not personally known to the Officers approving the arrangement, and came to their attention only through the letter of suspicion delivered to ICC by the State Attorney Office. Approval of the arrangement, as stated, has been given after consideration of other alternatives and bearing in mind the benefit of the company.

The arrangement required ICC to operate in accordance with binding internal procedures in writing, for a period of one year from date of signing the arrangement, including matters of supervision and control mechanism that would ensure prevention of the admitted offences being repeated. ICC declared in the arrangement that the adoption of the procedures and organizational changes detailed in the arrangements had been implemented in practice by it, even prior to the signing of the arrangement.

It was agreed by the parties that under the terms of Section 67C(a)(5) and Section 5 of the fifth Addendum to the Criminal Proceedings Act (Combined version), 1982, ICC would deposit an amount of NIS 85 million for the purpose of its forfeiture.

36. Credit Card Activity (continued)

Subject to the fulfillment by ICC of the terms of the arrangement, the State Attorney's Office has committed to close the case against ICC. The State Attorney Office has committed not to conduct an investigation and not to serve an indictment, including any other proceedings, either civil or administrative, against ICC and/or any other related company thereof, and/or against any present or former Officer of these companies, with the exception of two Officers who had officiated therein in the past.

The arrangement clarifies that nothing in the admission of ICC may implicate any other person, including Officers and any other employee of ICC or of a related company thereof, and that nothing in the said admission could serve as evidence in any proceeding.

An expense in the amount of NIS 85 million was recognized in the books of ICC in 2016 in respect of the said arrangement.

(3) **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 demands 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.

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.

(4) **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 is 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 Appellant claims that the respondent Officers and other responsible employees, had, among other things, violated their duties causing, as claimed by him, the alleged damage, which is assessed by him at NIS 100 million. The Appellant further argues the potential risk of forfeiture of funds to the tune of NIS billions, as part of the criminal proceedings, if instituted, and of reputation and other damages that are not being assessed, all as claimed by the Appellant.

With the consent of the Appellant, several extensions of the date for submission of a response were given. The Court approved on January 18, 2017, a procedural agreement between the parties, according to which, the Appellant will submit within sixty days of the date of the procedural agreement, an amended motion for approval of a derivative action; the Respondents will respond to the amended motion within ninety days from its delivery date to the Respondents; the Appellant will submit his response within sixty days of the delivery date of the Respondents' response.

In accordance with a procedural arrangement reached between the parties, a claim and an amended motion for approval of the claim as a derivative claim (multi-party) was submitted to the Tel Aviv - Jaffa District Court on May 8, 2017. The amended motion included, inter alia, a cause of action relating to the conditional arrangement signed on November 3, 2016, by ICC and the State Attorney, in respect of which, ICC paid an amount of NIS 85 million, and respectively amendments were made to the arguments of the Appellant and to the alleged amount of the damage.

Recently, the parties reached a compromise arrangement, which had been subject to approval of the competent organs at ICC.

36. Credit Card Activity (continued)

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.

The agreement will be subject to approval of the Tel Aviv Yaffo District Court.

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, after having obtained the regulatory approvals, 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. The division mechanism 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.

On July 5, 2016, VISA Europe informed that following the consummation of the transaction, the rebates program for members of the organization will be terminated as from October 1, 2016. VISA Europe announced on July 22, 2016, an increase in the amounts of clearing fees charged by it, starting on January 1, 2017.

On June 20, 2016, ICC and VISA Europe signed an agreement for the years 2016-2019. This agreement replaces an earlier agreement signed by the parties in April 2013. According to the amendment to the agreement, ICC is expected to receive supporting awards from VISA in the years 2016-2019.

On June 30, 2017, ICC and VISA Europe signed an amended support agreement for the years 2017-2021. The scope of the support is based upon goals defined in the agreement.

Based on information received from ICC, the Bank estimates that the said changes are not expected to have a material impact on the Bank's business results.

In practice, the aforementioned changes did not have a material impact on the business results of ICC and of the Bank in 2017.

36. Credit Card Activity (continued)

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. ICC has turned down the proposal of Blue Square for mediation proceeding 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.

38. The Investment in the First International Bank ("FIBI")

(1) **An agreement with FIBI holdings.** On March 28, 2010, an agreement was signed between the Bank and FIBI Holdings Ltd. (hereinafter: "FIBI Holdings") regarding the Bank's holdings in FIBI ("the agreement").

In accordance with the agreement, the right of Discount Bank to recommend the appointment of a quarter of the number of Directors in FIBI expired on March 13, 2014. With the expiry of this entitlement, the Bank has lost its significant influence over FIBI (within the meaning of this term in generally accepted accounting principles). In accordance with the reporting instructions of the Supervisor of Banks, the shares were stated in the financial statements as of March 31, 2014, as available-for-sale shares, at their fair value.

Approvals of the Supervisor of Banks and the Antitrust Commissioner. A mechanism for the reduction in the holdings in FIBI has been determined with the approval of the Commissioner to the agreement.

(2) **Dividend.** The Bank's share in the dividends distributed by FIBI in 2015, which amounted to NIS 12 million, was recognized in the financial statements as non-interest financing income.

(3) **Sale of shares in February 2016.** On February 1, 2016, the Bank sold the balance of the shares in FIBI, which comprised approx. 9.28% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 44.70 per share. Following the said sale, the loss recorded as a capital reserve has been realized in the net amount of NIS 53 million and recognized in the statement of profit and loss.

Completion of this move comprised the Bank's attainment of the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale, with the approval granted by the Antitrust Commissioner to the agreement.

(4) **Losses on impairment (2015).** In 2015 the Bank recognized losses on other than temporary impairment (OTTI), in a total amount of NIS 99 million, in respect of impairment in the value of shares in FIBI.

39. Shelf Prospectus

On May 11, 2017, the Bank published a shelf prospectus (replacing the shelf Prospectus dated May 23, 2014, the validity of which was extended on April 20, 2016, to May 22, 2017), on the basis of the financial statements as of December 31, 2016.

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 11 (out of 12) and the number of Directors having accounting and financial expertise who are members of the audit committee of the Board is 6 (out of 6). 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 2017 (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
Dr. Yossi Bachar, Chairman of the Board of Directors(4)(5)	December 2, 2015 (initially appointed as Director on January 1, 2010, and appointed as Chairman of the Board since January 3, 2010)	Chairman of the Credit Committee; Chairman of the Manpower committee; Chairman of the Coordination Committee; Chairman of the Strategy Committee; IT Committee
Aharon Abramovich(1)(2)(3)(4)(5)	October 30, 2017	Audit Committee; Remuneration Committee
Prof. Asher Elhayany(5)	March 13, 2016	Manpower committee; Corporate Governance Committee
Eli Eliezer Gonen(4)(5)	December 2, 2015 (initially appointed on November 10, 2010)	Chairman of the Corporate Governance Committee; Human Resources Committee; Strategy Committee; Coordination Committee
Yodfat Harel-Buchris(4)(5)	February 15, 2016	Chairperson of the IT Committee; Credit Committee; Human Resources Committee; Strategy Committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit; Coordination Committee
Miriam (Miri) Katz(3)(4)(5)	February 1, 2017	Audit Committee; IT Committee
Baruch Lederman(1)(2)(3)(4)(5)	November 27, 2017 (initially appointed on November 27, 2014)	Chairman of the Risk Management Committee; Audit Committee; Remuneration Committee; Credit Committee; Coordination Committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit
Yehuda Levi(1)(2)(3)(4)(5)	November 27, 2017 (initially appointed on November 27, 2014)	Chairman of the Remuneration Committee; Audit Committee; Risk Management Committee; Coordination Committee
David Levinson(2)(3)(4)(5)	March 21, 2015 (initially appointed on March 21, 2012)	Risk Management Committee; Credit Committee; Remuneration Committee; Corporate Governance Committee; Manpower committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit
Edith Lusky(1)(2)(3)(4)(5)	March 25, 2015 (initially appointed on March 25, 2009)	Chairperson of the Audit Committee; Remuneration Committee; Risk Management Committee; Strategy Committee; Coordination Committee
Shaul Kobrinsky(3)(4)(5)	December 11, 2017 (initially appointed on December 11, 2014)	Credit Committee; Human Resources Committee; Strategy Committee; Risk Management Committee
Yali Sheffi(2)(3)(4)(5)	January 29, 2017 (initially appointed on November 10, 2010)	Chairman of the Ad-hoc Committee discussing the demand for the filing of a derivative suit; Audit Committee; Credit Committee; Remuneration Committee; Strategy Committee; IT 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 2017 (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 of the status of external directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301, out of 4 candidates and 3 external directors, within the meaning of the term in the Companies Act, 1999, out of 4 candidates proposed by the Committee for appointment of directors in banking corporations (2016: 2 directors out of 3 candidates). 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. Following this, the number of Directors at the Bank was reduced to 12 Directors following the Annual General Meeting of Shareholders held in 2017. The Supervisor of Banks has directed that the number of Directors of the Bank shall be reduced to 10 following the Bank's Annual General Meeting of Shareholders for the year 2019.

Appointment of Directors. The office of Director of Ms. Linda Benshoshan ended on April 30, 2017, all as stated in the immediate reports of April 30, 2017 (Ref. Nos. 2017-01-036187and 2017-01-036190), the information therein is presented hereby by way of reference.

The General Meeting of Shareholders held on August 8, 2017, resolved to appoint as external Directors, within the meaning of the term in the Companies Act, for a period of three years, Messrs. Aharon Abramovich, Baruch Lederman (a re-elected serving Director) and Yehuda Levi (a re-elected serving Director). The said General Meeting resolved to appoint as external Directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301, for a period of three years, Ms. Iris Avner and Messrs. Yaacov Lifshiz and Shaul Kobrinsky (a re-elected serving Director).

On October 30, 2017, Mr. Aharon Abramovich began his tenure as external director of the Bank, replacing Mr. Ilan Biran, who completed his tenure as director on October 29, 2017. All as detailed in the immediate reports of October 29, 2017 (Ref. No. 2017-01-102555 and 2017-01-102546, respectively), the information therein is presented hereby by way of reference. Ms. Iris Avner and Mr. Yaacov Lifshiz shall replace the acting Directors Ms. Edith Lusky and Mr. David Levinson, whose term of office is expected to end in March 2018.

Mr. Arie Orlev ended on December 1, 2017 his office as Director, all as detailed in the immediate report dated December 3, 2017 (Ref. No. 2017-01-112728), the information therein is presented hereby by way of reference.

The Chairman of the Board, the Board of Directors and the President & CEO thank Linda Benshoshan, Ilan Biran and Arie Orlev for their activity and contribution during their period of office at the Bank, and wish Mr. Abramovich success in fulfilling his office.

Details regarding Members of Management

Name	Office he/she holds at the corporation	Date on which the term of office began
Lilach AsherTopilsky(1)	The Bank's President & CEO	February 19, 2014
Yair Avidan	Senior Executive Vice President, Head of the Bank's Subsidiary companies 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 Bank's Accounting Division	April 1, 2000
Yuval Gavish	Senior Executive Vice President, Head of the Banking Division	January 11, 2011
Yafit Gariani	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 Bank's Legal Advisory Division	June 1, 2006
Levy Halevy	Executive Vice President, Head of the Bank's Technologies and Operations Division	June 1, 2014
Avraham (Avi) Levi	Senior Executive Vice President, Chief Risk Officer and Head of the Bank's Risk Management Division	July 21, 2016(3)
Ran Oz	Senior Executive Vice President, Head of the Bank's Financial Markets Division	January 20, 2015
Nir Abel	Executive Vice President, Internal Auditor of the Bank	May 18, 2011

Note:
(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 2017 (Regulation 26A), which is presented on the MAGNA website of the Israeli Securities Authority and on the Bank's website.

Changes in Management

On April 2, 2017, Mr. Ziv Biron commenced service as member of Management with the title of Executive Vice President, Head of the Planning, Strategy and Finance Division (CFO), replacing Mr. Uri Levin, Senior Executive Vice President, who retired from office at the Bank on the said date. All as detailed in the immediate reports of April 2, 2017, (Ref. Nos. 2017-01-029410 and 2017-01-029407), the information contained therein is presented here by way of reference.

On January 22, 2018, the Board of Directors resolved to approve the following appointments:

- Mr. Ran Oz, who serves as a Senior Executive Vice President and the Head of the Financial Markets Division at the Bank, will terminate his position with the Bank's management and will be appointed as Chairman of the board of directors of Israel Credit Cards Ltd. (hereinafter: "ICC").
- Mr. Asaf Pasternak will be appointed as a member of the Bank's management, with the title of Executive Vice President, and will replace Mr. Oz as Head of the Financial Markets Division.

The date for the commencement of Mr. Oz's service as Chairman of the board of directors of ICC and of Mr. Pasternak's service as Head of the Bank's Financial Markets Division will be decided at a later date, subject to receiving the Supervisor of Banks' approval. All as detailed in the immediate report of January 23, 2018, (Ref. Nos. 2018-01-007332), the information contained therein is presented here by way of reference.

Meetings of the Board of Directors and its Committees

In 2017, the Board of Directors held 29 meetings. In addition, 78 meetings of committees of the Board of Directors were held.

The Internal Audit in the Group in 2017

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 89 positions (including overheads; not including 3.8 outsourcing positions), of which, 28.2 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 2017 ENGAGED IN INTERNAL AUDIT AT THE BANK AND IN INVESTEE COMPANIES IN ISRAEL AND ABROAD

	Group employees	Outsourcing employees
The Bank	52.8	1.4
Investee companies in Israel audited by the Bank's internal auditor(1)	7.0	0.8
In overseas extensions	1.0	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	17.2	0.6
Investee companies abroad where the audit is performed by an independent internal audito(3)	11.0	1.0
Total	**89.0**	**3.8**

Notes:

(1) Of which, 5.25 positions in ICC.

(2) Of which, the internal auditor. Not including 1.9 positions of customer 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 2016, submitted on January 17, 2017, and discussed by the Audit Committee on March 14, 2017;
- Annual report on the activities of the internal audit in 2016, submitted on March 15, 2017, and discussed by the Audit Committee on April 4, 2017 and by the Board of Directors on April 24, 2017;
- The report on the activities of the internal audit in the first quarter of 2017 was submitted April 24, 2017, and discussed by the Audit Committee on May 16, 2017;
- The semi-annual report on the activities of the Internal Audit in the first half of 2017 was submitted on August 2, 2017, and discussed by the Audit Committee on September 7, 2017;
- Report on the activities of the internal audit in the third quarter of 2017, submitted on October 26, 2017, and discussed by the Audit Committee on November 28, 2017;
- Report on the activities of the internal audit in the fourth quarter of 2017, submitted on January 23, 2018 and is yet to be discussed by the Audit Committee.

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	Loans granted under regular terms
			in NIS thousands						
2017	100%	-	1,138	529	271	187	-	(3)2,125	-
2016	100%	-	1,072	128	275	163	22	1,660	-

* The amounts of the remuneration do not include payroll tax.

Footnotes:

(1) Including severance pay, retirement award, provident fund, further education fund, vacation pay, National Insurance contributions and loss of ability to work insurance.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) Of which: an amount of NIS 1,967 thousand, comprises remuneration as defined in the Remuneration for Officers of Financial Corporations Act (Special approval and the non-deductibility tax wise of exceptional remuneration), 2016.

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,			
	2017	2016	2017	2016
For Auditing[3]:				
To the joint auditors	15,738	15,509	6,935	6,926
For Other Services:				
Audit related services[4]:				
To the joint auditors	3,365	2,702	3,112	2,363
Taxation Services[5]:				
To the joint auditors	3,532	3,621	1,672	1,838
Other Services:				
To the joint auditors	2,014	2,110	2,011	2,050
To other auditors	-	-	-	-
Total	**8,911**	**8,433**	**6,795**	**6,251**
Total Auditors' Remuneration	**24,649**	**23,942**	**13,730**	**13,177**

Footnotes:

(1) Report of the Board of Directors to the Annual General Meeting of Shareholders on the remuneration of the independent auditors for their audit work and for services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Act, 1999.

(2) Includes remuneration that has been paid and remuneration that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

Remuneration of Interested Parties and Senior Officers and Transactions with Interested Parties

Remuneration of Interested Parties Senior Officers

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 the Finance 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 Treasurer 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) Including 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.

Remuneration of Interested Parties Senior Officers (continued)

Year 2016

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 salary, awards, employer's provisions and benefits	Share based payment	Total	Loans granted under regular terms
				in NIS thousands								
Dr. Joseph Bachar	Chairman of the Board	100%	[3]-	2,130	-	636	235	37	3,038	[4](208)	2,830	-
Ms. Lilach Asher Topilsky	President and CEO	100%	-	2,320	1,684	755	292	16	5,067	-	5,067	-
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,396	769	1,731	196	-	5,092	-	5,092	-
Ms. Tal Rubinstein[5]	CEO of Discount Capital Underwriting	100%	-	553	2,345	360	39	-	3,297	-	3,297	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,992	408	495	92	-	2,987	-	2,987	-
Ms. Yafit Gariani	Executive Vice President, Head of Human Resources and Properties Division	100%	-	1,028	330	384	202	21	1,965	-	1,965	-
Mr. Ran Oz	Senior Executive Vice President, Head of Financial Markets Division	100%	-	1,153	322	272	172	23	1,942	-	1,942	-
Mr. Levy Halevy	Executive Vice President, Head of Technologies and Operations Division	100%	-	1,094	280	324	199	26	1,923	-	1,923	-
Mr. Uri Levin	Senior Executive Vice President, Head of Planning, Strategy and Finance Division	100%	-	1,113	276	322	180	23	1,914	-	1,914	-

* 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) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(4) Clawback of expenses recorded in respect of phantom options granted to the Chairman of the Board - for details see Note 24 E (1).

(5) Ms. Rubinstein acted as CEO of Discount Capital Underwriting as from April 5, 2016 (date of consummation of the merger of Clal Finance Underwriting Ltd. with and into Discount Capital Underwriting) and until April 16, 2017.

Dr. Yossi Bachar - serves as Chairman of the Board of Directors since January 3, 2010. For details regarding the terms of engagement of Dr. Bachar, see Note 35 F and G to the financial statements. For details regarding the phantom option plan granted to Dr. Bachar, see Note 24 E 1 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, under an employment agreement. Mr. Levin's compensation was reviewed by the IDB New York's Compensation Committee of the Board of Directors. Mr. Levin is entitled to social benefits (Social security contributions and various benefit plans within the framework of such plans in effect at the subsidiary), as well as to life insurance, medical care and loss of work ability insurance. IDB New York provides Mr. Levin with motor vehicle and annual home leave in Israel. The engagement period had no specific termination date, unless any of the parties inform the other of his wish to terminate the engagement by a prior notice of four months.

Until April 1, 2017, Mr. Levin acted as Senior Executive Vice President at the Bank, Head of the Planning, Strategy and Finance Division.

Ms. Lissa Baum, Executive Vice President and Head of the Corporate Division of IDB New York, is employed by the subsidiary as an "employee at will." Mr. Baum's salary and remuneration are reviewed and approved annually by IDB New York's Remuneration Committee of the Board of Directors. Ms. Baum is entitled to health insurance, life assurance, loss of ability to work insurance, retirement benefits and various tax payments.

Mr. David Cohen, Executive Vice President and Head of the Finance Division of IDB New York, was employed by the subsidiary as an "employee at will." Mr. Cohen's salary and remuneration were reviewed and approved annually by IDB New York's Remuneration Committee of the Board of Directors. Mr. Cohen was entitled to health insurance, life assurance, loss of ability to work insurance, retirement benefits and various tax payments. Mr. Cohen ended his term of office as Head of the Finance Division of IDB New York on November 1, 2017.

Ms. Tal Rubinstein. Ms. Rubinstein acts as President, business development of Discount Capital Underwriting Ltd. ("Discount Underwriting") as from July 17, 2017. Prior to this, Ms. Rubinstein acted as CEO of Discount Capital Underwriting as from April 5, 2016, the date on which the merger of Clal Finance Underwriting Ltd. ("Clal Underwriting") with and into Discount Underwriting was consummated. Ms. Rubinstein's terms of service with Discount Underwriting in 2016 were in accordance with the terms of engagement that had existed between her and Clal Underwriting on the merger date, this being within the framework of the transitional provisions of Proper Conduct of Banking Business Directive No. 301A. The terms of office of Ms. Rubinstein at Discount Underwriting in 2017, were updated and adapted in accordance with the provisions of Proper Conduct of Banking Business Directive No. 301A and with the change in her office at Discount Underwriting, as stated. In accordance with the said terms of office, her engagement period has no defined termination date, unless any of the parties informs the other party of his wish to terminate the engagement, by giving a prior notice of three months. Upon termination of her engagement, Ms. Rubinstein is entitled to a paid adaptation period of six or nine months, as the case may be. The period of restriction on competition that had been determined in the terms of engagement applies to the first six months of the adaptation period. In 2017, as was the case in 2016, Ms. Rubinstein is entitled to a bonus based on the business results of Discount Underwriting.

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Mr. Gavish 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. Gavish is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His 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. Gavish is 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, Mr. Gavish 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), as well as to an adaptation grant equal to an amount of four salaries. 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).

Mr. Ziv Biron, employed by the Bank as Executive Vice President, Head of the Planning, Strategy and Finance Division. Mr. Biron 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. Biron is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His 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. Biron is 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, Mr. Biron 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), as well as to an adaptation grant equal to an amount of four salaries. Mr. Biron 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. Levy Halevy employed by the Bank as Senior Executive Vice President, Head of the Technologies and Operations Division. Mr. Levy 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. Levy is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His 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. Levy is 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, Mr. Levy 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), as well as to an adaptation grant equal to an amount of four salaries. Mr. Levy 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. Levy 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).

Mr. Ran Oz employed by the Bank as Senior Executive Vice President, Head of the Financial Markets Division. Mr. Oz 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. Oz is prohibited from competing against the Bank for a period of three months following the termination of employment, unless otherwise agreed by the parties. His 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. Oz is 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, Mr. Oz 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), as well as to an adaptation grant equal to an amount of four salaries. Mr. Oz 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. Oz 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 details regarding officers included in the Table for 2016, but not included in the Table for 2017, see the 2016 annual report (pp. 333-335).
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 Chairman of the Board, amounted in 2017, to NIS 5,488 thousand (2016: NIS 6,032 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, 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 now. 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 Directive 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 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.

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 2017 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 2017. In addition, the Bank conducted in 2017 a wide activity also in the cultural and artistic fields, in granting sponsorships and donations to different associations.

Monetary Scope of Activity

SCOPE OF EXPENDITURE OF THE DISCOUNT GROUP IN RESPECT OF ACTIVITIES FOR THE COMMUNITY

	In the year	
	2017	2016
	In NIS thousands	
Direct expense including the "Lema'an" project activities	7,726	7,667
Sponsorships[(1)]	279	186
Direct current cost of operating the Hezelilienblum Museum[(2)]	5,420	5,501
Indirect expenses - payroll[(3)]	2,544	3,262
Miscellaneous expenses[(4)]	299	[(5)]526
Total	**16,228**	**17,142**

Footnotes:
(1) A small part of the expense regarding sponsorships has been taken into account – only sponsorships for social associations.
(2) Guidance team payroll and building maintenance.
(3) Staff of the social responsibility unit and certain other factors who were directly engaged in social responsibility matters as part of their regular working hours.
(4) Mostly expenses relating to the preparation of various social and environmental responsibility reports, participation of the Banks' Management in financing the travel to Poland and direct expenses in respect of a financial education project.
(5) The direct expenses in respect of a financial education project were included for the first time in 2017. The comparative data has been reclassified accordingly.

"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.

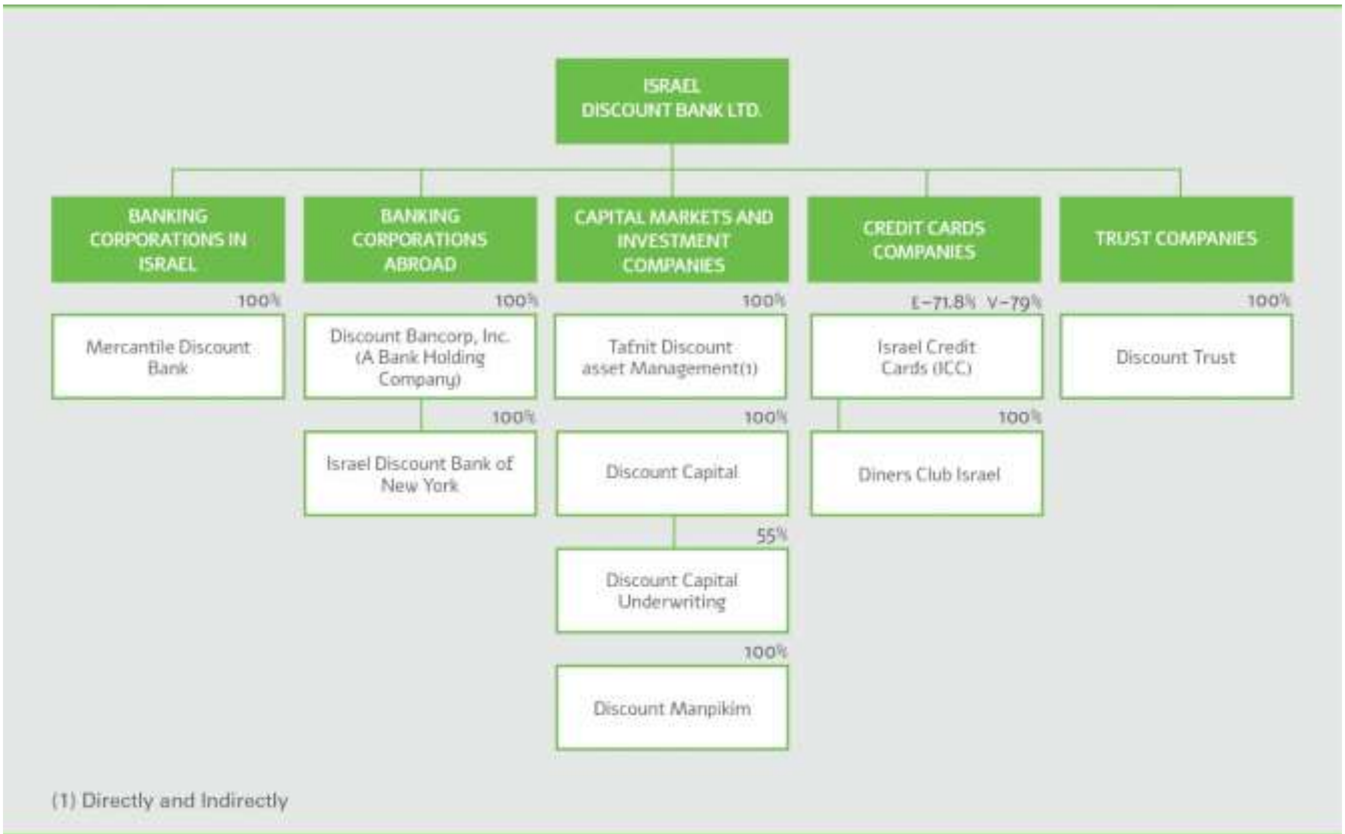
"Herzelilinblum" - Banking and Tel Aviv Nostalgia Private Museum. The Herzelilinblum Private Museum of Banking and Tel Aviv Nostalgia provides the possibility of a close study of the history and economics of Israel since the beginning of the last century. The Museum is located in a one hundred and five-year-old preserved building, one of the first houses of Ahuzat Bait.

Corporate Responsibility Report - Social Responsibility Report No. 6. Social Responsibility Report No. 6, for 2016, 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 2017. In June 2017, "Maala" published its rating for 2017. The Bank has been rated in the Platinum Plus category (distinguish companies with an absolute score of over 90). This year, ICC was rated for the first time and was included in the "Platinum" rating.

ADDITIONAL DETAILS REGARDING THE BUSINESS OF THE BANKING CORPORATION AND MANAGEMENT THEREOF

Discount Group Structure



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 2017, the investment in buildings and equipment amounted to NIS 2,366 million, compared with NIS 2,322 million at the end of 2016, an increase of 1.9%. For details as to the Bank's investments in buildings and equipment, see Note 16 to the financial statements.

Establishment of the Discount Campus. For details, see Note 26 C to the financial statements, item 18.

Focus points for 2017-2018. Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank and the Group, 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 2015-2017, within the framework of which, activities are being performed, intended to ensure the efficient and effective utilization of the real estate assets. The lines of action being examined are 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 2018, the investment in the project amounted to NIS 54 million, which is expected to produce savings of NIS 55 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 (of which 7 in 2017), merger of 27 branches and extensions have been made (of which 11 in 2017), 3 investment centers, 2 branches and 2 Head Office units have been moved (of which 4 in 2017), 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	Number of brunches	Average Sq. meters per branch
December 31, 2017	63,470	111	571.8
December 31, 2016	67,997	122	557.4
December 31, 2015	71,300	132	540.2
December 31, 2014	74,068	138	536.7
December 31, 2013	80,257	145	553.5

DISTRIBUTION OF ALL FLOOR AREA AT THE DISPOSAL OF THE BANK

	As of December 31				
	2017	2016	2015	2014	2013
	In Sq. meters				
Freehold	98.0	107.5	109.1	112.4	115.7
Leasehold	49.8	50.3	50.5	54.2	56.6
Total	**147.8**	**157.8**	**159.6**	**166.6**	**172.3**

Gain on sale of assets. In 2017 a gain from the sale of properties of approx. NIS 57 million was recorded, net of the tax effect, compared with NIS 63 million in 2016.

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 marketing Internet website and in the operations website, 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 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 2017

1. Main computer facility –the existing computer facility has been upgraded and the planning for a new main computer facility began;
2. CRM - 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 2017, progress was made on a wide range of developments in the direct channels, including: a new securities website, "Toucher – Discount's Digital Account", "Didi – The App's Digital Assistant", diverse capabilities in the transfer field and more;
4. Credit system – Development has begun of a new Group credit system, enabling 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 functional gaps in this field;
5. Cyber and data protection – the concept of the Discount cyber protection has been realized in an array of projects, with a focus on improving the cross-organization protection, providing a response to attacks on business processes, banking communication world and the supply line;
6. Projects designed for compliance with regulatory requirements, such as prohibition of money laundering, FATCA, new bills.

Principle Projects for 2018

1. CRM and customer interaction – As stated, during 2018, the roll-out of the CRM system is to be extended to all the branches of Discount and MDB. Concurrently, progress will be made in developing a CRM system for business customers;
2. Direct channels – During 2018, particular emphasis will be placed on advancing business banking initiatives. As part of this, the development of a new business website and a foreign trade website is planned, and more;
3. Cyber and data protection – Operating a proactive protection layout directed at threat scenarios, realization of the Discount cyber protection concept and improving the ability to confront cyber events and replacing the Bank's central fraud monitoring system.

The Bank's budget for 2018 in respect of projects for the development of information systems, including for information system development projects, amounts to NIS 311 million. This, similar to 2017 (NIS 310 million).

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

In 2016, ICC began making preparations for the conversion of the core system, with the aim of establishing business continuity in its core activity once the outmoded technological infrastructure reaches the end of its lifespan. The project was approved in 2017, and work on the conversion has begun. The first prototype of the project is expected to be introduced during 2018, with the aim of establishing a new modern infrastructure having a long-term technological horizon on which the core system can be operated. The conversion project is expected to continue through the end of 2020.

ICC has begun the process of thickening the DR site and is replacing old computer equipment by new equipment. ICC is studying the transfer of the central computer installation located in Givataim to a host location.

Replacement of the core infrastructure system. On April 5, 2017, ICC and HPE Software Israel Ltd. signed an agreement for the supply of computer services to ICC, within the framework of a multi-annual project for the replacement of the core infrastructure system of ICC. The aim of the project is the improvement in the business continuity of core operations, considering the termination date of the lifespan of the present technological infrastructure, and its replacement by an advanced infrastructure having a long-term lifespan. The total cost of the project, including in-house inputs therein, is estimated at NIS 130 million, that will be paid during the years of the project.

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.

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.

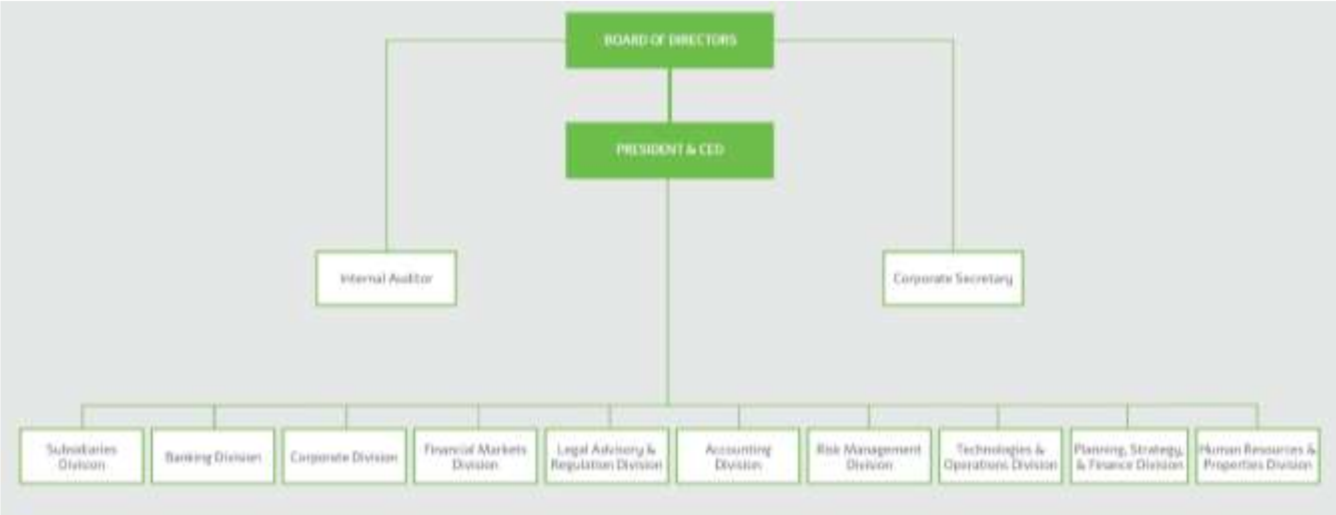
ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

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 2017

2016 Efficiency plan. In 2016 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 additional details, see above "Efficiency of the banking industry – 2016 efficiency plan" and Note 23 I to the financial statements). Until December 31, 2016, some 342 employees had retired in the framework of the plan (from the Bank and from MDB). Some 23 additional employees retired in 2017, and 19 employees signed a retirement agreement in 2017 and retired at the beginning of 2018, 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. For further details, see "Management's handling of current material issues" above.

Challenges for 2018

Effective management of the labor force and its cost. The central challenge for 2017 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 and of 2016 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 and at the end of 2016, a strict management of the manpower position of the Bank and the reduction in overseas operations, led in the years 2014-2017 (December 2013 until December 2017) to a reduction of 1,469 positions in the group, comprising a decrease of 14.6% and to a decrease of 1,439 employees in the Group, a decrease of 13.3%.

There were 5,192 employees in full-time positions in the Bank in Israel at the end of 2017, compared with 5,126 at the end of 2016, an increase of 1.3%. The average monthly number of employees, based on full-time positions, in the Bank dropped in 2017 and amounted to 5,265, as compared to 5,413 in 2016, a decrease of 2.7%.

There were 8,578 full-time positions in the Group in Israel and abroad at the end of 2017, compared with 8,558 at the end of 2016, a decrease of 0.2%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2017, was 8,641, compared with 8,842 at the end of 2016, a decrease of 2.3%.

LABOR FORCE DATA OF THE GROUP AND THE BANK

	Employees					Positions[1]									
	As of December 31					As of December 31					Monthly average in				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
The Bank in Israel	5,666	5,702	6,034	6,095	6,657	5,192	5,126	5,530	5,515	6,173	5,265	5,413	5,510	5,942	6,078
Domestic subsidiaries	3,221	3,214	3,178	3,294	3,370	2,895	2,946	3,037	3,066	3,090	2,896	2,930	3,019	3,052	3,128
Group total in Israel	**8,887**	**8,916**	**9,212**	**9,389**	**10,027**	**8,087**	**8,072**	**8,567**	**8,581**	**9,263**	**8,161**	**8,343**	**8,529**	**8,994**	**9,206**
Overseas branches	-	-	-	26	34	-	-	-	26	34	-	-	21	32	34
Overseas subsidiaries	487	485	498	775	752	491	486	501	762	750	480	499	758	759	760
Group total overseas	**487**	**485**	**498**	**801**	**786**	**491**	**486**	**501**	**788**	**784**	**480**	**499**	**779**	**791**	**794**
Group total overseas and Israel	**9,374**	**9,401**	**9,710**	**10,190**	**10,813**	**8,578**	**8,558**	**9,068**	**9,369**	**10,047**	**8,641**	**8,842**	**9,308**	**9,785**	**10,000**

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

	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
The annual average direct cost[1] per employee position in the Bank in Israel	261	246	245	6.1	0.4
The total annual average cost[1] per employee position in the Bank in Israel	406	400	372	1.5	7.5
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad	390	386	365	1.0	5.8

Footnote:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2017 by a rate of 6.1% (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, decreased in 2017 by a rate of 2.0% (see Table below).

The total average annual cost of an employee position at the Bank in Israel, increased in 2017 by a rate of 1.5% (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 0.3%, compared with 2016 (see Table below).

COST PER POSITION, IN NIS THOUSANDS, ELIMINATING CERTAIN COMPONENTS

	2017	2016	2015	2017 compared to 2016	2016 compared to 2015
The annual average direct cost[1] per employee position in the Bank in Israel - Disregarding awards	239	244	243	(2.0)	0.4
The total annual average cost[1] per employee position in the Bank in Israel - Disregarding awards	375	374	370	0.3	1.1
The average annual overall payroll cost[1] per employee of the Group in Israel and abroad - Disregarding awards	359	358	350	0.3	2.3

Footnote:

(1) The payroll costs also include the cost of software house employees less payroll costs capitalized to fixed assets.

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

	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, 2017									
Average number of positions in the segment	4,576	203	2,210	386	523	90	173	8,161	480	8,641
Of which: Management positions	939	45	432	88	122	23	44	1,693	346	2,039
	For the year ended December 31, 2016									
Average number of positions in the segment	4,632	196	(1)2,273	(1)418	(1)499	(1)115	(1)210	8,343	499	8,842
Of which: Management positions	890	41	421	90	107	23	59	1,631	258	1,889

Footnote:
(1) Reclassified

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 would now be 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 221 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, 2017, the Bank employed 95 personnel (including members of management) under personal employment agreements (December 31, 2016: 76 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	2017	2016	2015	2014	2013	2017 compared to 2016	2016 compared to 2015	2015 compared to 2014	2014 compared to 2013
Tenured employees under personal contracts and members of management	3,853	3,917	4,149	4,115	4,501	(64)	(232)	34	(386)
Temporary employees	1,285	1,304	1,386	1,493	1,685	(19)	(82)	(107)	(192)
Software house	364	308	314	301	283	56	(6)	13	18
Total	**5,502**	**5,529**	**5,849**	**5,909**	**6,477**	**(27)**	**(320)**	**(60)**	**(568)**
Additional – employees on unpaid leave and maternity leave	164	173	185	186	180	(9)	(12)	(1)	6
Total	**5,666**	**5,702**	**6,034**	**6,095**	**6,657**	**(36)**	**(332)**	**(61)**	**(562)**
Positions	2017	2016	2015	2014	2013				
Tenured employees under personal contracts and members of management	3,905	3,963	4,228	4,156	4,533	(58)	(265)	72	(377)
Temporary employees	1,263	1,283	1,389	1,532	1,734	(20)	(106)	(143)	(202)
Software house	345	288	325	302	284	57	(37)	23	18
Total	**5,513**	**5,534**	**5,942**	**5,990**	**6,556**	**(21)**	**(408)**	**(48)**	**(566)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	139	179	206	226	226				
Of which positions of software house employees of which has been capitalized to fixed assets	182	229	206	249	157				
Total positions before of which has been capitalized to fixed assets	**5,192**	**5,126**	**5,530**	**5,515**	**6,173**				

The implementation of the early retirement plans at the end of 2014 and at the end of 2016, and a strict management of the manpower position of the Bank, led in the years 2014-2017 to a reduction of 991 positions at the Bank, comprising a decrease of 14.9%.

Developments in Labor Relations

Labor dispute. The Union of Clerks, Administrative Public Service Employees ("Histadrut HAMAOF") informed the Bank on April 19, 2017, of the declaration of a labor dispute by the Managers Representative Committee at the Bank. According to the said notice, the Managers Committee could have started a strike as from May 7, 2017, and thereafter. The labor dispute was terminated by a collective labor agreement signed on September 17, 2017, by the Bank and the representative committee of the employees. The agreement settled certain issues, the financial impact thereof is not material.

Collective Labor Agreements

On November 30, 2016, a wage agreement was signed until 2018 (inclusive), as well as an agreement extending the validity of the labor charter through 2021. For details, see the 2016 annual report (p. 345).

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 in the years 2015-2017 and for the President & CEO in 2016, 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 shall be in effect until December 31, 2018. Until that date, the parties are committed to maintain industrial peace with respect to the issues and terms as determined in the agreement.
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. The agreement also grants salary increases to employees earning a low wage, additions to the rates of deposits for pensions as well as other benefits. On the other hand, changes were made in the arrangements prevailing prior to the signature of the agreement regarding jubilee awards.
According to the agreement, workers of ICC were eligible as 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 .
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. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M..

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.
Increasing the provisions for pension insurance in the market. A general collective labor agreement, signed in the market on April 3, 2016, with an Expansion Order in respect thereof dated May 23, 2016, according to which the minimum rates of the provisions for pension were raised in respect of all employees. It was decided, inter alia, that each employee would be assured a pension in respect of his determining wage, under the following terms: as from July 1, 2016, the contribution in respect of the provident component would

be 5.75% by the employee and 6.25% by the employer; as from January 1, 2017, the contribution in respect of the provident component would be 6.0% by the employee and 6.5% by the employer. It was also decided that these components would include also contributions by the employer in respect of loss of ability to work. It was also decided that, where an employee is insured under an executive's insurance policy, contributions for loss of work ability will be included in the provident contribution rates, provided that the employer's Provident contribution rate is not less than 5% of the employee's salary. The Bank has made preparations to comply with the provisions of the collective labor agreement, including payment in respect to loss of work ability.

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, in cooperation with senior and mid-level managers worked to form the Discount Spirit. The Bank's Vision was approved in the first quarter. Workshops were held in the second quarter, following which, through a steering committee and with the approval of the Bank's Management, the Values and Principles of Conduct of the Bank were formed. In addition a new Code of Ethics was formed, following a deep process, in the framework of which the regulatory and social requirements were examined as well as the existing code of the Bank. The Code of Ethics has been approved by the Bank's Board of Directors. In the course of 2018, a significant integration of the Discount Spirit would begin 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. Within the strategic project "Combined", for intensifying the communication means with the Bank's customers, and the integration of the Connected+ system (CRM) at the branches, the Bank formed during 2017, the concept of integration and change management of the Combined project within the relevant population at the Banking Division. In this framework, a plan has been formed for technological support, within the framework of which the capabilities of the systems are studied and concurrently, managers of the Banking Division are being accompanied in the management of the change and its integration. All this, under a wide coverage of intra-organizational communication.
Managers development programs. Some 32 employees were trained in 2017 for their first managerial office. In addition, a program was started for increasing leadership capabilities and the organizational influence of senior Management. Some 15 selected managers of the reporting to Management level participate in this program. Some 195 managers participated in the managerial training room, a practical-integrative training, issue focused, for increasing the variety of capabilities and managerial qualifications of managers at the Bank. This, alongside consultation and personal assistance for managers, provided within the framework of entry into office, team development, or when accompanying other organizational changes.

Professional Guidance

In 2017, a comprehensive response was provided for professional needs by means of training that dealt with the qualification of employees for core banking positions, as well as ongoing on-the-job training. The main guidance focal points were: enhancing the professionalism of officeholders in the credit field, financial consulting, massive training in direct banking and basic banking – training for bank tellers and service teams. In addition, extensive digitalization instruction took place during 2017, with the aim of assimilating know-how and tools for raising awareness at the branches and at Telebank regarding the use of digitalization. The accessibility workshops for new employees joining the Bank during the year continued in 2017. Some 27 workshops were held, during which training was given to 344 employees and managers from all units of the Bank. During the course of these workshops, employees who provide service to customers were exposed to the experience of customers with disabilities.
The number of frontal training days in 2017 reached 29,536 compared with 26,335 training days in 2016, an increase of approx. 12.2%. In addition, the Bank held computer network training, amounting in 2017 to 37,016 interactions of self-study, compared with 39,914 interactions in 2016, a decrease of 7.2%. A significant part of the computer network learning was dedicated to the regulation in different areas.

Organizational Culture

In 2017, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service.
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 2016, 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. The new FaceBank portal was introduced in the third quarter of 2017. The new FaceBank enables access to employees, participation in know-how, a wide dialogue and new contents that assist in the integration of information in a convenient manner and advanced user experience. The new portal emphasizes the participation of employees in determining the contents and in increasing their involvement in leading change processes.
"The Managers" website. Since 2016, the Bank operates an internal website "The Managers", which contains tools and content for managers at the Bank, which assist them in the integration of cross-organizational processes stemming from the Bank's strategic plan, as well as enrichment and development content. Approx. 10,000 entries by 1,200 managers at the Bank were recorded on the website during 2017.
Communication with the Senior Forum. In 2016 a designated channel has been established 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 addition, special-purpose activities have taken place in order to strengthen joint voluntary activity for the benefit of the community.
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.

Performance evaluation and feedback

An emphasis on the determination of personal performance goals for all employees was placed in 2017, these being derived from the work plan of the Bank and its strategic focuses. In forming their evaluation, the evaluating managers have been guided to make a distinction between the strengths of the employee being evaluated and the subjects that have to be improved, in order to encourage personal and professional development.
Towards the performance of the evaluation process, the Bank has conducted training sessions regarding the process designed for new evaluation managers as well as refreshing knowledge sessions for senior evaluation managers.

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 2017, 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 (80%). The branches' handling of service follow-up inquiries was also measured, and this constituted 20% of the index's calculation.
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 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 November 2017, for the fourth 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 475 services provided by the different divisions to those receiving service from the Bank and from the subsidiary companies. The rate of respondents reached 91.2%.
The results and findings will be presented to all heads of divisions and departments at designated meetings; Each service manager will receive a detailed report of the findings and an analysis of the results; improvement targets will be defined for each head of department at a KPI level; Units requesting assistance in structuring their improvement plans and establishing a dialogue with users of the service, will be provided with professional assistance. In addition, a convention will be 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

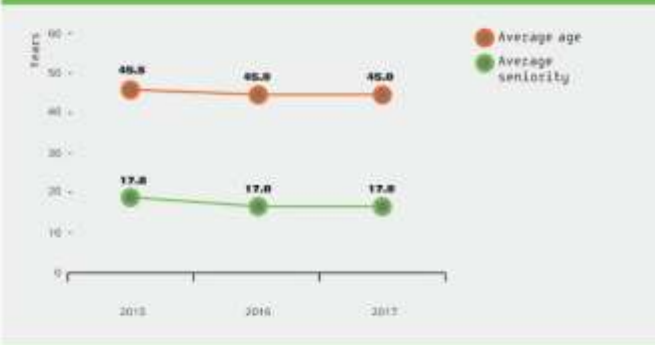
The reduction in the amount of complaints and the number of justified complaints were defined as a system objective also in 2017.
In September 2017, the bank/customer relations wing at the Supervisor of Banks published data regarding complaints lodged against banks in Israel in 2016. The number of complaints received at the Bank through the Bank of Israel remained unchanged, 243 complaints in 2016 as compared with 245 in 2015. The number of complaints found justified in 2016 was smaller than that of 2015 – 3 justified complaints compared to 12 in 2015. The rate of justified complaints dropped from 8.9% in 2015 to 3.5% in 2016. The number of complaints received by the Bank in 2017 through the Bank of Israel, increased to 390 complaints, compared to 243 complaints in 2016. No data has yet been received from the Bank of Israel in respect of 2017.
The annual report to the public regarding the treatment of complaints by the Bank in 2016, may be viewed on the Bank's website. The annual report in respect of 2017, shall be available to the public on the Bank's website at the end of March 2018.

Number of positions at the Bank

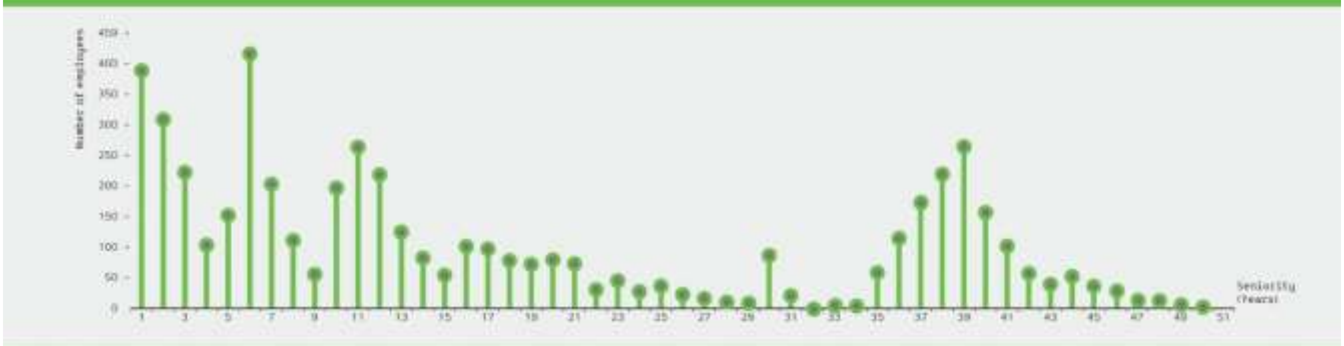
Training days

The rate of university graduates according to grade

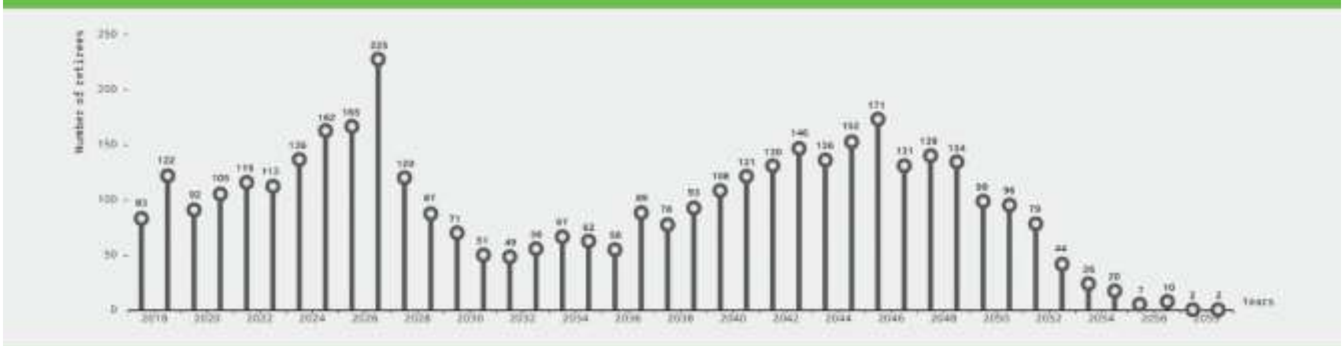
Average seniority and average age



Distribution of tenured employees by seniority – work force 12/17



Natural Retirement by Years (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. Within this overall context, the "update, stages and determination of salary ceilings for new employees" agreement was signed in 2011.

Arrangement replacing criminal proceedings. For details regarding the arrangement in lieu of criminal proceedings, signed in November 2016, between the economic department of the State Attorney Office and ICC, see Note 36 F (2).

Agreement for the acquisition of VISA Europe. For details regarding the agreement according to which VISA Inc. acquired the shares of VISA Europe held by the principal members, including the Bank and ICC, see Note 36 G.

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 horizon	Date of rating/ ratification of rating
		Discount Bank		
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	October 24, 2017
	Subordinate capital notes(1)	il AA	Stable	October 24, 2017
	Upper tier 2 capital (Series 1)	il A+	Stable	October 24, 2017
	Hybrid tier 1 capital (Series "A")	il A	Stable	October 24, 2017
	Subordinated debt notes with a loss absorption mechanism (Series "L")	A+	Stable	October 24, 2017
Midroog	Long-term deposits	Aa1	Stable	November 7, 2017
	Short-term deposits	P-1		November 7, 2017
	Subordinate capital notes(1)	Aa2	Stable	November 7, 2017
	Subordinate capital notes (tier 1 capital)	A1	Stable	November 7, 2017
	Subordinated debt notes with a loss absorption mechanism (Series "L")	A1	Stable	November 7, 2017
The international rating agency S&P	Issuer rating Long-term	BBB+	Stable	January 9, 2018
The international rating agency Moody's	Long-term foreign currency deposits	Baa1	Stable	September 26, 2017
	Counterparties Risk Assessments	A3		September 26, 2017
		Mercantile Discount Bank		
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA+	Stable	October 24, 2017 (2)
	Subordinate capital notes	il AA	Stable	November 24, 2017
		IDB New York		
Kroll Bond Rating agency	Deposits	A-	Stable	November 2, 2017

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.

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	Stable
The international rating agency S&P	A+	Positive
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 188 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 their age, financial wealth and additional parameters.

Points of Emphasis for the coming year

In 2018, the Bank will continue to implement the new retail strategy, while focusing on a number of fields:
- The continued installation of a clever telephonic system at the business and administrative teams at the branches, which would support the strengthening of the bond with the customer, while increasing telephonic availability of the banker and improving the overall service;
- The continued upgrading of the digital channels and the directing of activity to these channels;
- Attaching additional customers to the new communication channels, coded mail and the communication application for correspondence with the bankers;
- The continued installment of the CRM system for the upgrading of communication with the customer at the branches and at the TeleBank;
- 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 tool supporting 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 2017 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 provides an improved telephone reply freeing time for branch employees to create added value to the customer from the initiative and sales aspects.
Activity on the Bank website and on the mobile application – Encouragement of the use of these channels expressed in significantly low costs to the customer, compared to the cost of identical services provided at the branches. 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.
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 2017, in accordance with life events of the customer, while focusing on designated products adapted to the household segment.

Consulting Layout

Investment centers. The Bank operates countrywide 9 investment centers and 4 extensions providing consultation services to customers holding assets with the Bank in an amount of over NIS 700 thousand, or to customers active on the capital market. The service is provided by expert investment consultants. Investment centers continued to provide in 2017 a wide overall service, consisting of designated pension consulting for those who wish so and reference to mortgage services provided by designated centers.
Investment Consulting services. Consultation services at the Bank Branches are provided by authorized investment consultants and

are intended for customers holding assets with the Bank in amounts exceeding NIS 100 thousand. Consulted customers, holding assets with the Bank in amounts exceeding NIS 700 million, are also offered consulting services at the investment centers, as described above.
Pension advisory services. The Bank provides pension advisory services at the Bank's branches and investment 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 2017, the Bank operated a country wide layout of 111 branches and extensions. This, following the Bank's closing down and merging 11 branches and extensions: the Top-Dan Branch, the Barzilai Extension in Ashkelon, the Neot Rachel Branch in Holon, the Rison LeTzion extension, Neveh Shaanan Branch in Haifa, the Kiriyat-Yam Branch, the Givat Shmuel extension, the Shenkin Branch in Tel Aviv, the Romema Branch in Jerusalem, the Nahariya Hospital extension in Nahariya and the Rambam extension in Haifa. Mercantile Discount Bank ("MDB") operated 77 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 2017, 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;
- One stop shop - A comprehensive service to the customer at one service point;
- 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 2017, 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.
The Bank launched the first private refueling card in Israel. This benefit enables private account holders, who own a credit card of the Bank, to order a private refueling card, free of charge, for use in SONOL gas stations.
In continuation to the "Discount is good for the family" move, the Bank introduced the "family key". "Family key" is a benefits plan designed for customers who are attached in their current accounts to the family plan and who hold the "Discount key" credit card of the Bank. Within the framework of this plan, holders of the "Family key" enjoy double or increased discounts at a variety of trading houses.

Operational Efficiency in the Branches

The action for the removal of operational activity from the branches continued in 2017 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. 138 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 Mercantile Discount Bank ("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

At the present time, the Bank operates 63 branches, countrywide, providing mortgage loan services. The Bank focuses on the granting of mortgage loans as a method for maintaining the business with existing customers and attracting new customers.
The Bank operates two channels in the process of approving a mortgage, as follows:
- A direct approach channel to the mortgage loan officer at the branch;
- A direct channel - call center specializing in mortgage loans, which provides service in main areas, as follows:
  - Dealing with approaches by customers seeking a new loan. Based on predetermined criteria, the customer is granted a preliminary stipulated approval for a loan, 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

	For the year ended December 31		
	2017	2016	Change in %
	in NIS millions		
Total housing loans granted by the banks, excluding internal recycling of loans	53,347	58,907	(9.4)
Loans from State funds	388	131	196.2

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,		
	2017	2016	
	In NIS millions		Change in %
From bank funds[(1)]	5,973	7,009	(14.8)
From Treasury funds[(2)]	29	8	-
Total of new loans	6,002	7,017	(14.5)
Recycled loans	410	503	(18.6)
Total granted	**6,412**	**7,520**	**(14.7)**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 149 million in 2017, compared to NIS 128 million in 2016.
(2) Including standing loans in the amount of NIS 5 million in 2017, compared to NIS 2 million 2016.

LEGISLATIVE RESTRICTIONS AND REGULATIONS

Proper Conduct of Banking Business Directive No. 329A in the matter of "mortgage consultants". This Directive regarding activity involving outsider mortgage consultants was published on September 13, 2017. In accordance with the Directive the board of directors of banking corporations is required to determine a policy with respect to the above mentioned activity, which should be presented to the Supervisor of Banks. A banking corporation shall not refuse to conduct negotiations with a representative of the customer at any stage of the loan granting process and in any communication channel in which the bank operates. The banking corporation shall state the situation requiring the presence of the customer, on condition that a primary offer of a loan would be made possible without the presence of the customer. The banking corporation shall determine criteria according to which no activity would be made possible with respect to certain representatives. The effective date of the Directive is October 31, 2017. For additional details, see the 2016 Annual Report (pp. 411-412).
Amendment of Proper Conduct of Banking Business Directive No. 451 in the matter of "maintaining the interest rate of housing loans". On December 10, 2017, the Supervisor of Banks published an Amendment to the Directive, according to which, the interest rate

quoted for a customer who had been granted an approval in principle for a housing loan, would remain in effect for a period of not less than twenty-four days instead of twelve days immediately before the amendment. Nevertheless, in the case of a loan not requiring the registration of a new pledge, the period maintaining the interest rate would remain at twelve days. The amendment will take effect 3 months from its publication date.

Letter from the Banking Supervision Department regarding supplementary housing loan conditions for entitlement loans. On December 10, 2017, the Banking Supervision Department issued a letter explaining that, in light of events that had been brought to its attention, the banks must ensure that, the interest to the customer is not adversely changed in the event that a customer requests to take a government entitlement loan, compared with the interest offered to him when the entire loan is from the bank's money.

Amendment of Proper Conduct of Banking Business Directive No. 329, regarding Restrictions on Granting Housing Loans. On December 17, 2017, the Banking Supervision Department published an amendment to the Directive, whereby the minimum equity amount required from buyers in a "Mechir Lamishtaken" project was reduced to NIS 60,000 from NIS 100,000.

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 2015 Annual Report (pp. 469-471).

DEVELOPMENTS IN THE MORTGAGE MARKET

The volume of sale of residential units decreased in 2017, with a respective decline in the volume of mortgage loans granted. The volume of mortgage loans granted by the industry as a whole amounted to NIS 53 billion, compared to NIS 59 billion in 2016, a decline of 11%. A corresponding decline took place in the performance growth rates of the Discount Group.

Notwithstanding, the volume of the Group's housing loan portfolio grew in 2017 by approx. 12%, compared to a more moderate growth in the housing loan portfolio of the banking sector as a whole, which grew at the rate of 4.5%.

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 2017 (similarly to 2016), 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. Approval of the individual mortgage files is conducted in designated branches, specifically defined for this purpose. 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 Pituach, 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.
The reorganization of the service to wealthy customers, in the investments and wealthy customer wing, established in January 2017, continued in 2017. As part of the restructuring, customers whose activity on the capital market is between NIS 1 million and NIS 4 million will only receive expert advisory services at the private banking – investment banking centers. At the same time, in international banking, the Bank continues to intensify the activity with existing customers and with new immigrants, the implementation of cross-border banking management rules, and segmentation, namely, transferring foreign resident customers to branches and/or the international banking wing specializing in service to such customers.
For details regarding the overseas activities of this segment, see below "International activity".

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 serve foreign residents 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. At the beginning of the year, the Bank adopted a risk based policy regarding foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts, and has immediately started the implementation of this policy with respect to the relevant group of customers. In addition, the risk management unit at the customer assets 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 and 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. The private banking centers in Herzliyah and Haifa and Tel Aviv operate from 8 AM to 8 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 2017 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, nine banking investment centers, and four 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.
An additional innovation relates to the pricing of commissions. Customers of the investment 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 188 branches located all over the country, in addition to a variety of direct channels.

Goals and Business Strategy

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 2017 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 2017, 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.

Points of Emphasis for the coming Year

- 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;
- Customizing the sale of unique products 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;
- Increasing the use of models analyzing the activity of the segment's customers (the "red lights" system);
- Designated cooperation with technology companies with the aim of offering unique value offers to Bank 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 by designated private companies financing specific operations, such as: the purchase of vehicles, equipment or import activity. The Bank's principal methods to cope with 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. Service is provided at the Bank branches, except for foreign trade services. Customers also have the option receiving service by way of a designated Internet website or cellular application as well as by 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 NIS 15 million and indebtedness of up to 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.

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.
Small Business Fund. The Ministry of Finance informed the Bank on January 17, 2016, of its decision to accept the offer of MDB (and its institutional partner), as one of the winners in the tender. The maximum volume of credit, which the Bank (jointly with the institutional body) would be able to grant customers within the framework of this tender, amounts to NIS 650 million. The balance of loans within the framework of the Fund which MDB granted its customers (in participation with the institutional body), amounted as of December 31, 2017 to NIS 480 million (2016 - NIS 190 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 and the South, Tel Aviv, Sharon, The North and the Lowlands.
A southern extension was opened in Beer Sheva in 2017, 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. A 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.

Anticipated Developments in the Coming Year

The Bank estimates that growth is expected to continue in 2018 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 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 2017

The domestic economy expanded in 2017 at a rate of 3.3%, a slow rate in relation to the growth of 4% in 2016. Concurrently, the business product grew by 3.5% compared with 4.2% in 2016.
Following are the factors which affected the development of the business product in 2017:

- A growth in exports (excluding diamonds and startup companies) at a rate of 5.3%, following a moderate growth of 1.1% in 2016. The said growth reflected acceleration in the export of services, led by exports of hi-tech and tourism services. Industrial exports grew by 2.5%, following regression in 2016;
- Private consumption continued to demonstrate potency, despite growing by 3.3%, a rate lower than that of 2016 (6.1%). The slowdown in private consumption in the past year mostly stems from a decline in the import of motor vehicles on the background of advancing purchases to the end of 2016. Current consumption continued to grow at an accelerated rate of 4.3%;
- Investments in fixed assets (excluding ships and aircraft) recorded a growth of 2.8%, lower than that of 2016 (11.2%), on the background of a 3.3% growth in investments in economic sectors, which was also affected by the decline in the import of private vehicles. Likewise, a fair growth was recorded in investments in infrastructure and non-residential construction, with a slowdown in investments in residential construction;
- Public consumption (excluding defense imports) grew in 2017 at the rate of 4.0%, similarly to 2016, with a continuing relatively fast growth in civilian consumption;
- The import of commodities and services (excluding defense imports, ships, aircraft and diamonds) recorded an accelerated growth of 6.1% (though lower compared with 2016 - 8.1%). Import data indicate accelerated growth in the import of services, and a relatively moderate growth in the import of commodities.

Developments in the Debt of the Corporate Banking Segment

As of November 2017[4], an increase of 3.1% was recorded in the debt of the business sector (excluding banks and insurance companies). 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 2017 stood at NIS 872 billion, compared with NIS 845 billion at the end of 2016. The rise in the debt reflected a moderate growth of 2.5% in the debts to banks (including corporate bonds), 7.4% in the debt to institutional bodies and 10.1% in the debt of the business sector to households. On the other hand, the debt to foreign residents declined by 4%. It is noted that the growth in the debt to institutional bodies stems from an increase in private loans and in bonds by rates of 10% and 7%, respectively. The debt to banks amounted at the end of November 2017 to NIS 410 billion.
As a result thereof, the weight of the debt to banks out of the total debt of the business sector continued to diminish, amounting at the end of November 2017 to 47.0%, compared to 47.3% at the end of 2016.

[4] The most updated data available at the time of submitting the report to print.

Funds raised by the issue of corporate bonds in 2017 (both marketable and nonmarketable, excluding the financial sector) amounted to NIS 46.1 billion, compared with NIS 43.1 billion in 2016.
The margin between corporate bonds (included in the Tel-Bond 60) and government bonds at the end of December 2017 was 1.26%, compared to 1.19% at the end of 2016 and 1.15% at the end of the third quarter of 2017.

Developments in Segment Markets

Following are development directions in the principal economic sectors:
- Industrial sector – an export inclined economic sector affected by foreign demand. 2017 was characterized by the continued weakness in the industrial sector, reflected in low production levels and weakness in exports. Exports were adversely affected by the strengthening of the shekel. Two of the three principal trading currencies weakened as against the shekel, the U.S. dollar was devalued by 10.4%, the Pound Sterling by 1.1%, and on the other hand, the Euro appreciated by 4%. Notwithstanding the above, the purchasing managers' index for the last few months of the year indicated a certain measure of optimism, when in December 2017 the index indicated an expansion trend;
- Diamonds – The weakness in the activity of the sector continued in 2017 as a result of market conditions. The export of polished diamonds declined significantly, as part of the decline in exports felt throughout the industry. The decline in exports stemmed from the global decline in demand in view of the economic situation on the background of the slowdown in growth of the target markets;
- The tourism sector – The sector benefited from the growth in the rate of incoming tourists into Israel, reflecting a record level according to the trend data. This, alongside the improvement in the occupancy rate of hotels all over the country;
- Commercial sector – This sector is being affected mostly, by domestic demand, while a growth of 3.5% was recorded in the third quarter of 2017, a faster growth rate than that recorded in the first half of the year. However, the turnover indices in the retail trade indicate a growth of 3% in the third quarter;
- 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

The Bank of Israel estimates that the Israeli economy would grow in 2018 by a rate of 3.4% and the forecast for 2019 amounts to 3.5%. Exports are expected to continue and grow in the forecasted period, inter alia, due to the expected continuation of the recovery of global trade. Furthermore, the forecast is positively affected by the expected growth in import of motor vehicles in 2018, and by one-time investments expected in 2019.

Reaching Targets and Business Strategy – 2017

In the course of 2017 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 2017 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.
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 2018, 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 2018:

- 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 2017". 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 policy insuring against credit risk related to Sales Act guarantees and execution guarantees. In May 2016, MDB completed the purchase of a policy insuring against credit risk related to Sales Act guarantees and execution guarantees issued within the framework of "closed project" financing, and which relates to a credit risk portfolio in the amount of NIS 1.7 billion.

In June 2016, the Bank completed the purchase of a policy insuring against credit risks on certain performance guarantees, which were granted not within the framework of "closed project" financing and which relate to a credit risks portfolio in the amount of NIS 3.0 billion.

These acquisitions are added to the acquisition of a policy insuring against credit risks on Sales Law guarantees, which are offered within the framework of "closed project" financing, whose purchase was completed in August 2015, which relate to a credit risks portfolio in the amount of NIS 8.9 billion.

Within the framework of the insurance policy, the Bank transfers 80% of the credit risk involved in Sales Act guarantees and execution guarantees and in commitments to issue such guarantees to an international consortium of reinsurers. According to Proper Conduct of Banking Business Directive No. 203, this transaction allows the Bank to reduce the risk assets by way of reducing the risk weight of exposure to a level of 20%, in line with the international rating of reinsurers.

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. Following the amendment of the instruction of June 2015, the restriction on indebtedness of a banking group of borrowers was reduced from 25% to 15% of the equity. The amendment is in effect since January 1, 2016, and thereafter. Following the said amendment, 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. It has been prescribed as a transitional instruction, that the calculation of capital shall include the Tier 2 capital as of December 31, 2015, which shall be reduced as from January 1, 2016, by one-twelfth in each quarter, until its elimination on December 31, 2018. As of December 31, 2017 no deviations existed to the limitations as set in the directive.

Starting with the 2012 annual report, 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.

The limitation on "related parties". 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, 2017, 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.
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 foreign trade unit operates within the framework of the Bank's Corporate Division, and offers a range of services to customers from the various business segments engaged in international trade.
Operations. The business activity of the foreign trade unit coordinates all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.) and in 2017, the Bank has strengthened its positioning and place as regards complex transactions in the foreign trade field. In addition, the foreign trade unit continued in 2017 its intensive activity 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.
The marketing activity for increasing the customer base using foreign trade services continued in 2017 as well as increasing the share of their operations on the Internet. Following this, the rate of transactions performed online increased to 53% of all transactions.

Changes in Customer Characterization

The large customers and the large borrower groups in the economy form a substantial part of the Bank's corporate customer portfolio.
The commercial credit portfolio includes exposure to holding companies, the credit that had been granted to serve to finance domestic or foreign operations. The risk profile of these companies at market level, increased in the recent year, when several of the major holding companies were unable to honor their liabilities and were forced to reach a debt arrangement with the holders of bonds issued by them (the same doubt exists with respect to other companies, which is reflected in the level of return on their bonds).
Following the growth in the risk profile of holding companies active on the domestic and or overseas markets, the Bank reduced the credit granted to them by way of transferring the credit from holding companies to their operational subsidiaries, transfer to credit in amortization backing-up the loan by reasonable local collateral, and avoiding the granting of credit to companies mostly operating abroad.

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. The year 2017 was marked by a slowdown in demand for residential units and by moderation in the rate of increase in housing prices. Private investors in the residential market continued to reduce the number of residential units owned by them. Moreover, moderation in demand for residential units was noted in recent months, as was reflected, inter alia, in the decline in volume of new mortgage loans, this, despite the decrease in the interest rate on mortgages, and the allocation of land by the State, mostly for "Mechir Lamishtaken" (Price for the house buyer) projects
Income generating real-estate for office buildings. The office premises market maintained in 2017 stability in occupancy rates and in rental prices.
Income generating real-estate commercial buildings. Stability has been maintained in occupancy rates and rental fees in the commercial real estate market. Notwithstanding, a weakness is noticed in sales turnover of tenants, stemming inter alia from the effect of trading on the Internet, and may have an adverse effect on demand in this field.
Infrastructure. A growth in the scope of operations in the infrastructure sector was recorded in 2017, while, inter alia, may be noted are the significant projects in the transportation infrastructure, with a focus on public transport, improvement in the railroad infrastructure, construction of the light railway in the Dan region and the transfer of military bases to the South.

DEVELOPMENTS IN THE FINANCING RESOURCES OF THE ACTIVITIES

Bonds. A slight increase was recorded in 2017 in the volume of corporate bonds issued by real estate companies. Local real estate companies issued bonds to the tune of NIS 19 billion, an 8% increase compared to 2016.
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 Government is expected to continue its involvement in the housing market in 2018, mainly through the marketing of the "Mechir Lamishtaken" (Price for the house buyer). Likewise, the State acts to increase the scope of planning activity as well as importing foreign labor for the construction 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 commercial centers.
Infrastructure. In the coming years, national projects in the infrastructure field are expected to begin, which are expected to lead to a growth in the activity of this segment.

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 that as part of Proper Conduct of Banking Business Directives, a limitation applies 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, 2017 reached a rate of 17.4% (17.2% at the end of 2016).
Amendment No. 9 to the Sales Act (Residential units)(Securing the investment made by residential unit purchases). The Amendment was published in the Official Gazette on March 30, 2017. In accordance with the Amendment, guarantees granted under the Sale Act, in respect of apartments sold in a project or building, in which the sale had commenced after the determining date, as defined in the amendment to the Act, will be issued without the VAT component. Upon the exercise of a sale guarantee, the financing bank shall apply to the Fund, to be established at the Ministry of Finance, requesting on behalf of the purchaser exercising the sale guarantee, the refund of the amount of VAT, and upon receipt of the said amount, credit the respective purchaser. A notice announcing the establishment of the Fund for VAT Refunds was published in the Official Gazette on April 30, 2017. Also published were the bylaws of the Fund. The Amendment, entered into effect during May 2017, and the Bank is preparing for the implementation of the provisions of the Amendment applying to a banking corporation.

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 (through mutual funds and ETN's).

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, mutual funds and ETN managers. 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. Moreover, the trend is increasing of trading on overseas markets through foreign bodies (which provide also securities custodian services) as an alternative to Israeli banks.

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

The dealing room is available to customers and to the Bank's branches and provides personal and professional service in the global money and capital markets and in the implementation of special transactions in foreign exchange, interest rates and securities. 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. Combining the said areas of operation, allows customers to obtain all commercial services under one station providing a standard of service and of professional level.
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 modifies various transactions to customer needs, in particular with respect to hedge and market risk requirements. The unit is a central "market maker" in the dollar/shekel trading; when the dealing room enters into a transaction with a customer, the dealing room becomes the counterparty to the transaction and in respect thereof bears market, credit and operating risks.
The principal transactions which the unit offers 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 as required by the customer. The Bank serves as a central market maker in government bonds (linked and shekel). The Bank trades in these bonds on behalf of Bank customers for the purpose of hedging risk and for investment.

Trading in securities

The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments. Following are details regarding the lines of trading operations in securities at the two desks:
Foreign securities. The foreign securities desk is active in a large variety of equity and financial markets worldwide, utilizing complex financial instruments and offering a wide range of instruments: trading in shares on foreign markets, trading in options, in Government bonds and in corporate bonds, mutual funds and hedge funds, and in arbitration activity.
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 on the Tel Aviv Stock Exchange. The desk provides brokerage services involving both marketable and non-marketable securities through brokering deals for customers (matching transactions), carries out transactions on behalf of customers (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 GT Unit was established in 2015 with the aim of centralizing 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, interest risk and the currency and linkage segments exposures, as well as for managing the investment portfolios, managing the capital and managing the exposure and the contacts with financial institutions. Within the framework of the Group management, the Unit has the role of providing mandatory professional guidance to the ALM, investment and capital management units at the subsidiaries.

Assets and Liability Management (ALM)

The main areas of activity in the management of assets and liabilities are the management of liquidity, management of exposure to interest risks inherent in the balance sheet, management of linkage and currency risks, management of the available-for-sale securities portfolio, determination of transfer prices and management of the financial spread.

Liquidity risk management. Liquidity risk management is performed using internal and regulatory models (Liquidity Coverage Ratio), from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of ongoing analysis of trends in the mix and the volume of the Bank's credit and assets and liabilities.

Short-term liquidity and deposits. The asset and liability management unit operates a liquidity desk dealing with the short-term liquidity of the Bank (up to one month) in Shekel and in foreign currency, through Bank of Israel tenders, deposits and swap transactions. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency. The desk endeavors to invest the liquidity surplus in every currency and at each point of time.

Linkage base and interest rate exposure management. Measuring market risk exposure in the Bank's balance sheet is done by means of a designated computer system, which downloads information from all operational systems at the Bank. The asset and liability management committee, headed by the President & CEO, determines the levels of exposure to interest rate risk at the various linkage segments within the framework of limits determined by the Board of Directors regarding the risk appetite.

Transfer prices and management of the marginal financial spread. The Assets and Liabilities Management computes on a daily basis the Bank's internal transfer prices for credit and for deposits. The transfer prices serve as a basis for computing the profitability of all credit and deposit transactions made at the Bank. The prices are updated in accordance with developments in the money and capital markets. The asset and liability management group determines the targets of the marginal spread for deposits and credit and monitors them on an ongoing basis.

Interest tables. The asset and liability management unit is responsible for the production and publication of deposit interest tables.

Development of financial models. The Assets and Liabilities Management is responsible for the maintenance of the models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, exit points, early repayment forecasts for mortgages and more.

Managing the Capital

The responsibility for managing the capital includes formulating a recommendation for the Management and the Board of Directors regarding capital ratio targets, formation of a framework for growth in business activity that will enable reaching the Bank's capital targets, the allocation of the risk asset budget to companies in the Group and to the business units and the monitoring of current operations. Several factors in the Bank and in the Group participate in this process. In addition, the GT is responsible for the raising of funds on the capital market to the extent required.

Nostro Management

"Nostro" portfolio management policy. The "Nostro" portfolios of the Bank and of subsidiary companies are being managed with an overall view, with the aim of maximizing interest income, subject to limitations determined by the Bank's Board of Directors and the Boards of the subsidiary companies.

The Bank's "Nostro" Unit is subject to the decisions of its investment committee and to frameworks determined by the Bank's Board of Directors.

The surplus liquidity balances related to the investment portfolio of the Group, are being managed through the management of the investment portfolio by the "Nostro" Unit. 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 Nostro Unit is responsible for managing the investments that have inherent credit risk – inter alia, corporate bonds, State bonds and other debt instruments.

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 targets set for the segment for the year 2017, comprise mostly the maintenance of an adequate level of profitability, while maintaining a risk level in accordance with the risk appetite of the Bank, despite a low interest environment and a challenging macro-economic environment. The goal of the dealing room is to widen the distribution between income from customers and income from position management, while extending the controls circles.

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.

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 fifteen per cent of its capital - in any non-financial corporation;

(2) Up to a further five per cent 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 five per cent 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, 2017, 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, 2017, no violation of these restrictions exists.

PRINCIPAL AREAS OF OPERATION

The investments of the Discount Group in non-financial companies are divided into two principal categories, as under:

- Investment in private equity funds and in venture capital funds. The activity in this field is made primarily through the subsidiary Discount Capital (formerly known as: "Israel Discount Capital Markets and Investments Ltd."), directly by the Bank itself and through the subsidiary of MDB;
- Investments in companies (see hereunder).

INVESTMENTS OF THE GROUP IN PRIVATE EQUITY 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, 2017*		
Fimi Opportunity II	293	50	44.3	-	Private Equity Fund. According to a letter from the management of the Fund, no further "calls" will be made.
Fimi Opportunity IV	509	50	41.3	-	Private Equity Fund. According to the Fund's letter, there will be no further "calls".
FIMI Opportunity V	822	70	63.6	6.4	Private Equity Fund.
Fimi Opportunity VI	1,100	70	12.8	57.2	Private Equity Fund
Vertex Israel II Fund	160	15	15	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel III Fund	174	13.5	13.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel IV Fund	140	5	2.7	2.3	A venture capital fund.
Vertex Israel V Fund	150	7	-	7	A venture capital fund.
Fortissimo Fund	78	5	4.3	0.7	Turn around fund to technology based mature companies.
Fortissimo II Fund	110	20	18.8	1.2	"Turn around" fund for technology based developed companies.
Fortissimo III Fund	265	10	9.3	0.7	A private equity fund for technology and industrial companies with a growth potential which are at an "inflection point".
Plenus Venture Lending II Fund	55	5	4.9	0.1	Venture lending of the Dovrat Group, which engages in the granting of loans and credit facilities to technology companies.
Plenus Venture Lending III Fund	120	15	15	-	A venture lending fund of the Dovrat Group, and is engaged in granting loans and credit facilities to technology companies.
Stage One Ventures Capital Fund II	65	5	2.5	2.5	A venture capital fund engaged in investments in the communications and IT fields.
Stage One Ventures Capital Fund III	110	8	-	8	A venture capital fund engaged in investments in the communications and IT fields.
Investor club "Israel Growth Partners" (IGP)	223	6	14.3(1)	1.7	Investor club which focuses on investments in technology companies being in a growth stage. The investment in the club will be composed of a commitment to invest and of a co-investment option.
AMI Opportunities	504	10	5.1	4.9	Private Equity Fund of the APAX Group expected to operate principally in Israel.
Sky III	200	20	2.5	17.5	Private Equity Fund.
One Equity Partners	1,650	5	3.8	1.2	A U.S. Private Equity fund,
Qumra II	150	10	1.2	8.8	A venture capital fund focusing on growth stage technology companies.
Angels 12	3.5	0.5	-	0.5	A venture capital fund investing in startup companies having significant relations with the ultra-orthodox (Haredi) sector.
Viola-Fintech	100	8	-	8	A new investment fund of the Viola Group, specializing in investments in the fintech field.
Edmond de Rothschild Europportunities	Euro 100 million	Euro 11.3 million	Euro 10.6 million	Euro 0.7 million	Private Equity Fund of the Rothschild Group.
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 Apax Group.
Brack Capital Group real estate fund	109	5	5	-	At inception directed its investments towards real estate projects in India and China. Following the global crisis, the fund has changed its investment policy and now focuses on investments in the USA and Canada.

INVESTMENTS OF THE GROUP IN PRIVATE EQUITY FUNDS AND IN VENTURE CAPITAL FUNDS (CONTINUED)

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2017*		
European realestate fund	Euro 416 million	Euro 10 million	Euro 9.6 million	Euro 0.4 million	Managed by the French AXA group.
Carmel Software Fund	171	0.5	0.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vitalife Fund	50.3	10	10	-	Discount Capital has initiated the establishment of the fund, which specialized in investments in the bio-science field. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Alon Fund	30	2	2	-	Of the Gaon Asset Management Group invested in late stage technology companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Golden Gate Bridge Fund	6	2	1.7	-	The fund engages in providing bridge financing for hi-tech start-up companies. The Fund has realized of the balance of its investment portfolio. The liquidation proceedings of the Fund were concluded at the beginning of 2018.

* The amounts are presented in U.S. dollars, unless otherwise stated.
(1) Of which an amount of US$7.3 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability

The outstanding balance of Discount Capital's investments in venture capital funds and in private equity funds amounted on December 31, 2017 to US$169 million. As of that date, the balance of Discount Capital's investments in venture capital funds and in private equity funds amounted to US$134.1 million.
In addition to the investment in funds through Discount Capital, Mercantile Discount Bank is committed to invest in four active venture capital funds. The balance of the investment amounts and of investment commitments is in immaterial amounts.

INVESTMENTS IN CORPORATIONS

As part of investments in corporations several investments in several companies were made. The outstanding balance of the investments of Discount Capital in corporations amounted as of December 31, 2017, to NIS 205 million. 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"), acquired in 2013, in the amount of approx. NIS 150 million. Super-Pharm owns a chain of stores marketing pharmaceutical and pharma products, cosmetics and toiletries in Israel, Poland and China. In total Super-Pharm operates 220 stores in Israel and hundreds of stores abroad. Discount Capital recorded dividend income of NIS 15.5 million in 2017, compared with NIS 3 million in 2016.
Investment in "Menif" - Financial Services Ltd. Discount Capital owns approx. 19.6% of the equity of Menif. Menif engages in complementing equity capital of building contractors as required by banks financing building projects in a closed project format. 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).
Additional investments. Discount Capital is studying additional investments with a view of diversifying its sources of income.

DEVELOPMENTS IN THE ACTIVITY

Realizations. In 2017, Discount Capital has recognized income in the total amount of NIS 215 million in respect of realizations of investments, mostly in respect of a realizations by Funds of the Fortissimo group (approx. NIS 123 million), of the FIMI group (approx. NIS 72 million) and by IGP Fund (approx. NIS 11 million), compared with approx. NIS 69 million in the corresponding period last year. In addition, a dividend from Super-Pharm was recorded in the amount of NIS 15.5 million.

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

The principal restrictions applicable to the international operations are briefly described below:

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, 2017, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 14.9% of total risk assets, as compared with 17.35% on December 31, 2016. 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 is preparing for the implementation of the relevant parts in the instruction.

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.

A new draft 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

America. 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.
As estimated by ICC, 90% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an

average of 2.0 cards in their possession. ICC estimates the number of credit cards in Israel at December 31, 2017 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 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 exclusively with ICC (this state of affairs is going to change following the Strum Act).
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, 2017		December 31, 2016	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,635	1,393	1,537	1,316
Off-banking cards	1,003	718	924	653
Total	**2,638**	**2,111**	**2,461**	**1,969**

Transactions turnover	For the year ended December 31, 2017	For the year ended December 31, 2016
	in NIS millions	
Bank cards	61,187	55,836
Off-banking cards	19,025	16,548
Total	**80,212**	**72,384**

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.

Developments in Operations

Arrangements following the Strum Act. For details in respect of discussions regarding the signing of agreements between ICC and certain banks on the one hand, and between the Bank and factors in the credit card market on the other hand, see Note 36 B to the financial statements.

Memorandum of principles with Shufersal Company. For details, see Note 36 D above.

Entry of a fourth clearing agent to the clearing market in Israel. The Supervisor of Banks informed on April 4, 2017, of the granting of a clearing license to an additional factor, who would become the fourth clearing agent in the market. The notice states, that from a regulatory aspect, this factor may begin clearing operations as from now, though, due to operational reasons, he is anticipated to begin clearing operations in a year's time. The notice further states, that the fourth clearing agent is expected to also develop future debit card issuance operations as well as offering credit to the public in Israel. In accordance with the notice, the license that had been granted as stated, is limited in scope, in view of the fact that the fourth clearing agent has to complete all the operational preparations in order to obtain a full license. Accordingly, certain restrictions apply to the volume of activity of the additional clearing agent, which are not detailed in the notice. The Supervisor of Banks states that once the additional clearing agent completes preparations and complies with all requirements, the limited license would be replaced by a full license.

ICC and the Bank are of the opinion that at this stage it is not possible to assess the impact of entry of the additional clearing agent on the clearing market in Israel in general, and on ICC in particular.

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.

Approach by the MasterCard Worldwide Organization. On August 2, 2017, ICC was approached by the MasterCard Worldwide Organization, requesting ICC to implement different operational requirements within a time frame set by MasterCard, and which at present, are not being implemented in full in the Israeli market, including by ICC.

ICC estimates that implementation of most of the said requirements involves cross-sector preparations.

ICC is having discussions with MasterCard with the aim of forming an appropriate plan for complying with the requirements.

Cooperation with Alipay Company. On September 19, 2017, ICC and Alipay.com Company Ltd. (hereinafter: "Alipay") signed an agreement according to which Alipay shall provide ICC with processing and securing payment services for transactions cleared by ICC in Israel. The payment service of Alipay is the leading means of payment among customers in China, and the engagement is intended to provide the best response for the clearing of this means of payment by Chinese tourists visiting Israel, showing in recent years a continuous and consistent growth trend.

You Customer Club. Mega Retail Ltd. has recently 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 the company 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 past year in the customer clubs field, which, inter alia, was reflected in the number of agreements signed, including a joint issuing agreement by the company and the Supersol Club (for additional details, see above Note 36 D to the financial statements). ICC assumes that this state of affairs would also continue in 2018.

Competition in the off-banking credit field has also increased in recent years 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) 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").

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 Antitrust Commissioner. The Antitrust 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 Antitrust Commissioner, see above Note 36 A 1 to the financial statements.

Letter from the Supervisor of Banks regarding changes to the Banking Supervision directives following implementation of the Strum Act. On January 21, 2018, the Supervisor of Banks announced that the Banking Supervision intends to make amendments to its directives regarding credit card companies and charge card activity, and to publish clarifications regarding certain arrangements in the charge cards market, which will facilitate them to operate after the separation from the banks. In the first stage, the directives that are to be amended relate to the resources and liquidity of the credit card companies and to their operating agreements with the banks. Accordingly, draft amendments have been published to Proper Conduct of Banking Business Directive No. 313 regarding "Limitations on the indebtedness of a borrower and a group of borrowers"; Proper Conduct of Banking Business No. 221 regarding "Liquidity coverage ratio"; and Proper Conduct of Banking Business Directive No. 203 regarding "Measurement and capital adequacy – the standardized approach – credit risk". The amendments are intended to allow credit card companies to continue depending on the banks as a source of credit/liquidity at market prices, even after their divestment from the banks.

In addition, a draft amendment has been published to Proper Conduct of Banking Business Directive No. 470 (Charge cards), whereby a banking corporation will transfer to the issuance operator the funds for the monthly charges made with the charge cards issued by the bank, not later than the date when the issuance operator is required to transfer the funds to the clearing agent, irrespective of the clearing agent's identity. Under this format, the liquidity needs of the credit card company will be reduced and will be focused on its own activity, rather than the activity arising from the banking cards.

Banking Act Amendment (Customer Service)(Change or termination of customer benefit programs), 2017. The final version of the Act was published on the Official Gazette on August 7, 2017. The Act has an impact over the ability of ICC to make changes in benefits granted to its customers, inter alia, within the framework of the activity of customer clubs. The Act takes effect four months following its publication date, namely on December 7, 2017.

Payment services Bill Memorandum. The Bill Memorandum, which is intended to replace the Debit Card Act, was published on July 18, 2017.

The Bill Memorandum proposes to regulate two principal contractual systems – the one system: between the provider of payment services to a payer (the issuer of means of payment or the manager of the payment account) and the payer, and the second system: between the provider of payment services and a beneficiary (a clearing agent or manager of a payment account) and the beneficiary (receiving the payment). Moreover, the Memorandum proposes to determine general rules in the matter of conducting payment instructions and responsibility arrangements relating thereto.

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.

Proper Conduct of Banking Business Directives dealing with regulating the clearing sector. On May 1, 2016, the Banking Supervision Department issued Proper Conduct of Banking Business Directive No. 472, in the matter of "clearing agents and clearing charge card transactions". The directive's aim is to regulate, in a targeted manner, the activity of financial bodies that will be granted a clearing license from the Governor of the Bank of Israel. The directive outlines the principal rules for activity related to the clearing of charge card transactions. According to the explanatory notes, the directive is based, inter alia, on overseas regulation in this field and is intended to lighten the regulatory requirements imposed thus far on those who operate in the clearing field.

Strengthening Competition and Reducing Concentration and Conflicts of Interest 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.

The Debit Card (Amendment – SMS notice regarding an inactive card) Bill, 2015. On October 12, 2015 the Bill regarding an SMS notice in respect of an inactive card was tabled before the Knesset. The Bill proposes that issuers of debit cards would be required to inform customers that the debit cards held by them have been inactive for a period of over three months. Inter alia, issuers of debit cards would have to inform as to the inactivity of the card, the service fee for the card, in case the card is still exempt from service fees – the date of expiry of the exemption, as well as inform the customer of the manner of cancelling the card. The notice to the customer would be made by SMS. An additional Bill in the matter, similar in content to the above mentioned Bill was tabled before the Knesset on March 14, 2016. To the extent that this Bill would in fact be enacted, it may have material implication on the business results of ICC.

Banking Order (Customer Service)(Supervision of Service Provided by an Issuer to a Clearing Agent in Respect to the Cross-Clearing of Immediate Charge Transactions) (Provisional instruction), 2015. An Order was published on June 4, 2017, which extends until December 31, 2018, the effect of the provisional instruction that limits the cross-commission on immediate debit transactions made by use of an immediate debit card or a rechargeable card.

Draft rules for the hosting of clearing agents. On August 7, 2017, the Supervisor of Banks published draft rules applying to cases where a clearing agent wishes to make use of the infrastructure of another clearing agent. The draft was published as part of the implementation of the measures determined in the Increase in Competition and Reduction in Concentration in the Banking Industry in Israel Act.

Draft Amendment of Proper Conduct of Banking Business Directive No. 470 in the matter of "debit cards". The said draft was published on September 4, 2017, wherein are proposed several amendments: the first, in the matter of the approach to customers by banks with Wide-Ranging Activity offering the renewal of a debit card agreement; the second, presentation in an equal manner by a banking corporation of data regarding transactions made by use of bank and off-bank cards. In addition, it is proposed to allow the issue of a card without receiving the customer's request, on condition that the card would become useable only after receipt of a request by the customer. It is further proposed to allow banks (and not only credit card companies) to market debit cards at temporary branches, namely, on the marketing floors.

For details regarding additional legislation in the credit cards field, see "Legislation and Supervision" below.

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 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

Many alternative payment means to credit cards exist, starting with cash payments, standing orders, bank transfers, purchase vouchers and checks and ending with payments through the "SmartPhone" and the "digital wallet". Bank and off-banking credit as well as the check discounting service form an alternative product to credit and other financial services provided by ICC.

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 customers in the clearing field are traders, including national chains, that accept "VISA", "MasterCard" "IsraCard" or "Diners" credit cards. 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.

Competition

The issuance field. The competitors of ICC in the issuing field are the IsraCard group controlled by Bank Hapoalim and Leumi Card Company controlled by Bank Leumi (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".

Competition in the segment intensified during 2012, when the "IsraCard" brand, opened for clearing by all companies in this sector. Various regulatory provisions, may introduce into the market additional clearing agents, leading to increased competition in this sector. In order to cope with competition in the segment and to strengthen merchants' loyalty toward it, ICC has taken the following measures: a policy of competitive tariffs; investment in resources to improve the service to merchants in order to retain them, while aligning the products and services to the needs of the business; bolstering cooperation with merchants; activating an efficient service array and marketing and selling array that will be able to provide solutions to merchants and to respond to their changing needs; marketing a comprehensive basket of products for merchants, while increasing the market share 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 field. 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 department and the establishment of a "fintech and innovation" unit.

The new 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.

PayBox

On April 26, 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", by which it operates and provides payment services intended to customers of all the banks in Israel. The service provides for the 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.

In accordance with the above agreement, the Bank would acquire from the company an exclusive license to operate the application and the website in Israel, and would also acquire from the company a number of assets and services that would enable it to independently continue to operate the application and the website and offer the service to individuals operating a bank account with any of the banks in Israel.

The technological changes required for its operation by the Bank have been incorporated in the product and a draft permit was recently received from the Bank of Israel to acquire the activity of PayBox Israel.

iCount

On August 10, 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 lets its business customers securely connect their business account with the iCount accounting system, giving them the opportunity to benefit from advanced business management tools, such as: displaying the balance and current movements on iCount, smart management of expenditure and cash flows with iCount, integrating banking information in the accounting reports with iCount and more.

The collaboration is suitable for the small business customers handled by the Banking Division and supports the Bank's growth targets in this business segment. The roll-out of the collaboration with customers is being done in stages.

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.

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. The services and products contained in this framework of operation in the year 2017, are:

BOT

A breakthrough and leading in the Israeli banking system took place this year in the BOTs field:
Discount BOT. A digital help allowing all surfers being customers of any bank to conduct a conversation with a digital representative (a robot) on a designated Facebook page, on Facebook Messenger – "Discount BOT".
"Discount BOT" is based on advanced technology enabling digital communication with surfers by means of chat correspondence. The BOT identifies and deciphers the contents of the approach – made by free writing – and accordingly provides an automatic reply, on the basis of the data base, with respect to a range of subject that is getting wider.
"DIDI" – a digital representative. The Bank has introduced a new service for customers using the banking application, which enables them correspondence and conversation with a digital representative on the application by the name of DIDI. DIDI proposes a unique and innovative way for digital banking activity, thus changing the way in which customers use the application. The conversation with DIDI is held in an open language. DIDI would be able to provide customers with information regarding their accounts, to execute banking transactions, to assist customers in getting oriented with the application and to bring up important insights helping wise financial conduct.
The new service is based on advanced artificial intelligence technology, which enables the decoding of text typed by the customer on the one hand, and the conduct of a conversation by a clever and attentive robot on the other hand.
This is unique and primary service provided in the Israeli banking industry.
"Toucher account", the Discount Bank digital account. Private customers active on the digital service, may join the Toucher account and enjoy an advanced multi-channel digital service experience.
Toucher customers enjoy, inter alia, exemption from current account management fees and from credit card fees, the possibility of communicating with the banker by e-mail and through the mobile application, ordering a credit card through the digital service, obtain consulting services by telephone through the countrywide investment center, as well as longer operating hours.
The transfer to the Toucher account is made by means of the mobile application and of the operations website, and a new customer interested in joining this service within the framework of opening an account on-line, may do so already at the opening of the account on the website.

The credit card sphere

In the credit card sphere, options have been introduced that make it easier and more efficient to obtain a new credit card or to recover one's PIN: an option has been added to activate a new credit card – also through the app, as well as recover a card's PIN and to immediately display this on the screen through the website or the app for private individuals.
Communication between the Bank and its customers. During the year, the means of communication between the Bank and its customers were expanded and improved, including the Touch the banker service.
"Touch the banker". An additional tool by which Bank customers may communicate with the banker and correspond with him by means of the application, receive information and conduct operations without having to stand in line.
Sending and transferring cash to a contact. Sending an amount of up to NIS 2,000 per day to a payee from a contact list on the mobile device – by means of the app. The contact will be sent an SMS with a one-time code which he can use to make a cash withdrawal from a Discount ATM or to transfer the amount to his bank account by inputting details on the designated page on the marketing website.
On Apple devices, this transfer can also be made using SIRI, Apple's digital assistant.
Future transfer - Possibility of a one-time transfer at a future date (up to 6 months ahead) - via the website.
Cyclic transfer (standing order) – setting up a cyclic transfer to specific payee and in a fixed amount, the first payment date of which can be up to six months ahead.

Capital market

At the end of December, the Bank began the gradual rollout to its customers of a new, advanced capital market zone on its website for private individuals. The new capital market zone provides a simplified trading and transaction execution experience, and access to information and analysis tools that are presented to the customer in a convenient and intuitive manner. At the beginning of 2018, all the Bank's customers will gradually get access to the new capital market zone.

Obtaining information about accounts

Tools have been added that assist the customer in quickly obtaining information about his accounts, through the use of new technologies:
"My Account" widget – the widget displays account information conveniently and quickly without needing to input ID details, similarly to the "Quick Look" service on the app: current account balance, last three transactions, upcoming credit card charges and value of securities portfolio.
Customers taking advantage of the "Chat with a Banker" service can get a direct chat connection using the "My Account" applet.
3DTouch – on supported iPhone devices, a long press on the app icon displays a menu for locating branches, making transfers, depositing checks and making cardless cash withdrawals. Pressing on one of the topics will take the customer to the relevant screen in the app after completing the ID process.
FaceID identification – updating the app to operate on the new iPhoneX device, thereby letting the customer enter the Discount app through the recognition of facial features.

Main developments in Israel and around the world in 2017

Developments in Global Economy

General. The year 2017 was marked by the expansion in global economic growth, with synchronization between the leading economies in the world. The global economic growth is supported by the low interest rates and marked by a moderate improvement in employment, by a slow increase in investments and by an impressive growth in world trade. Despite the improvement in activity, in world economy and the rise in oil prices, the rate of inflation in most of the principal economies continues to be lower than the targeted rate.
The U.S. economy grew in 2017 by 2.3%, acceleration in relation to the growth of 1.5% in 2016. The Eurozone economy grew at the rate of 2.5%, the highest growth rate in the last decade, following a growth rate of 1.8% in 2016. As estimated by the IMF, the global product grew in 2017 at a rate of 3.7%. Concurrently, the decline in unemployment rate trend continued to a level of 4.4% in the U.S. and 9.1% in the Eurozone, compared to 4.9% and 10.0% in 2016, respectively. The Chinese economy grew at the rate of 6.9% compared with 6.7% in 2016.
In recent months, stability was recorded in the inflationary environment, so that in total for the year, a rise in inflation was recorded in most developed countries. Certain of the central banks in the world have directed their monetary policy towards a less expansionary direction; however, the monetary environment around the world remained expansionary. The FED continued to cut down its monetary policy, including by a moderate rise in the interest rate and by beginning to reduce the balance sheet. Members of the Committee estimate three increases in the interest rate in 2018, and which anticipate a growth in inflation this year. In the Eurozone, the ECB declared that the purchase of bonds would continue at least until September 2018, though the volume thereof would be reduced to Euro 30 billion, starting in January 2018. The ECB further stated that the interest rate would remain at a low level for a long time following the end of the purchases.
Financial markets. The trade in equities around the world was marked by price increases, on the background of the recovery in global economic growth and the low interest environment.

CHANGES IN THE LEADING EQUITIES INDICES RECORDED DURING THE YEARS 2016 AND 2017

Index	2017	2016
500 S&P	19.4%	9.5%
DAX	12.5%	6.9%
MSCI Emerging Markets	34.3%	8.6%

In the U.S., despite the raising of the interest rate and the beginning of the cut down in assets of the FED through the sale of bonds owned by it, the return on bonds for ten years remained almost unchanged in the passing year, reaching 2.41% at the end of the year. On the other hand, the return on bonds for two years increased by 69 basis points to a level of 1.88%. This on the background of the economic growth and the determination of the FED to adhere to the rise in interest track. In Germany the return on bonds for ten years increased by 22 basis points to a level of 0.43%.

RETURNS ON GOVERNMENT BONDS

Return on bonds for 10 years	December 31, 2017	December 31, 2016
U.S.A.	2.4%	2.4%
Germany	0.43%	0.21%

The U.S. dollar weakened in 2017 as against most currencies in the world. On the other hand, the Euro strengthened following the economic recovery of the Eurozone, the decline in political risks, reduction in the amount of bonds purchased by the central bank and the increase in financial investments in the Eurozone.

CHANGES IN THE U.S. DOLLAR AGAINST SELECTED CURRENCIES

Exchange rate	2017	2016
EUR	(12.4%)	3.3%
JPY	(3.7%)	(2.7%)
GBP	(8.6%)	19.4%

Prices of commodities rose in 2017, following the rise in energy and in industrial metals prices. The rise in commodities prices is supported by the expansion in global economy, and particularly by the might of the Chinese economy, as well as by the reduction in excess supply.

CHANGES IN SELECTED COMMODITIES INDEXES

	2017	2016
The commodities index - GSCI	11.1%	27.8%
The oil price (BRENT)	17.7%	52.4%
The oil price (WTI)	12.5%	45.0%
Gold	13.5%	8.0%

Main Developments in the Israeli Economy

General

In 2017, the economy grew at a rate of 3.3%, and the business product by 3.5%. The per capita product grew at a rate of 1.4%. Private consumption continues to demonstrate strength despite a growth of 3.3%, which is lower than last year (6.1%). The slowdown in private consumption this year stems, mostly, from a decline in the import of motor vehicles, on the background of advanced purchases at the end of 2016. The export of goods and services (excluding diamonds and startup companies) rose by 5.3%, led by the export of hi-tech and tourism services. Industrial exports grew by 2.5%. Investment in fixed assets increased by 2.7%, with a fair growth in investments in infrastructure and in non-residential construction, and on the other hand a slowdown in investment in residential construction. In addition, the public consumption expenditure, excluding defense imports, expanded by 4.0%.

The labor market continues to stabilize itself at high levels and in fact is in a position of full employment. The average unemployment rate in 2017 amounted to 4.2%, lower than that of last year (4.8%). This when the rate of participation is at a high level of 64%. Furthermore, wages in real-terms increase at an annualized rate of approx. 3%. The increase in wages covers a wide range of sectors and is supported by the updating of the minimum wage in recent years, alongside the shortage in workers in certain sectors.

Main developments in economic sectors

During 2017, fluctuation was recorded in industrial production data as well as variations between technological strengths. Notwithstanding, the total for the period shows that the industrial production continued the improvement trend compared with 2016 and increased by 1.7%. This following the standstill last year. It is noted that a positive growth was recorded in all segments.
The low interest environment and the low unemployment rate support private consumption, as reflected in the turnover indices of the marketing chains, purchases by credit cards and the retail trade turnover.

Developments in the activity of the Israeli economy with overseas markets

The direct investments in Israel (through banks) by foreign residents amounted in 2017 to US$8.8 billion, as compared with US$9.3 billion in 2016. The financial investments by foreign residents in the Tel Aviv Stock Exchange amounted in the reviewed period to US$2.7 billion, compared to realizations in the amount of US$0.8 billion in 2016. The said growth in investments stemmed from investments in shares and in government bonds and short-term loans (MAKAM) in total amounts of US$1.6 billion and US$1.2 billion, respectively.
The financial investments abroad by Israeli residents in foreign marketable securities amounted in 2017 to US$4.1 billion, a significant growth as compared with 2016, stemming from the bonds component.

CHANGES RECORDED IN INVESTMENTS OF THE ISRAELI ECONOMY ABROAD

Investments in Israel by foreign residents	2017	2016
	US$ million	
Total direct investments through banks	8,767	9,324
Total financial investments	4,044	3,240
Of which: Government bonds and MAKAM	2,361	306
Shares	2,473	3,557
Investments abroad by Israeli residents	**2017**	**2016**
	US$ million	
Total direct investments	3,405	2,815
Total financial investments	4,059	1,659

Developments in Foreign Exchange Rates and Inflation Rates

The inflationary rate in Israel amounted to 0.4% in the year 2017, following three years of a negative inflation. Notwithstanding, the inflationary environment in Israel still remains lower than the target and also lower in comparison to the world. The reforms and increased competition supported a lower inflation than that excepted around the world. This, despite the impressive labor market data. With respect to the foreign exchange rate in the reviewed period, the shekel strengthened by 9.8% against the U.S. dollar and weakened by 2.7% against the Euro. In terms of the effective exchange rate, the shekel appreciated by 4.2%.

Fiscal and Monetary policy

Fiscal policy. The budgetary deficit amounted in 2017 to NIS 24.8 billion, comprising 1.97% of the product. A deficit of NIS 36.6 billion was planned in the original budget for 2017, 2.9% of the expected product according to the original budget. The deviation in the forecasted deficit stems from higher revenues than forecasted - in an amount of NIS 13.3 billion, while expenditure was higher than planned in the original budget - in an amount of NIS 1.4 billion. Several exceptional revenue amounts were collected this year, in respect of a number of transactions, including: the sale of "Keter", Mobileye, public issue of the Tamar oilfield and the tax on dividend.
Monetary policy. The monetary policy of the Bank of Israel in the reviewed period continued to be extremely expansionary, with the interest remaining at its low point of 0.1%. This, due to the low inflationary environment, which still rests below the lower limit of the targeted inflation. Furthermore, the Governor of the Bank of Israel stressed that it is the intention of the Monetary Committee to keep the monetary policy unchanged as long as required to establish the inflationary environment within the targeted range.

The Capital Market

The reviewed period was marked by a positive trend on the local capital market, principally in the light of global developments. In total for the period, the central indices recorded a rise in prices. However, despite fair increases in most of the indices, the TA-35 Index rose by only 2.7%, in view of the weakness demonstrated by dominant sectors, such as: pharmaceuticals and gas.

CHANGES IN SELECTED SHARE INDICES IN THE YEARS 2016 AND 2017

Index	2017	2016
TA 35	2.7%	(3.8%)
TA 125	6.4%	(2.5%)
TA banks	23.4%	18.9%
TA Global-Blutech	(2.2%)	15.3%
Real-estate 15	23.4%	17.0%

Trading in Israeli government bonds was marked during the year by a decrease in returns, in contrast to the prevailing trend in Europe and the United States. This resulted from the low inflationary environment and from assessment by investors that no change is expected in the coming year in the policy of the Bank of Israel. In total for the period, the return on shekel bonds for ten years dropped by 50 basis points and traded at the end of the year at a level of 1.62% (Series 327 shekel government bonds). Trading in corporate bonds derived, to a large extent, by the downward trend in returns on government bonds, concurrently with a decrease in margins.

CHANGES RECORDED IN SELECTED BOND INDICES DURING 2016 AND 2017

Index	2017	2016
General bonds	4.7%	2.1%
General Government bonds	3.5%	0.9%
Shekel Government bonds	3.6%	1.2%
Linked Government bonds	3.4%	0.7%
General Corporate bonds	6.4%	3.9%
Linked Corporate bonds	6.2%	4.1%
Shekel Tel-Bond	7.5%	2.4%

In 2017, capital raised through corporate bonds totaled NIS 61.2 billion, compared with NIS 62.8 billion in 2016. Of this sum, NIS 5 billion was raised through issuances by the banks, compared with NIS 16.6 billion in 2016.

The asset portfolio held by the public

The value of the financial assets portfolio held by the public increased during 2017 by 5.0%, compared with 2016, amounting at the end of this period to NIS 3.6 trillion. The said growth in the value of assets stemmed to a large extent from the growth in value of the non-linked component and of the CPI-linked component, by 7.6% and 4%, respectively. Furthermore, it was also effected from a significant increase in the foreign equities component (a growth of 12.0%). On the other hand, the value of assets linked to foreign currency dropped by 3.3%.

DISTRIBUTION OF THE ASSET PORTFOLIO HELD BY THE PUBLIC

	December 31, 2017	December 31, 2016
Shares	22.6%	22.3%
Non-linked assets	36.9%	36.0%
CPI linked assets	28.8%	29.0%
Foreign currency linked assets	11.7%	12.6%

Principal Economic Developments in January-February 2018[5]

Since the beginning of 2018, a significant increase was recorded in forecasts regarding the interest rate, which are grossed-up in market prices, and the difference existing over a long period of time between the interest expectations in the markets and the interest forecasts of the FED for 2018, have significantly been reduced. The rise in the interest expectations stems from the optimism regarding the growth rate in the U.S., a rise in inflationary expectations, optimism expressed by the FED and expectations for the reduction in the expansionary policy of additional central banks around the world. At the same time, returns on government bonds around the world have increased. Concerns that the positive environment that had supported the equities market would be adversely affected caused sharp fluctuations in the markets.

It is noted that the macro-economic environment around the world remained positive. In the U.S., the purchase managers and the consumer confidence indices signal the continuation of expansion in the first quarter of 2018. The purchase managers index in the Eurozone is found at its highest level in the past eleven years.

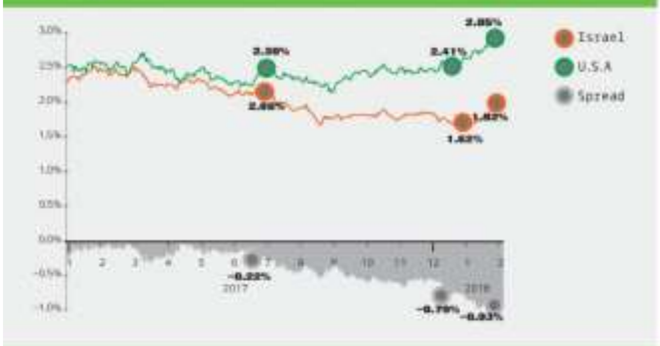
An increase in the return on bonds was recorded in Israel on the background of the global trend. An increase was recorded in inflationary expectations, even though the inflationary environment remained at a very low level, also in comparison to that of the western world. The CPI for January fell by 0.5%, while inflation for the year was 0.1%. Since the beginning of the year, the shekel weakened by 2%, in terms of the effective exchange rate.

In February, the Bank of Israel kept the interest unchanged, at a level of 0.1%, and again emphasized that its expansionary policy would remain unchanged for as long as necessary in order to establish the inflationary environment within the target range.

Exchange rate of the Shekel against the Dollar, the Euro, and the nominal effective exchange rate, index, 100=December 2014

Unemployment rate and participation rate in Israel-data

Israel and the US 10Y government bonds and spread



Annual inflation in Selected Economies

[5] All the data in this chapter refer to the period from January 1, 2018 to February 28, 2018.

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.

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 and the Commissioner of the Capital Market, Insurance and Savings. These entities perform, from time to time, audits at the Bank and its 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 and Conflicts of Interest 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 and in Conflict of Interests 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.

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 in the said in item 1.1also 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. 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.

1.3 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.
- 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. Where the banking corporation is the issuer, the manner of presentation of the information on transactions made by debit cards issued by another issuer, would be identical to the manner of presentation of the information on transactions made by a debit card issued by the banking corporation.

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 with the consent of the Governor and subject to approval of the Economic Committee of the Knesset, if he finds the matter justified for the purpose of promoting competition in the credit field. 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. In its initial approach to the customer, the charge card company shall inform him of his right to request that no use should be made of the details of his engagement.

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 – 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%.

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 (in consultation with the Governor of the Bank of Israel and the Antitrust Commissioner and subject to approval of the Economic Committee of the Knesset) to determine Regulations regarding observation and use of financial data; 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. Draft regulations were recently published concerning the registration in the Register of Cost Comparison Service Suppliers, insurance and suspension of registration.

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, unless other technological infrastructure is established that is sufficient to provide and operate computerization services to financial bodies: 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").

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, in accordance with the requirements of the Strum Act. 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.

Amendment to Proper Conduct of Banking Business Directives. For the purpose of implementing the provisions of the Strum Act, the Supervisor of Bank published amendments to Proper Conduct of Banking Business Directives, including the Amendment of Proper Conduct of Banking Business Directive No. 367 regarding online banking – The amendment relating, inter alia, to the application of the Section in the Strum Act was published on December 25, 2017, dealing 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 will take effect on July 31, 2018. The Bank is preparing for the implementation of the Amendment.

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.

The main points of the plan are set out in a letter of principles for increasing the competition in the financial system, which was published at the same time.

- Removal of transfer obstacles within the framework of the process for a customer to move his account from one bank to another. The Bank of Israel and the Ministry of Finance will cooperate in order to promote the implementation of a solution to make the mobility of bank accounts easier, more secure and more convenient for the customer, through leveraging technology and innovation. Full implementation of the solution will be available to customers of the banks within 24-36 months from the commencement date of the solution's implementation.
- The banking system will make information available to providers of a cost-equivalent service. As part of the regulations to be enacted pursuant to the Strum Law, the banking system will be required to implement OPEN API mechanisms (in place of READ ONLY password mechanisms). As an interim solution until such a secure mechanism can be implemented, the Bank of Israel will act to arrange the transfer of a banking ID certificate from the banking corporations to supervised third parties, once approved by the customer, or some other mechanism, as shall be prescribed.
- Establishing an office for banking computerization services, in order to lower entry obstacles confronting new players. The Ministry of Finance will publish a tender for the allocation of NIS 200 million (being empowered under the Strum Law to publish a tender) to be used as participation in the costs of establishing an office for computerization services. The bodies that will be able to participate in the tender will be potential suppliers, which will enter into engagements with potential customers, being new banks, credit associations and existing banks with a market share of less than 5%. The office that is to be established will be charged with providing a broad range of banking computerization services in the retail and securities fields.

The Economic Program Bill (Legislation amendments for the implementation of the economic policy for the budgetary year 2019), 2018 – Mobility of bank accounts. The Bill passed its first reading on February 13, 2018. In accordance with the Bill 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; the Governor of the Bank of Israel, with the consent of the Minister of Finance, shall determine the types of account and the type of the financial products, which would be included in the transfer; 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 Bill Memorandum), 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. Pursuant to the proposal, the commencement date will be three years from the publication date of the law.

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 financial services field – service regarding a financial asset or the granting of credit, and the activity of providers of financial services (hereinafter: "provider of financial services"). Banking corporations are not considered providers of financial services in term of the Act. The principal issues of the Act are: establishing a supervisor over providers of financial services, and instructions regarding the supervision over their operations; definition of the licensing duty and the terms for the granting of a license to provide financial services; restrictions on the management of a business of a provider of financial services; different instructions regarding the operation of a provider of financial services; permit for the control or for the holding of means of control of a provider of financial services. The Act includes an indirect amendment to the Prohibition of Money Laundering Act, 2000, which applies the money laundering prohibition regimen to providers of financial services. 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 Economic Program act (Legislation amendments for the implementation of the economic policy for the budget years of 2017 and 2018), 2017

The Act was published in the Official Gazette on December 29, 2016, and it includes Chapter "I" – the increase of competition in the retail credit market, within the framework of which the Supervision over Financial Services (Regularized Financial Services) Act, 2016, was amended, 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.

Supervision over Financial Services (Regularized Financial Services) (Amendment) (Deposit and Noninterest Bearing Credit Services) Bill, 2016

Within the framework of this Bill, published on November 14, 2016, it is proposed to amend the Supervision over Financial Services (Regularized Financial Services) Act, 2016, in a way that the regulation and supervision under it shall apply to providers of noninterest bearing deposit and credit services as well as to the services provided by them.

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 (Regularized Financial Services) (Amendment No. 4) act, 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 principal provisions of the Amendment are: establishing the Commissioner of the Capital Market, Insurance and Savings as the Supervisor over the activity of the System’s operators; definition of a licensing duty for the operation of the system. The licensing duty will not apply to banking corporations; definition of special restrictions on the holder of a license (fiduciary duties, operating only by means of a trust account; prohibition on engagement in the granting of credit, unless in accordance with rules established by the Supervisor; prohibition on disclosure of customer data; granting the Supervisor tools and authority for the purpose of regulating the aforesaid activity, including in regard to the disclosure of information by a license holder).

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.

Draft of the Supervisor of Banks in the matter of the policy of banking corporations regarding their operations with customers operating a credit brokerage system. An updated draft was disseminated on December 10, 2017. The draft states rules for the opening and management of trust accounts being part of the operations of credit brokerage systems. The draft states, inter alia, that until the Supervision over Financial Services Act (Regulated financial services) (Amendment No.4) (Operation of a credit brokerage system), 2017, takes effect, and until the Prohibition of Money Laundering Order is applied to the operation of credit brokerage systems, each of the five major banks is required to form a detailed policy as to the management of accounts of credit brokerage systems, which should reflect a risk based approach. Upon the said Act taking effect, including the application of a prohibition of money laundering regimen, the Supervisor of Banks would act for the granting of relief regarding the management of accounts of credit brokerage systems.

Bank of Israel (Amendment no. 4) (The Committee for Financial Stability) Bill, 2017

The Bill, published on the Official Gazette on January 25, 2017, proposes to establish 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 at the end of fifteen months from date of publication thereof. The Bank is preparing for the implementation of the amendment.

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. This is a new amendment though evidence exists of discharge granted to debtors within the framework of debt execution proceedings. Moreover, to the best knowledge of the Bank, the enforcement authority approached different debtors (even those not qualified under the terms stated in the Debt Execution Act) advising them to submit requests for discharge from their debts. It is also 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. The Directive was formed by the Supervisor of Banks in participation with the Enforcement and Collection Authority, with the aim of regulating different rules, actions and functions involved in the debt collection procedures (it is noted that the Directive relates to households and small businesses only and does not apply to corporations). The aim of the Directive is, inter alia, to increase fairness and transparency with respect to borrowers. 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.

To complete the picture, it is noted that several regulation initiatives are still at the proposal stage:

- The Insolvency and Economic Recovery Bill, 2016, see below.
- The Debt Execution Bill (Amendment – elimination of the possibility of a stay in exit from the country order in respect of a low amount debt), 2015, of May 2015. In accordance with this Bill, a stay in exit from the country order may not be given in the case of debts in amounts lower than NIS 40,000.

The Debt execution Bill Memorandum (a debtor who makes ordered payments and the opening of a claim regarding a liquidated amount), 2017. The Memorandum has been prepared as replacement for a private Bill proposing the total exemption of a debtor from the payment of interest in arrears. In accordance with the memorandum, a debtor who makes regular payments for the repayment of a debt, as determined by the Debt Execution Registrar, would be entitled to a reduction in the interest in arrears added to his debt. The reduction will be at the rate of 25% of the amount of the interest in arrears in the case. In addition, collection proceedings such as salary foreclosure, foreclosure of goods and limits on deriving license, would be discontinued. The aim of the Memorandum is to provide debtors with an incentive to pay their debt, knowing full well that thereby they reduce the interest that is being added to the debt. In addition, it is proposed to determine in the Debt Execution Act that upon filing a claim directly with the Debt Execution Office in a liquidated amount of up to NIS 75 thousand, the Defendant would have the option of repaying the debt within the specified warning period, thereby being exempted from the payment of the reimbursed fee and legal fees.

The Banking Bill (Customer service) (Amendment – Deferral of the repayment date of a housing loan of an unemployed customer), 2016. This is a private Bill proposing the deferral for a period of up to three months, of the repayment of a housing loan, requested by a borrower who is unemployed. If the borrower has requested the deferral of a number of repayments, then he would be limited to a total amount of deferrals not exceeding one year. The borrower would also be entitled to request a deferral of only a part of the monthly repayment amount. During the period of deferral only the contractual interest would be charged, with no interest on arrears. The proposed Bill was approved on June 25, 2017 by the Ministerial Committee on Legislation Matters and was passed for preparation for a first reading.

The Insolvency and Economic Recovery Bill, 2016

The wording of the proposed law was approved during February 2018 by the Constitution, Law and Justice Committee for its second and third reading during the Knesset's current session. Among other things, the object of the Bill 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. Once the Bill is passed and becomes effective, it will replace the existing legislation in the matter, both as regards corporations and as regards individuals.

The principal changes introduced by the Bill, 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;
- 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 Bill (determined as a provisional instruction for a period of four years).

It is proposed that the Act would take effect after 18 months following its publication date, while with respect to a number of the central amendments, it is expected that longer transitional periods would be granted.

Banking Rules Amendment (Customer service) (Commission)

The Amendment was published on the Official Gazette on August 24, 2017. Following are the highlights of the Amendment:

- The definition of "occasional customer" was added, which permits banking corporations to charge occasional customers with fees with respect to transactions conducted through a teller, including cash handling fees;
- It has been determined that the fee charged for service included in the full pricelist, which is provided on-line, shall be lower than the sum or rate of a fee charged for the same service provided by a teller. For clarification purposes, definitions were added for "transaction through a teller" and "on-line transaction";
- To the full pricelist shall be attached Appendix "E" "benefits for on-line transactions", which includes a table comparing the price of services by types of on-line channels (distribution according to their types as existing in the banking corporation) and their price for service by a teller, as stated in the full price-list;
- At the start of providing the service, a banking corporation is required to provide to the customer Appendix "A" (showing the benefits granted by groups of population) and/or Appendix "E" (benefits granted to on-line transactions) in accordance with the service elected by the customer;

- Regulating the matter of fees in respect cash withdrawals from an ATM – three types of ATMs have been defined – "a distant ATM" – located at a distance exceeding 500 meters from the branch operating it, "a nearby ATM" – located at a distance shorter than 500 meters, and "a required ATM" – an ATM installed at the instruction of the Supervisor of Banks replacing a branch that had been closed down. The fee is charged in accordance with the type of the ATM. An on-line transaction fee is charged upon the withdrawal of cash from a nearby ATM, a required ATM, or withdrawal from a distant ATM using a card issued by the bank; withdrawal of cash from a distant ATM which is not a required ATM may be charged with a different withdrawal fee upon withdrawal using a card that had not been issued by the bank, on condition that such a fee is specified in Part 9 of the bank's pricelist;
- Banking corporations are required to present on the monitors of their ATMs, in accordance with the type of the ATM and class of customers, information regarding the cash withdrawal fee charged upon withdrawal.

The Rules took effect on September 24, 2017, except for the amendments relating to Appendix "E", which details the fees charged in respect of on-line transactions, which took effect on November 1, 2017.

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 Bank's customers that had been identified as stated.

Antitrust

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 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 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.

Exemption relating to a mutual recognition agreement. During December 2016, an amended draft exemption was received from the Antitrust Authority, dealing with the attachment of new participants to the mutual recognition agreement (an agreement between the banks allowing customers of each of the banks to withdraw cash from ATM machines of each of the other banks). The draft exemption imposes a duty on the parties to the agreement to attach, under equal terms and at no cost, any issuer or operator of automatic teller machines interested in joining the agreement and who complies with the terms stated in the draft. It is stated that the fee charged in respect to the withdrawal of cash would be identical for all parties to the agreement, including new participants, and shall not exceed an amount of U.S. cents 20 per transaction (as the situation is at present).

In November 2017, an updated draft exemption was received, within the framework of which the Authority conditions the extension/renewal of the aforesaid exemption by prescribing provisions whereby the banks will be required to join providers of immediate payment services to the agreement. This, in order to encourage immediate payment transactions and to reduce costs for the trading house and the consumer. The parties to the agreement have submitted their comments to the draft exemption. The non-enforcement period in respect of the mutual recognition agreement has been extended to February 28, 2018, or until the date of taking the decision on the exemption request, whichever is the earlier.

Consortium Agreements for the Granting of Credit

Draft Antitrust Rules (Class exemption for syndication loan arrangements), 2017. On May 28, 2017, the Antitrust Authority published for public comment draft rules regarding class exemption for syndication loans.
The Antitrust Commissioner informed in 2011, that she had reached the conclusion that the consortium arrangements for the granting of credit, made between banks and insurance companies and between themselves, should continue to exist, and she detailed the conditions, which subject to their existence, she does not intend to enforce the provisions of the Antitrust Law, 1988 upon the said arrangements. The announcement extends the effect of prior announcements issued by the Commissioner with respect to the consortium arrangements, with certain changes, for a period of two years. The notice had been extended from time to time, the most recent one until the date of the class exemption taking effect or until June 30, 2018, whichever is the earlier.

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.

The Prohibition of Money Laundering (Amendment No. 26) Act, 2017

On December 7, 2017, the Amendment was published in the Official Gazette. The amendments were intended to improve the combat against money laundering, make it more efficient and modify it to the international standards, with which Israel has to comply as a condition for joining the FATF Organization. The principal amendments are: expanding the definition of the term "monies" in a way that it would include all means of payment to bearer; changing the punishment level in respect of money laundering offense, in accordance with existing rulings; cancellation of the limitation on classes of assets as detailed in the second Addendum and establishing a limitation according to value; amendment of the term "beneficiary" so that in the case that the beneficiary is a corporation, the owner of the controlling interest in that corporation would also be considered a beneficiary; authorizing the Supervisor of business services providers to furnish information to the police for the purpose of a criminal proceeding. The Law took effect upon being published in the Official Gazette.

Legislation and Regulation Amendments relating to the Capital Market

Pension consulting. The Capital Market Authority published on March 1, 2017 the draft Regulations of Supervision over Financial Services (Provident Funds) (Distribution commissions) (Amendment), 2017, within the framework of which it is proposed to extend the application of the Regulations also to pension products such as investment provident funds and insurance funds (executives insurance) and in addition offering a pension consultant the possibility to sign distribution agreements with a managing company under various terms, including a different distribution commission rate, with respect to different groups of products. The Regulations in their present version permit institutional bodies to enter into a distribution agreement with license holders of the pension consultant class, including the Bank, only with respect to the distribution of pension products of the provident or savings funds, pension funds and further education funds at identical rates and payment terms.
Within the framework of the actions taken by the Capital Market Authority for the regulation of uniform interfaces used for the

transmission of information and data regarding pension savings, the Authority published on September 3, 2017, an additional amendment to the circular regarding a uniform structure. The amendment states, inter alia, that as from April 29, 2018, use of the event interface would become obligatory. The interface states the details of the information, which license holders have to provide to institutional bodies with a view of enabling the digital intake of pension products, as well as the making of changes to existing products and the duty of using a uniform encoding for pension products regarding each transfer of information.

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.

Offer for the 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 NIS 21.8 million, under the terms and conditions set forth in the stock exchange's call. The offer is irrevocable and valid until April 18, 2018. During the aforesaid period, the stock exchange may (but is not obliged to) accept the offer in full or in part. It should be emphasized that there is no certainty that the aforesaid shares will be sold, in their entirety or partly. If all the shares are sold, the Bank and MDB will record the aforesaid consideration, after the sale is complete, as a gain before tax.

It should be noted that the value of the stock exchange shares, according to the call to submit offers, is NIS 500 million. It should also be noted that, according to the aforesaid amendment to the Securities Law, a sale at a higher value will require a transfer of the difference to the stock exchange.

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 expected effective date is June 1, 2018.

U.S. Legislation

Dodd Frank

Following the U.S. Dodd Frank reform, regulating the operations of banks and financial institutions in the U.S., as well as regulating the activity of financial institutions operating outside the U.S., the operations of which may be related to the U.S.. The Bank acts in order to comply with the parts relevant to its operations, including, among other things, as providers of financial services to Americans, or as operating through American brokers or having activity with American counterparties, etc. Parts of the Reform have an influence on various activities of the Group. The dates of implementation of the legislation vary according to the various requirements stemming from the Law, as detailed below.

Following are several fields included in the reform:

Living Will. As part of the Reform, it is determined that foreign banking organization (FBO), the global total assets of which on a consolidated basis is in excess of US$50 billion, and which operate in the U.S., to prepare and submit to the U.S. authorities a plan of action, in respect to their entities operating in the U.S., a plan of operation - "living will" - in the case of insolvency of the parent company.

Since 2013, the Bank prepares a plan of action, as stated, in respect of the previous year of operations, as approved by the Bank's Management, and submits the plan to the authorities in the U.S.. The Bank has received the approval of the U.S. authorities for the submission of a Reduced Plan. Following a notice received by the Bank from the U.S. authorities, no plan has been submitted in the year 2017. The next plan will be submitted in December 2018.

Volcker Rule. The Volcker Rule has been enacted within the framework of the Dodd Frank Reform, which, among other things is

intended to restrict the activity of banks to "traditional" banking operations (the granting of credit and similar activities) and to prevent their exposure to risks related to investment activity having a higher risk potential. The two central restrictions imposed on financial institutions under the Volcker Rule are the prohibition on propriety trading in derivatives, securities and other instruments, and the prohibition on sponsoring activities or on investment in private equity funds, hedge funds and such, all this where a "U.S. factor" is involved in any of the above mentioned activities.
The Bank has studied the implications of the Directive and has formed a procedure for its implementation, which includes modifications to the relevant activity in accordance with the limitations of the Directive.
Following the elections for the U.S. Presidency, legislation initiatives exists, intended to reduce the implications of the legislation. The Bank is following these issues and will study the changes if these are passed.
Swap Rule. Constitutes legislation intended to regularize trading in non-marketable derivatives (OTC). In addition to the reform in the U.S., a parallel reform exists in Europe (EMIR), which took effect gradually as from the year 2016. The Bank is preparing for the implementation of the EMIR reform with respect to everything relating to the central clearing of derivatives, including the operational and computer system changes that would be required in order to implement the legislation, to the extent that this would apply to the Bank's operation in derivatives and has engaged a clearing house member for the execution of the relevant operations. The Bank is preparing for additional changes regarding the clearing of nonmarketable derivatives (OTC), including, inter alia, changes in the manner of depositing collateral for the operations.
FRB Assessments for Large Financial Companies. The U.S. Federal Reserve Bank issued in August 2013 an instruction according to which certain financial institutions included in the instruction (domestic and foreign) would be required to make an annual payment to the Federal Reserve Bank in respect of expenses incurred in the supervision of their operations. According to the criteria in the instructions, Discount Bank, as a bank holding company with total assets (on a consolidated basis) of over US$50 billion, is subject to the instruction and to the payment under it. Since 2012, and in accordance with the demand of the U.S. authorities, the Bank makes an annual payment, as stated.
Section 165 - Enhanced Prudential Standards Final Rule. The U.S. Federal Bank issued in February 2014 instructions regarding the implementation of enhanced requirements relating to the supervision over bank holding corporations in the U.S., as well as over foreign banks operating in the U.S. including, among other things, enhanced requirements as to liquidity, equity capital and risk management. The instruction entered into effect in July 2016. A review of the relevant instructions indicates that whereas the Bank complies with the requirements of the Israeli Regulator with respect to capital and liquidity tests, this legislation has no material impact upon the manner of its operation. The Bank is preparing for the implementation of the provisions of the legislation, including the establishment of a committee for the management of U.S. risks (operating within the framework of the Risk Management Committee of the Board of Directors), as well as the modification of the Bank's annual and quarterly reports to the U.S. authorities in the matters of capital and liquidity.
In May 2017, the U.S. House of Representatives approved the provisions of the Financial Choice Act of 2017, intended to reorganize the regulation framework enacted following the financial crisis of 2008, by granting significant regulatory relief to banking institutions complying with certain terms, as stated in the instruction. The Bill includes several suggestions for the amendment, cancellation and replacement of parts of the Dodd Frank Reform. However, difficulties are expected in the process of approval of the Act by the U.S. Senate, and it seems that the Act would undergo significant changes prior to its final approval, if at all.

Various Legislation Matters

Credit Data Bill, 2016

The Committee for improvement of the system for participation in the credit data base ("Dorfman Committee") published the final report in August 2015. The report is intended to regularize a central credit data base in Israel, with a view of increasing competition in the retail credit market. The Act was published on the Official Gazette on April 12, 2016. The Act takes effect 30 months from date of publication thereof.
The Act is intended to replace the existing Act and according to it, the Bank of Israel is to establish and manage a central credit data base having at its center a public credit data base. The arrangement in the Act will create a system that would include a public participant (The Bank of Israel) as well as many private participants, including also credit offices. Data would be assembled from sources determined in the Act (the Official Receiver, Debt Execution Offices, The Bank of Israel, Courts of Law, a public infrastructure corporation, banking corporations, issuers of charge cards), 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.

Following the publication of the Act, Credit Data Regulations, 2017, were published on December 26, 2017, and the rules of the Credit Data (various instructions) Act, 2017, with the aim of complementing the provisions of the Act and outlining supporting instructions regarding specific arrangements, which are not regulated by the Act itself.
For the purpose of applying the law, the Bank of Israel is working to establish a central database for sharing credit data.
On March 16, 2017, the Bank of Israel published a revised version of the transitional instruction detailing the data held by the banks and the credit card companies that it is planned to be reported by them to the database and kept there. The circular that accompanied the provisional instruction details milestones for its implementation. The Bank is making preparations for the directives' implementation.
The Bank of Israel informed in June 2017 that it had chosen a supplier that would assist in the establishment of the system for the sharing of credit data in Israel. The Credit Data Rules (Licensing of offices), 2017, were published on July 13, 2017, in the matter of the licensing of credit offices and information offices in respect of traders.

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 Bill Memorandum, 2017

A Bill Memorandum was published in July 2017. This Bill Memorandum is the first of two Bill Memorandums being distributed following the work of the inter-ministerial committee and the sub-committee established under it, intended to regulate the field of advanced means of payment. This Bill Memorandum deals with the material instructions and consumer protection, and it proposes to replace the Debit Card Act with a more comprehensive and updated Act, matching the technological developments in this field. The Memorandum includes also complete regulation in the matter of authorization for the charging of an account or means of payment based, inter alia, on Proper Conduct of Banking Business Directive No.439. The Memorandum is also based on the European regulations in accordance with the PSD principles. The Bill proposes to regulate two main contractual systems: (1) between the provider of payment services to a payer (issuer of means of payment or manager of a payment account) and the payer; (2) between the provider of payment services to a beneficiary (a clearing agent or manager of a payment account) and the beneficiary (the recipient of the payment). The Memorandum also proposes to establish general instructions regarding the execution of payment orders and regulate the responsibility attached thereto. The payment services to which the Bill applies are the management of a payment account, issue of means of payment, clearing of payment transaction and any additional service determined by the Minister of Justice, with the consent of the Minister of Finance and the Governor of the Bank of Israel.
Customer Protection Act (Amendment no. 53), 2017. On August 7, 2017 the amendment was published in the Official Gazette in the framework of which the Banking Act (Customer service) (Amendment No. 22) was amended in order to apply it to issuers of credit cards (banking corporations and credit card companies). The Act states provisions regarding changes made to a benefits plan or the termination thereof. The Act takes effect at the end of four months after its publication.

Regulation regarding branch closures

The Banking act (Licensing)(Amendment No. 22)(Closure of branches), 2016

The Act was published on the Official Gazette on August 16, 2016. The principles of the Act: authorizing the Supervisor of Banks to approve, object or set conditions in relation to a request from a banking corporation to close a branch. It is also prescribed that, if a decision is made consenting to the closure of a branch, the banking corporation shall announce this to its customers in writing and shall only be entitled to close the branch after 60 days have elapsed from the date of giving such notice to the customers. See below "Proper Conduct of Banking Business Directive No. 400 – Closure of bank branches and reduction in teller services".

Proper Conduct of Banking Business Directive No. 400 – Closing down of bank branches and reducing bank teller services

The Directive was published on January 9, 2017. The object of the Directive is to regularize the process of closure of branches, reduction of teller services and the shifting to online services granted by the banking sector. The Directive requires banks, inter alia, to: form a designated policy in the matter of branches and the shifting to online banking and supporting procedures. The instruction included different provisions regarding the decision to shut down a branch or reduce teller services; the manner of shutting down a branch or reducing teller services, including the continuation of cash withdrawal services at an appropriate level and the level of service at the alternative digital service stations; the contents of the approach to the Supervisor of Banks regarding the shutting down of a branch; the announcement to customers regarding the shutting down of a branch or the reduction in services. The Directive took effect on date of publication with the exclusion of the sections relating to the manner and contents of the notice to customers regarding the closure of a branch or the discontinuation of teller services in the branch, which take effect sixty days following the date of publication. The Directive applies mainly to the closure of permanent branches (a change in the format of operation of the branch from a manned branch to a site that includes self-service automatic stations only, is considered a closing down of a branch) and relates to cases in which it does not apply.

The directives of the Supervisor of Banks

Draft Proper Conduct of Banking Business Directive in the matter of simplification of agreements. An updated draft, the object of which is the simplification of banking agreements, was published on November 26, 2017. The Supervisor of Banks focuses at the first stage on agreements for the granting of credit. The need to simplify a credit granting agreement is even keeping in line with the Fair Credit Act (see above). It is determined that a banking corporation must present to the customer, on the first page of a credit granting agreement, in a summarized and concise manner, the principal and material details and terms for the granting of the credit. The draft suggests a detailed and binding version of disclosure.

Draft Proper Conduct of Banking Business Directive No. 422 – Opening and management of a current account. The draft was published on December 6, 2017, within the framework of which, it is proposed, inter alia, to determine that when considering an application by a customer to open an account with a banking corporation, where a past debt of that customer remained unpaid, the banking corporation is expected to consider the merits of the application in question while referring to the characteristics of the past debt and to the circumstances of opening the account. In the event that the bank refuses to open the account, it is required to justify in writing the reasons for such refusal; where the bank sets conditions for opening the account, it is required to verify the necessity of requested documents already at the account opening stage.

In addition, it is proposed to determine a list of documents that are irrelevant to the decision to open a current account in credit, and therefore should not be included in the demand for submission of documents. Where the bank decides to open a current account in credit, the bank is required to make clear to the customer, even before the opening of the account, that the account must have a credit balance and detail the means of payment provided to it. The banking corporation shall not set unreasonable terms for providing such means in favor of the customer, including a trial period for the customer, the deposit of cash in an amount to be determined by the bank, etc. Also, upon request by the customer for the issue of a checkbook, it is expected from the bank to consider the merits of each such case in question taking into account all the circumstances. It is proposed that the Directive shall take effect on July 1, 2018.

Draft amendment to Proper Conduct of Banking Business Directive No. 367, "Banking via Means of Communication". An updated draft was published on January 28, 2018, within the framework of which it is being proposed that reliefs be granted in the digital (online) process for opening a bank account, whereby, inter alia, the requirement to make a bank transfer from an existing account of the customer to the new account as part of the verification process will be canceled; the cancellation of this requirement is subject to using remote verification and identification technology in accordance with the principles specified in the directive. Currently, only a customer that already has an existing bank account can open an online account; and therefore, following the amendment, a customer's first account will also be able to be opened remotely – either via the application or via the Internet. In addition, from the date of the directive taking effect, 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.

Amendment to Proper Conduct of Banking Business Directive No. 420, "Sending Notices via Means of Communication". The amendment to the directive was published on January 8, 2018, with the objective of improving the efficiency of sending notices to customers and adding to the special notices information that is useful to customers. Inter alia, it is being proposed that the banking corporation be required to send SMS messages to the customer in the event of five checks being refused on the account and in the event of the account being restricted.

Similarly, in each of the above instances, the banking corporation must add a link to the relevant guidance on the Bank of Israel's website. The amendments will go into effect on April 1, 2018.

Letter of the Deputy Supervisor of Banks – Removal of pledges securing credit that had been repaid

The letter was published on August 31, 2015, requiring banking corporations to improve the data existing at banks and at the respective Registrars, and act towards the removal of pledges registered to secure charges that had been repaid, from the year 1994. On September 29, 2016, the Supervisor of Banks granted an extension for dates of implementation of the provisions of the letter, relating to each registration separately. The Bank is completing its preparations within the prescribed updated timeframe.

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. Moreover, the instructions permit the Board of Directors to delegate additional authority to committees of the Board in order to improve the work of the Board and enable it to focus on material matters. In addition, a new requirement is included regarding the adoption of a policy in respect of the maximum length of period of office of the Chairman of the Board. 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.

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 2017, 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

Motion for approval of a class action by employees who had elected early retirement. A claim against the Bank and others was filed with the Regional Labor Court on March 24, 2013, together with a motion for approval of the claim as a class action suit against the Bank and Mercantile Discount Bank. The Court was requested to define the group in whose name the motion for a class action suit was filed, as all permanent employees who had voluntarily elected early retirement. The Claimant argues that there are four salary components (health insurance, reimbursement of medical expenses, taxable excess further education fund contributions and over the maximum provident fund contributions) that had been paid regularly as part of the monthly salary voucher. He further argues that the said components comprise under the law, components of the salary amount that serves as a basis for the computation of the severance pay amount payable, and accordingly should also be part of the salary amount serving as a basis for computing the remuneration paid upon voluntary early retirement.

The amount of the claim in respect of the whole group members was estimated by the Claimant at NIS 40 million.

On June 19, 2016, the regional labor court dismissed the motion for approval of the action as a class action suit. Moreover, the Court ruled for the dismissal in limine, of the action against MDB and against Benefit Company. On January 2, 2018, the national labor court rejected the plaintiff's appeal against the regional court's decision not to approve the claim as a class action. Concurrently, proceedings in the plaintiff's personal claim are continuing at the Tel Aviv regional labor court. The plaintiff submitted his closing arguments on June 5, 2017 and the Bank submitted its closing arguments on January 7, 2018. The parties are awaiting the decision of the regional labor court.

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 18, 2017, the Court admitted the request of the parties, postponing the hearing of the case for a period of six months. On August 9, 2017, the Attorney General for the Government announced his taking part in the proceedings and even attached his position as submitted in a parallel case conducted against another bank, in which the disclosure of documents had been requested. It is evident from the said position of the Attorney General that documents and details created within the framework of relations with the Bank of Israel should not be exposed and disclosed (including correspondence with the Bank of Israel and reports of the Bank of Israel). This position is principally based on the confidentiality provisions (of the Banking Ordinance) and on public interest. As regards the remaining documents, the Attorney General does not see fit at this stage to take a position. On December 18, 2017, the Court accepted the parties motion to adjourn the hearing until June 20, 2018.

A plea filed with the High Court of Justice regarding an arrangement in lieu of criminal proceedings at ICC. A plea was filed on August 10, 2017, with the Supreme Court sitting as a High Court of Justice, the respondents thereto being the Attorney General to the

Government, the State Attorney Office, the First International Bank, Israel Discount Bank and ICC. Within the framework of the plea, the Court has been requested to instruct the respondents to provide reasons why they do not submit indictments and prosecute whoever had been found involved in the affair relating to the international clearing activity of ICC, and why they should not avoid reaching arrangements with those involved in the said affair. The Court is also requested to issue an interim order instructing the respondents to avoid any attempt for reaching an arrangement until the plea has been decided. An interim order has not been issued. On November 12, 2017, the Attorney General for the Government and the State Attorney Office submitted their response to the action and to the motion for the granting of an interim order, and the response of the Bank and of ICC was submitted on November 19, 2017. Included in the said response was a request for an in limine dismissal of the plea or at least a dismissal in substance. The Court decided on November 21, 2017, to reject the motion for an interim order and to fix the hearing of the plea by a full panel of the Court. The hearing was fixed for June 28, 2018.

For additional details regarding different legal proceedings, see Note 26 C, items 12 and 13, and Note 36 F to the financial statements.

Significant Legal Proceedings settled in 2017

1. For details regarding a compromise agreement approved on February 22, 2017, reached with respect to the motion for approval of a class action against ICC and others, see Note 26, item 12.2 to the 2016 annual financial statements (p. 233).
2. For details regarding legal proceedings terminated on May 14, 2017, following approval of the withdrawal of the Claimants, see Note 10, item 4.2, to the condensed financial statements as of June 30, 2017 (p. 133).
3. For details regarding proceedings in respect of which, the Court ordered on November 7, 2017 the striking-off of the motion for approval, see Note 10, Item 4.6 to the condensed financial statements as of September 30, 2017 (pp. 134-135).

For details regarding motions for approval of actions as class action suits, in respect of which motions for approval of compromise agreements were submitted in January 2018, see Note 26 to the financial statements, item 12.1 and item12.8. 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 26 to the financial statements, item12.4. For details regarding a motion for approval of an action as a class action suit, which was rejected by a verdict given on March 1, 2018, see Note 26 to the financial statements, item 12.2.

It is noted that the Bank has not included in Note 26 information regarding a certain legal action that had been included therein in prior reporting periods, even though this has not yet ended, due to the fact that it no longer falls within the determined minimum disclosure requirements (item 12.11 to the financial statements as of December 31, 2016, p. 235).

It should be noted that, in Note 26, the Bank has not included two actions that were included therein in previous periods, even though they have not yet been formally concluded, in light of the fact that no hearings on these cases have been held in more than a decade (item 12.1 and item 13.1 in Note 26 to the financial statements as of December 31, 2016, p. 233 and pp. 235-236, respectively).

Proceedings regarding Authorities

1) For details regarding various proceedings by the Antitrust Commissioner and concerning the Group's activities in the credit card field, see Note 36 A 1 and 2 to the financial statements.
2) For details regarding the arrangement in lieu of criminal proceedings, signed in November 2016, between the economic department of the State Attorney Office and ICC, see Note 36 F (2).
3) Request for information regarding the mortgage loan field – on January 4, 2017, the Bank received a request submitted by the Antitrust Authority, according to which, within the framework of the examination performed with respect to competition in the mortgage loan field, the Bank is required to deliver to the Antitrust Authority information, documentation and data as detailed in the request. A similar demand was received by MDB. The required material has been delivered to the Antitrust Authority.
4) Request for information regarding agreements relating to discounting – On June 18, 2017, ICC received an approach from the Antitrust Authority, in the framework of which ICC was requested to deliver information regarding certain items included in agreements signed with the different discounting companies. ICC has complied with the request.

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

	2017			2016			2015		
	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	116,490	4,735	4.06	105,988	4,248	4.01	96,033	3,840	4.00
Outside Israel	20,816	830	3.99	21,220	776	3.66	21,497	758	3.53
Total credit to the public	**137,306**	***5,565**	**4.05**	**127,208**	***5,024**	**3.95**	**117,530**	***4,598**	**3.91**
Credit to the Government:									
In Israel	960	28	2.92	599	18	3.01	514	16	3.11
Outside Israel	2	-	-	12	-	-	40	2	5.00
Total credit to the Government	**962**	**28**	**2.91**	**611**	**18**	**2.95**	**554**	**18**	**3.25**
Deposits with banks:									
In Israel	3,236	26	0.80	3,229	11	0.34	3,482	10	0.29
Outside Israel	429	4	0.93	633	8	1.26	2,050	15	0.73
Total deposits with banks	**3,665**	**30**	**0.82**	**3,862**	**19**	**0.49**	**5,532**	**25**	**0.45**
Deposits with central banks:									
In Israel	18,266	18	0.10	16,362	16	0.10	19,381	25	0.13
Outside Israel	996	10	1.00	1,462	7	0.48	1,817	4	0.22
Total deposits with central banks	**19,262**	**28**	**0.15**	**17,824**	**23**	**0.13**	**21,198**	**29**	**0.14**
Securities borrowed or purchased under resale agreements:									
In Israel	604	-	-	295	-	-	461	-	-
Total securities borrowed or purchased under resale agreements	**604**	**-**	**-**	**295**	**-**	**-**	**461**	**-**	**-**
Bonds held for redemption and available for sale:[4]									
In Israel	23,905	294	1.23	23,500	295	1.26	22,382	268	1.20
Outside Israel	9,807	224	2.28	10,798	248	2.30	12,988	305	2.35
Total bonds held for redemption and available for sale	**33,712**	**518**	**1.54**	**34,298**	**543**	**1.58**	**35,370**	**573**	**1.62**
Trading bonds:[4]									
In Israel	2,228	23	1.03	3,167	11	0.35	1,983	2	0.10
Outside Israel	59	1	1.69	200	1	0.50	588	1	0.17
Total trading bonds	**2,287**	**24**	**1.05**	**3,367**	**12.00**	**0.36**	**2,571**	**3**	**0.12**
Other assets:									
In Israel	-	-	-	-	[9]-	-	-	[9]-	-
Outside Israel	674	20	2.97	703	20	2.84	692	19	2.75
Total other assets	**674**	**20**	**2.97**	**703**	**20**	**2.84**	**692**	**19**	**2.75**
Total interest bearing assets	**198,472**	**6,213**	**3.13**	**188,168**	**5,659**	**3.01**	**183,908**	**5,265**	**2.86**
Debtors in respect of credit card operations	6,591			6,082			5,825		
Other non-interest bearing assets[5]	15,223			15,409			15,935		
Total assets	**220,286**			**209,659**			**205,668**		
Of which: Total interest bearing assets attributable to operations outside Israel	32,783	1,089	3.32	35,028	1,060	3.03	39,672	1,104	2.78
* Commissions included in interest income from credit to the public		308			306			344	

For footnotes see page 395.

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

	2017			2016			2015		
	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	31,981	5	0.02	29,429	4	0.01	23,192	4	0.02
In Israel - Time deposits	83,543	467	0.56	75,667	356	0.47	75,434	290	0.38
Total deposits from the public in Israel	**115,524**	**472**	**0.41**	**105,096**	**360**	**0.34**	**98,626**	**294**	**0.30**
Outside Israel - On call	12,279	74	0.60	13,462	65	0.48	14,160	66	0.47
Outside Israel - Time deposits	7,773	97	1.25	7,945	79	0.99	10,034	68	0.68
Total deposits from the public outside Israel	**20,052**	**171**	**0.85**	**21,407**	**144**	**0.67**	**24,194**	**134**	**0.55**
Total deposits from the public	**135,576**	**643**	**0.47**	**126,503**	**504**	**0.40**	**122,820**	**428**	**0.35**
Deposits from the Government:									
In Israel	208	2	0.96	234	3	1.28	271	3	1.11
Outside Israel	80	1	1.25	54	-	-	56	-	-
Total deposits from the Government	**288**	**3**	**1.04**	**288**	**3**	**1.04**	**327**	**3**	**0.92**
Deposits from banks:									
In Israel	3,282	14	0.43	3,017	11	0.36	3,446	12	0.35
Outside Israel	1,295	19	1.47	1,204	19	1.58	1,247	18	1.44
Total deposits from banks	**4,577**	**33**	**0.72**	**4,221**	**30**	**0.71**	**4,693**	**30**	**0.64**
Securities loaned or sold under repurchase agreements:									
Outside Israel	3,216	127	3.95	3,660	146	3.99	3,843	149	3.88
Total securities loaned or sold under repurchase agreements	**3,216**	**127**	**3.95**	**3,660**	**146**	**3.99**	**3,843**	**149**	**3.88**
Bonds and subordinated debt notes:									
In Israel	8,522	428	5.02	8,927	415	4.65	10,022	427	4.26
Total bonds and subordinated debt notes	**8,522**	**428**	**5.02**	**8,927**	**415**	**4.65**	**10,022**	**427**	**4.26**
Other liabilities:									
In Israel	74	4	5.41	89	4	4.49	67	5	7.46
Total other liabilities	**74**	**4**	**5.41**	**89**	**4**	**4.49**	**67**	**5**	**7.46**
Total interest bearing liabilities	**152,253**	**1,238**	**0.81**	**143,688**	**1,102**	**0.77**	**141,772**	**1,042**	**0.73**
Non-interest bearing deposits from the public	37,626			36,972			35,458		
Creditors in respect of credit card operations	7,094			6,651			6,331		
Other non-interest bearing liabilities(6)	8,008			8,554			9,124		
Total liabilities	**204,981**			**195,865**			**192,685**		
Total capital resources	**15,305**			**13,794**			**12,983**		
Total liabilities and capital resources	**220,286**			**209,659**			**205,668**		
Interest margin		**4,975**	**2.32**		**4,557**	**2.24**		**4,223**	**2.13**
Net return on interest bearing assets:(7)									
In Israel	165,689	4,204	2.54	153,140	3,806	2.49	144,236	3,420	2.37
Outside Israel	32,783	771	2.35	35,028	751	2.14	39,672	803	2.02
Total net return on interest bearing assets	**198,472**	**4,975**	**2.51**	**188,168**	**4,557**	**2.42**	**183,908**	**4,223**	**2.30**
Of which: Total interest bearing liabilities attributable to operations outside Israel	24,643	318	1.29	26,325	309	1.17	29,340	301	1.03

For footnotes see page 395.

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

	2017			2016			2015		
	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	131,656	4,131	3.14	117,415	3,707	3.16	108,868	3,345	3.07
Total interest bearing liabilities	(99,076)	(333)	(0.34)	(88,271)	(278)	(0.31)	(80,332)	(309)	(0.38)
Interest margin		**3,798**	**2.80**		**3,429**	**2.85**		**3,036**	**2.69**
CPI-linked shekels:									
Total interest bearing assets	19,182	580	3.02	19,708	[9]488	2.48	19,751	[9]479	2.43
Total interest bearing liabilities	(11,124)	(436)	(3.92)	(12,679)	(408)	(3.22)	(15,173)	(364)	(2.40)
Interest margin		**144**	**(0.90)**		**80**	**(0.74)**			**0.03**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	14,851	413	2.78	16,017	404	2.52	15,617	337	2.16
Total interest bearing liabilities	(17,410)	(151)	(0.87)	(16,413)	(107)	(0.65)	(16,927)	(68)	(0.40)
Interest margin		**262**	**1.91**		**297**	**1.87**		**269**	**1.76**
Total operations in Israel:									
Total interest bearing assets	165,689	5,124	3.09	153,140	4,599	3.00	144,236	4,161	2.88
Total interest bearing liabilities	(127,610)	(920)	(0.72)	(117,363)	(793)	(0.68)	(112,432)	(741)	(0.66)
Interest margin		**4,204**	**2.37**		**3,806**	**2.32**		**3,420**	**2.22**

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

	2017 Compared to 2016			2016 Compared to 2015		
	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	427	60	487	399	9	408
Outside Israel	(16)	70	54	(10)	28	18
Total credit to the public	**411**	**130**	**541**	**389**	**37**	**426**
Other interest bearing assets:						
In Israel	16	22	38	(8)	(9)38	30
Outside Israel	(40)	15	(25)	(90)	28	(62)
Total other interest bearing assets	**(24)**	**37**	**13**	**(98)**	**66**	**(32)**
Total interest income	**387**	**167**	**554**	**291**	**103**	**394**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	43	69	112	22	44	66
Outside Israel	(12)	39	27	(19)	29	10
Total deposits from the public	**31**	**108**	**139**	**3**	**73**	**76**
Other interest bearing liabilities:						
In Israel	(7)	22	15	(54)	40	(14)
Outside Israel	(10)	(8)	(18)	(8)	6	(2)
Total other interest bearing liabilities	**(17)**	**14**	**(3)**	**(62)**	**46**	**(16)**
Total interest expenses	**14**	**122**	**136**	**(59)**	**119**	**60**
Interest income, net	**373**	**45**	**418**	**350**	**(16)**	**334**

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 1 million and NIS 110 million, respectively; 2016 – NIS 6 million and NIS 289 million respectively; 2015 – NIS 3 million and NIS 437 million, respectively.

(5) Including derivative instruments and other assets that do not carry interest 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.

(9) Reclassified, see Note 1 C 7 to the financial statements.

Appendix no. 2 - Consolidated statement of profit and loss for each quarter - multi quarter data

	2017			
Quarter	4	3	2	1
	In NIS millions			
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	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	696	694	661	666
Other income	37	9	19	22
Total non-interest income	**827**	**900**	**759**	**913**
Operating and other Expenses				
Salaries and related expenses	856	837	814	859
Maintenance and depreciation of buildings and equipment	272	248	260	264
Other expenses	363	329	324	309
Total operating and other expenses	**1,491**	**1,414**	**1,398**	**1,432**
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**

Appendix no. 2 – Consolidated statement of profit and loss for each quarter – multi quarter data (continued)

	2016			
Quarter	4	3	2	1
	In NIS millions			
Interest income	(1)1,428	1,519	1,494	(1)1,218
Interest expenses	262	332	339	169
Interest income, net	**1,166**	**1,187**	**1,155**	**1,049**
Credit loss expenses (reversal expenses)	224	141	58	46
Net interest income after credit loss expenses	**942**	**1,046**	**1,097**	**1,003**
Non-interest Income				
Non-interest financing income	179	51	428	96
Commissions	653	675	633	624
Other income	6	5	27	62
Total non-interest income	**838**	**731**	**1,088**	**782**
Operating and other Expenses				
Salaries and related expenses	866	830	861	859
Maintenance and depreciation of buildings and equipment	254	272	268	273
Other expenses	338	373	335	285
Total operating and other expenses	**1,458**	**1,475**	**1,464**	**1,417**
Profit before taxes	322	302	721	368
Provision for taxes on profit	(1)168	126	272	(1)175
Profit after taxes	**154**	**176**	**449**	**193**
Bank’s share in profit (loss) of affiliated companies, net of tax effect	3	15	(2)	(1)
Net Profit:				
Before attribution to non-controlling rights holders in consolidated companies	157	191	447	192
Attributed to the non-controlling rights holders in consolidated companies	(12)	(3)	(54)	(13)
Net Profit attributed to bank's shareholders	**145**	**188**	**393**	**179**

Footnote:

(1) Reclassified, see Note 1 C 7 to the financial statements.

Appendix no. 3 – Condensed Consolidated balance sheet – multi quarter data

	2017				2016			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	28,026	24,815	28,802	29,179	29,311	25,873	26,784	29,210
Securities	32,703	34,490	34,828	36,187	38,818	37,491	38,053	38,064
Securities borrowed or purchased under resale agreements	954	840	261	369	440	177	288	183
Credit to the public	150,868	151,059	146,292	145,548	142,904	141,490	135,185	131,272
Provision for credit loss	(2,111)	(2,119)	(2,075)	(2,089)	(2,144)	(2,175)	(2,093)	(2,069)
Credit to the public, net	**148,757**	**148,940**	**144,217**	**143,459**	**140,760**	**139,315**	**133,092**	**129,203**
Credit to Governments	1,493	1,200	946	795	737	727	546	524
Investments in affiliated companies	153	148	144	147	157	151	135	141
Buildings and equipment	2,366	(1)2,265	(1)2,277	(1)2,318	(1)2,322	(1)2,280	(1)2,299	(1)2,196
Intangible assets and goodwill	160	160	160	160	160	160	160	142
Assets in respect of derivative instruments	2,953	3,310	3,206	3,034	3,283	3,242	3,812	3,761
Other assets	3,656	3,497	3,552	3,448	3,589	4,035	3,713	3,776
Total Assets	**221,221**	**219,665**	**218,393**	**219,096**	**219,577**	**213,451**	**208,882**	**207,200**
Liabilities and Equity								
Deposits from the public	175,170	173,356	171,598	171,642	172,318	164,892	162,155	161,633
Deposits from banks	4,804	4,284	4,506	5,184	5,342	5,711	4,539	3,842
Deposits from the Government	267	275	297	302	303	314	326	325
Securities loaned or sold under buy-back arrangements	1,943	2,968	3,116	3,340	3,543	3,538	3,621	3,698
Bonds and Subordinated debt notes	7,639	7,961	8,696	8,648	8,498	8,798	8,765	8,739
Liabilities in respect of derivative instruments	3,232	3,598	3,902	3,639	3,570	3,900	4,438	4,535
Other liabilities	12,098	11,468	10,860	11,156	11,067	11,730	10,857	10,754
Liabilities held for sale	-	-	-	-	-	-	-	47
Total liabilities	**205,153**	**203,910**	**202,975**	**203,911**	**204,641**	**198,883**	**194,701**	**193,573**
Equity capital attributed to the Bank's shareholders	15,594	15,294	14,972	14,754	14,512	14,154	13,769	13,270
Non-controlling rights in consolidated companies	474	461	446	431	424	414	412	357
Total equity	**16,068**	**15,755**	**15,418**	**15,185**	**14,936**	**14,568**	**14,181**	**13,627**
Total Liabilities and Equity	**221,221**	**219,665**	**218,393**	**219,096**	**219,577**	**213,451**	**208,882**	**207,200**

Footnote:

(2) Reclassified - see Note 16 M to the financial statements.

Appendix no. 4 – Consolidated statement of profit and loss for the last five years

	As at December 31				
	2017	2016	2015	2014	2013
	in NIS millions				
Interest income	6,213	(1)5,659	(1)5,265	(1)5,731	(1)6,807
Interest expenses	1,238	1,102	1,042	1,518	2,572
Interest income, net	4,975	4,557	4,223	4,213	4,235
Credit loss expenses	574	469	187	164	580
Net interest income after credit loss expenses	**4,401**	**4,088**	**4,036**	**4,049**	**3,655**
Non-interest Income					
Non-interest financing income	595	754	363	549	632
Commissions	2,717	2,585	2,611	2,586	2,704
Other income	87	100	79	18	20
Total non-interest income	**3,399**	**3,439**	**3,053**	**3,153**	**3,356**
Operating and other Expenses					
Salaries and related expenses	3,366	3,416	3,396	4,086	3,609
Maintenance and depreciation of buildings and equipment	1,044	1,067	1,158	1,161	1,182
Other expenses	1,325	1,331	1,171	1,167	1,146
Total operating and other expenses	**5,735**	**5,814**	**5,725**	**6,414**	**5,937**
Profit before taxes	2,065	1,713	1,364	788	1,074
Provision for taxes on profit	747	(1)741	(1)566	(1)266	(1)254
Profit after taxes	1,318	972	798	522	820
Bank's share in profit of affiliated companies, net of tax effect	1	15	9	27	45
Net Profit :					
Before attribution to non-controlling rights holders	1,319	987	807	549	865
Attributed to the non-controlling rights holders	(60)	(82)	(57)	(44)	(35)
Net Profit attributed to bank's shareholders	**1,259**	**905**	**750**	**505**	**830**
Earnings per share of NIS 0.1 (in NIS):					
Total earnings per share attributed to Bank's shareholders	**1.09**	**0.84**	**0.71**	**0.48**	**0.79**
Diluted Earnings per share of NIS 0.1 (in NIS):					
Total earnings per share attributed to Bank's shareholders	**1.08**	**0.84**	**0.71**	**0.48**	**0.79**

Footnote:
(1) Reclassified, see Note 1 C 7 to the financial statements.

Appendix no. 5 - Consolidated balance sheets as of the end of the last five years

	As at December 31				
	2017	2016	2015	2014	2013
	In NIS millions				
Assets					
Cash and deposits with banks	28,026	29,311	28,518	31,694	25,319
Securities	32,703	38,818	38,935	37,353	41,325
Securities borrowed or purchased under resale agreements	954	440	279	466	102
Credit to the public	150,868	142,904	129,268	122,172	117,993
Provision for credit loss	(2,111)	(2,144)	(2,052)	(2,049)	(2,134)
Credit to the public, net	**148,757**	**140,760**	**127,216**	**120,123**	**115,859**
Credit to Governments	1,493	737	515	1,533	1,835
Investments in affiliated companies	153	157	144	142	1,668
Buildings and equipment	2,366	(1)2,322	(1)2,204	(1)2,356	(1)2,536
Intangible assets and goodwill	160	160	142	142	142
Assets in respect of derivative instruments	2,953	3,283	3,208	4,596	4,080
Other assets	3,656	3,589	3,696	3,890	3,595
Noncurrent assets held for sale	-	(1)-	(1)403	(1)4,890	(1)4,196
Total Assets	**221,221**	**219,577**	**205,260**	**207,185**	**200,657**
Liabilities and Equity					
Deposits from the public	175,170	172,318	157,875	153,418	149,475
Deposits from banks	4,804	5,342	3,907	5,547	4,213
Deposits from the Government	267	303	306	357	425
Securities loaned or sold under buy-back arrangements	1,943	3,543	3,833	3,984	3,644
Bonds and Subordinated debt notes	7,639	8,498	9,570	10,638	11,664
Liabilities in respect of derivative instruments	3,232	3,570	3,475	4,475	4,898
Other liabilities	12,098	11,067	10,985	11,126	10,408
Liabilities held for sale	-	-	1,675	4,651	3,931
Total liabilities	**205,153**	**204,641**	**191,626**	**194,196**	**188,658**
Equity capital attributed to the Bank's shareholders	15,594	14,512	13,288	12,599	11,702
Non-controlling rights in consolidated companies	474	424	346	390	297
Total equity	**16,068**	**14,936**	**13,634**	**12,989**	**11,999**
Total Liabilities and Equity	**221,221**	**219,577**	**205,260**	**207,185**	**200,657**

Footnote:
(1) Reclassified - see Note 16 M to the financial statements.

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 ,2017			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors	1,549	1,582	34	1
Financial services[1]	6,972	6,889	12	95
Total non government bonds	**8,521**	**8,471**	**46**	**96**
Government bonds				
U.S. government	460	458	-	2
Israel Government	15,870	16,031	164	3
Other Governments	113	113	1	1
Total government bonds	**16,443**	**16,602**	**165**	**6**
Total bond in the available-for-sale portfolio	**24,964**	**25,073**	**211**	**102**
	December 31 ,2016			
Total non governmental bonds and bills	**11,297**	**11,271**	**63**	**89**
Total government bonds and bills	**17,374**	**17,482**	**145**	**37**
Total available-for-sale bonds	**28,671**	**28,753**	**208**	**126**

Appendix no. 6 – Additional details – securities portfolio (continued)

1. Available for sale bonds – data according to economic sectors (continued)

(1) DETAILS REGARDING BONDS IN THE FINANCIAL SERVICES SECTOR IN THE AVAILABLE-FOR-SALE PORTFOLIO

	December 31 ,2017			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[(2)]	558	566	9	1
Insurance and provident funds	60	60	-	-
Ginnie Mae	5,412	5,331	1	82
Freddie Mac	365	359	-	6
Fannie Mae	525	521	2	6
Other	52	52	-	-
Total financial services	**6,972**	**6,889**	**12**	**95**

(2) DETAILS ACCORDING TO GEOGRAPHICAL AREAS OF INVESTMENT IN BONDS OF BANKS AND BANKING HOLDING COMPANIES IN THE AVAILABLE-FOR-SALE PORTFOLIO

	December 31 ,2017			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Western Europe[(3)]	367	371	5	1
Australia	191	195	4	-
Total banks and banking holding companies	**558**	**566**	**9**	**1**

(3) DETAILS BY COUNTRIES OF INVESTMENT IN BONDS OF BANKS AND BANK HOLDING COMPANIES IN THE AVAILABLE-FOR-SALE PORTFOLIO IN WESTERN EUROPE

Britain	179	181	2	-
Switzerland	52	51	-	1
Sweden	42	42	-	-
France	21	21	-	-
Netherlands	43	45	2	-
Germany	30	31	1	-
Total	**367**	**371**	**5**	**1**

Appendix no. 6 - Additional details - securities portfolio (continued)

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 ,2017			
	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)]1,228	1,266	39	1
Financial services*	614	608	5	11
Total non government bonds	**1,842**	**1,874**	**44**	**12**
Total Government bonds	**3,482**	**3,674**	**192**	**-**
Total bonds in the held-to-maturity portfolio	**5,324**	**5,548**	**236**	**12**
	December 31 ,2016			
Total non governmental bonds and bills	**2,449**	**2,490**	**57**	**16**
Total government bonds and bills	**3,818**	**4,069**	**251**	**-**
Total held-to-maturity bonds	**6,267**	**6,559**	**308**	**16**
*Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	168	167	2	3
Freddie Mac	264	260	1	5
Fannie Mae	96	93	-	3
Other	86	88	2	-
Total financial services	**614**	**608**	**5**	**11**

Footnote:

(1) Most ot 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 203-110 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

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 ,2017			
	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	121	123	2	-
Financial services	56	55	-	1
Total non government bonds	**177**	**178**	**2**	**1**
Total government bonds	**1,240**	**1,240**	**5**	**5**
Total bonds in the trading portfolio	**1,417**	**1,418**	**7**	**6**
	December 31 ,2016			
Total non governmental bonds	**236**	**233**	**-**	**3**
Total government bonds	**2,591**	**2,589**	**2**	**4**
Total trading bonds in the trading portfolio	**2,827**	**2,822**	**2**	**7**

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	
	2017	2016
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	6	2
With an AA+ rating	-	3
With an AA rating	-	260
With an AA- rating	139	158
With an A+ rating	579	782
With an A rating	191	139
With an A- rating	98	231
With a BBB+ rating	37	-
With a BBB- rating	4	14
Not rated	27	29
Total against foreign banks	**1,081**	**1,618**
Total against Israeli banks	**363**	**546**
Total Balance-sheet balances of assets deriving from derivative instruments	**1,444**	**2,164**

(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	
	2017	2016
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AAA rating	-	2
With an AA+ rating	-	1
With an AA rating	-	11
With an AA- rating	1	17
With an A+ rating	68	20
With an A rating	15	1
With an A- rating	1	3
With an BBB+ rating	2	-
Total against foreign banks	**87**	**55**
Total against Israeli banks	**4**	**187**
Total Off Balance-sheet balances of assets deriving from derivative instruments	**91**	**242**

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, 2017		As of December 31, 2016	
	in NIS million			
Agriculture		1		-
Industry:				
Machines, electrical and electronic equipment	33		51	
Mining, chemical industry and oil products	44		51	
Other	20		19	
Total industry		97		121
Construction and real estate:				
Acquisition of real estate for construction	33		20	
Real estate holdings	46		52	
Other	20		21	
Total Construction and real estate		99		93
Electricity and water		398		231
Commerce		59		99
Hotels, hotel services and food		4		2
Transportation and storage		8		25
Communications and computer services		25		27
Financial services:				
Financial institution (excluding banks)	776		374	
Private customers active on the capital market	365		271	
Financial holding institutions	90		54	
Insurance and provident fund services	-		-	
Total financial services		1,231		699
Business and other services		20		9
Public and community services		9		7
Private individuals - housing loans		-		-
Private individuals - other		20		6
Total credit risk in respect of derivative instruments		**1,971**		**1,319**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received.		(243)		(341)
Total credit risk in respect of derivative instruments (after deduction of financial instruments and in respect of a cash collateral received)		**1,728**		**978**

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	
	2017	2016
	in NIS thousands	
Field of activity:		
Financial services[2]	5,541,767	6,164,335
Defense industries	2,346,455	388,936
Electricity and water	2,134,499	2,375,541
Financial services	1,604,674	2,128,369
Real estate	1,146,298	1,418,543
Financial services	923,792	-
Communication and Computer Services	827,686	820,982
Trade in motor vehicles	650,155	1,015,143
Financial services[2]	628,491	909,281
Financial services[2]	621,976	1,043,510

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, FNMA and FHLMC.

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, 2017		December 31, 2016	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	20,736	20,928	22,835	23,086
U.S. government	475	475	664	664
Other governments	113	113	390	390
Total	**21,324**	**21,516**	**23,889**	**24,140**

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 (continued)	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: 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. 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

TRUST SERVICES
Discount Trust

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