Annual Report

Report for 2017

Bank of Jerusalem Ltd. and its Consolidated Companies

Contents

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Remarks by the Chairman of the Board

Dear Shareholders,

On behalf of the Board of Directors and myself, I am honored to present you with the Board of Directors' Report and Financial Statements of Bank of Jerusalem for 2017.

In 2017, the Bank continued implementing its multi-annual strategic plan, with an emphasis on innovation and responding to market trends and regulatory requirements.

In 2017, the Bank achieved a rate of return on equity for its shareholders of 4.5%.

Dividends paid to shareholders in 2017 amounted to a total of NIS 7.1 million.

The Banking System in Israel

The banking system in Israel continues to demonstrate a fair degree of stability and profitability, despite the uncertainty which has been caused, inter alia, by the multiple regulatory changes and structural reforms which are intended to increase competition in the banking services segment in general, and competition between banks over the household segment in particular.

This year, similarly to last year, featured significant regulatory initiatives and legislation in the banking segment, the results of which will be expressed in the future.

The recommendations of the Strum Committee for Increasing Competition in Common Banking Financial Services and for Reducing Market Concentration in the Banking Industry, entered into legally binding effect, and will be adopted gradually over the coming years.

The banking system is currently in an ongoing process of a digital revolution, which will contribute to increased competition and increased efficiency of the system, for the benefit of customers, and mostly household customers.

The Commissioner of Banks is promoting reforms which are intended to encourage the introduction of new technologies and innovations into the banking industry, to improve the operating efficiency of banks, and to increase competition in the fields of banking and payment.

Each of these and more present challenges and opportunities for the banking system, with expansion of the financial arena and the growth of financial scopes of activity, alongside the growth of the economy.

2017 was a successful year in markets, with all investment channels and all leading indices around the world recording high returns for investors. The results of the past year were due to several factors: the improvement in global growth, the absence of inflation which would contribute to low interest rates, and the non-materialization of risk factors. All of the above resulted in sharp market increases.

In February of this year, a powerful and intense shock affected all global markets, and caused sharp declines in all investment channels. Later that month, the declines stopped, and increases were recorded in most of the leading markets and stock indices.

Bank of Jerusalem - Results and Developments in 2017

In 2017, the Bank continued successfully implementing the multi-annual strategic plan which was refreshed during the year, while maintaining an appropriate level of profitability in consideration of the Bank's activity characteristics and risk profile, despite the changing market conditions and the low interest rate environment. In parallel, management continued working on the Bank's development, including increased efficiency measures.

As part of the implementation of the Bank's strategy of focusing on its core activities, this year, the Bank sold the customer securities portfolio of independent and institutional customers (the brokerage activity). The transaction was closed, and the consideration for it received, in the first quarter of 2018. The profit from the transaction will be used by the Bank as a source to leverage its retail activity.

The Bank's net profit in 2017 amounted to NIS 37.0 million, while the return on equity rate amounted to 4.5%, in accordance with the Bank's risk appetite, in light of changing market conditions, including increased competition in the banking system.

The balances in the Bank's net credit portfolio amounted, as of the end of 2017, to approximately NIS 10 billion, similarly to the end of 2016.

The Bank's credit portfolio is a high-quality portfolio with significant diversification. The share of retail credit out of the entire portfolio amounts to approximately 82%, most of which is housing credit backed by real estate properties.

Along with the significant distribution, the quality of the Bank's credit portfolio is also reflected in the relatively low rate of the annual provision for credit losses, which amounted, in 2017, to 0.38% (as compared with 0.31% in 2016).

In December 2017, the Bank completed an issue of Tier 2 capital of the CoCo type, at a scope of approximately NIS 106 million.

In 2017, the Bank continued to increase and strengthen its capital base, and at year end, the ratio of total capital to risk components amounted to 10.2%, while the leverage ratio amounted to approximately 5.7%.

Bank of Jerusalem - Developments and trends in the last 5 years

The main figures are presented below:

	2017	2012	
	NIS millions		Change in percent
Total balance sheet	13,554	12,288	10.3%
Credit to the public, net	9,671	9,581	0.9%
Public deposits	10,560	9,814	7.6%
Equity*	837	690	21.4%
Revenues	489	344	42.2%
Expenses	399	258	57.0%
Net profit	37	33	12.1%
Return on equity	4.5%	4.9%	(0.4) percentage points
Efficiency ratio (operating and other expenses out of total income)	82%	75%	7 percentage points
Tier 1 capital adequacy ratio	10.2%	9.7%	0.5 percentage points
Number of employees	607	509	19.3%

* After a dividend distribution in the total amount of NIS 69.4 million, in the aforementioned five years.

The figures pertaining to the Bank's development over the last years indicate an increase in activity (scope of balance sheet) at a rate of 10.3%, which, in addition to the improvement in the interest rate margin, led to an impressive increase in income at a rate of 42.2%, and an increase in net profit, from NIS 33 million at the end of 2012 to NIS 37 million at the end of 2017, reflecting an increase 12.1%. The profit for 2017 reflects return on equity of 4.5%. This development reflects the successful implementation of the Bank's multi-annual strategy, including focusing on retail activity, which constitutes the basis for Bank of Jerusalem's status as a unique retail bank. In parallel with its growth, the Bank also continued its implementation of the increased efficiency process in 2017.

Business Strategy

The Bank's strategic plan is based on three layers:

(A) Shareholders - maximizing value for shareholders, with a dividend distribution policy of 30% of profit, subject to the fulfillment of the distribution tests, and in compliance with the conditions set forth in legal provisions, while maintaining adequate and stable profitability, and a low risk profile.

(B) Customers - Focus on mortgage-specialized retail activity and the continued development of consumer credit, while maximizing value for customers.

(C) Employees - cultivation and promotion of human capital, managers and employees.

The strategy is centered on controlled retail growth, while focusing on specialized activities in housing loans, and continuing the development of the consumer credit activity. The plan is focused on maintaining a low risk profile, as reflected in the mix of activities, the capital adequacy ratio, the liquidity ratios and a higher leverage ratio than the minimum ratio which is required under the regulatory directives.

In consideration of the characteristics and mix of the Bank's activities, and in light of the regulatory and technical barriers which prevent full transition to remote banking services, the Bank continues to rely on the network of branches and on service centers for the provision of banking services to its customers, while implementing technological improvements and expanding remote banking services for the convenience of customers.

All of the above, along with the provision of personal, professional, effective and rapid service, in a variety of advanced and high-quality banking products, result in excellent service and the creation of value for the Bank's customers, the core values of Bank of Jerusalem.

Goals and Trends for the Coming Year

In 2018, the Bank intends to continue implementing its updated retail strategy, which primarily involves providing housing loans and consumer credit, while continuing its cultivation of a deep commitment to the household segment, along with innovation in products and services, such as prepaid card services. The Bank also intends to expand its customer base and additional banking services which it provides to its customers. All of the above will contribute to the maximization of value for customers.

The growth targets which were defined for the credit portfolio in 2018 were determined in accordance with the developments in the economy, and in accordance with the Bank's risk appetite policy.

The main goals defined by the Bank for 2018 include maintaining the capital adequacy ratios, while meeting a minimum overall capital adequacy ratio of 13.6%, which was defined by the Board of Directors as a target by the end of 2019, while also maintaining an adequate leverage ratio of 5.1%, and stable liquidity ratios.

In 2018, the Bank intends to continue implementing the increased efficiency measures, including encouraging customers to use technological means of communication with the Bank through the internet, and through other digital means, with the aim of minimizing the dependence on physical branches, increasing the efficiency of operations, and improving service.

The coming years are expected to be highly challenging, with burdensome regulation, continuation of the low interest rate environment, and volatility in markets due to uncertainty.

The Bank is preparing to respond to these challenges by adopting a measured growth policy, implementing increased operational efficiency, and maintaining a low risk appetite.

Corporate Governance

The Bank attributes primary importance to conduct in accordance with corporate governance rules, including appropriate conduct of the Board of Directors, while ensuring compliance with all provisions of the law. In accordance with this policy, the Bank ensures the implementation of rules and provisions which apply to it at a high standard, which define, inter alia, the set of relationships between the Board of Directors, management, and audit and control entities, and are reflected in the organizational structure, the definition of areas of responsibility and authority, work policies and rules for reporting, supervision, control and auditing.

The Bank also continuously strives to implement and apply an ethical and appropriate organizational culture, in accordance with the very highest standards of banking.

Cultivation of human resources and the system of working relationships

As a bank which views human resources as its most important asset, the Bank continued, also in 2017, promoting and developing the quality of human resources and the cultivation of the system of working relationships, which constitute a strategic asset for the Bank over the years.

During 2017, the Bank launched an extensive training process for managers in the Bank, which will continue in 2018 as well.

The employees' organization plays an important part in leading the Bank towards achieving its business goals. The positive working relationships which have existed in the Bank for years reflect the mutual trust and the fruitful collaboration between management and the employee committee, and which, along with fair and appropriate work conditions, contribute to the Bank's success and advancement.

Corporate Responsibility

Bank of Jerusalem, which was founded over 50 years ago, is committed to the areas of corporate responsibility, and for many years has incorporated them as an integral part of its business activities. This commitment reflects an approach according to which business success goes hand in hand with social-environmental considerations, which have increased in focus in recent years, and has also been incorporated into the overall strategy of the Bank, which has established at its core the values of transparency and fairness in the provision of banking services.

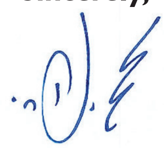
Within the framework of its corporate responsibility, the Bank also works to promote the well being of its employees, as well as their professional and personal development, to create value for the community, inter alia, through donations to associations and organizations which strive to promote social goals, to develop social awareness among its employees and to encourage them towards social involvement. The Bank applies advanced principles of corporate governance to its conduct, as well as principles involving an ethical and moral culture of its employees, managers and Board members.

We are committed to our shareholders, customers, employees and to the society of Israel, the source of our strength.

Looking towards the future, all of us - the Board of Directors, management and employees of the Bank - will continue working towards developing and advancing the Bank, and maximizing value for its shareholders and customers, while upholding the values of excellence in service, fairness and transparency, and dealing with the challenges which we will face in the coming years.

On behalf of myself and the Board of Directors, I wish to thank the Bank's customers, who have placed their trust in us through every step of the way, as well as the Bank's CEO and members of the management board, and, of course, tremendous thanks to all of the Bank's employees, for their professional, loyal and dedicated work, and for their contribution to the Bank's success.

Sincerely,



Zeev Nahari

Chairman of the Board of Directors

February 27, 2018

Members of the Bank's Board of Directors

Bank of Jerusalem

Zeev Nahari, C.P.A. (A)
Chairman of the Board

Zalman Shoval (A)

Yehuda Orbach, C.P.A. (B)

Dr. Ruth Arad (B)

Shmuel Eshel (B))

Moshe Bauer (A)

Lior Ben Ami (A)

Ram Harmelech (A)

Ira Sobel, C.P.A. (C)

Dr. Nurit Krauss (C)(D)

Gideon Shoval (A)

(A) In the Bank's annual general meeting of shareholders which was held on December 29, 2017, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. Zeev Nahari (Chairman of the Board), Zalman Shoval, Gideon Shoval, Moshe Bauer, Ram Harmelech and Lior Ben Ami.
(B) Outside director in accordance with the Companies Law, 1999.
(C) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.
(D) Tenure concluded on January 28, 2018 (upon the conclusion of her second term).
* Additional details regarding the members of the Bank's Board of Directors are presented in the Bank's periodic report for 2017, and on the MAGNA website of the Israel Securities Authority:
http://www.magna.isa.gov.il.

Members of the Bank's Management Board, Corporate Officers and Their positions

Bank of Jerusalem

Members of the Bank's Management Board

Gil Topaz, Adv. and C.P.A.
CEO

Michael Tayer (A)
Executive VP, Resources Division Manager

David Levy (B)
Executive VP, Retail Division Manager

Sarit Weisstuch, Adv. (C)
Vice President, Legal Counsel, Manager of the Legal Counsel, Compliance and Enforcement Department

Alexander Saltzman, C.P.A.
Vice President, Chief Accountant, Monetary Division Manager

Daphna Landau (D)
Vice President, Chief Risk Officer, Risk Division Manager

Moshe Omer
Vice President, Financial Division Manager

Corporate officers who are not members of the management board

Ron Sagi
Vice President, Chief Internal Auditor

Carmel Florenz, Adv.
Secretary of the Bank and its Subsidiaries

Hagar Peretz Dayan
Manager of the Bank's CEO, Marketing and Strategy Division

Liran Ovadya (E)
Real Estate Sector Department Manager

Kost Forer Gabbay & Kasierer
The Bank's Auditors

(A) On December 31, 2017, Mr. Michael Tayer announced his resignation, and he will conclude his tenure as a corporate officer of the Bank on March 31, 2018.
(B) On June 15, 2017, the Bank's Board of Directors approved the appointment of Mr. David Levy as Executive VP (prior to the appointment, served as VP in the aforementioned position).
(C) On February 9, 2017, the Bank's Board of Directors approved the appointment of Ms. Sarit Weisstuch, VP Legal Counsel, as the Manager of the Legal Counsel, Compliance and Enforcement Department (previously served as the Legal Department Manager).
(D) Began serving on March 1, 2017 (upon the conclusion of Mr. Ben Yishai's tenure in this position).
(E) Began serving on November 1, 2017 (upon the conclusion of Ms. Rusk's tenure in this position).
* Additional details regarding the Bank's corporate officers (who are not directors) are presented in the Bank's periodic report for 2017, and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Report of the Board of Directors and Management

2017 Report for

Bank of Jerusalem Ltd. and its Consolidated Companies

Report of the Board of Directors and Management - Table of Contents

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Report of the Board of Directors and Management as of December 31, 2017

Presented below is the annual report of Bank of Jerusalem Ltd. This report will be presented for discussion to the Bank's annual general meeting of shareholders.

The Board of Directors resolved, in its meeting on February 27, 2018, to approve and publish the consolidated financial statements of Bank of Jerusalem Ltd. (hereinafter: the "Bank" or "Bank of Jerusalem") and its subsidiaries for 2017 (hereinafter: the "Reporting Year"). The reports have been prepared in accordance with public reporting regulations issued by the Commissioner of Banks, and data is us presented based on reported amounts.

Forward looking information

Some of the information provided in the Board of Directors' Report, which does not refer to historical facts, constitutes forward looking information as defined in the Securities Law, 5728-1968.

The Bank's actual results may differ significantly from the results which were included, if any, in the forward looking information, due to many different factors, including, inter alia, due to extraordinary economic events, such as extreme changes in interest rates, rise / fall of the currency and inflation, as well as unexpected security / political events, which could change the public's conduct, including in terms of the scope of credit taking, early repayments, refinancing or difficulties in routine repayment, in all of the Bank's operating segments, and also in terms of the ability to raise sources. Additionally, changes in regulation, in legislative provisions, in directives issued by supervisory entities, and the conduct of competitors, may affect the Bank's activities.

Forward looking information is characterized by words or phrases such as "the Bank believes", "the Bank intends", "expected", "may", "could", "assessment", and similar phrases which indicate the meaning of a forecast regarding the future, and not historical facts.

Such forward looking phrases are associated with risks and uncertainty, due to the fact that they are based on management's assessment regarding future events, including, inter alia:

- Mergers and acquisitions in the banking system, and their impact on the structure of competition in the segment.
- The impact of changes in regulatory provisions on customer preferences and/or on the scope of operations in the banking system and the structure of competition therein, and/or on the Bank's profitability.
- The possibility of realizing the Bank's plans in accordance with the determined targets, in accordance with the Bank's strategy.
- Unexpected responses by additional entities (customers, competitors, and others) who operate in the Bank's business environment.
- The future realization of forecasts in the sector and of macro-economic forecasts, in accordance with the Bank's early assessments.
- Possible results of legal proceedings.
- Changes in the preferences and/or behavior of consumers.

The information presented below relies, inter alia, on the Bank's professional assessments, on macro-economic forecasts by forecasters regarding the situation of the economy and the business environment, on publications and assessments by entities in the segment and on statistical analyses conducted by the Bank regarding the conduct of its customers.

The above reflects the perspective of the Bank and its subsidiaries as of the preparation date of the financial statements, with respect to future events, which is based on assessments that are uncertain. These data and assessments are used to derive the assessments of the Bank and its subsidiaries, and their business plans. As stated above, actual results may differ significantly and could have implications on the realization of the business plans, or may result in the implementation of changes to those plans.

The Bank does not commit to publish an update regarding the forward looking information which is included in these reports.

Chapter 1 - Overview, Goals and Strategy

1.1. Summary description of the Bank and its main operating segments

Bank of Jerusalem Ltd. was founded in 1963 as a public company, as defined in the Companies Ordinance (New Version), 5743 - 1983, under the name Bank of Jerusalem for Development and Mortgages Ltd. In 1992, the Bank performed its initial public offering of stocks, and thereby became a company traded on the Tel Aviv Stock Exchange Ltd. In 1996, the Bank's name was changed to the current name. For details regarding the Bank's controlling shareholders, see the report regarding corporate governance and additional details.

The Bank constitutes a banking corporation, holds a banking license in accordance with the Banking Law (Licensing), 5741 - 1981, and has operated as a commercial bank since 1998. The Bank relies on a broad customer base which includes households, Israeli residents and foreign residents, and operates in the following segments: mortgages, consumer credit, savings and deposits, financing of residential construction and activities on the capital market.

The Bank's headquarter offices are located in Airport City. As of the publication date of the report, the Bank operates through 20 branches, which are distributed throughout the country. For details regarding an update to the distribution of the network of branches, see below in the chapter regarding main changes during the reporting period.

The Bank's business operations are primarily performed in the retail division, in the real estate sector and in the financial division, as specified below:

The retail division serves, through the branch unit, at points of sale and at expert and digital centers, household and private banking customers, in the fields of mortgages, consumer credit and customers' financial assets.

The real estate sector comprises the accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, the financing of urban renewal projects, including the various types of National Outline Plan 38), and the financing of purchasing groups.

The financial division is responsible for managing the financing sources for the Bank's activities, managing the Bank's financial and liquid exposures which are due to business operations, including management of transaction rooms, management of the nostro portfolio and maintaining contact with Israeli and foreign financial institutions, and operation of securities and derivatives activities.

For additional details regarding the changes in the Bank's structure, and regarding its method of manager, see the report regarding corporate governance and additional details.

For a description of the operating segments in which the Bank is active, see below in the chapter regarding the Description of the Corporation's Business, by supervised operating segments, and Note 29 to the financial statements.

1.2. Condensed financial information and key performance indicators over time

	For the year ended December 31				
	2017	2016	2015	2014	2013
Key performance indicators (in percent):					
Net income returns to equity	4.5%	7.0%(2)	6.3%	9.0%	1.8%
Comprehensive income returns to equity	4.4%	4.8%	6.6%	10.8%	2.0%
Average return on assets	0.27%	0.39%(2)	0.35%	0.49%	0.10%
Tier 1 capital ratio	10.2%	10.1%	9.7%	9.8%	9.3%
Leverage ratio (1)	5.7%	5.3%	5.2%	-	-
Liquidity coverage ratio (1)	243%	458%	403%	-	-
Ratio of income to average assets	3.63%	3.60%	3.41%	3.38%	2.83%
Efficiency ratio - operating and other expenses out of total income	81.7%	75.6%	76.7%	75.8%	80.5%
Key credit quality indicators (in percent):					
Rate of expenses with respect to credit losses out of credit to the public	0.38%	0.31%	0.41%	0.19%	0.57%
Balance rate of the provision for credit losses out of credit to the public	1.04%	1.04%	1.12%	1.12%	1.12%
Rate of impaired debts or debts in arrears of 90 days or more out of credit to the public	2.14%	2.01%	2.04%	2.64%	3.36%
Rate of net accounting write-offs to average credit to the public	0.38%	0.37%	0.38%	0.20%	0.38%
Main data from the statement of income for the reporting year (USD millions):					
Net profit attributed to the shareholders of the banking corporation	37.0	55.6(2)	48.6	65.0	12.7
Total comprehensive income	36.1	38.1	50.7	77.6	13.6
Interest income, net	363.4	343.0	334.1	317.0	257.2
Expenses with respect to credit losses	36.9	30.4	40.4	18.4	54.7
Non-interest income	125.5	167.8	142.7	147.9	106.5
Of which: Fees	114.6	120.9	124.5	118.3	91.4
Operating and other expenses	399.8	386.5	365.8	352.4	292.6
Of which: Payroll and associated expenses	176.4	173.4	166.3	171.2	152.9
Net earnings per share (basic and diluted)	0.52	0.79	0.69	0.92	0.18
Main data from the balance sheet, as of the end of the reporting year (NIS millions):					
Total assets	13,553.6	14,202.0	14,219.5	14,084.8	13,459.8
Of which: Cash and deposits in banks	2,659.0	2,522.0	2,071.9	3,278.0	2,833.4
Securities	858.3	1,434.5	1,779.5	902.4	676.6
Credit to the public, net	9,670.7	9,790.1	9,889.3	9,566.5	9,626.6
Total liabilities	12,716.3	13,393.7	13,435.5	13,334.4	12,769.3
Of which: Deposits from banks	33.6	36.5	39.4	42.5	51.5
Deposits from the public	10,560.1	10,868.3	11,019.0	10,977.2	11,071.1
Bonds and deferred liability notes	1,872.2	1,582.1	1,634.8	1,503.1	1,406.0
Lent securities	34.4	590.4	387.3	582.7	27.5
Equity attributed to the shareholders of the banking corporation	837.3	808.3	784.0	750.4	690.5
Additional data:					
Share price (in NIS)	673.5	769.4	707.0	705.0	559.0
Dividend per share (in NIS 0.01)	10.07	19.57	24.26	25.10	19.43
Number of employees	607	623	607	597	550
Ratio of interest income, net, to average assets	2.70%	2.42%	2.39%	2.30%	2.00%
Ratio of fees to average assets	0.85%	0.85%	0.88%	0.84%	0.68%

(1) This disclosure provision is in effect from April 1, 2015. Disclosure of comparative figures is not required.
(2) For details regarding special effects on profit for 2016, see below in the chapter "Material developments in income, expenses and other comprehensive income".
(3) For additional multi-period details, see the report regarding corporate governance and additional details, Annexes 2-4.

Presented below are the main changes:

	2017 as compared with 2016 (1)	2017 as compared with 2013 (2)
Total income	(4.3%)	34.4%
Total operating and other expenses	3.4%	36.6%
Provision for credit losses	21.4%	(32.5%)
Net income	(33.8%)	189.8%
Comprehensive income	(5.2%)	166.2%
Credit to the public, net	(1.2%)	0.5%
Public deposits	(2.8%)	(3.8%)
Equity	3.6%(3)	21.2%(4)
Net income returns to equity	(2.5) percentage points	2.7 percentage points
Tier 1 capital ratio	0.1 percentage points	0.9 percentage points
Leverage ratio	0.4 percentage points	*
Liquidity coverage ratio	(215) percentage points	*
Efficiency ratio - operating and other expenses out of total income	6.1 percentage points	1.2 percentage points

* This disclosure provision is in effect from April 1, 2015. Disclosure of comparative figures is not required.

(1) Profit in 2016 included special effects in the amount of NIS 11.8 million (after tax), as specified below in the chapter regarding material developments in income, expenses and other comprehensive income. After neutralization of these effects, income increased by 2.3%, net income decreased by 16%, comprehensive income decreased by 23%, and return on equity increased by 1 percentage point.

(2) In 2013, following the publication of the Bank of Israel's directive, a non-recurring provision was recorded for housing credit, with respect to debts which were evaluated on a collective basis, in the amount of NIS 19.2 million (before tax). After neutralization of this effect, the provision for credit losses increased by 3.9%, profit increased by approximately 47%, comprehensive income increased by approximately 40%, and return on equity increased by 1 percentage point.

(3) Following a dividend distribution in the amount of NIS 7.1 million.

(4) Following a dividend distribution in the amount of NIS 69.4 million.

For additional details regarding profit and loss items - multi-period information and consolidated balance sheet - multi-period information, see annexes 2-4 of the report regarding corporate governance and additional details.

1.3. Summary description of the main risks to which the Bank is exposed

Identification of leading and developing risk factors

In accordance with the Bank's various risk management policy documents, and Proper Banking Management Directives issued by the Bank of Israel, the risks to which the Bank is exposed are monitored on an ongoing basis. This monitoring is intended to ensure adequate preparation for risk management, prevention of the realization of risks, and monitoring the Bank's compliance with the restrictions which were determined by the Board of Directors and the Bank of Israel. The Bank also closely monitors development in financial markets, in macro-economic indicators and in regulation and legislation which apply or which may apply to and affect the Bank, and which, together with the current business strategy and mix of activities, may expose the Bank to significant risks. In handling the identified risks, the Bank distinguishes between, inter alia, leading risks and developing risks which are identified in the following manner:

- **Leading risk** - represents a significant risk factor to which the Bank is exposed due to its current activities, the Bank's exposure to which is rated, in accordance with the Bank's policy, as "medium" or higher level of exposure. For details regarding the risk factors and the rating of the extent of the exposure / impact on the Bank, see below in the chapter regarding risks and risk management methods.
- **Developing risk** - represents a risk regarding which there is uncertainty about whether it will be realized, if at all, and where it is not possible to indicate its possible impact. However, risks of this kind receive special attention from bank management in determining the business strategy and the appropriate framework for risk management.

Presented below is a table summarizing the developing risks in the Bank:

Risk	Risk description
Regulatory risk	The regulatory implications on all matters associated with the imposition of significant restrictions on the Bank's activities and the imposition of onerous requirements.
Compliance risk	The risk that a corporation will be subject to the imposition of legal or financial sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply with consumer directives, taxation laws, and requirements regarding money laundering and terrorism financing.
Cyber risk	Possibility of cyber attacks on the Bank's IT systems and websites.
macro-economic risk and market risk	Risk that the Bank may be affected by a deterioration in the macro-economic data in Israel and other market risks, primarily due to unemployment rates.

Description of developing risks and management thereof

- **Regulatory risk:** In recent years, several regulatory initiatives have been formulated, which deal with, inter alia, the implementation of the provisions of the Basel III Accords, the imposition of restrictions on the provision of housing loans, and requirements with respect to the Bank's leverage ratio. Additional requirements, or alternatively, hardening of current requirements in these areas, may pose an effective restriction if they are strictly applied to the Bank, and may impose difficulties on the Bank's implementation of its business strategy.

  The Bank manages business activities within the framework of adjusted capital planning in accordance with the requirements of the Banking Supervision Department, while maintaining capital targets beyond the minimum requirement. In parallel, the Bank works to implement tools to reduce the risk assets, improve risk management practices and reduce capital requirements. For details regarding the Bank's capital planning, see below in the chapter regarding capital and capital adequacy.

  There are also initiatives by the Banking Supervision Department which are intended, inter alia, to increase competition and operational efficiency in the Israeli banking system. The initiatives and regulatory trends may affect the banking system in general, and the Bank in particular. At this stage, it is too early to estimate and assess the impact they could have on the Bank.

- **Compliance risk:** Continuation of the trend involving the imposition of fines and sanctions on banks in connection with breaches of regulatory directives, including regarding assistance with tax evasion and the prevention of terrorism financing and banks, constitutes a center of focus for bank management on all matters associated with the Bank's ongoing efforts to strengthen practices associated with the management and prevention of these risks. The Bank also dedicates increased attention to the developing risk on all matters associated with bank - customer relationships and practices involving the initiation of contact with customers and the provision of customer service (conduct risk). The Bank has a compliance unit which is responsible for working towards the prevention and management of these risks in accordance with the Bank's corporate governance and in accordance with the directives and guidelines issued by the Banking Supervision Department.

- **Cyber risk:** The Bank is exposed, as are the other banks in the banking system in Israel, to cyber attack and cybernetic incidents. This constitutes one of the material non-financial risks to which the banks are exposed, due to the possibility of a cyber attack on the Bank's IT systems and the Bank's website, which may cause harm to the ability to continue providing service to cause delays in the provision of service, theft of customer data, theft of funds and harm to the Bank's reputation. The damages caused with respect to these events may also involve the Bank's exposure to legal claims and/or harm to the customer base.

  For details regarding a claim with respect to a cyber event which occurred in 2016, see Note 26 to the financial statements.

- **Macro-economic and market risk:** The Bank's activities primarily depend upon the business and macro-economic environment in Israel. The state of the economy in Israel, the security-political situation in Israel and of the region, and, as a result, the income level of households and the unemployment rate, are the main risk factors affecting the quality of the credit portfolio in banks which operate with retail credit and housing credit. At this stage, the Bank believes that there is no significant risk, in light of positive macro-economic indicators in Israel. However, the Bank's multi-annual strategic plan, and extreme scenario models, take into account, with due caution, the risks which still exist in the Israeli economy, and implements a balance between performance considerations for conservative and cautious capital planning, and return to risk considerations.

1.4. Description of goals and business strategy

The Bank has a strategic plan which is centered on controlled growth while focusing on retail activity specialized in mortgages and continued development of consumer credit. The strategic plan was updated in June 2016 by the Bank's Board of Directors (hereinafter, in this report: the "Plan" or the "Strategic Plan").

The plan was formulated with reference to the entire set of changes in the Bank's business and competitive environment. An environment which is affected by changes in consumer habits, accelerated technological changes, regulatory changes and planned structural reforms. The Bank adjusted the strategic plan to these changes, and views them as a challenge, as well as an opportunity to develop new business opportunities.

The strategic plan is based on the provision of supplementary banking solutions to the customers of all banks, who are not receiving solutions for all of their financial needs from the main bank where they keep an account. The Bank strives to implement this strategy, inter alia, by making products and services accessible, with an emphasis on strengthening digital solutions and reducing the current physical dependence on the acquisition of banking solutions and services. The strategy is based, inter alia, on the acquisition of customers for financial products, regardless of where the customer's main checking account is kept.

The strategic plan balances between return to risk considerations, and is intended to maintain the Bank's stability and strength, to realize adequate profitability and measured growth, all while maximizing value for customers and interested parties.

Presented below are the Bank's main goals, as defined in the strategic plan:

- Maximizing value for shareholders, while maintaining the Bank's stability and strength, achieving adequate profitability, measured growth and a dividend distribution policy of approximately 30% of net profit.
- Focus on retail activity specializing in mortgages while continuing the development of consumer credit, along with innovation in products and services
- Maintaining a low risk profile - capital adequacy, liquidity and a leverage ratio above the required regulatory minimum
- Increased operational efficiency.
- Cultivating human capital, managers and employees.

In order to realize the plan's objectives, as described above, the Bank operates through several avenues which were defined in the strategic plan:

- Expansion of the Bank's activity in the credit housing credit segment, which constitutes the core of the Bank's business focus. The Bank views housing credit as its main revenue engine, and accordingly, invests efforts in developing and expanding the activity. The Bank launched a digital platform for the receipt of approval in principle with respect to mortgages for private customers, along with the establishment of a designated digital channel for mortgage consultants which are external to the Bank.
- Continuation of the process which commenced in 2010, which involves the provision of consumer credit to the Bank's existing customers and to new customers. Accordingly, in the second half of 2017, the Bank began financing, for the customers of all banks, purchases at retail points of sale through a fully digital solution, while reaching groups which are not in its current customer environment. The Board of Directors and management are continuing to monitor the credit risk with respect to the activity, and as part of the foregoing, are working to improve the underwriting model and to enrich the data regarding customers.
- The provision of credit to finance residential real estate projects according to the closed accompaniment method, with an emphasis on growth potential, and without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. These collaborations allow the Bank to increase its return on equity from this activity, while reducing risk, and using the expertise which has accrued in the manager of large scope projects.

- Expansion of the operational revenue base through operational enterprises to expand the banking services. During the year, the Bank entered into an agreement with Mastercard regarding the issuance of chargeable debit cards in Israel, and began issuing debit cards which allow, inter alia, various employers in Israel to pay their employees by loading the salary onto the debit card.
- Continued investment in the Bank's IT capabilities, alongside use of technological resources in order to allow multi-channel communication with customers, with an emphasis on customer experience.
- Verifying the fulfillment of the low risk profile which the Bank has set for itself, while strictly monitoring and maintaining the capital adequacy ratio, liquidity ratios and routine evaluation of the mix and quality of the credit portfolio.
- Activities to increase the operational efficiency ratio, as part of the Bank's organizational culture.
- The Bank views its employees as partners on the path, and will continue striving to achieve its goals through openness and collaboration with the Bank's employees and managers.

As part of the overall perspective regarding contact points with customers, including the service centers, website and branches, the Bank updated the distribution of its network of branches by extending and expanding the activities in some of the Bank's branches, while reducing existing branches and establishing expert centers, such as the mortgage center for private customer, the center for mortgage advisors and the consumer credit center. Additionally, as part of the implementation of the Bank's strategy of focusing on its core activities, in October of this year, the Bank sold the securities portfolio of independent and institutional customers to Meitav DS Investment House. For additional details regarding the sale, see below in the chapter regarding events after the balance sheet date.

The internal capital adequacy assessment process (ICAAP) and capital planning constitute a central part of the Bank's management of its business and risk management plan for the future. The capital planning process includes evaluating the impact of the strategic and business goals on the risk profile and on the Corporation's required capital.

The Bank’s Board of Directors oversees the implementation of the strategic plans on an ongoing basis, and verifies correspondence to regulatory and market developments.

The Bank’s estimates and assessments, as described above, constitute forward looking information, and are based on various assumptions and forecasts which were available to the Bank’s Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. Influencing factors include forecasts and estimates concerning economic developments in Israel and around the world, and particularly concerning the state of the economy, including the effect of macro-economic and geo-political conditions and changes in capital markets, as well as various other factors which affect risk exposure, including: preferences of the public, directives issued by supervised entities and others, considerations associated with the Bank's image, technological developments and human resource issues.

1.5. Events after the balance sheet date

1. On January 4, 2018, the Bank’s Board of Directors resolved to distribute interim dividends in the amount of NIS 5.5 million. For additional details, see below in the chapter regarding the dividend distribution policy.
2. Further to the Bank's engagement with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. (hereinafter: the "Buyers") in agreements for the sale of the Bank's independent customer and institutional customer portfolios in the brokerage operating segment (hereinafter: the "Sold Activity" and the "Sale Agreements", respectively), for a total consideration of NIS 21 million (hereinafter, jointly: the "Transaction").

   On November 15, 2017, approval was received from the Antitrust Commissioner, and on January 8, approval was received from the Court for the transaction. All of the suspensory conditions for the aforementioned transaction were thereby fulfilled.

   On January 25, 2018, the sale of the Bank's institutional brokerage activity to the buyers was completed, and on February 15, the sale of the Bank's private brokerage activity was completed.

The parties agreed between them that the Bank will continue to provide stock exchange member company and operation services for a part of the sold activity, for a period of several months, and no later than June 30, 2018.

After deducting various expenses which were required to close the transaction, the Bank will record, in its books with respect to 2018, pre-tax profit with respect to the transaction in the amount of approximately NIS 15 million.

In light of the sale of the brokerage activity, it was agreed between the Bank and the provider which had provided to it outsourcing services in connection with the aforementioned activity, to transfer all of the disputes which had arisen between them on this matter to an arbitrator for resolution, whose identity was agreed upon between the parties.

3. On January 18, 2018, the Bank's Board of Directors resolved to approve the submission of a proposal to the stock exchange, for the sale of all of the Bank's shares on the stock exchange, in accordance with the principles which were specified in the message of the stock exchange dated December 28, 2017, which was addressed to all shareholders on the stock exchange, to sell and transfer their shares in the stock exchange member company. At present, there is no certainty that the sale of all or some of the Bank's shares on the stock exchange will be completed, in light of the terms which are included in the Bank's proposal, according to the principles which were specified in the Stock Exchange's message. Insofar as the Bank's proposal will be accepted, in its entirety, the Bank is expected to receive, in exchange, upon the closing of the transaction, a total of approximately NIS 27 million, and to record pre-tax profit in a similar amount (the consideration with respect to the aforementioned shares reflects a price of NIS 500 million on the stock exchange). For additional details, see the chapter regarding legislative updates and directives of the Bank of Israel in the report regarding corporate governance and additional details.

4. On February 1, 2018, an agreement was signed between the Bank and institutional entities of Clal Insurance Group (the "Buyer"), according to which the Bank sol, in an irrevocable, final and absolute bill of sale transaction, 50% of its rights in connection with the portfolio of housing loans totaling approximately NIS 600 million, comprised of housing loans which were provided by the Bank during a defined period which was agreed upon between the parties (the "Portfolio of Loans").

   The balance of the portfolio of loans remains owned by the Bank, such that the buyer's rights to part of the sold portfolio of loans, and the Bank's rights to the part that remains owned by it, will have an identical precedence rank (pari passu).

   In accordance with the management agreement which was signed between the parties, the Bank will manage and operate, for the buyer, the part of the portfolio of loans which was purchased by it, in the same manner and according to the same terms as those by which the Bank manages and operates housing loans for itself, in consideration of management fees.

   On February 21, 2018, the transaction was completed, and 50% of the Bank's rights in the portfolio of loans were assigned to the buyer, by means of an irrevocable, final and absolute bill of sale.

   The profit which the Bank will record in its books with respect to the sale will amount to approximately NIS 10.7 million (before tax) in the financial statements for the first quarter of 2018.

5. For details regarding the volatility of financial markets in February 2018, see below regarding the developments in the economic environment in chapter 2.1 - trends, situations, developments and material changes.

Chapter 2 - Explanation and Analysis of Results and the Business Position

2.1 Trends, situations, developments and material changes

Main changes during the reporting period

During the reporting period, the Bank continued implementing the strategic plan, with an emphasis on strengthening the digital solutions and reducing the current physical dependence on the acquisition of banking solutions. The Bank focuses on product innovation and on upgrading the capabilities to sell banking solutions by fully or partially digital means, with no requirement for customers to physically arrive at a branch. Accordingly, the Bank decided to expand the digital unit, while expanding the service centers and developing additional advanced sale channels.

As part of the overall perspectives regarding the points of contact with customers, including the service center, website and mobile, the Bank is updating the distribution of the chain of branches by expanding and extending the activity in some of the Bank's branches, while reducing existing branches. In 2017, the Bank closed 4 branches.

As an additional layer, in June 2017, the Bank launched an initiative to sell consumer credit at retail points of sale, and the Bank thereby provides solutions to customers who wish to purchase products with bank financing, by digital means. This process allows the Bank to expand its geographical distribution, while reaching an additional group of customers, with a lower risk profile, which to date has not been included among its customers.

As part of the process of updating the distribution, the Bank launched a designated support center for the external mortgage consultants. The support center provides rapid and professional service to the external mortgage advisors, with the aim of increasing the availability and service to the external mortgage advisors.

The Bank of Jerusalem considers the mortgage advisors as a significant channel, and as part of the implementation the strategy, the Bank intends to continue investing in this channel. As a result, the Bank launched a digital platform for the external mortgage advisors, with the aim of allowing them to interface with the Bank by direct means as well. Along with the above, a digital channel for private mortgage customers was also established, in a manner which allows the Bank's customers to receive approval in principle for mortgages through digital means.

As part of the implementation of bank's strategy of focusing on its core activities, the Bank sold, in October of this year, the securities portfolio of independent and institutions customers to Meitav DS Investment House. For additional details regarding the sale, see the chapter regarding events after the balance sheet date above.

During the year, the Bank entered into an agreement with Mastercard regarding the issuance of chargeable debit cards in Israel, and began issuing debit cards which allow, inter alia, various employers in Israel to pay their employees by loading the salary to the debit card.

Developments in the economic environment

The Bank of Israel interest rate is 0.1% beginning in March 2015.

The unemployment rate in Israel as of the end of 2017 amounted to 4.0%, as compared with a rate of 4.3% at the end of 2016.

Since the beginning of 2017, the Tel Aviv 35 Index has recorded an increase of approximately 2.7%, and the Tel Aviv 125 Index has recorded an increase of approximately 6.4%. The index of unlinked government bonds recorded an increase of approximately 3.6%,; the index of linked government bonds recorded an increase of approximately 3.4% (real), and the Tel Bond 60 Index recorded an increase of approximately 5.8%. The average daily trading volume of stocks and ETF's amounted to NIS 1.4 billion, an increase of approximately 10.6% relative to the corresponding period last year. Since the beginning of 2017, issuances and allocations of shares by Israeli companies in Israel and abroad amounted to approximately NIS 14.3 billion, representing a decrease of approximately 51% as compared with the corresponding period last year.

In early February 2018, sharp declines were recorded in stock markets in the United States, due to a concern of a more rapid rise than expected of the interest rate in the United States. These price drops also spread to the rest of the world. Inter alia, sharp increased were recorded in the standard deviation represented in the prices of options on the American S&P index (the VIX index). These increases led to very sharp declines in some ETF's which are based on the VIX index, and to large losses for investors in instruments associated with that index. That event had no significant impact on the Bank's business operations. In February, a recovery began, and most markets saw increases.

The consumer price index with respect to 2017 increased at a rate of 0.4% (the index for December 2017 relative to the index for December 2016). The known consumer price index in 2017 increased by 0.3% (the index for November 2017 relative to the index for November 2016). The NIS gained vs. the USD since early 2017 by approximately 9.8%, and weakened vs. the EUR by 2.7%.

According to the Central Bureau of Statistics, from the beginning of the year until November, the index of housing prices recorded an increase of 2.8%. In the last three months of 2017 (October-December), approximately 5,580 new apartments were sold, representing a decrease of approximately 2.8% relative to total new apartments which were sold in the previous three months (July-September 2017).

In 2017, housing loans were performed in the banking system in the amount of NIS 56.5 billion, as compared with NIS 60.8 billion in 2016. In the NIS segment, the average interest rate was 3.27%, and in the CPI-linked segment - 3.75%, as compared with interest rates of 2.95% and 3.38% in 2016, respectively (representing an increase of approximately 0.32 percentage points and 0.37 percentage points, respectively).

According to the financial statements of the banks in Israel and the credit card companies (for the third quarter of 2017), a trend is apparent of increase in credit losses with respect to private individuals, the rate of accounting write-offs from the balance of credit to private individuals in the banking system increased from 2015 to the period ended September 30, 2017, by approximately 41%. The increase was due, inter alia, to the significant regulatory easement in the performance of bankruptcy proceedings, which led to a significant increase in the number of debtors which entered such proceedings.

Changes in critical accounting policy and in critical accounting estimates which have a significant impact (or are expected to have a significant impact) on the banking corporation's position and results of operations

During the reporting year, no material changes were made to the critical accounting policy or to the critical accounting estimates which have a significant impact (or are expected to have a significant impact) on the banking corporation's position and results of operations. For details regarding the accounting policy, critical accounting estimates, controls and procedures, see below in chapter 4 of this report.

2.2. Material Developments in Income, Expenses and Other Comprehensive Income

Profit and profitability

Net profit amounted in 2017 to NIS 37.0 million, as compared with NIS 55.6 million last year - a decrease of approximately 33%,

Annual profit in 2016 was affected, inter alia, by significant net profit from the realization of available-for-sale bonds, in the amount of approximately NIS 21.0 million, against tax expenses in the amount of NIS 9.2 million, due to the decrease in the balance of deferred taxes, following the changes in tax rates, as specified in Note 8 to the financial statements. After neutralization of these effects, net profit for 2016 amounted to NIS 43.8 million.

The decrease at a rate of 16% in net profit in 2017, relative to the net profit after neutralization of the above in 2016, was primarily due to the increase in expenses operating and other expenses, and in expenses for credit losses above the increase in interest income, net.

Average net return on equity was 4.5%, as compared with 7.0% in the corresponding period last year (and as compared with 5.5% after neutralization of the effects described above).

Interest income and expenses

Interest income, net, in 2017, amounted to NIS 363.4 million, as compared with NIS 343.0 million in 2016 - an increase of approximately 6%. The increase was due to an improvement in the interest margins, which was partly offset by the decrease in the scopes of activity.

Developments in income and expense rates

Presented below are the interest margins between monetary assets which generated income less costs on liabilities in the various linkage segments:

	2017	2016
Unlinked	3.06%	3.03%
CPI-linked (1)	2.66%	2.25%
Foreign currency and linked to foreign currency (2)	1.96%	1.64%
Total interest margin	**2.85%**	**2.63%**
Net returns on interest bearing assets	**2.96%**	**2.64%**

Presented below is the scope of activities and contribution to net interest income of the various linkage segments:

	2017			2016		
	Scope of operations	Contribution to interest income, net		Scope of operations	Contribution to interest income, net	
	In percent	In percent	NIS millions	In percent	In percent	NIS millions
Unlinked	63%	66%	240.0	60%	68%	234.3
Linked (1)	27%	26%	94.1	28%	23%	79.1
Foreign currency (2)	10%	8%	29.3	12%	9%	29.6
Total	**100%**	**100%**	**363.4**	**100%**	**100%**	**343.0**

(1) Income in this segment also includes linkage differentials.
(2) Income in the foreign currency segment does not include foreign currency differences on principal and the impact of derivative instruments.

Presented below is an analysis of changes in interest income and expenses:

	For the year ended December 31, 2017 As compared with the year ended December 31, 2016		
	Increase (decrease) due to change		Change
	Amount	Price	Net
	NIS millions		
Total interest income	(17.4)	52.6	35.2
Total interest expenses	(5.6)	20.4	14.8

For additional details, see Annex 1 - Rates of interest income and expenses, in the chapter regarding corporate governance and additional details.

Expenses with respect to credit losses

Presented below are details regarding expenses with respect to credit losses:

	December 31	
	2017	2016
Specific expenses with respect to credit losses	(0.5)	0.6
Collective expenses with respect to credit losses	37.4	29.8
Total expenses with respect to credit losses	**36.9**	**30.4**
Of which: expense with respect to commercial credit	(1.8)	0.7
(Income) with respect to housing credit	(1.3)	(7.7)
Expenses with respect to other private credit	40.0	37.4
Expenses with respect to credit losses for the period out of total credit to the public	0.38%	0.31%
Of which: expenses with respect to collective provision out of credit to the public	(0.01%)	(0.02%)
Expenses with respect to credit losses out of total credit risk	0.29%	0.23%

Expenses with respect to credit losses during the reporting year amounted to approximately NIS 36.9 million, as compared with approximately NIS 30.4 million last year, an increase of approximately 21%. The increase was primarily due to the decrease in the provision which is calculated according to the extent of the arrears with respect to housing credit in 2016.

For additional credit quality indicators in a multi-annual distribution, see chapter 1.2, condensed financial information, and key performance indicators over time, above. For additional details, see below in the discussion regarding the development of credit to the public and the discussion regarding credit risk, as included in Chapter 3 - Risk Review, and Notes 13 and 30 to the financial statements.

Non-interest income

Non-interest income amounted to NIS 125.5 million, as compared with NIS 167.8 million last year - a decrease of approximately 25%, primarily due to the following reasons:

Non-interest financing income during the reporting year amounted to NIS 0.6 million, as compared with revenue of NIS 35.4 million in the corresponding period last year. The decrease was primarily due to the realization of available-for-sale bonds last year, in the amount of approximately NIS 35.1 million.

Fees during the reporting year amounted to NIS 114.6 million, as compared with NIS 120.9 million last year, a decrease of approximately 5%. The decrease was primarily due to the decrease in commissions with respect to activities with securities in the amount of approximately NIS 6.9 million, inter alia, due to the decrease in the scope of activity.

On October 16, 2017, the Bank entered into agreements with Meitav DS Trade Ltd., and with Meitav DS Brokerage Ltd., for the sale of the Bank's independent customer portfolios and the institutional customer portfolios in the brokerage operating segment; upon the completion of the transaction, income from activities with securities is expected to decrease significantly, while in parallel, a similar decrease is expected in expenses attributed to the brokerage activity. For additional details regarding the transaction, see chapter 1.5, events after the balance sheet date, above.

Other income during the reporting year amounted to NIS 11.5 million, similarly to last year. For additional details regarding other income, see Note 5 to the financial statements, and footnote 2 to this note.

Expenses

Operating and other expenses during the reporting year amounted to NIS 399.8 million, as compared with NIS 386.5 million last year - an increase of approximately 3%. The increase was primarily due to the increase in the increase in depreciation expenses and IT expenses, in light of the increased investment in the Bank's IT systems in recent years.

Payroll expenses during the reporting year amounted to NIS 176.4 million, as compared with NIS 173.4 million in the corresponding period last year - an increase of approximately 1%.

Maintenance expenses and depreciation of buildings and equipment, amounted to NIS 95.6 million, as compared with NIS 89.9 million in the corresponding period last year - an increase of approximately 6%, mostly due to the increase in depreciation expenses, as specified in Note 16 to the financial statements.

Other expenses during the reporting year amounted to NIS 127.8 million, as compared with NIS 123.2 million in the corresponding period last year - an increase of approximately 4%, mostly due to the increase in IT expenses and advertising expenses, as specified in Note 7 to the financial statements.

Expenses and investments with respect to information technology systems [(1), (2)]

Presented below are details regarding expenses and investments in the information technology unit:

	2017	2016
Expenses which were recorded in the statement of income		
Expenses with respect to payroll and associated expenses	17.9	17.2
Depreciation expenses (software and IT costs)	50.0	47.5
IT (other expenses) (3)	58.5	54.9
Total	**126.4**	**119.6**
Costs recorded as assets		
Discounting with respect to payroll and associated expenses	14.0	14.5
Additional software costs and IT equipment	32.8	36.4
Total	**46.8**	**50.9**
Balance of assets with respect to information technology system		
Depreciated cost (software costs)	118.4	121.0
Depreciated cost (IT equipment)	3.3	3.9
Total	**121.7**	**124.9**

(1) Information technology systems are as defined in Proper Banking Management Directive 357, "Management of information technology".
(2) For additional details regarding the Bank's information technology systems, see below in the report regarding corporate governance and additional details.
(3) Including payments for a securities infrastructure and trading platform.

Provision for taxes

The provision for taxes on operating income amounted in 2017 to a total of NIS 15.2 million. The effective tax rate in 2017 reached approximately 29.8%, as compared with the statutory tax rate in financial institutions of 35.0%, and as compared with the effective tax rate of 40.8% last year. The decrease in the effective tax rate vs. the tax rate last year was primarily due to the reduction of the tax statutory tax rate in 2016, which led to a decrease in deferred tax assets in the amount of NIS 9.2 million against tax expenses. the impact of this event was an increase in the effective tax rate for 2016 by around 10 percentage points. After neutralization of this change, the effective tax rate in the two years was similar.

The difference between the effective tax rate and the statutory tax rate is primarily due to revenues at a reduced tax rate.

In July 2017, an agreement was signed between the banks and the tax authorities, regarding the permission of the provision with respect to housing loans deductible for tax purposes. According to the agreement, beginning in 2014, the provision will be deductible at a rate of 35% of the annual movement. This agreement amends a previous agreement from 2012, according to which the entire amount of the provision was deductible. The impact of the agreement on the Bank's financial results was immaterial.

Developments in other comprehensive income items

Other comprehensive income (after tax impact) during the reporting year amounted to loss of NIS 0.9 million, as compared with other comprehensive loss in the amount of approximately NIS 17.5 million in 2016. The change was mostly due to profit from the realization of available-for-sale bonds, which was reclassified to the statement of income in the corresponding period last year.

For details regarding the negative capital reserve distributed by ranges of time periods and the decrease rate, see Note 10 to the financial statements.

Comprehensive income

Total comprehensive income amounted to NIS 36.1 million in 2017, as compared with NIS 38.1 million in 2016.

For details regarding multi-annual profit and loss data, see annex 3 to the report regarding corporate governance and additional details, and chapter 1.2, condensed financial information and key performance indicators over time, above.

2.3. Structure and development of assets, liabilities, capital and capital adequacy

Developments in assets and liabilities items

The total balance sheet as of December 31, 2017 amounted to NIS 13,554 million, as compared with NIS 14,202 million at the end of 2016. A decrease of 4.6%.

Cash, deposits in banks and securities

The balance of liquid assets (cash, deposits in banks and securities) as of December 31, 2017 amounted to NIS 3,517 million, as compared with NIS 3,957 million at the end of 2016, a decrease of approximately 11%.

The balance of cash and deposits in banks as of December 31, 2017 amounted to NIS 2,659 million, as compared with NIS 2,522 million at the end of 2016, an increase of approximately 5%.

The balance of securities amounted as of December 31, 2017 to NIS 858 million, as compared with NIS 1,435 million at the end of 2016, a decrease of approximately 40%, which was due, inter alia, to the decrease in the balance of securities which were lent for the Bank's nostro portfolio.

Presented below is the development of the securities portfolio (in million of NIS):

	Balance as of December 31, 2016	Current movements (1)	Revaluation (2)	Balance as of December 31, 2017	Change in balances - %
Available for sale securities	877	(350)	(4)	523	(40%)
Held for trading securities	558	(220)	(3)	335	(40%)
Total	1,435	(570)	(7)	858	(40%)

(1) Includes purchases, sales, redemptions and interest receipts.
(2) Includes realized and unrealized profits from adjustments to fair value of available for sale securities and held for trading securities, interest income, rate differentials and revaluation.

Credit to the public

The net balance of credit to the public amounted as of December 31, 2017 to NIS 9,670 million, as compared with NIS 9,790 million at the end of 2016. A decrease of approximately 1%.

Presented below are the developments in the credit portfolio (NIS millions):

	Balance as of December 31, 2016	Performance during the period (1)	Repayments and portfolio sales of during the period (2)	Balance as of December 31, 2017	Change in balances - %
Housing credit	7,014	1,339	(1,075)	7,278	4%
Consumer credit - solo	987	626	(572)	1,041	5%
Total housing and consumer credit	**8,001**	**1,965**	**(1,647)**	**8,319**	**4%**
Business credit, excluding commercial assets	954	599	(736)	817	(14%)
Credit for the acquisition of commercial assets	461	110	(133)	438	(5%)
Other (3)	477	64	(343)	198	(58%)
Total credit to the public, gross	**9,893**	**2,738**	**(2,859)**	**9,772**	**(1%)**
Provision for credit losses	(103)			(102)	
Total credit to the public, net	**9,790**			**9,670**	**(1%)**

(1) Not including refinancing.
(2) Also includes the sale of the credit portfolio in the amount of approximately NIS 34 million, as well as the accrual of interest, linkage differentials and foreign currency differences.
(3) The decrease was primarily due to the decrease in the scope of activity of securities lent for customers.

For additional details, see below in the discussion regarding the development of credit to the public and in the discussion regarding credit risks, included in Chapter 3.1 of this report, which is available on the Bank's website, and Notes 13 and 30 to the financial statements.

Public deposits

The balance of public deposits amounted, as of December 31, 2017, to approximately NIS 10,560 million, as compared with NIS 10,868 million at the end of 2016, a decrease of approximately 3%.

Presented below is the composition of public deposits:

	December 31, 2017	December 31, 2016	Change in balances - %
	NIS millions		
Deposits of private individuals (1)	8,321	8,450	(2%)
Deposits of institutional entities	727	1,005	(28%)
Deposits of corporations and others	1,512	1,413	7%
Total public deposits	**10,560**	**10,868**	**(3%)**

(1) Of which, a total of NIS 2,500 million to private individuals who have an active checking account at the Bank (as of December 31, 2016 - NIS 2,636 million).

Approximately 79% of total public deposits are with respect to households, and approximately 54% are up to the total of NIS 1 million.

For additional details regarding deposit types and deposits by size range, see Note 19, public deposits.

For additional details regarding the qualitative analysis and the group of large depositors, see below in chapter 3.3, liquidity and financing risk.

Off-balance sheet activity in securities held by the public

On October 16, 2017, the Bank entered into agreements with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd., for the sale of the Bank's independent customer portfolios and the Bank's institutional customer portfolios in the brokerage operating segment; upon the completion of the transaction, the number of total customers and the portfolio value decreased significantly . For additional details regarding the transaction, see chapter 1.5, events after the balance sheet date, above.

As of December 31, 2017, the number of customers holding securities portfolios maintained by the Bank amounts to approximately 14 thousand customers, as compared with approximately 15 thousand customers as of the end of 2016. The value of these customers' securities portfolios as of December 31, 2017 amounts to approximately NIS 7.5 billion, as compared with approximately NIS 10.0 billion at the end of 2016. The decrease in the portfolio value was due, inter alia, to the closing of an institutional customer's portfolio.

Lent securities

The balance of lent securities amounted as of December 31, 2017 to approximately NIS 34 million (of which, NIS 18 million for the nostro portfolio), as compared with approximately NIS 590 million at the end of 2016 (of which, NIS 312 million for the nostro portfolio).

Bonds and deferred liability notes

Presented below is the development of bonds and deferred liability notes (million of NIS):

	Balance as of December 31, 2016	Issuances	Repayments (1)	Balance as of December 31, 2017	Change in balances - %
Bonds	1,117	403	(143)	1,377	21%
Deferred liability notes	334	-	(71)	263	(85%)
Contingent convertible bonds (CoCo)	131	106	(5)	232	79%
Total liability certificates	**1,582**	**509**	**(219)**	**1,872**	**18%**

(1) Also includes accrual of interest and linkage differentials.

On December 11, 2017, the Bank issued, through a subsidiary, bonds in the amount of NIS 402.7 million, and contingent convertible bonds (CoCo) in the amount of NIS 105.9 million. For additional details, see below in this chapter regarding capital and capital adequacy.

Assets and liabilities in respect of derivative instruments

The balance of assets with respect to derivative instruments amounted as of December 31, 2017 to NIS 64.0 million (of which, approximately NIS 63 million for customers' activity), as compared with NIS 151 million at the end of 2016 (of which, approximately NIS 144 million with respect to customers' activity).

The balance of liabilities with respect to derivative instruments amounted as of December 31, 2017 to NIS 66.2 million (of which, approximately NIS 63 million is with respect to customers), as compared with NIS 147 million at the end of 2016 (of which, approximately NIS 144 million is with respect to the activity of customers).

Material developments in additional off-balance sheet items

The balance of loans from deposits, according to the extent of collection (loans to creditors from government funds) amounted as of December 31, 2017, to approximately NIS 796 million, as compared with approximately NIS 954 million at the end of 2016, a decrease of approximately 17%. The decrease was due to loan repayments and the significant reduction in the performance of loans to creditors. Income from collection fees by collection rate amounted in 2017 to NIS 10.0 million, as compared with NIS 11.0 million in 2016.

Quarterly and multi-annual data (profit and loss and balance sheet)

For details regarding quarterly data, see Annex 2 to the report regarding corporate governance and additional details.

For details regarding multi-annual data, see annexes 3 and 4 to the report regarding corporate governance and additional details, and chapter 1.2, condensed financial information and key performance indicators over time, above.

Capital and capital adequacy

Presented below is a table demonstrating the capital adequacy ratio

	December 31	
	2017	2016
	NIS millions	
A - Capital for the calculation of capital ratio		
Tier I capital, after supervisory adjustments and deductions	822.9	800.4
Additional Tier I capital, after deductions	-	-
Tier 2 capital, after deductions	407.6	352.1
Total of comprehensive capital	**1,230.5**	**1,152.5**
B - Weighted balances of risk assets		
Credit risk	7,286.2	7,148.4
Market risks	42.8	21.2
Operational risk	768.5	753.9
Total weighted balances of risk assets	**8,097.5**	**7,923.5**
	In percent	
C. Ratio of capital to risk components		
Ratio of Tier I capital to risk components	10.2	10.1
Ratio of total capital to risk components	15.2	14.5
Minimum Tier I capital ratio required by the Commissioner of Banks	9.9	9.8
Ratio of minimum total capital required by the Commissioner of Banks	13.4	13.3

Presented below are data regarding the impact on the ratio of Tier I equity and the ratio of total capital due to hypothetical changes in the Bank's capital and in risk assets (in percentage points):

	Impact on Tier I capital ratio		Impact on the comprehensive capital ratio	
	As of December 31			
Scenario (1)	**2017**	**2016**	**2017**	**2016**
Increase of 10% in equity	1.0	1.0	1.0	1.0
Increase of 10% in Tier 2 capital instruments	-	-	0.4	0.3
Increase of 10% in risk assets	(0.9)	(0.9)	(1.4)	(1.3)

(1) Corresponding impact in scenario involving a hypothetical decline.

Presented below is the development of capital in 2017:

	Equity	Tier I capital	Tier 2 capital	Comprehensive capital
Balance as of December 31, 2016	808.3	800.4	352.1	1,152.5
Net profit for the period (1)	37.0	37.0	-	37.0
Distributed dividends	(7.1)	(7.1)	-	(7.1)
Other comprehensive income, net, after tax impact (2)	(0.9)	(0.9)	-	(0.9)
Change in the balance of deferred liability notes recognized as Tier 2 capital	-	-	53.6	53.6
Change in collective provision recognized as Tier 2 capital	-	-	1.9	1.9
Other	-	(6.5)	-	(6.5)
Balance as of December 31, 2017	**837.3**	**822.9**	**407.6**	**1,230.5**

(1) See above for details regarding profit and profitability, in chapter 2.2 regarding material developments in income, expenses and other comprehensive income.

(2) See above for details regarding developments in other comprehensive income items, in chapter 2.2 regarding material developments in income expenses, and other comprehensive income

For additional details regarding changes in equity, see the financial statements - statement of changes in equity.

On May 30, 2013, the Bank of Israel published updated Proper Banking Management Directives, which adopt the recommendations of Basel II and Basel III, beginning on January 1, 2014, with respect to the banking system in Israel (Proper Banking Management Directives 201 - 211).

The Proper Banking Management Directive specify that banking corporations and credit companies are required:

- To comply with a ratio of minimum Tier I capital (core capital) to weighted risk assets of 9%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, are equal to or exceed 20% of the total balance sheet assets in the banking system, to comply with a minimum total capital ratio of 10%, beginning on January 1, 2017.
- To maintain a minimum ratio of capital to weighted risk assets of 12.5%, for the entire banking system, beginning on January 1, 2015, and for a banking corporation whose total balance sheet assets, on a consolidated basis, equal or exceed 20% of the total balance sheet assets in the banking system - to maintain a minimum capital ratio of 13.5%, beginning on January 1, 2017.

On September 28, 2014, the Commissioner of Banks published directives on the subject of restrictions regarding the provision of housing loans. According to the directives, the banking system is required to increase the target Tier I capital ratio at a rate which reflects 1% of the balance of housing loans. The application date of the requirement to fulfill the minimum capital target rate is January 1, 2017. The banks are required to increase the minimum capital target, by quarterly rates of 0.125% of the balance of housing loans, from April 1, 2015 until January 1, 2017.

As a result of the implementation of the directive, based on the data from the current balance sheet, the Bank gradually added the demand for additional capital in the amount of approximately NIS 9 million, which constitutes an addition of approximately 0.1% to the minimum capital target specified by the Commissioner of Banks for each quarter until the target date. According to the above, according to a cumulative calculation as of January 1, 2017, the total is approximately NIS 70 million, representing an addition of approximately 0.9% to the minimum capital requirements.

It is noted that any change in the balance of the housing loans portfolio will change the required capital addition.

In accordance with the aforementioned directives of the Commissioner, the Bank's minimum Tier I capital as of December 31, 2017 amounts to 9.9%.

The determination of capital targets constitutes an initial and material step in the capital planning process, from which the other stages are derived, since the minimum capital target determined by the Bank of Israel effectively constitutes a planning restriction. The capital target was determined in consideration of the Bank's regulatory, organization and business environment. Further to the above, and within the framework of its discussions, the Board of Directors instructed management to prepare a plan of action for long term capital adequacy ratios, based on an increasing outline according to which the Tier 1 capital ratio amounts to 10.5% at the end of 2019.

The Bank's Board of Directors also instructed management not to fall below a total capital ratio of 13.6% at the end of 2019.

The internal capital adequacy assessment process (ICAAP) and capital planning constitute a central part of the Bank's management of its strategic business and risk management plan for the future. The capital planning process includes evaluating the impact of the strategic and business goals on the risk profile and on the Corporation's required capital. The conservative capital targets which were determined summarize the Board of Directors' assessment of the Bank's capital adequacy, with reference to the forward looking business plan, the defined risk, the risk environment, the corporate governance and the Bank's financial position. The considerations which led the Board of Directors to decide on the foregoing capital targets included the strategic plan for continued focus on business activities in the household segment, which constitutes approximately 90% of the activity and has a low risk profile, primarily due to the average amount of credit per borrower, and the great deal of distribution in the credit portfolio. Additionally, approximately 90% of the Bank's credit portfolios are secured by real collateral, primarily residential apartments, with low LTV ratios. Additionally, due to its size, the Bank does not constitute a systemic risk. The capital targets were determined in consideration of the Bank's risk appetite and its desire to meet the minimum capital ratios, including in case of the materialization of extreme scenarios, based on a forward looking approach, while taking into account the requirements of the Bank of Israel.

Tier 2 capital

Total Tier 2 capital after deductions amounts to NIS 407.6 million, as compared with NIS 352.1 million at the end of 2016, of which the balance of deferred liability notes which were issued to the public and deferred deposits which were raised from households and institutional customers, which is included under Tier 2 capital, after deductions, for the purpose of calculating the ratio of capital to risk components, amounted as of December 31, 2017 to NIS 316.9 million, as compared with NIS 263.3 million at the end of 2016.

In June 2016 and 2017, Jerusalem Finance & Issuance (2005) Ltd., a subsidiary wholly controlled and owned by the Bank, issued contingent convertible bonds (CoCo), which also include a mechanism for the absorption of losses by writing off principal. On the early repayment date, and insofar as the Company does not exercise its right to early redemption, the stated interest rate of the bond will be updated in accordance with the difference between the interest rate anchor (the annual average yield of government bonds with remaining period to maturity of 5 years) on the issuance date and the rate as of the date of the interest update.

Upon the fulfillment of circumstances for reaching a point of non viability, as specified in the prospectuses, the Company will write off the principal of the liability certificates.

A point of non viability will be reached if the equity ratio of Bank of Jerusalem Ltd. falls below 5%, or upon the earlier of either: (1) An announcement by the Commissioner of Banks stating that delisting is necessary in order to avoid reaching a point of non viability, or (2) A decision by the Commissioner of Banks to implement a capital injection from the public sector, or an equivalent support, without which the Bank would reach a point of discontinuity, as determined by the Commissioner of Banks.

The liability certificates fulfill the conditions set forth in Proper Banking Management Directive 202, and are recognized by the Commissioner of Banks as Tier 2 capital.

Presented below is a summary of the terms of the contingent convertible bonds (CoCo):

	Series 11	Series 12
Total amount of issuance (NIS millions)	128.4	105.9
Date of issuance	June 9, 2016	December 11, 2017
Number of principal payments	1	1
Final repayment date	September 7, 2026	December 11, 2027
Optional early repayment date	June 7, 2021	December 11, 2022
Annual interest	3.2%	1.9%
Frequency of interest payments	Twice per year	Twice per year

Leverage ratio

	December 31, 2017	December 31, 2016
Tier 1 capital	**822.9**	**800.4**
Total balance sheet exposures	13,644.3	14,290.8
Other off-balance sheet exposures (after conversion factors to balance sheet exposures)	740.5	648.6
Additional amounts with respect to potential future exposure associated with all transactions regarding derivatives	43.8	41.6
Amounts with respect to assets which were deducted in the determination of Tier 1 capital	(14.4)	(7.9)
Total exposures	**14,414.2**	**14,973.1**
Leverage ratio	**5.7%**	**5.3%**
Minimum leverage ratio required by the Commissioner of Banks	**5.0%**	**5.0%**

On April 28, 2015, the Banking Supervision Department published Proper Banking Management Directive 218, on the subject of the "Leverage ratio" (hereinafter: the "Directive"). The directive established a simple and transparent leverage ratio, which is not based on risk, which will serve as a supplementary and reliable measurement of risk-based capital requirements, and which is intended to limit the accumulation of leverage in the banking corporation.

In accordance with the directive, a banking corporation is required to fulfill a leverage ratio which will not fall below 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system must fulfill a leverage ratio which will not fall below 6%. In accordance with the above, the minimum leverage ratio which will be required is 5%.

A banking corporation is required to fulfill the minimum leverage ratio beginning on January 1, 2018. A banking corporation which, on the publication date of the directive, fulfills the minimum leverage ratio which applies to it, must not fall below the limit determined in the directive.

The Bank fulfills the leverage ratio specified in the directive.

Dividend distribution policy

On April 27, 2017, the Bank's Board of Directors resolved to adopt an updated dividend distribution policy (the "Dividend Distribution Policy"), as specified in the immediate report which was published by the Bank on April 27, 2017 (reference number 2017-01-043638), the information included wherein is included herein by way of reference. In accordance with this policy, up to 30% of the Bank's net profit in accordance with the Bank's financial statements may be distributed, provided that, inter alia, the Bank meets the regulatory capital adequacy targets which apply to it, including after the dividend distribution. It was further determined in the policy that, upon reaching the long term capital adequacy targets, in an increasing outline, whereby the Board of Directors has instructed management to work according to them (as of the date of the immediate report, 10.5% of the Tier 1 equity ratio at the end of 2019), dividends may be distributed in the amount of up to 50% of net profit, subject to the fulfillment of all of the other required conditions for a distribution in accordance with the law, and to the restrictions which apply to the Bank (for details regarding the Bank's previous dividend distribution policy, see Note 25a(b) to the Bank's financial statements for 2016).

An actual dividend distribution is subject to specific resolutions of the Board of Directors, before any distribution, and subject to the provisions of the law which apply to a dividend distribution, including the provisions of the Companies Law, 5759-1999, the directives of the Bank of Israel, and restrictions which apply to the Bank, and therefore, under certain circumstances, it is possible that a dividend distribution may be disallowed for the Bank.

The dividend distribution policy will remain in effect so long as the Board of Directors has not decided otherwise, and may be subject to changes from time to time, and its provisions will not derogate from the authority of the Bank's Board of Directors to decide, from time to time, in light of business considerations and the provisions of the law and the regulatory directives which apply to the Bank, to change the policy, or to change the rate of the dividend which will be distributed with respect to a certain period, or to decide not to distribute dividends with respect to a certain period.

It is hereby clarified, for the avoidance of doubt, that the approval of the dividend distribution policy does not create any undertaking whatsoever, towards any third party whatsoever, to distribute dividends in practice and/or dividend payment dates and/or rates, and that any dividend distribution in practice will be subject to the fulfillment of all of the conditions which are required for a distribution in accordance with the law and in accordance with the restrictions which apply to the Bank, with reference to the distribution and the specific resolution of the Board of Directors.

The information provided above regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervisory and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

In 2017, dividends were distributed in the amount of NIS 7.1 million.

After the balance sheet date, on January 4, 2018, the Bank's Board of Directors resolved to distribute interim dividends in cash, with respect to the profit in the second quarter of 2017, in the amount of NIS 1.8 million, and with respect to the profit in the third quarter of 2017, in the amount of NIS 3.7 million. The dividend, in the amount of NIS 0.08 per ordinary share with a par value of NIS 1, was paid on January 28, 2018, to shareholders who held the Bank's shares on January 14, 2018 (the effective date).

2.4. Description of the Banking Corporation's Business by Supervised Operating Segments

The Bank operates through the Bank's headquarters, branches and subsidiaries, and provides a variety of banking services through five main operating segments.

The approach of management to the segmentation of the Bank's activities is not significantly different than the approach to the segmentation of supervised segments, as described below:

- **Household segment** - the customers of this segment are private individuals (excluding those who are included in the private banking segment).
- **Private banking segment** - The customers of this segment are private individuals who have a balance in the financial assets portfolio exceeding NIS 3 million.
- **Business segment** - the customers of this segment are construction companies, contractors and real estate companies, corporations and associations.
- **Institutional segment** - the customers of this segment include stock exchange member companies which manage customer funds, insurance companies and additional institutional entities.
- **Financial management segment** - the segment includes the Bank's nostro activity and the Bank's assets and liabilities management activity.

The main principles which were applied in the division of the results of operations among the various segments:

Interest income, net - The margin which is received from the difference between the interest which is collected on the credit that was provided to the segment's customers, and the price of money (the economic transfer price which corresponds to the linkage segment and the credit's average lifetime) and profit received from the difference between the interest paid on the deposit to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).

Non-interest income - Non-interest income is directly applied to the segment where the customer activity is classified.

Expenses with respect to credit losses (including collective provision) - The provision was applied to the operating segment where the customer activity for which the provision was performed is classified. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.

Operating and other expenses - Identifiable direct expenses were specifically applied to the operating segments. The balance of indirect expenses or direct expenses which were not directly attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, and also included an index to the scope of customer activities in the operating segment.

Taxes on income - Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

For details regarding the main principles which were applied in the division of the results of operations among the various segments, and for additional details regarding the results of operations, see Note 29 to the financial statements.

For additional details regarding the Bank's business affairs by supervised operating segments, see the chapter regarding the Description of the Corporation's Business by supervised operating segments in the report regarding corporate governance and additional details.

Presented below are details regarding the average balances of assets and liabilities which were used in operating segments:

	Assets			Liability		
	2017	2016	Change	2017	2016	Change
Segments	NIS millions		%	NIS millions		%
Households	8,388.7	8,336.1	1	6,635.1	6,866.5	(3)
Private banking	9.5	6.6	44	1,625.8	1,583.5	3
Small and micro businesses	923.1	1,350.1	(32)	926.0	968.0	(4)
Medium and large businesses *	487.9	633.1	(23)	560.2	546.0	3
Institutional entities	13.1	41.4	(68)	898.5	1,090.5	(18)
Financial management segment	3,628.2	3,823.0	(5)	1,985.8	2,336.2	(15)
Total	13,450.5	14,190.3	(5)	12,631.4	13,390.7	(6)

*This segment includes activities with large businesses of an immaterial scope.

Presented below are details regarding net profit from operating activities, by operating segments:

Net income (loss)	For the year ended December 31		
	2017	2016	Change
Segments	NIS millions		%
Households	17.8	11.0	62
Private banking	(3.8)	(3.5)	9
Small and micro businesses	20.9	21.1	-
Medium and large businesses *	10.6	7.0	51
Institutional entities	(17.8)	(12.0)	48
Financial management segment	9.3	32.0	(71)
Unallocated amounts	-	-	-
Total	37.0	55.6	(33)

*This segment includes activities with large businesses of an immaterial scope.

For details in connection with changes in the profitability of segments, see the details below regarding each segment.

Households segment

In the household activity segment, the Bank offers a variety of financial services and products to private individuals (excluding those which are associated with the private banking segment). The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for the acquisition of residential apartments and commercial properties, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches, through digital means, and by means of the Bank's call center, including IVR services.

The main products and services proposed within the framework of the housing loans subsegment include the provision of housing loans, and loans for any purpose, against a pledge of a residential apartment for individuals and for purchasing groups, the provision of associated services involving life insurance for borrowers and mortgage term insurance for properties.

Main products and services which are proposed under the other subsegment - The provision of solo consumer loans for defined periods to households, the issuance of credit cards and debit cards to the Bank's customers, credit facilities in checking accounts, the provision of fixed term credit against collateral, the raising of deposits and savings from households, the provision of securities and investment consulting services.

For additional details regarding risks in the portfolio of housing loans and risks in the portfolio of non-housing loans to private individuals, see below in the chapter regarding the survey of risks.

In 2017, the income from this segment constituted approximately 73% of the Bank's total income. The expenses in this segment constituted approximately 73% of the Bank's total expenses.

Presented below is a summary of the operating results in the segment (NIS millions):

	For the year ended December 31					
	2017			2016		
	Housing loans	Other	Total households	Housing loans	Other	Total households
Total interest income, net	139.6	153.4	293.0	130.8	135.3	266.1
Total non-interest income	25.6	38.4	64.0	27.5	38.4	35.9
Expenses (income) with respect to credit losses	(1.6)	40.2	38.6	(7.9)	37.3	29.4
Operating and other expenses	70.0	223.4	293.4	66.7	218.2	284.9
Net profit (loss)	**68.7**	**(50.9)**	**17.8**	**59.2**	**(48.2)**	**11.0**

In the household segment, an increase was recorded in interest income, net, both in the housing loan activity and in the households activity - other, relative to the previous year, primarily due to the increase in the mortgage margin, and the increase in balances of consumer credit.

In the housing loans activity, revenues were recorded with respect to credit losses which were due to collection in the significant arrears groups.

Private banking segment

The banking activity in the private banking segment provides services and products which are given to private individuals who have a portfolio of financial assets exceeding NIS 3 million.

In 2017, the income from this segment constituted approximately 2% of the Bank's total income. The expenses in this segment constituted approximately 4% of the Bank's total expenses.

Presented below are the summary results of operations in the private banking segment (NIS millions):

	For the year ended December 31	
	2017	**2016**
Interest income, net	4.6	2.5
Non-interest income	5.4	6.4
Expenses with respect to credit losses	-	0.1
Operating and other expenses	15.4	14.7
Net profit (loss)	(3.8)	(3.5)

Business segment

As part of the activities in the business segment, the Bank provides banking services to business customers. These services are given to the Bank's customers through the real estate sector, and through the retail division. The segment includes activities in the real estate sector, including accompaniment of residential construction projects, primarily in accordance with the closed accompaniment method, including, inter alia, the financing of projects in accordance with the various types of National Outline Plan 38.

The business segment is divided into the following subsegments:

- Small and micro businesses segment - businesses with a turnover of less than NIS 50 million.
- Medium and large business segment* - businesses with a turnover equal to or greater than NIS 50 million.

In 2017, the income from this segment constituted approximately 16% of the Bank's total income. The expenses in this segment constituted approximately 9% of the Bank's total expenses.

Presented below are the results of operations of the business segment, by sub-segment (NIS millions):

	Small and micro businesses segment					
	For the year ended December 31					
	2017			2016		
	Construction and real estate	Other	Total small and micro	Construction and real estate	Other	Total small and micro
Total interest income, net	24.8	2.3	27.1	30.6	2.4	33.0
Total non-interest income	16.4	10.0	26.4	16.6	12.7	29.3
Expenses (income) with respect to credit losses	(2.4)	-	(2.4)	(0.6)	0.2	(0.4)
Operating and other expenses	15.7	10.6	26.3	14.8	11.9	26.7
Net profit	**19.8**	**1.1**	**20.9**	**19.4**	**1.7**	**21.1**

	Medium and large business segment*					
	For the year ended December 31					
	2017			2016		
	Construction and real estate	Other	Total small and micro	Construction and real estate	Other	Total small and micro
Total interest income, net	12.1	0.3	12.4	11.8	-	11.8
Total non-interest income	10.7	0.6	11.3	8.5	0.3	8.7
Expenses (income) with respect to credit losses	0.7	-	0.7	1.3	-	1.3
Operating and other expenses	7.9	-	7.9	7.4	-	7.4
Net profit	**10.0**	**0.6**	**10.6**	**6.8**	**0.2**	**7.0**

The business segment, in its entirety, recorded income of NIS 31.5 million in 2017, as compared with NIS 28.1 million in 2016. The increase in income was primarily due to the decrease in expenses for credit losses.

* This segment includes activities with large businesses of an immaterial scope.

Institutional entities segment

As part of the activities of the institutional entities segment, the Bank provides banking services to stock exchange member companies which manage customer funds, insurance companies and other institutional entities.

In 2017, the income from this segment constituted approximately 4% of the Bank's total income. The expenses in this segment constituted approximately 12% of the Bank's total expenses.

Presented below is a summary of the operating results in the segment (NIS millions):

	For the year ended December 31	
	2017	**2016**
Interest income, net	1.8	2.3
Non-interest income	19.0	22.0
Expenses with respect to credit losses	-	-
Operating and other expenses	45.9	44.5
Loss	(17.8)	(12.0)

The increase in loss was primarily due to the decrease in commissions from securities activities which were collected from customers in the segment, relative to the previous year.

On October 16, 2017, the Bank engaged with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. in agreements for the sale of the Bank's independent customer portfolios and the institutional customers portfolios, in the brokerage operating segment. For additional details regarding the transaction, see chapter 1.5, events after the balance sheet date, above.

Financial management segment

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of assets and liabilities.
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Activities vis-à-vis banks in Israel and around the world.

In 2017, the income from this segment constituted approximately 5% of the Bank's total income. The expenses in this segment constituted approximately 3% of the Bank's total expenses.

Presented below is a summary of the operating results in the segment (NIS millions):

	For the year ended December 31	
	2017	**2016**
Interest income, net	24.5	27.3
Non-interest income	(0.6)	35.4
Expenses with respect to credit losses	-	-
Operating and other expenses	10.9	8.3
Net profit	**9.3**	**32.0**

The financial management segment recorded, in 2017, profit of NIS 9.3 million, as compared with NIS 32.0 million in 2016.

The decrease in income was primarily due to the realization of available-for-sale bonds in the corresponding period last year, with profit of approximately NIS 21 million.

2.5. Main Investee Companies

During the reporting period, no material developments occurred in the activities of investee companies. Excluding issuances through a subsidiary of contingent convertible bonds (CoCo) in the amount of NIS 105.9 million, as specified above in the chapter regarding capital and capital adequacy, and of bonds in the amount of NIS 402.7 million. The issuances were in accordance with a shelf prospectus which was published by a subsidiary on November 14, 2016, based on its financial statements as of June 30, 2016. For details regarding the main investee companies, see Note 15 to the financial statements.

Chapter 3 - Risk Review

3.1. Credit risk

Credit risk is the risk of harm to the Bank's value due to the possibility that a borrower or counterparty of the Bank will default on its obligations, relative to the terms which were agreed with it, or due to a deterioration in the quality of borrowers and the value of the collateral which was provided by them.

Credit to the public is managed in several main segments, which are differentiated from one another by the characteristics of the customers and banking services which they require, and by the organizational unit which is responsible for handling each type of customer:

- The household segment, customers of the international operation and commercial customers are under the responsibility of the retail division.
- The business segment, primarily in the real estate project accompaniment segment, are under the responsibility of the real estate sector, which is subordinate to the Bank’s CEO.

Credit risk is the Bank's main risk. The materiality of this risk corresponds to the Bank's core business operations. This risk is reflected primarily in activities vis-à-vis retail customers, approximately 90% of the activity, but also vis-à-vis business customers and in the nostro activity. In order to manage the credit risk, a credit risk management policy and credit policy are defined in the Bank, which are approved each year by the Board of Directors.

The credit risk management policy describes the entities which create, manage and control this risk, principles and restrictions for managing risks, tools for mitigating risks, and monitoring tools for risk management. Additionally, it includes a description of the process of establishing authorities, the orderly reporting process and the process regarding the reporting of exceptions.

The credit policy document, which is approved by the Bank’s Board of Directors, sets forth the Bank's credit provision policy, and specifies the principles governing the provision of credit, including restrictions and collateral. The policy also includes specification of principles and rules for the management and control of the credit portfolio, with the aim of preserving its quality and minimizing its inherent risk. These principles allow controlled management of the risks involved in the provision of credit to borrowers, on the levels of the individual customer, of groups of borrowers, and of market branches and business lines. The credit policy is evaluated throughout the year in light of macro-economic changes ad developments in the Bank's business environment, and accordingly, updates thereto are implemented as needed.

The credit provision process includes an evaluation of the transaction data, in accordance with criteria which were determined in the Bank's policies. The credit underwriting and approval process is hierarchical, from the branch level to the senior management level, in accordance with a hierarchy of authorities which was approved by the Board of Directors.

The Bank operates on several levels in order to monitor and reduce credit risk, as much as possible, from the stage involving the underwriting and approval of credit, to the collateral required according to the credit policy, and the relevant policies, to ongoing monitoring and controls which are implemented in the business units which constitute the first line of defense, and in the designated control units. The Bank invests a great deal of efforts in improving the professionalism and expertise of those engaged in the provision and management of credit, and in the development of computerized tools to assist in its effective management. Improvements were also introduced to the collection processes.

The Bank makes use of several IT systems to monitor and control credit risk. The IT systems provide control tools for the first line of defense, and also for the second and third lines, in order to identify credit risks.

The main systems include the retail and commercial credit system, the mortgage management system, systems to support decision making regarding retail credit, and internal rating systems for the credit portfolio.

The Bank has several internal systems for the rating of borrowers which support the reaching of credit decisions: in the project accompaniment segment, the system incorporates parameters from the projects' rate of progress reports, such as evaluating the rate of progress, the liquidity position, the erosion of profitability, value of inventory, and more. In retail credit, the customer is rated according to a rating model which is based on the customer's characteristics at the time of the request for credit. Separate statistical models for existing customers and new customers were implemented in the Bank. The models are validated and monitored on an ongoing basis.

Additionally, the Bank has behavioral models in consumer credit and mortgages, which predict the probability of default in the Bank's existing credit portfolio. These models are used to monitor risk in the existing portfolio, and also constituted an infrastructure for the creation of a standard internal rating scale for the balance sheet credit to the public, as required under Proper Banking Directive 314.

Bank management continues to upgrade the measurement, reporting and monitoring tools, with the aim of receiving more comprehensive information to assist in the management of credit risk.

As part of the credit risk mitigation process, the Bank requires securities in accordance with the credit policy which was approved. The main collateral which is given to the Bank is the pledging of real estate. Additional collateral is also received by the Bank, in the form of pledges on vehicles, deposits and securities, third party bank guarantee, personal guarantees of debt guarantors, and more. The Bank's policy sets forth rules regarding reliance on each type of collateral, in accordance with the nature of the collateral, its marketability, speed of realization and the legal status of the collateral. The different types of collateral are adjusted to the circumstances of the loan.

The Bank's policies specify rules for the management of collateral, and for updating their value.

In 2017, the Bank took additional steps to mitigate credit risk by hardening the credit policy. Improvement of underwriting processes and tightening of restrictions on certain exposures.

Description of the active entities which create, manage and control credit risk

The Bank adopted a framework regarding the management and control of risks, which is based on a supervision circuit and on three "lines of defense". The supervision circuit includes the Board of Directors and its relevant committees (the Board of Directors Risk Management Committee and the Audit Committee), as well as senior management. The first line of defense includes the risk takers and risk managers, including the internal Credit Committee, the Retail Division Manager, the Real Estate Sector Manager, authorized individuals in the credit department and the collection unit. The second line of defense includes the risk management functions in the risk division, led by the Risk Division Manager, who also serves as the Bank's Chief Risk Officer. The second line also includes the Bank's monetary division. The third line includes internal audit.

For an extensive description of the work involved in managing and controlling credit risk, see also the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

Concentration

Concentration risk is the risk which arises due to the absence of distribution in the credit portfolio. With the aim of reducing concentration risk, the Bank works to implement distribution in the credit portfolio between many borrowers from different market sectors.

Credit concentration risk in the Bank involves several main aspects:

- **Borrower concentration risk** - a risk which arises from the credit that is given to a borrower or to several borrowers which in the same group of borrowers. Insofar as the distribution of the credit portfolio between the various borrowers is broader, the borrowers concentration risk is lower.

  As part of the Bank's preparations for the changes in the business environment, and in the interest of reducing the Bank's exposure to large borrowers, the Bank’s Board of Directors reduced, beyond the restriction which was set by the Commissioner of Banks, the restrictions regarding a single borrower and facility for a group of borrowers.

  The Bank conducts ongoing monitoring of the large borrowers and the fulfillment of the restrictions determined by the Board of Directors.
- **Market sector concentration risk** - a risk arising from the high scope of credit provided to borrowers who belong to a certain economic sector (market branch).

For the purpose of mitigating the credit risk which is due to concentration in the construction branch, with respect to project accompaniment, the Bank collaborates with insurance companies which issue sale policies to apartment buyers in projects and/or collateral to land owners in combination transactions, and divides shared collateral with the Bank, "pari passu".

Additionally, the Bank cooperates with financial entities in the project accompaniment segment. These entities provide credit together with the Bank, according to a predetermined ratio.

The Bank complies with, and continuously monitors the compliance with, the restrictions of the Bank of Israel with respect to the exposure to market branches.

- **Geographical concentration risk** - this risk is due to the high scope of credit which is given to borrowers who are concentrated in a certain geographical area, or collaterals which are concentrated in a certain geographical area.

  The Bank's credit policy specifies restrictions with respect to geographical distribution, which are intended to reduce such risk.

  Most of the concentration in the Bank is in Central Israel and in the Greater Jerusalem area.

- **Segmental concentration risk** - this risk is due to the insolvency of borrowers who belong to the same population group.

  The Bank has extensive activities with customers in the Ultra Orthodox and Arabic sectors.

  The Bank evaluates its exposure to the various population segments on an ongoing basis, and performs scenario analyses, which indicate that the Bank is not expected to incur exceptional losses as a result of the Bank's exposure to a certain segment. The results of the evaluation are submitted to the Bank's Board of Directors within the framework of the quarterly risk report.

The Bank’s credit provision process

Most of the Bank's credit portfolio is managed in the retail division. Credit in the project accompaniment and construction financing department is managed in the real estate sector, which is directly subordinate to the CEO. In both units there is a clear division of credit authorities, credit types, customer types and credit amounts. The credit underwriting process is also defined, and each credit request is evaluated and approved according to a hierarchy of authorities and in accordance with the principles which were approved by the Bank’s Board of Directors.

In the retail segment, an underwriting center operates which approves or presents for approval, to the hierarchy of authorities regarding credit approval, each mortgage request or consumer credit request which is beyond the approval authority of the branch manager.

The Bank also has a central evaluation unit which evaluates mortgage portfolios before they are implemented. The evaluation process focuses on the review of credit and collateral provision documents, fulfillment of the stipulations specified at the time of approval for the credit, with the aim of fulfilling functions of control over the loan creation process, reducing the exposure to operational risk in mortgage operations, and bringing the entire bank in line with an operating process which conforms with common, controlled standards. The evaluation unit is subordinate to the resources division, thereby implementing managerial separation between the process of approving credit and submitting documents, and the evaluation thereof.

For additional details regarding the process of providing housing credit, see below in the chapter regarding risks in the housing loans portfolio.

Loans to private individuals within the framework of the consumer credit activities, including checking account facilities and credit cards, are approved and implemented in accordance with the rating model and the recommendation regarding exposure which is given by the credit underwriting system. Requests which are not authorized by the branch are transferred for discussion and approval of the underwriting center at the headquarters of the retail division.

For additional details regarding the process of providing credit to credit to private individuals (non-housing), see below in the chapter regarding risks in the portfolio of loans to private individuals (non-housing).

In the real estate sector department, credit requests are prepared by the control and reports staff, and not by the referents (risk creators), and undergo an evaluation by the CRA unit (credit risk management) which is subordinate to the Risk Division Manager, before their submission for approval to the relevant Credit Committees, in accordance with the established hierarchy of authorities.

As part of its evaluation of credit portfolios and collateral, the evaluation unit in the sector evaluates the presence of all required documents and collateral, before providing the credit, and gives approval for the credit teams to provide the credit to the customer. As part of its analysis of credit risks, the CRA unit in the risks division provides an additional, independent opinion regarding the credit request which is submitted for approval to the Bank’s institutions, in a separate, independent document (hereinafter: the "CRA Document"). It is emphasized that the credit requests are not submitted for discussion by the Bank’s institutions unless the CRA document has been submitted concurrently with the request.

In the project accompaniment and construction financing department, each project is managed through close accompaniment by the construction supervisor, who submits periodic reports about the rate of progress on the project. Additional credit which is required for the purpose of completing construction is only approved after evaluating the project’s updated exposure report, in consideration of its rate of progress, and provided that the borrower meets the determined parameters and milestones. Additionally, throughout the lifetime of the project (usually once per month, upon the receipt of the supervisor's performance report), the project’s financial soundness is evaluated by the referents in the division.

Identification and handling of troubled credit

As part of the measures implemented by the Bank in its management of credit risks, there is a methodology for the location and identification of troubled debt, which is applied throughout all business lines. The methodology includes a routine, orderly and structured procedure which involves performing a thorough review of the credit portfolio, using criteria central monitoring advance alerts regarding the debt's transformation into troubled debt.

As part of the review, customers with negative indicators are identified, such as debt in arrears, cash flow difficulties, as reflected in difficulty in effecting principal and/or interest payments in loans, deterioration of business operations, etc., and an evaluation is performed regarding the need to issue new recommendations for the classification of customers or changing the classification of customers with existing classifications, or their inclusion in watch lists (customers with negative indicators, in accordance with criteria which were defined in the Bank's policies, and regarding which it was decided that they do not need to be classified). The recommendations are submitted to the troubled debt committees, in accordance with the determined hierarchy of authorities, who discuss them and reach decisions on classification or performance of provisions regarding them.

Upon the occurrence of significant events which could affect a group of customers or the credit portfolio, the Bank evaluates the effect of the event on the credit portfolio, and responds accordingly. The response could be implemented by means of a change in policy or by means of actions taken vis-à-vis the current borrowers.

When a loan to private individuals enters arrears, the branch handles the collection of arrears in the first stages of the arrears. As the extent of the arrears increases, the handling of the loan is transferred to the collection department for handling. In exceptional cases involving concern of fraud or deceit, the process of transferring the portfolio from the branch to the collection department is performed immediately.

When the real estate sector department or the commercial banking unit identifies that a borrower has encountered difficulties, or that there is concern that they may encounter difficulties, an immediate discussion is held, including the participation of the main entities who are responsible for handling the customer, and immediate decisions are reached regarding whether the customer should be transfered for handling by the Bank's collection department, through legal handling outside of the Bank, by initiating receivership or liquidation proceedings, or by initiating an arrangement regarding the debt.

For details regarding the Bank's preparations in connection with Proper Banking Management Directive 450, see the chapter regarding legislative updates and directives of the Bank of Israel, in the report regarding corporate governance and additional details.

The collection department concentrates all of the processes under the collection activities in the Bank, and oversees the work performed by lawyers and subcontractors who are involved in the collection process. The Bank aims to reach arrangements, vis-à-vis borrowers who are in arrears, regarding their debts to the Bank, and the routine continuation of the monthly payments, provided that the loan portfolio has sufficient collateral. In cases where the borrowers do not cooperate and/or refrain from paying the debt, receivership proceedings will be initiated which constitute a last resort option to settle the debt. The Bank operates in accordance with an orderly set of procedures which deals with the identification, classification and handling of troubled debts, and there is a system for arranging shared work connections between the credit managers and the collection department. The Board of Directors and its committees receive periodic reports regarding the distribution and segmentation of credit, large borrowers and additional parameters to measure the exposure to credit risk.

For additional details and additional qualitative disclosure regarding the identification and handling of troubled credit and the provision for credit losses, see Notes 1, 13 and 30 to the financial statements.

Presented below is a table presenting credit risks and non-operating assets:

	Balance of credit risk [3] per day					
	December 31, 2017			December 31, 2016		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
1. Troubled credit risk [1]:						
Impaired credit risk	41.2	2.8	44.0	45.9	4.9	50.8
Subordinated credit risk	15.5	0.9	16.4	16.3	0.6	16.9
Credit risk under special supervision [2]	160.1	-	160.1	148.9	-	148.9
Total troubled credit risk *	216.8	3.7	220.5	211.1	5.5	216.6
* Of which: non-impaired debt, in arrears of 90 days or more (primarily housing)[2]	165.0	-	165.0	153.1	-	153.1
2. Non-operating assets:						
Impaired debt which does not accrue interest income[4]	30.3	2.8	33.1	33.5	4.9	38.4
Total non-operating assets	**30.3**	**2.8**	**33.1**	**33.5**	**4.9**	**38.4**

(1) Credit risk which is impaired, subordinate or subject to special supervision.
(2) Including with respect to loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.
(3) Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(4) Not including debts regarding which the recognition of income is performed on a cash basis.

Presented below are details regarding the movement in impaired debts, in millions of NIS:

	For the year ended December 31	
	2017	**2016**
Balance of impaired debts at start of year	45.9	25.7
Debts classified as impaired debts during the year	6.5	31.0
Debts reclassified as non-impaired	(6.3)	-
Accounting write-offs	(2.9)	(5.1)
Collection on a cash basis	(2.0)	(5.7)
Balance of impaired debts as of December 31	**41.2**	**45.9**

The debit balance in the restructuring of troubled debt as of December 31, 2017 amounted to approximately NIS 19.3 million, as compared with NIS 21.8 million at the end of 2016.

The balance of the provision for credit losses with respect to impaired debts as of December 31, 2017 amounted to NIS 10.5 million, as compared with NIS 11.1 million at the end of 2016.

Presented below are details regarding housing loan in arrears, in accordance with the annex to Proper Banking Management Directive 314: (NIS millions)

	December 31, 2017							
	Extent of the arrears							
		Arrears of 90 days or more						
	In arrears of 30 to 89 days	90 days to 6 months	6 months to 15 months	15 months to 33 months	Over 33 months	Total over 90 days	Balances with respect to refinanced loans in arrears(3)	Total
Amount in arrears	0.5	2.6	2.5	3.8	6.9	15.8	-	16.3
Of which: balance of the provision for interest (1)	-	-	-	0.2	1.7	1.9	-	1.9
Recorded debit balance	26.2	74.5	46.9	15.5	7.7	144.6	9.2	180.0
Balance of the provision for credit losses (2)	-	-	5.7	5.3	5.7	16.7	1.1	17.8
Net debit balance as of December 31, 2017	26.2	74.5	41.2	10.2	2.0	127.9	8.1	162.2
Net debit balance as of December 31, 2016	29.3	64.5	33.4	9.4	2.6	109.9	7.1	146.3

(1) With respect to interest on amounts in arrears.
(2) Not including the balance of the provision for interest.
(3) Loans in which an arrangement was signed for the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due, without waiving the income.

The balance of net in debt arrears as of December 31, 2017 amounts to approximately NIS 162.2 million, an increase of approximately 11% relative to last year, primarily due to debts in arrears of 90 days to 6 months.

Analysis of expenses for credit losses and main developments in credit risks

On the subject of expenses with respect to credit losses and the classification of troubled debts, the Bank works in accordance with the provisions of directives issued by the Banking Supervision Department, which entered into effect on January 1, 2011, and the updates to these provisions from that date onwards. It is the Bank's practice to estimate, assess and update the amount of the provision for credit losses on an ongoing basis, based on past experience, to analyze the position of the evaluated borrowers on a specific basis, and in accordance with economic forecasts and estimates regarding the various markets and business sectors. The provision for credit losses, with reference to the credit portfolio, is divided into a specific provision and a collective provision.

Expenses with respect to credit losses in 2017 amounted to NIS 36.9 million, which constitutes a rate of approximately 0.38% of the portfolio of credit to the public. The rate was affected by several main factors:

- **Other private credit** - in 2017, an expense was recorded in the amount of NIS 40.0 million, primarily due to net accounting write-offs in credit to private individuals, in the amount of NIS 37.4 million (in 2016 - NIS 31.5 million), which is recorded in accordance with directives issued by the Banking Supervision Department. The increase was due, inter alia, to the significant regulatory easement with respect to the performance of bankruptcy proceedings, which led to a significant increase in the number of debtors which enter such proceedings. For additional details, see below in the chapter regarding risks in the portfolio of loans to private individuals without housing loans.
- **Housing credit** - in 2017, income was recorded in the amount of NIS 1.3 million, primarily due to the decrease of NIS 2.2 million in the provision which is calculated according to the extent of the arrears, primarily due to the increase in the scope of collection, while on the other hand, an increase of approximately NIS 0.9 million occurred in the statistical provision due to the increase in housing credit balances. For additional details, see below in the chapter regarding risks in the portfolio of housing loans.

- **Commercial credit -** in 2017, income was recorded in the amount of NIS 1.8 million, primarily due to the decrease in the provision due to the increase in the scope of collections, and the decrease in credit balances.

Presented below are details regarding the rates of the provision for credit to the public risk:

	December 31, 2017	December 31, 2016
Rate of the balance of impaired credit to the public which does not accrue interest income, to the balance of credit to the public	0.31%	0.34%
Rate of the balance of non-impaired credit to the public in arrears of 90 days or more, to the balance of credit to the public	1.69%	1.55%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of credit to the public	1.04%	1.04%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income	336%	305%
Rate of the balance of the provision for credit losses with respect to credit to the public, to the balance of impaired credit to the public which does not accrue interest income, plus the balance of credit to the public which is in arrears of 90 days or more	52%	55%
Rate of troubled credit risk with respect to the public out of total credit risk with respect to the public	1.87%	1.87%
Rate of expenses with respect to credit losses to from the average balance of credit to the public	0.38%	0.31%
Rate of net write-offs with respect to credit to the public to the average balance of credit to the public	0.38%	0.40%
Rate of net write-offs with respect to credit to the public to the balance of the provision for credit losses with respect to credit to the public	36.8%	38.4%

For additional details, see Note 13 to the financial statements.

Credit risk by market branches

	December 31, 2017									
	Total credit risk (1)			Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
								Credit losses (4)		
					Of which					
	Total	Credit performance rating (7)	Troubled (5)	Total	Debts (2)	Troubled (5)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Construction and real estate - construction (6)	1,829.8	1,805.1	24.7	1,829.8	817.3	24.7	24.0	(0.5)	0.1	5.0
Construction and real estate - real estate activities	488.8	482.0	6.8	488.8	438.3	6.8	4.0	(1.0)	(0.2)	2.7
Financial services	324.8	324.8	-	262.9	87.2	-	-	(0.3)	-	0.1
Others	29.6	29.1	0.5	29.0	10.9	0.5	0.5	-	-	0.1
Total commercial	**2,673.0**	**2,641.0**	**32.0**	**2,610.5**	**1,353.7**	**32.0**	**28.5**	**(1.8)**	**(0.1)**	**7.9**
Private individuals - housing loans	7,800.3	7,504.4	153.8	7,800.3	7,278.1	153.8	1.3	(1.3)	0.1	43.4
Private individuals - other	1,291.7	1,221.4	34.7	1,291.7	1,140.6	34.7	14.2	40.0	37.4	53.6
Total public - activities in Israel	**11,765.0**	**11,366.8**	**220.5**	**11,702.5**	**9,772.4**	**220.5**	**44.0**	**36.9**	**37.4**	**104.9**
Banks in Israel	2.1	2.1	-	-	-	-	-	-	-	-
Government of Israel	737.3	737.3	-	-	-	-	-	-	-	-
Total activities in Israel	**12,504.4**	**12,106.2**	**220.5**	**11,702.5**	**9,772.4**	**220.5**	**44.0**	**36.9**	**37.4**	**104.9**
Foreign banks	-	-	-	-	-	-	-	-	-	-
Foreign governments	118.7	118.7	-	-	-	-	-	-	-	-
Total	**12,623.1**	**12,224.9**	**220.5**	**11,702.5**	**9,772.4**	**220.5**	**44.0**	**36.9**	**37.4**	**104.9**

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Includes: debts - NIS 9,772.4 million, bonds - NIS 856.6 million, assets with respect to derivative instruments - NIS 64.0 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,930.1 million.

(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.

(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).

(5) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.

(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 187.0 million and facilities which were provided to those groups, in the amount of NIS 292.5 million.

(7) Credit risk whose credit rating on the reporting date corresponds to the credit rating for the provision of new credit, in accordance with the Bank's policy.

(8) Balances lower than NIS 0.1 million are not presented in this addendum.

	December 31, 2016									
	Total credit risk (1)			Debts (2) and off-balance sheet credit risks (excluding derivatives) (3)						
								Credit losses (4)		
					Of which					
	Total	Credit performance rating (7)	Troubled (5)	Total	Debts(2)	Troubled(5)	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of the provision for credit losses
Public - commercial										
Construction and real estate - construction (6)	1,861.3	1,729.0	24.1	1,861.3	953.8	24.1	23.5	-	-	5.6
Construction and real estate - real estate activities	471.5	454.0	17.5	471.5	460.9	17.5	11.0	0.8	0.1	3.5
Financial services	702.9	702.9	-	558.6	321.2	-	-	0.1	-	0.4
Others	34.9	34.3	0.6	34.1	18.7	0.6	0.6	(0.2)	0.1	0.1
Total commercial	**3,070.6**	**2,920.2**	**42.2**	**2,925.5**	**1,754.6**	**42.2**	**35.1**	**0.7**	**0.2**	**9.6**
Private individuals - housing loans	7,237.4	6,819.3	137.4	7,237.4	7,014.1	137.4	-	(7.7)	7.7	44.8
Private individuals - other	1,291.5	1,195.1	37.0	1,291.5	1,123.9	37.0	15.7	37.4	31.5	51.0
Total public - activities in Israel	**11,599.5**	**10,934.6**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**
Banks in Israel	5.7	5.7	-	-	-	-	-	-	-	-
Government of Israel	1,168.4	1,168.4	-	-	-	-	-	-	-	-
Total activities in Israel	**12,773.6**	**12,108.7**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**
Foreign banks	1.1	1.1	-	-	-	-	-	-	-	-
Foreign governments	259.2	259.2	-	-	-	-	-	-	-	-
Total	**13,033.9**	**12,369.0**	**216.6**	**11,454.4**	**9,892.6**	**216.6**	**50.8**	**30.4**	**39.4**	**105.4**

(1) Credit risk and off-balance sheet credit risk, including derivative instruments. Includes: debts - NIS 9,892.6 million, bonds - NIS 1,428.4 million, assets with respect to derivative instruments - NIS 151.1 million, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits - NIS 1,561.8 million.
(2) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of a borrower's liability limits, excluding with respect to derivative instruments.
(4) Including with respect to off-balance sheet credit instruments (presented in the balance sheet under the item for other liabilities).
(5) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.
(6) Including housing loans which were provided to certain purchasing groups which are currently under construction, in the amount of NIS 152.5 million and facilities which were provided to those groups, in the amount of NIS 219.7 million.
(7) Credit risk whose credit rating on the reporting date corresponds to the credit rating for the provision of new credit, in accordance with the Bank's policy.
(8) Balances lower than NIS 0.1 million are not presented in this addendum.

Risks in the housing loans portfolio

As part of its management of credit risks, the Bank implements various measures to mitigate risks which are due to the provision of housing credit. The Bank established, within the framework of the credit policy, various restrictions on the housing credit segment, in consideration of the main risk factors. The main parameters in the definition of the risk appetite in the housing loans segment include: the financing (LTV) rate, location of the property, payment to income (PTI) ratio, loan purpose, and loan period. The Bank monitors, on an routine basis, the risk profile of the mortgage portfolio, in light of the determined risk appetite.

Presented below are details regarding the development of housing credit performance (1) and main performance indicators:

	For the year ended December 31				
	2017	**2016**	**2015**	**2014**	**2013**
Performance in Israeli currency (NIS millions)	1,244	955	1,053	1,064	1,206
Performance in foreign currency (NIS millions)	95	177	190	105	158
Total performance (2) (NIS millions)	**1,339**	**1,132**	**1,243**	**1,169**	**1,364**
Percent of change relative to last year	18%	(9%)	6%	(14%)	(8%)
Variable interest, at a frequency of less than 5 years	30%	30%	29%	28%	26%
Average loan period (in months)	249	245	215	208	215
Average income per capita (NIS)	5,614	5,801(4)	5,796(4)	5,702(4)	5,368(4)
Distribution of performance amount by LTV ratio (2)					
0%-60%	87%	87%	87%	87%	85%
61%-75%	13%	13%	13%	12%	14%
Over 75%	-(3)	-(3)	-(3)	1%	1%
Distribution of performance amounts by the payment to income (PTI) ratio in housing loans (2)					
Average PTI	28%	23%	23%	28%	33%
0%-40%	99%	96%(4)	95%(4)	90%	70%
Over 40%	1%	4%(4)	5%(4)	10%	30%
Of which: Percentage of performance with financing rates over 60%	-(3)	1%	1%	4%	8%
Distribution of number of agreements according to performance amount (NIS thousands):					
0-500	49%	59%	64%	68%	70%
500-1,000	35%	28%	24%	21%	21%
Over 1,000	16%	13%	12%	10%	9%
Average agreement amount	674	624(4)	599(4)	530(4)	500(4)
Loans in amounts exceeding NIS 2 million per loan:					
Number of loans	46	30	48	30	51
Total amount (NIS millions)	131	103	138	107	159

(1) New loans only (not including refinancing).
(2) The data are in accordance with Report 876 of the Banking Supervision Department.
(3) Represents an amount lower than 1%.
(4) Restated.

Presented below are details regarding various risk characteristics in the housing loans portfolio (NIS millions):

		Balance as of December 31, 2017						
		Loan age (time passed since the loan provision date) (1)						
Finance rate	**Rate of repayment from fixed income:**	**Up to 3 months**	**3 months to 1 year**	**1-2 years**	**2-5 years**	**5-10 years**	**10 years or more**	**Total**
Up to 45%	Up to 40%	144.7	455.7	396.9	834.5	394.7	96.6	2,323.1
	40%-50%	0.9	5.4	13.0	80.3	65.8	14.4	179.8
	50%-80%	2.8	15.3	6.6	53.9	81.3	20.5	180.4
	Over 80%	-	-	-	4.6	32.3	6.7	43.6
	Total	**148.4**	**476.4**	**416.5**	**973.3**	**574.1**	**138.2**	**2,726.9**
45%-60%	Up to 40%	133.0	348.1	373.5	806.6	696.1	221.7	2,579.0
	40%-50%	2.3	9.1	15.0	122.6	132.7	34.1	315.8
	50%-80%	4.0	8.3	5.1	65.7	136.5	36.7	256.3
	Over 80%	-	-	-	10.3	66.3	11.4	88.0
	Total	**139.3**	**365.5**	**393.6**	**1,005.2**	**1,031.6**	**303.9**	**3,239.1**
60%-75%	Up to 40%	26.8	122.7	114.4	262.8	292.5	89.1	908.3
	40%-50%	-	0.2	4.7	30.4	37.7	16.5	89.5
	50%-80%	-	0.1	1.4	27.7	54.6	12.7	96.5
	Over 80%	-	-	-	3.5	14.8	4.4	22.7
	Total	**26.8**	**123.0**	**120.5**	**324.4**	**399.6**	**122.7**	**1,117.0**
Over 75%	Up to 40%	3.5	12.4	33.9	29.4	29.2	32.5	140.9
	40%-50%	2.4	0.1	0.1	4.3	5.7	7.5	20.1
	50%-80%	-	-	1.1	3.0	10.0	5.9	20.0
	Over 80%	-	-	-	3.6	5.3	0.1	9.0
	Total	**5.9**	**12.5**	**35.1**	**40.3**	**50.2**	**46.0**	**190.0**
Other pledges	Up to 40%	-	-	-	0.6	0.3	1.1	2.0
	40%-50%	-	-	-	-	0.1	-	0.1
	50%-80%	-	-	-	-	2.8	-	2.8
	Over 80%	-	-	-	-	0.2	-	0.2
	Total	**-**	**-**	**-**	**0.6**	**3.4**	**1.1**	**5.1**
Total		**320.4**	**977.4**	**965.7**	**2,343.8**	**2,058.9**	**611.9**	**7,278.1**

(1) In case of refinancing, the age is counted from the date when the refinancing was implemented.

For additional details, see Note 30b3 to the financial statements.

Characteristics of the housing credit portfolio

The Bank's customers in the housing loans segment belong to population groups in the middle decile and higher. In general, the Bank prefers customers with a gross family income which is no less than the average income in the economy, and the acquisition of properties in municipalities with a high degree of property liquidity, where 50% of the credit is given for properties in the Gush Dan and Greater Jerusalem areas.

In the performance of housing loans in 2017, the payment to income ratio amounted to approximately 28%, as compared with 23% in 2016. In 2017, approximately 99% of the loans were given at a rate of return of up to 40% of income, and approximately 87% of the loans were given at a financing rate which does not exceed 60% of the asset value.

In 2017, approximately 3% of the total performance of housing credit (NIS 45 million) was given for a period exceeding 25 years, at a fixed interest rate, as compared with approximately 4% (NIS 42 million) in 2016.

The original loan period of 94.2% of the balance of the housing credit portfolio is less than 25 years. The Bank does not provide loans for periods greater than 30 years.

The balance of housing loans in arrears of over 90 days amounts to NIS 127.9 million, as compared with a balance of NIS 109.9 million as of December 31, 2016. For additional details, see the tale above regarding housing loans in arrears, in accordance with the annex to Proper Banking Management Directive 314.

For additional information regarding risks in the portfolio of housing loans, see the report regarding risks as of December 31, 2017, which is available on the Bank's website, and Note 30b3 to the financial statements.

Housing credit provision process:

The mortgage activity primarily includes the provision of housing loans against the pledging of residential apartments for residents of Israel, through various linkage bases and according to several different interest tracks, and for foreign residents, in primary currencies (mostly the USD, GBP and EUR).

The portfolio of housing loans include two types of loans: loans from the Bank's funds, and loans from government funds, and its liability to entitled individuals according to the Ministry of Construction & Housing (hereinafter: "Budget Loans") the balance of which amounted, as of December 31, 2017, to a total of approximately NIS 796 million. The Bank has no credit risk on the budget loans.

The process of preparing and approving credit regarding the pledging of residential apartments is a standard, structured process. Approval for the loan is given in the branch and/or is submitted to a more senior approving authority, in accordance with the hierarchy of authorities determined by the Bank’s Board of Directors.

The process requires the separation of roles (the credit officer is not entitled to approve the requests which he evaluates - this option is blocked by the IT system) such that even requests under the branch’s authority cannot be performed by a single senior position holder.

Requests which are beyond the authority of the branch manager are submitted to the underwriting center for approval. The underwriting center is responsible for re-evaluating the request, and for approving or rejecting it. If the credit request requires an authority higher than the underwriting center, the underwriting center formulates a recommendation and submits it for approval to a more senior figure (Division Manager, CEO or Credit Committees), in accordance with the relevant authority.

As part of the loan creation process, credit portfolios under mortgage activities are also evaluated by a central evaluation unit which evaluates the completeness of the portfolio after all required documents and securities have been received. This unit is subject to the back end operation unit in the resources division, thereby implementing managerial separation between the credit approval process and the submission of documents, and the evaluation thereof, prior to the implementation.

Risks in the portfolio of loans to private individuals without housing loans

Presented below is the balance of credit to private individuals (non-housing) in NIS millions:

	As of December 31	
	2017	**2016**
Consumer loans - solo	1,041.0	987.3
Other retail credit (1)(2)	99.6	136.6
Total, credit to private individuals (non-housing) (*)	**1,140.6**	**1,123.9**
* Of which, non-troubled	1,106.0	1,087.0
Troubled, under 90 days	10.5	10.6
Troubled, over 90 days	9.9	10.6
Impaired debts which accrue interest income	6.7	7.2
Impaired debts which do not accrue interest income	7.5	8.5
Total balance of credit to private individuals (non-housing)	**1,140.6**	**1,123.9**
Rate of credit classified as troubled out of total credit to private individuals (non-housing)	**3.0%**	**3.3%**
(1) Composition:		
Checking account balances in debt	15.7	18.5
Other (vehicle and credit cards) (2)	83.9	118.1
Total other retail credit	**99.6**	**136.6**

(2) Comparative figures were restated.

Presented below are data regarding the distribution of the balance of credit to private individuals (non-housing):

	December 31	
	2017	2016
	Proportion of total	
By remaining average loan period		
Up to 1 year	2%	2%
1 to 3 years	16%	19%
3 to 5 years	41%	33%
5 to 7 years	35%	39%
Over 7 years	3%	3%
Other	3%	4%
By extent of borrower's debt (NIS thousands)		
Up to 10	3%	3%
10 to 20	6%	7%
20 to 40	26%	26%
40 to 80	56%	54%
80 to 150	8%	8%
150 to 300	1%	1%
More than 300	0%	1%
By credit type		
Monthly spitzer amortization table at variable interest	98%	95%
Monthly spitzer amortization table at fixed interest	0%	0%
Loans whose terms allow the borrower to defer principal payments or to pay a payment which is lower than the accrued interest on the loan	1%	1%
Other	1%	4%
Collateral		
Financial assets at the Bank	1%	1%
Others	5%	7%
No collateral	94%	92%
Fixed income to the account		
Credit customers who do not maintain a checking account at the Bank with fixed income in the account	83%	80%
Credit customers who maintain a checking account at the Bank with fixed income in the account	17%	20%

Presented below are details of accounting write-offs with respect to credit to private individuals (non-housing) in NIS millions:

	For the year ended December 31	
	2017	2016
Accounting write-offs	47.8	41.3
Collection of debts which were written off in previous years	(10.4)	(9.8)
Total write-offs	**37.4**	**31.5**
Rate of net write-offs from the balance of credit at end of period	3.3%	2.8%

Presented below are data regarding average balances of credit risk* to private individuals (non-housing) for active checking account customers (NIS thousands):

	December 31	
	2017	2016
Average credit risk	19.8	20.7
Of which, approved checking balance	4.9	5.0
Rate of active checking customers in the Bank who have an approved facility out of the total customers in credit to private individuals (non-housing)	15%	16%

* Including debit balances and approved facilities which have not yet been used in checking accounts, credit cards and loans.

The scope of performance in other retail credit is immaterial, and therefore, most of the reference to the subject below, and the performance indicators, refer to solo consumer loans only.

Presented below is the development of the performance of solo consumer loans and key performance indicators:

	2017	2016	2015
Performance during the period (NIS millions)	625	634	687
Rate of the loan repayment ratio which was performed from the borrower's total income			
Repayment ratio up to 20%	95%	95%	97%
Repayment ratio above 20%	5%	5%	3%
Performance rate by original loan period			
Up to 6 years	100%	99.8%	99.6%
Over 6 years	0%	0.2%	0.4%
Average loan period (in years)	5.2	5.4	4.9
Performance rate by loan amounts (NIS thousands)			
Up to 50	61%	71%	75%
50 to 60	4%	6%	7%
60 to 70	5%	10%	7%
70 to 80	20%	7%	8%
Above NIS 80 thousand	10%	6%	3%
Average loan amount (NIS thousands)	48	40	42

Characteristics of the credit portfolio for the Bank's solo consumer loan customers

Solo consumer loans are given to private customers, residents of Israel who request to receive credit for any purpose, for a set period. Most of the credit is given to customers who manage their checking accounts in another bank, through digital channels, or through the Bank's branches. These customers are rated in accordance with the underwriting model on the date of provision of the loan at the Bank.

The activity is characterized by significant distribution of customers, each of whom was given credit in a relatively low amount, and therefore, the Bank has no significant dependence on any individual customer. In 2017, the underwriting model was updated in a manner which will allow increasing the exposure total to private customers up to NIS 150 thousand for borrowers whose risk profile permits it, according to the model.

These loans are given based on the prime interest rate, and are therefore exposed changes in the interest rate. However, the loan period, in general, is up to 6 years, while the average lifetime is 2.7 years (no early repayment assumption), and the monthly repayment amount is relatively low, and therefore, the customer's exposure to an increase in payments due to an interest rate increase is a relatively low risk.

Additionally, the absolute majority of solo consumer credit performance is characterized by a ratio of return on requested loans to total income of up to 20%. In accordance with the Bank's credit policy, the Bank is also evaluating the ratio between the total repayment of all of the customer's liabilities, and the customer's total income.

During the year, the Bank launched an initiative to sell consumer credit at retail points of sale, thereby providing solutions to customers who wish to purchase products with bank financing, by digital means. This process allows the Bank to expand its geographical distribution, while reaching an additional group of customers.

The balance of solo consumer loans for active checking account customers at the Bank, as of December 31, 2017, amounts to approximately NIS 145.7 million (approximately 15% of the balance of credit), as compared with a balance of NIS 160.8 million as of December 31, 2016 (approximately 17% of the balance of credit).

Credit provision process for solo consumer loans

The credit provision process for customers is implemented through one of the following channels: call center, website, points of sale or the Bank's branches.

The authorized entities at the Bank are authorized to approve solo consumer credit by evaluating the request using the credit underwriting system. The credit underwriting system includes the credit policy rules and the rating model, which are used to obtain a recommendation regarding credit approval.

Additionally, an evaluation of credit provision will be performed in accordance with the Bank’s policy, with an emphasis on the following rules:

- Understanding of the customer's credit requirements and repayment ability.
- Understanding and analysis of the customer's permanent source of income, the amount thereof, and of their total liabilities.
- Understanding and analysis of the customer's risk level, according to the rating group based on the rating model, the Bank's experience in activities with the customers, of any, and experience with the relevant customer segment.

When providing a solo consumer loan to new customers, some of the customers are requested to submit complete underwriting material, and with respect to some of the customers, the Bank suffices with the customer's declaration.

When providing loans to existing customers, the Bank relies, inter alia, on existing underwriting material, on its knowledge of the customer, and their declarations, and receives updates to the underwriting materials, if necessary.

The Bank has established rules regarding initiating contact for marketing and providing non-housing credit to retail customers, in accordance with the circular of the Bank of Israel from September 2015. The target markets who are contacted through initiating marketing include the Bank's current customers who meet the Bank's credit policy, as specified above.

In general, when contact is initiated for the provision of solo consumer loans, the risk indicators are evaluated. This evaluation is performed before contacting the customer, and subject to their fulfillment of certain criteria.

Supervision and followup regarding risk characteristics

As part of this activity, the risk is controlled and monitored in the Bank, and reports are given to management and Board of Directors on a routine basis, including:

- Reports regarding the findings of underwriting and credit management controls.
- Following and reporting regarding the rates of arrears and provisions from the activity.
- Reports regarding characteristics and trends in the credit portfolio and compliance with all of the restrictions which were determined in the credit policy.

Credit to finance the construction of real estate projects

The Bank provides credit to finance the construction of residential projects is through the closed accompaniment method, and provides guarantees of various types depending on the specific needs of each project, and in accordance with its characteristics. In the closed accompaniment method, the project is separated from the customer's other activities. A designated account is opened for the project, which is used for the purpose of that project only, to which are deposited the funds which are received from the buyers of residential units, as well as equity and the Bank's credit. These funds are used to perform the project and are released in accordance with the rate of progress on construction, in accordance with reports issued by an expert supervisor. As part of the financing of the construction project, the Bank also provides performance guarantees, monetary guarantees, and guarantees in accordance with the Sale Law to unit buyers in the project. The land and receipts are pledged in favor of the Bank. In most transactions, collateral in accordance with the Sale Law is issued by institutional entities with whom the Bank has a collaboration agreement.

The Bank collaborates with institutional entities in the provision of credit for the project in order to expand the scope of its activities and achieving profitable returns, while distributing credit risks and fulfilling the required regulatory restrictions.

As of December 31, 2017, the Bank manages approximately 225 projects, at a total scope of approximately 10,000 residential units.

The Bank finances the projects from the land acquisition stage through the various construction stages. As of December 31, 2017, credit which was given for projects in the land stage constitutes 43.8%, in terms of debt, of the Bank's real estate portfolio. It is noted that all of the credit in projects which are in the land stage is given to projects which are available for construction within 12 months.

In general, credit for financing of lands is given for lands whose expected construction period is no longer than 24 months from the land financing date.

As of December 31, 2017, credit which was given for projects in the Central region constitutes 63.7%, in terms of scopes of credit from the Bank's real estate portfolio, 13.4% in Greater Jerusalem, and 22.9% in the rest of the country.

The Bank manages, as of the end of 2017, approximately 235 projects, of which, in approximately 50 projects, the activity involves a collaboration with institutional entities.

The scope of managed portfolios is approximately NIS 6.4 billion, of which, approximately NIS 1 billion is for the Bank, and the remainder is for institutional entities.

For additional details, see the report regarding corporate governance and additional details in the chapter on operating segments.

Main exposures to foreign countries (1) NIS millions

Part A - Information regarding total exposures to foreign countries, and regarding exposures to countries where the total exposure amount to each of them is over 1% of total consolidated assets, or over 20% of capital, whichever is lower:

December 31, 2017							
Country	Balance sheet exposure (2)				Off-balance sheet exposure (2)(3)	Balance sheet exposure above the limit (2)	
	To governments (4)	To banks	To others (7)	Total balance sheet exposure (8)	Total off-balance sheet exposure (8)	Maturity up to 1 year	Maturity over 1 year
United States	110.4	5.7	189.6	305.7	4.8	48.0	257.7
Others	8.3	18.4	148.9	175.6	6.9	42.2	133.4
Total exposures to foreign countries	**118.7**	**24.1**	**338.5**	**481.3**	**11.7**	**90.2**	**391.1**
Of which: Total exposures to LDC countries (5)	**-**	**-**	**3.3**	**3.3**	**-**	**-**	**3.3**
Of which: Total exposures to GIIPS countries (6)	**-**	**-**	**3.8**	**3.8**	**-**	**-**	**3.8**

December 31, 2016							
Country	Balance sheet exposure (2)				Off-balance sheet exposure (2)(3)	Balance sheet exposure above the limit (2)	
	To governments (4)	To banks	To others (7)	Total balance sheet exposure (8)	Total off-balance sheet exposure (8)	Maturity up to 1 year	Maturity over 1 year
United States	149.2	14.7	194.3	358.2	-	67.3	290.9
Others	110.0	13.1	165.4	288.5	5.3	136.6	151.9
Total exposures to foreign countries	**259.2**	**27.8**	**359.7**	**646.7**	**5.3**	**203.9**	**442.8**
Of which: Total exposures to LDC countries (5)	**-**	**-**	**4.5**	**4.5**	**-**	**-**	**4.5**
Of which: Total exposures to GIIPS countries (6)	**-**	**-**	**3.4**	**3.4**	**-**	**-**	**3.4**

(1) Based on final risk, after the impact of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk, as well as troubled credit and impaired debts risk, are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.
(4) Governments, institutions, officials and central banks.
(5) The exposure to LDC's (less developed countries) includes Liberia only.
(6) Exposure to the GIIPS countries, including Portugal, Ireland, Italy, Greece and Spain.
(7) Includes housing loans.
(8) There is no balance sheet or off-balance sheet troubled credit, and there are no impaired debts in the exposures to foreign countries.

Part B - Information regarding countries where the total exposure to each of them is between 0.75% and 1% of total consolidated assets, or between 15% to 20% of capital, is immaterial.

Part C - The balance sheet exposure to foreign countries with liquidity problems for the reporting periods is immaterial.

Credit exposures (1)(2) to foreign financial institutions (3) in NIS millions

External credit rating (2)	As of December 31 2017	As of December 31 2016
AAA to AA-	17	26
A+ to A-	20	13
BBB+ to BBB-	34	25
Unrated	10	2
Total exposure	**81**	**66**

(1) Deposits and checking account balances in foreign financial institutions, the Bank has no off-balance sheet credit risks.
(2) There are no financial institutions which are classified as debt which is impaired, subordinate or subject to special supervision, and there is no provision for credit losses.
(3) Foreign financial institutions include banks, holding companies of banks, investment banks and brokers.
(4) According to the rating company S&P.
The balances presented in the above table primarily include institutions operating in the United States, Canada, Belgium and Switzerland.

The Bank established restrictions on the maximum permitted exposure to foreign financial institutions, and conducts routine monitoring of the stability of such entities, based on the rating of the companies and other market data which indicate their economic situation.

Exposure to environmental risks

The Bank's current activities focus on borrowers from the retail segment, which have a low exposure to environmental risks. As a result, the Bank's exposure to this risk is insignificant. The Bank's credit provision activities in the real estate, construction and commercial segments for corporations and individuals does not expose the Bank to any significant environmental risk, inter alia, in light of the Bank's avoidance of the provision of credit in segments which are prone to environmental pollution, and the receipt of appropriate approvals before providing credit in the real estate sector.

Clearing risks and counterparty risks

Clearing risk is the risk that a counterparty to an agreement will not fulfill its part, and will not transfer to the Bank, on the specified date, the required amount at the time of the clearing of the transaction. The exposure to clearing risk is in the short term, and is generally intra-daily.

The main source for the Bank's exposure to settlement risks is the clearing of derivative transactions (OTC). The Bank does not operate vis-à-vis its customers with OTC derivatives, but rather with derivative instruments which are traded on various stock exchanges, including minimum settlement risk. The Bank is exposed to settlement risks in its activities on its own behalf, although the scope of these activities is immaterial. Additionally, the Bank is exposed to settlement risks due to the trading of foreign securities, which is performed vis-à-vis brokers by means of non-DVP (non delivery versus payment) settlement processes. The scope of these transactions is relatively low.

Most of the Bank's exposures to counterparty risk materialize vis-à-vis banks in Israel and abroad, and vis-à-vis recognized foreign financial institutions, with respect to the settlement of derivative transactions (OTC), and vis-à-vis brokers and providers of custodian service for securities, with respect to the settling of transactions with foreign securities. The framework for activities with these institutions is approved at least once per year by the Bank's Board of Directors, as part of the credit facilities of those institutions. During the year, no settlement risks or counterparty risks materialized for the Bank.

Risk mitigation - the Bank signed ISDA agreements and CSA annexes vis-à-vis most of the banks with which activities with derivatives are performed. This allows offsetting of the transactions, in a manner whereby the amount transferred between the parties to the transaction amounts to the net exposure amount, thereby decreasing the exposure of each of the parties. The CSA annexes regulate monetary transfers between the parties to the transaction, insofar as the exposure amounts to a certain predetermined scope, thereby reducing the exposure to the counterparty.

3.2. Market risk

Market risk is the risk of loss or impairment due to changes in the economic value of a financial instrument or a certain portfolio or a group of portfolios, and on the overall level, includes changes to the Bank's economic value, due to changes in prices, rates, margins and other market parameters.

This risk group includes several specific types of risks, which are specified below and are managed by the Bank in a similar fashion, based on frameworks, policies and restrictions as determined by the Board of Directors.

For an extensive description of the work system regarding the management and control of market risks, see the risks report - disclosure in accordance with Pillar 3, and additional information regarding risks.

VaR

The Bank also quantifies market risks according to the Value at Risk (VaR) methodology.

The VaR estimates the maximum loss which the Bank is expected to incur in case of the realization of market risks during a given time period, and according to a predetermined statistical confidence level, according to previously observed market conditions. The calculation is performed in the Bank once per month, for a holding period of 10 days, and with a significance level of 99%. The Bank measures its overall risk using the VaR of the total banking portfolio, and the risk exposure of its trading portfolio, using this system. In addition to management and control using the VaR model, the Bank also uses other models for the quantification of risks.

Risk measured by VaR refers to the potential damage from the holding of balance sheet and off-balance sheet positions, including the positions of the trading portfolio which are exposed to market risks.

The Bank performs a back testing process with respect to the VaR results. The back testing results during the year were adjusted according to the original VaR calculations.

Presented below is an estimate of VaR:

	Estimated VaR for the year ended			
	December 31, 2017		December 31, 2016	
	End of reporting period	Maximum value During the year	End of reporting period	Maximum value During the year
	NIS millions			
Actual exposure	8.4	10.4	7.9	8.9
The Bank's restriction	18.0	18.0	18.0	20.0

Risk hedging and/or mitigation policy

The Bank's financial risk management policy is based on the management of its exposures to market and liquidity risks, by determining quantitative restrictions which correspond to the Bank's risk appetite. The measures which are used to comply with the restrictions include, inter alia, buying and selling marketable securities (primarily bonds of the Government of Israel), raising non-marketable deposits (from private and institutional customers), raising marketable deposits and activities with derivative financial instruments.

Interest rate risk

Interest rate risk is due to the difference between the sensitivity of assets to changes in interest rates and the same sensitivity of the liabilities which is due to the difference between repayment dates and the interest change dates of the assets and liabilities in each segment. These changes may harm profitability and/or may result in erosion of the Bank's profitability. The Bank's activities as a financial intermediary creates exposure to this risk, and the Bank manages the exposure on an ongoing basis. The bank's main exposure is in the unlinked and CPI-linked segments, since a significant part of the assets and liabilities in those segments are at fixed interest with relatively long terms.

The Bank monitors conventional indicators for the measurement of interest rate risk of loans against deposits, with the aim of adjusting the effect of a possible change in interest rates on the value of its net financial cash flow to the Bank's risk appetite. These tools include the measurement of differences in average lifetime, quantification by means of the VaR model, and estimation of exposure in various scenarios. The Bank also monitors the scope of early repayments on loans, which have a significant impact on the effective average lifetime.

The Bank's policy in its management of interest rate risk is determined in consideration of expectations regarding developments in various interest rates, while evaluating costs to reduce the exposure to this risk, in consideration of the estimated early repayment rate of the loans, and their influencing factors. The estimated early repayment rate is prepared based on historical data and on the Bank's assumptions regarding several factors which affect this rate, primarily the interest rate. The assumption regarding the early repayment of the loans is used in the CPI-linked segment to calculate the gaps in average lifetime and the exposure to interest rate risk.

According to the Bank's estimate, in consideration of the scope of early repayments in recent years, and of the exposures in all linkage segments, the exposure to risk as a result of an unexpected change of 1 percentage point in the interest rates is low relative to the Bank's discounted net cash flow. This estimate of the Bank constitutes "forward looking information", which may be realized differently from the forecast, in light of the fact that it is based on the scope of early repayments in past years, and the exposures in all of the linkage segments, and it is possible that the actual scope of repayments in the future will be different.

Presented below is information regarding the effects of hypothetical changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated companies (NIS millions):

A. Fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items (before hypothetical changes in interest rates):

	As of December 31, 2017				
	Israeli currency		Foreign currency (2)		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets (1)	8,775.5	3,209.1	842.6	292.2	13,119.4
Amounts receivable with respect to derivative financial instruments (3)	308.8	-	191.6	66.5	566.9
Financial liabilities	8,246.7	3,147.7	950.0	329.4	12,673.8
Amounts payable with respect to derivative financial instruments (3)	136.6	281.0	111.7	38.7	568.0
Fair value, net	701.0	(219.6)	(27.5)	(9.4)	444.5

	As of December 31, 2016				
	Israeli currency		Foreign currency (2)		
	Unlinked	CPI-linked	USD	Other	Total
Financial assets (1)	8,881.7	3,340.2	1,147.8	356.3	13,726.0
Amounts receivable with respect to derivative financial instruments (3)	142.4	-	196.2	60.9	399.5
Financial liabilities	8,377.1	3,302.4	1,199.6	372.3	13,251.4
Amounts payable with respect to derivative financial instruments (3)	162.5	50.0	139.3	43.3	395.1
Fair value, net	484.5	(12.2)	5.1	1.6	479.0

B. Impact of hypothetical changes in the interest rates on the fair value of the financial instruments of the Bank and its consolidated companies, excluding non-monetary items:

As of December 31, 2017						
	Net fair value of financial instruments, after impact of changes in interest rates (NIS millions)				Change in fair value	
	Israeli currency		Foreign currency [(2)]		NIS millions	In percent
Change in interest rates	Unlinked	CPI-linked	USD	Other	Total	Total
Corresponding immediate increase of one percent	719.3	(229.6)	(29.3)	(11.4)	4.5	1.01%
Corresponding immediate increase of 0.1 percent	702.9	(220.7)	(27.6)	(9.7)	0.4	0.09%
Corresponding immediate decrease of one percent	682.2	(207.0)	(25.4)	(7.4)	(2.1)	(0.47%)

As of December 31, 2016 (4)						
	Net fair value of financial instruments, after impact of changes in interest rates (NIS millions)				Change in fair value	
	Israeli currency		Foreign currency [(2)]		NIS millions	In percent
Change in interest rates	Unlinked	CPI-linked	USD	Other	Total	Total
Corresponding immediate increase of one percentage point	483.1	(20.6)	5.3	(0.5)	(11.8)	(2.46%)
Corresponding immediate increase of 0.1 percent	484.3	(13.1)	5.1	1.4	(1.3)	(0.27%)
Corresponding immediate decrease of one percentage point	487.7	(2.2)	4.4	3.9	14.8	3.09%

(1) Not including balance sheet balances of derivative financial instruments and the fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (payable) with respect to derivative financial instruments and with respect to off-balance sheet financial instruments, discounted by interest rates which were used to calculate fair value.
(4) Restated.

C. Presented below is the summary of unexpected changes in interest (NIS millions):

	Potential change in economic value - Profit (loss)				Potential change in annual profit - profit (loss)	
	As of December 31					
	2017		2016 [(3)]		2017	2016(3)
Impact of corresponding immediate change in yield curve	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%	Increase of 1%	Increase of 1%
Segment						
Unlinked	18.3	(18.8)	(1.5)	3.2	34.7	21.6
Linked	(10.0)	12.6	(8.4)	10	(6.6)	(3.9)
Foreign currency [(1)]	(3.8)	4.1	(1.9)	1.6	3.2	7.4
Total	**4.5**	**(2.1)**	**(11.8)**	**14.8**	**31.2**	**25.1**
Restriction	(40)	20	(40)	20	40	30
Maximum during the period	4.5	23.6	10.9	14.8	37.5	28.7
Minimum during the period	(20.1)	(2.1)	(19.6)	(10.6)	22.7	16.2

(1) Including Israeli currency linked to foreign currency.
(2) The exposure calculations include various behavioral assumptions regarding the repayment periods of assets and liabilities, according to past experience. The Bank considers some of the checking account balances as long term liabilities. There are also assumptions regarding early mortgage repayments. These assumption have great importance in terms of the results of the exposure.
(3) Restated.

For additional details, see the report regarding risks on the Bank's website.

Exposure of the Bank and its consolidated companies to changes in interest rates

	December 31, 2017					
	On demand Up to one month	Over one month Up to 3 months	Over 3 months Up to one year	Over one year Up to 3 Years	Over 3 Years Up to 5 Years	Over 5 years Up to 10 years
	NIS millions					
Unlinked Israeli currency						
Financial assets	6,222.8	203.2	1,355.0	497.8	273.2	135.3
Derivative financial instruments (excluding options)	4.3	30.1	123.9	149.4	-	-
Total fair value	**6,227.1**	**233.3**	**1,478.9**	**647.2**	**273.2**	**135.3**
Financial liabilities	(4,446.3)	(466.1)	(831.4)	(1,663.7)	(828.5)	(8.5)
Derivative financial instruments (excluding options)	(135.8)	-	(0.8)	-	-	-
Total fair value	**(4,582.1)**	**(466.1)**	**(832.2)**	**(1,663.7)**	**(828.5)**	**(8.5)**
Financial instruments, net						
Exposure to interest rate changes in the segment	1,645.0	(232.8)	646.7	(1,016.5)	(555.3)	126.8
Cumulative exposure in the segment	**1,645.0**	**1,412.2**	**2,058.9**	**1,042.4**	**487.1**	**613.9**
CPI-linked Israeli currency						
Financial assets	28.5	184.0	641.3	899.9	785.6	349.5
Derivative financial instruments (excluding options)	-	-	-	-	-	-
Total fair value	**28.5**	**184.0**	**641.3**	**899.9**	**785.6**	**349.5**
Financial liabilities	(233.2)	(322.7)	(589.3)	(695.2)	(933.3)	(373.2)
Derivative financial instruments (excluding options)	-	(30.1)	(100.4)	(150.5)	-	-
Total fair value	**(233.2)**	**(352.8)**	**(689.7)**	**(845.7)**	**(933.3)**	**(373.2)**
Financial instruments, net						
Exposure to interest rate changes in the segment	(204.7)	(168.8)	(48.4)	54.2	(147.7)	(23.7)
Cumulative exposure in the segment	**(204.7)**	**(373.5)**	**(421.9)**	**(367.7)**	**(515.4)**	**(539.1)**
Foreign currency (2)						
Financial assets	651.3	15.8	87.8	252.2	104.1	23.6
Derivative financial instruments (excluding options)	258.1	-	-	-	-	-
Total fair value	**909.4**	**15.8**	**87.8**	**252.2**	**104.1**	**23.6**
Financial liabilities	(646.8)	(160.5)	(454.0)	(17.6)	-	(0.5)
Derivative financial instruments (excluding options)	(126.1)	(0.1)	(24.1)	(0.1)	-	-
Total fair value	**(772.9)**	**(160.6)**	**(478.1)**	**(17.7)**	**-**	**(0.5)**
Financial instruments, net						
Exposure to interest rate changes in the segment	136.5	(144.8)	(390.3)	234.5	104.1	23.1
Cumulative exposure in the segment	**136.5**	**(8.3)**	**(398.6)**	**(164.1)**	**(60.0)**	**(36.9)**
Total exposure to changes in interest rates						
Total assets	6,902.6	403.0	2,084.1	1,649.9	1,162.9	508.4
Derivative financial instruments (excluding options)	262.4	30.1	123.9	149.4	-	-
Total fair value	**7,165.0**	**433.1**	**2,208.0**	**1,799.3**	**1,162.9**	**508.4**
Total liabilities	(5,326.3)	(949.3)	(1,874.7)	(2,376.5)	(1,761.8)	(382.2)
Derivative financial instruments (excluding options)	(261.9)	(30.2)	(125.3)	(150.6)	-	-
Total fair value	**(5,588.2)**	**(979.5)**	**(2,000.0)**	**(2,527.1)**	**(1,761.8)**	**(382.2)**
Financial instruments, net						
Exposure to interest rate changes in the segment	**1,576.8**	**(546.4)**	**208.0**	**(727.8)**	**(598.9)**	**126.2**
Cumulative exposure in the segment	**1,576.8**	**1,030.4**	**1,238.4**	**510.6**	**(88.3)**	**37.9**

Exposure of the Bank and its consolidated companies to changes in interest rates

		December 31, 2017				December 31, 2016		
Over 10 years Up to 20 years	Over 20 years	No repayment period [1]	Total	Internal rate of return	Average lifetime	Total	Internal rate of return	Average lifetime
NIS millions				%	Years		%	Years
80.0	4.9	3.3	8,775.5	3.98	0.58	8,881.7	3.82	0.86
-	1.1	-	308.8		1.22	142.4	-	0.50
80.0	**6.0**	**3.3**	**9,084.3**	**3.98**	**0.60**	**9,024.1**	**3.82**	**0.86**
(2.2)	-	-	(8,246.7)	0.60	0.80	(8,377.1)	0.55	0.42
-	-	-	(136.6)	-	0.09	(162.5)	-	0.09
(2.2)	**-**	**-**	**(8,383.3)**	**0.60**	**0.79**	**(8,539.6)**	**0.55**	**0.42**
77.8	6.0	3.3	701.0	3.38	(0.19)	484.5	3.27	0.44
691.7	**697.7**	**701.0**	**701.0**			**484.5**		
279.6	40.7	-	3,209.1	4.70	3.77	3,340.2	4.48	3.02
-	-	-	-		-	-	-	-
279.6	**40.7**	**-**	**3,209.1**	**4.70**	**3.77**	**3,340.2**	**4.48**	**3.02**
(0.8)	-	-	(3,147.7)	1.03	2.62	(3,302.4)	1.17	2.00
-	-	-	(281.0)		0.83	(50.0)	-	1.00
(0.8)	**-**	**-**	**(3,428.7)**	**1.03**	**2.47**	**(3,352.4)**	**1.17**	**1.98**
278.8	40.7	-	(219.6)	3.67	1.30	(12.2)	3.30	1.03
(260.3)	**(219.6)**	**(219.6)**	**(219.6)**			**(12.2)**		
-	-	-	1,134.8	3.25	0.91	1,504.1	2.80	1.19
-	-	-	258.1	-	0.08	257.1	-	0.21
-	**-**	**-**	**1,392.9**	**3.25**	**0.76**	**1,761.2**	**2.80**	**1.04**
-	-	-	(1,279.4)	0.66	0.22	(1,571.9)	0.55	0.24
-	-	-	(150.4)	-	0.16	(182.6)	-	0.28
-	**-**	**-**	**(1,429.8)**	**0.66**	**0.21**	**(1,754.5)**	**0.55**	**0.24**
-	-	-	(36.9)	2.59	0.55	6.7	2.25	0.80
(36.9)	**(36.9)**	**(36.9)**	**(36.9)**			**6.7**		
359.6	45.6	3.3	13,119.4	4.09	1.39	13,726.0	3.87	1.42
-	1.1	-	566.9		0.70	399.5	-	0.32
359.6	**46.7**	**3.3**	**13,686.3**	**4.09**	**1.36**	**14,125.5**	**3.87**	**1.39**
(3.0)	-	-	(12,673.8)	0.71	1.19	(13,251.4)	0.70	0.79
-	-	-	(568.0)		0.48	(395.1)	-	0.30
(3.0)	**-**	**-**	**(13,241.8)**	**0.71**	**1.16**	**(13,646.5)**	**0.70**	**0.78**
356.6	**46.7**	**3.3**	**444.5**	**3.38**	**0.20**	**479.0**	**3.16**	**0.61**
394.5	**441.2**	**444.5**	**444.5**			**479.0**		

(1) Balance-sheet balances are presented under the column "no repayment period".
(2) Local operations, including Israeli currency linked to foreign currency.

Notes

A. Additional details regarding the exposure to changes in interest rates in each segment, by the various balance sheet items, will be submitted upon request.

B. In this table, the periodic data demonstrate the present value of future flows of each financial instrument, discounted by interest rates which reduce them to the fair value included with respect to the financial instrument in Note 21 to the financial statements, in a manner which is consistent with the assumptions which were used to calculate the fair value of the financial instrument.

C. The internal rate of return is the interest rate which deducts the expected cash flows from the financial instrument to the fair value which is included for it in Note 21 to the financial statements.

D. The effective average lifetime of a group of financial instruments constitutes an approximation of a change in percent in the fair value which will be caused as a result of a small change in the internal rate of return of each of the financial instruments.

Presented below is the average lifetime (interest lifetime) of assets and liabilities (in years):

	As of December 31, 2017			As of December 31, 2016		
	Unlinked	Linked	Foreign currency and linked to foreign currency	Unlinked	Linked	Foreign currency and linked to foreign currency
Average lifetime of assets (1)	0.60	3.77	0.76	0.85	3.02	1.04
Average lifetime of liabilities (1)	0.79	2.47	0.21	0.42	1.98	0.24
Average lifetime gap in years	(0.19)	1.30	0.55	0.44	1.03	0.80
Collaboration difference (%)	3.38	3.67	2.59	3.27	3.30	2.25

(1) Includes future transactions and options, and based on the fair value data of the financial instruments. In total, with respect to the assets and liabilities, the gap in average lifetime is 0.19% years, and in collaborations - 3.27%.

Exchange rate risk and inflation risk

The exposure to basis risk, as reflected in loss which may be incurred, by changes in the CPI and in the exchange rate. The Bank's policy is to manage the risks from the base exposure in a controlled manner, and in accordance with developments in the financial markets.

As part of the management of market risks, the Bank manages, on an ongoing basis, its positions in the various linkage segments, through the variety of financial instruments which are available to it, in consideration of changes which occur in relevant economic figures, and routine monitoring of the risks which are due to this exposure. The restrictions were determined while retaining the Bank's flexibility and its ability to change the various positions in a short period, in accordance with economic forecasts. In order to restrict the exposure to this risk, the Bank's Board of Directors determined the maximum rates of exposure in each linkage segment.

Presented below are the restrictions on the exposure rates of each linkage segment, as determined by the Board of Directors (which is not necessarily the exposure that affects profit and loss). Restrictions are on the surplus (deficit) amounts of the assets on the liabilities in each segment:

	As of December 31, 2017				
	Approved restriction (1)		Approved restriction		Actual exposure
	In percent of financial capital (2)		NIS millions		
	Maximum	Minimum	Maximum	Minimum	
Unlinked	125	50	843	337	891
Linkage to index (3)	50	(25)	337	(168)	(223)
In foreign currency and linked to foreign currency	5.2	(5.2)	35	(35)	16

(1) The restrictions were updated by the Board of Directors in December 2015.
(2) Financial capital is equity less consolidated non-monetary assets (as of December 31, 2017 - NIS 674 million).
(3) Not including savings plans with an NIS minimum limit, which, as of December 31, 2017, amounts to approximately NIS 303 million (the approved restriction including savings plans with an NIS minimum limit is 100%, approximately NIS 674 million, while the actual exposure is NIS 80 million.
The exception which existed in this segment, as of December 31, 2017, was closed on January 1, 2018. Additionally, there is no exception in the overall measurement of savings plans with NIS minimum limits.

The Bank measures its positions in the various linkage bases every day by means of its information system. This information is reported to the units which are responsible for management of the position and adjusting it to the applicable restrictions. The information regarding the reported amount of the positions is routinely reported in the meetings of the assets and liabilities management committee, and in the meetings of other forums which are engaged in risk management.

For additional details regarding the various linkage bases, see Note 31 to the financial statements.

Presented below is a summary of the Bank's linkage bases as of December 31, 2017:

	Israeli currency		Foreign currency			
	Unlinked	**CPI-linked**	**US Dollar**	**Other**	**Non-monetary items**	**Total**
Assets	8,962.5	3,152.3	870.0	301.7	268.7	13,555.2
Liabilities	8,243.0	3,096.1	872.7	390.1	116.0	12,717.9
Derivative instruments	171.9	(279.0)	13.8	93.3	-	-
Total general	**891.4**	**(222.8)**	**11.1**	**4.9**	**152.7**	**837.3**

Presented below are data regarding the effect on the Bank's capital, before tax effect, due to theoretical changes in the consumer price index (NIS millions):

Scenario	Impact of the scenario As of December 31, 2017	Maximum positive impact of the scenario in 2017 (1)	Maximum negative impact of the scenario in 2017 (1)
CPI increase of 3% (2)	(4.3)	10.8	(5.6)
CPI increase of 3% (3)	(9.5)	-	(25.7)

(1) Measured according to the CPI publication date in the months January to December 2017.
(2) Includes the impact of savings plans with a CPI linkage minimum limit, which, as of December 31, 2017, is higher than the actual CPI by a total of approximately NIS 303 million.
(3) Includes the effects of savings plans with a CPI linkage minimum limit which, as of December 31, 2017, was lower than the actual CPI by a total of approximately NIS 639 million.

Presented below are details regarding the sensitivity of the Bank's capital to changes in currency rates, in millions of NIS (the theoretical change in economic value as a result of the scenario, where the scenario involving an increase means an increase of the relevant currency relative to the NIS):

	As of December 31, 2017		Maximum for 2017		Minimum for 2017	
Scenario	USD	Other	USD	Other	USD	Other
Increase of 10%	1.1	0.5	1.9	1.0	(1.3)	0.1
Decrease of 10%	(1.1)	(0.5)	1.3	(0.1)	(1.9)	(1.0)

As part of the Bank's overall strategy regarding the management of exposure to market risks, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to these risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions and forward foreign currency contracts.

Transactions with derivative financial instruments are recorded at fair value, and changes in fair value are routinely recorded in the statement of income. Additionally, the Bank engages in independent contracts which do in themselves constitute derivative instruments, but which do contain embedded derivatives. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. Inter-currency exposure is managed under a limited framework, and subject to the restrictions which were approved by the Bank's Board of Directors.

For additional details, see Note 31 to the financial statements.

The Bank manages the position in foreign currency on an ongoing basis. The Bank's Board of Directors established restrictions on the surplus (deficit) amounts of assets on liabilities. The Bank only operates with the major currencies, and in scopes which are proportional to financial capital. Calculation of the surplus (deficit) includes the impact of derivatives.

Stock price risk

As part of the policy regarding financial risks (market risks), the Bank's Board of Directors determined a limited framework of NIS 40 million for investment in ETF's and stocks in the trading portfolio and in the available for sale portfolio (there is no framework for the acquisition of stocks in the banking portfolio). The balance of the investment in stocks and ETF's as of December 31, 2017 (in the trading portfolio and in the available portfolio), amounted to NIS 1.7 million, as compared with NIS 6.1 million as of December 31, 2016.

3.3. Liquidity and Financial Risk

Liquidity risk

"Liquidity" is defined as a corporation's ability to finance an increase in assets, and its ability to service its liabilities. Liquidity risk is the risk of harm to capital and to the stability thereof, due to the inability to meet liquidity requirements, as a result of uncertainty regarding the availability of sources and the ability to raise them, unexpectedly within a short period of time, without incurring significant losses, and the ability to realize assets in a limited time period, and at a reasonable price. The exposure is due to the provision of long-term loans (even if these were given at variable interest) which are financed by short-term deposits.

The Bank is exposed to liquidity risk and to the concern of a deterioration in the ability to raise marketable or institutional debt due to changes on the market, legislative changes and/or changes in the preferences of depositors. In order to deal with this risk, the Bank has implemented, for several years, a policy of expanding the depositor base and reducing its reliance on large depositors, while particularly focusing on raising deposits from households. Additionally, an emphasis is placed on maintaining a high level of liquidity, as reflected in the scope of available liquid assets, and in small flow gaps between the repayment of assets to the liabilities. The characteristics of the credit and the depositors, early repayment rates in the various linkage segments and the cycles of short term deposits, have a significant impact on the estimated exposure to this risk.

For details regarding public deposits, see Note 19 to the financial statements.

Minimum liquidity ratio

The Bank evaluates its liquidity position on a daily basis, using the minimum liquidity ratio model, which is, as stated above, the ratio between the liquidity cushion and the potential net outgoing flow in an extreme scenario. For the purpose of implementing the model, the Bank has collected, and continues to collect, data regarding the rate of early repayments, regarding the timing thereof, and regarding the turnover rate of deposits and savings. The minimum liquidity ratio is evaluated according to four scenarios: an ordinary business scenario, a specific "stress" scenario for the Bank, a systemic "stress" scenario and a combined scenario including both stress specific to the Bank and systemic stress. The various scenarios are differentiated from one another primarily by the refinancing rate of deposits, and by the ability to realize liquid assets. The results of the minimum liquidity ratio differ from the results of the liquidity coverage ratio, primarily due to assumptions regarding the sum of deposits from private customer which are significantly more conservative than the assumptions which are required under Proper Banking Management Directive 221, regarding the liquidity coverage ratio. The minimum liquidity ratio, according to the aforementioned scenarios, was 157% as of December 31, 2017.

Liquidity coverage ratio (LCR)

On September 28, 2014, as part of its preparations for the implementation of Basel III, the Banking Supervision Department published Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio (LCR).

The liquidity coverage ratio includes two components:

- Value of high quality liquid assets (HQLA) in extreme circumstances (numerator).
- Total net outgoing cash flows during the coming 30 calendar days (denominator).

According to the directive, except in case of financial stress, the ratio's value will not fall below 100%. In other words, the inventory of high quality liquid assets must equal, at a minimum, the total net outgoing cash flows on a routine basis.

A banking corporation is required to fulfill the aforementioned ratio beginning on January 1, 2017; however, banking corporations which fulfill the requirement regarding the aforementioned ratio as of the application date of the directive, April 1, 2015, may not fall below the threshold which was determined in the directive.

The Bank fulfills the liquidity ratio specified in the directive.

Below is the liquidity coverage ratio, which is presented in terms of simple averages of daily observations during the reported quarter:

	For the three months ended	
	December 31 2017	December 31 2016
	In percent	
Liquidity coverage ratio	243	458
Minimum liquidity coverage ratio required by the Commissioner of Banks	100	100

In the Bank's assessment, in consideration of the deposit refinancing rates in recent years, the exposure to the aforementioned risk is not high, inter alia, because the Bank diversifies its financing sources, ensures to expand the depositor base and to reduce its reliance on large depositors. The Bank also ensures to maintain a sufficient liquidity cushion, as reflected in the fact that the liquidity ratios are higher than the required ratios.

As of the reporting date, the balance of total public deposits of the three largest depositor groups amounts to approximately NIS 493 million (which constitutes approximately 4.7% of total deposits in the bank), as compared with NIS 528 million as of December 31, 2016.

Net stable funding ratio (NSFR)

The Bank also monitors its long term liquidity using the (net) stable funding ratio (NSFR) model, as specified in Basel III, and in accordance with Proper Banking Management Directive 342. The net stable funding ratio as of December 31, 2017 was 116%.

Short-long ratio

The Bank's balance sheet structure includes long uses. Approximately 74% of the credit portfolio is housing credit characterized by long periods to maturity. On the other hand, the period to maturity of the sources is shorter. As of the reporting date, the gap in the average lifetime between monetary assets and liabilities, according to the amortization schedules, is approximately 3 years. However, this gap does not take into account behavioral components, such as early repayments and effective average lifetime of sources, which significantly reduce the risk.

As part of risk management, the bank's policy places an emphasis on raising sources from households. Approximately 79% of the Bank's public deposits are from private individuals, while approximately 54% of public deposits are in the amount of up to NIS 1 million.

The Bank manages the average lifetime gap between its assets and liabilities on an ongoing basis, using designated models to quantify the scope of the exposure. For the purpose of short / long risk management, the Bank's Board of Directors has determined several restrictions, including:

Maximum limit for the required raising scopes during the next three years, a restriction on the maximum loss in a scenario involving an increase in the price of deposits, a minimum limit with respect to deposits from households out of total deposits, etc.

Financial risk

The Bank has established for itself a long term policy of expanding the raising of sources, while maintaining the weight of the sources from households out of total public deposits, and maintaining the ability to raise sources from institutional customers. The raising of long term deposits was performed with reference to the scope of performance of long term new credit. Additionally, the Bank, through the subsidiary Jerusalem Finance & Issuance Ltd., raises deposits according to the Bank's raising needs and deferred liability notes, in accordance with its capital needs.

The Bank strives to achieve the targets through variety in the mix of products and adjusting it to the needs of customers and to the changing market conditions. The Bank also conducts sales campaigns for depositing customers, through advertising in various media and direct mailing to existing and potential customers. The Bank also offers banking services in a closed system which allows the raising of funds from customers of all banks, as specified below.

The Bank is able to receive a loan overnight from the Bank of Israel in case of an emergency. The Bank also has the option, through swap transactions, to convert liquidity from foreign currency to Israeli Shekels, and vice versa.

The Bank routinely evaluates its ability to rely on each active source, and acts in accordance with such evaluations. An in-depth evaluation of the availability of financing sources is conducted once per year, within the framework of the preparation for the discussion regarding the risk management policy.

Presented below are details regarding pledges on cash and securities:

	December 31, 2017		
	Book value	Pledged as collateral	Non-pledged
	In millions of NIS		
Cash and deposits in banks	2,659.0	15.0	2,644.0
Securities	858.3	175.6	682.7

	December 31, 2016		
	Book value	Pledged as collateral	Non-pledged
	In millions of NIS		
Cash and deposits in banks	2,522.0	19.1	2,502.9
Securities	1,434.5	313.4	1,121.1

The properties which were pledged as collateral were pledged in favor of the clearing houses of the stock exchange and the Maof.

For details regarding the pledges, see Note 27 to the financial statements.

For additional details regarding financial risk, see the report regarding risks on the Bank's website.

3.4. Operational risk

Operational risk is defined as the risk of loss due to the inadequacy or failure of internal processes, people, systems, or external events, The definition of operational risk includes legal risks, but does not include strategic risks or reputation risks. The operational risks are embodied in all of the various banking activities, and are inherent in all of the Bank's work processes. The Bank is engaged in a variety of financial activities, and is exposed to operational risks, including, inter alia, embezzlement and fraud risks, information technology risks, business continuity risks, and information security risks. Operational risk creates implications on other risks, such as credit risks and market risks.

Operational risk factors

The material operational risks faced by the Bank are risks faced by any financial entity. In recent years, external risks have increased, primarily in terms of cyber risks, and the Bank is investing a great deal of resources in protecting the Bank's resources from hostile entities, and is operating in accordance with the guidelines of the Bank of Israel, while enlisting the assistance of external consultants. Presented below are the main risk factors:

- Cyber and information security risks.
- Business continuity and disaster recovery.
- Systems failure.
- Embezzlement and fraud

Mitigation of operational risk

The Bank maintains a comprehensive framework of processes and methods intended to reduce the exposure to losses which are due to operational risks. These preparations include, inter alia, the following measures:

- The actions which are performed in the Bank are set forth in policies which are based on the instructions of the Bank of Israel, the Bank's cumulative experience, and with the assistance of external consultants / experts. This is intended to improve and to increase the effectiveness of work methods and internal control methods, and to prevent human errors.
- Reducing the operational exposure, through the implementation of ongoing control measures and a demand for the implementation of double controls over every process which involves significant operational risk.
- Implementation of system-wide controls over various operating segments, in accordance with the risk associated with the process, with an emphasis on processes regarding which there is no double control over the process.
- Performance of operational risk surveys and embezzlement and fraud surveys, and formulation of plans to mitigate the risks which were identified in the survey.
- Implementation of an organizational culture regarding the management of operational risks, and increasing awareness of such risk among employees.
- Implementation of an approval process prior to the activation of each new product / operation / process - which requires the performance of a comprehensive risk survey, the creation of an amortization program which is adjusted to the risk level, and approval of each significant new product in the risk management forum managed by the CEO and in the meetings Board's Risk Management Committee,
- Collection of information regarding loss or near loss events, and learning of lessons - the Bank collects data regarding operational failure events which occurred and which caused actual operational damage, or which could have caused operational damage. In significant or company-wide events, an investigation and lesson learning process is implemented by all involved entities. The Bank's management and Board of Directors receive reports regarding operational events in which losses were incurred, and regarding events which involved the potential for loss.

- The map of operational risks, risk mitigation plans and reporting regarding loss and near loss events are managed in a designated system for the management of operational risks.
- The appointment of division-based referents for the management of operational risks - with the aim of improving and implementing the management of operational risks in all of the Bank's units.

Once per quarter, the management and the Board of Directors receive a risk report regarding operational risks, which includes a report regarding the failure events which occurred during the reporting period, the existing risk areas, including IT, cyber, information security and business continuity risks, and the status of progress on the implementation of the risk mitigation plan.

In order to reduce the operational risks to which the Bank is exposed, the Bank acquires, each year, professional liability insurance, property insurance and cybersecurity insurance, which provides extensive insurance coverage for IT crimes and technological failures.

IT risks, cyber protection and information security

Information technology constitutes a central component in the Bank's proper operation and management. Information technology risks are due to the current operations of the Bank's information systems, company-wide information technology processes and the development of new activities (projects and systems). Information technology risks also include cyber and information security risks and banking risks associated with communication, which could affect business and/or operational processes in the Bank. The Resources Division Manager is responsible for managing information technology risks in the Bank.

Cyber protection and information security:

The Bank is exposed, as are the other banks in the banking system in Israel, to cyber attack and cybernetic incidents. This constitutes one of the material non-financial risks to which the banks are exposed, due to the possibility of a cyber attack on the Bank's IT systems and the Bank's website, which may cause harm to the ability to continue providing service to cause delays in the provision of service, theft of customer data and harm to the Bank's reputation.

The Bank expanded, in recent years, the cyber protection and information security unit, and is continuously improving the field of information security. The information security staff members are separate from the infrastructure staff members. The Bank works continuously to mitigate cyber risks, and invests a great deal of resources in the cyber protection and information security field, from the implementation of information security products, the application of controls, the performance of risk surveys, security and penetration surveys, and more. Each new product or change to a process and activity undergoes comprehensive information security tests.

In recent years, new tools have been implemented in the Bank to protect against cybernetic attacks, and means of protection are being implemented to protect against the leakage of information and to protect customer data. The Bank also has two data storage copies and a backup IT site, which are intended to allow the Bank to ensure business continuity and resumption of functional activities in a short time. The Bank also implements insurance arrangements against possible damages with respect to cybernetic incidents.

Information technology risks:

The Bank is continuously working to develop and improve its information systems, and methodically manages the information technology risks. There is in place a set of policies and work methodologies which constitute a good infrastructure for the monitoring and control of information technology risks. The Bank maintains a map of information technology risks and a multi-annual work plan involving refreshment of the surveys for the identification and assessment of IT risks. In all main projects under development, an orderly process of risk management is implemented in accordance with a standard methodology. Project risk meetings are held for each project once per month, in collaboration with information systems staff, business entities and the operational risks administration. Orderly monitoring is implemented regarding all information technology risks which have been identified. The Bank maintains a secondary IT site on a routine basis, which serves as a backup site, in case of a failure in the Bank's main IT site.

Monitoring and control - monitoring and control over the systems' availability constitutes an important component of the identification of malfunctions before they occur, and the performance of actions to prevent the failure. The Bank has a monitoring and control system which allows the rapid location and identification of a malfunction before or upon its occurrence, and the ability to perform rapid diagnostics in order to understand the nature of the malfunction and the correction thereof, in a short time.

Indicators regarding the exposure to operational risk

The Bank has defined the risk appetite (tolerance) for operational risks. The definition includes a restriction on a rate of risk which is higher than total risks (in other words, the number of high risks which the Bank is able to contain), a restriction on annual financial loss with respect to operational risks, a restriction on damages with respect to an extreme operational risks scenario. On the specific level, a restriction was defined with respect to public complaints, as well as a restriction on the availability of systems which impact customer service.

Compliance with these restrictions is monitored on a continuous basis, and the Bank complies with them.

For additional details regarding operational risk, see the report regarding risks on the Bank's website.

3.5. Other Risks

Business continuity

In order to maintain resiliency and business continuity of the Bank's activities following a disaster or malfunction event, and in accordance with Directive 355 issued by the Bank of Israel, on the subject of the management of business continuity, the Bank maintains a continuous plan for emergency preparation and business continuity, including aspects of exposure and risk management. The Bank's IT system is based on two IT sites - the main site, located in the Bank's headquarters in Airport City, and a backup site in through hosting in the Netanya IBM building.

The subject of business continuity is managed under the planning, monitoring and OCIO unit in the resources division, and in accordance with Proper Banking Management Directive 355, on the subject of business continuity.

Legal risks

Legal risk is defined as any risk which is due to the potential for loss as a result of a breach of laws, regulations, or regulatory directives, or due to the Bank's rights or obligations which have not been established, as required; this risk also applies in cases of contracts which cannot be enforced, legal claims, or erroneous judgment, which may impose difficulties on exercising the Bank's rights, or may injure such rights.

Legal risk may arise due to a defective or incorrect legal basis, which the Bank has relied upon in providing service to customers, receiving service from suppliers and/or receiving collateral from customers or third parties, such as engagements which are backed by adequate agreements, collateral which cannot be realized due to a defect in its creation or registration, or because the collateral has been stolen or has lost its value, etc.

Additionally, legal risk may be created for the Bank as a result of external factors which are not dependent upon the Bank, such as changes in the provisions of the law or various regulatory directives (directives issued by the Commissioner of Banks, directives issued by the Israel Securities Authority, the Israel Prohibition of Money Laundering and Financing of Terrorism Authority, etc.), or new rulings by the courts which determine that the Bank is required to act, with respect to a certain subject, different from the way in which it effectively acted before the issuance of that ruling.

Legal risks comprise a part of the entire array of operational risks to which the Bank is exposed. Sarit Weisstuch, Adv., VP and Legal Counsel, is responsible for the management of the Bank's legal risks, and for this purpose, enlists the assistance of the employees of the Bank's legal department. Legal and regulatory risk is managed in the Bank in an orderly and structured manner, as set forth in written policies and procedures, with the aim of reducing to the lowest possible minimum the realization of such risks, and reducing the damages which are caused to the Bank in the event that such risks do indeed materialize.

According to the Bank's policies and procedures, any legal issue which arises within the framework of the management of the Bank's business operations is transferred to the legal department for handling (each in accordance with its own area of responsibility). Any claims, legal proceedings or threats to file lawsuits which are received by any of the Bank's employees are transferred to the legal department for handling; any legal question referred by a customer to an employee of the Bank is referred to the legal department for response or for assistance. As of December 31, 2017, the Bank has no significant exposure with respect to claims which were filed against it, whose chances are not low, except as stated in section 3 of Note 26B to the financial statements, regarding a claim which was approved as a class action against Clal Batucha.

Reputation risk

Reputation risk is the risk of loss due to harm to the Bank's reputation or harm to an external assessment of its banking capabilities or financial soundness. This risk may be caused as a result of factors within the Bank, such as operational failure of the Bank's systems, failures to prevent events associated with money laundering, embezzlement and fraud of employees, etc., or as a result of factors which are systems to the Bank, such as a national or global economic crisis, defaults in other banks, class action claims, etc.

Management of reputation risk is divided into two parts: prevention of the risk, and management of the risk after the event has occurred, or in case of indications that an event is about to occur.

On the level of risk prevention, reputation risk occupies a central place in the Bank's activities. The risk appetite, policies, restrictions and operating segments are clearly directed towards reducing the exposure to reputation risk. The Bank monitors reputation risk by tracking central issues which reflect its reputation, such as publications in written and electronic media, public complaints, customer claims, and others.

The Bank's policy risk management policy defines three types of events which may constitute risk events:

1. Expected events which can be prepared for in advance.
2. "Ongoing" events which develop gradually, and may develop into a reputation risk event.
3. Unexpected events which occur suddenly.

The handling of each risk event is managed and concentrated by the Bank's spokesperson office, in collaboration with the CEO Strategy and Marketing Division Manager, where, with respect to each of the aforementioned event types, methods of operation, and the identity of the additional relevant entities who will work with them, were defined.

Compliance risks

Compliance risk is the risk that the Corporation will be subject to the imposition of legal or financial sanctions, significant financial loss or harm to reputation, as a result of a failure on its part to comply with the entire set of provisions of the law and regulation which apply to the Bank, or with internal policies.

As part of compliance risk management, the policy for managing the aforementioned risk is formulated, compliance risks are identified, compliance breach cases are handled, and the implementation of the entire set of legal provisions, policies and regulations which apply to the Bank, is overseen.

Compliance risk management is implemented in accordance with the provisions of the law and of the Proper Banking Management Directives which apply to the Bank in this regard, and as part of the foregoing, according to the current and expanded wording of Proper Banking Management Directive 308, which is in effect as of January 1, 2016.

For additional information regarding compliance risk management, see the detailed report regarding risks on the Bank's website. Internal enforcement includes the management of FATCA risk and CRS risk.

In accordance with the FATCA regulations, the Bank is required to appoint an RO (responsible officer) who will be responsible for the implementation of the regulations in the Bank, for serving as the contact person vis-à-vis the tax authorities, and for issuing various declarations on behalf of the Bank. Subsequent to the reporting date, the bank's Board of Directors determined that the bank's CRO will also serve as the RO for the purpose of FATCA (instead of the CEO who served in the position until that date).

The FATCA report of financial institutions in Israel to the Tax Authority was made on September 4, 2017, with respect to the year end balances of reportable accounts for 2016. The Bank submitted the information to the tax authorities in Israel in accordance with the provisions of the law and the regulations. The Bank is also preparing for the implementation of the CRS standard and for reporting with respect to foreign residents with foreign tax liability, in advance of the expected entry into effect of the Income Tax Regulations on this matter.

In March 2015, the Commissioner of Banks issued a circular on the subject of "management of risks due to cross border activities of customers". This circular includes obligations imposed on the banking corporation on all matters pertaining to the tax liability of its customers. The responsibility for managing cross border risks applies to the Compliance Officer, who is subordinate to the legal counsel. As part of the implementation of the directive, a cross border risk management policy was established, rules for the identification of high risk customers were established, and a work plan was created.

following the publication of the Efficiency of Enforcement Procedures Law (Legislative Amendments), 5771-2011, an administrative enforcement mechanism was adopted in Bank of Jerusalem, which is based on securities laws, and which was also adopted in other areas, including the capital market (insurance), labor laws, antitrust, protection of privacy, environmental risks and employees' use of social networks.

In accordance with the principles outlined by the Israel Securities Authority, the Bank formulated a comprehensive internal enforcement program, which is intended to limit the Bank's exposure to the risk that the Bank will be subject to financial or other sanctions, due to non-compliance by the Bank and/or by its employees to the provisions of laws which apply to it.

The management of compliance risks in the Bank is performed by the Compliance Officer, who is directly subordinate to the Manager of the Legal Counsel, Compliance and Enforcement Division, who is a member of bank management (until February 9, 2017, the holder of this position was subordinate to the Chief Risk Officer, who is a member of the management board).

Risks involving money laundering and terrorism financing

Risk associated with the prohibition on money laundering and terrorism financing (hereinafter: "Money Laundering") involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the occurrence of a breach of provisions of the laws regarding the prohibition on money laundering and terrorism financing may result in the realization of reputation risk. Within the framework of its activities, the Bank is exposed to risks involving money laundering and terrorism financing. This exposure is focused both on the account opening stage and on the account management stage. The Bank may be exposed to entities who intend to "abuse" it in order to launder funds originating from crimes defined as "predicate offenses" in the Prohibition on Money Laundering Law, and in order to finance terrorism using such funds.

The Bank is subject to various directives as part of the prevention against money laundering and terrorism financing, including, inter alia, the Prohibition on Money Laundering Law, The Prohibition on terrorism financing Law, the Prohibition on terrorism financing Regulations, Proper Banking Management Directive 411, various circulars, and others.

Risk management in the Bank is performed by the Compliance Officer, who is directly subordinate to the manager of the Legal Counsel, Compliance and Enforcement Division, who is a member of the Bank's management board (until February 9, 2017, the holder of this position was subordinate to the Chief Risk Officer, who is a member of the management board). The Bank's Board of Directors and management have established policies and procedures on the subject of the prohibition on money laundering and terrorism financing. The directives issued by the Compliance Officer are in accordance with and subject to the provisions of the law. His responsibilities include, inter alia, implementing controls over reports, in accordance with the type and size of the activity, and reporting them to the Prohibition on Money Laundering and terrorism financing Authority, submitting reports regarding irregular activities to the Prohibition on Money Laundering and terrorism financing Authority, implementing various controls over activities in different accounts, in accordance with their profile, providing routine advice to branches in this area, and performance of training sessions adapted to the responsibilities of the various employees in the Bank, in accordance with their positions.

For the purpose of implementing the law and strictly complying with its provisions, the Bank has appointed compliance supervisors who also serve as supervisors regarding the prohibition on money laundering in its branches and in headquarters (hereinafter: the "Trustee"), who serve as the first professional point of contact for employees of the branch or unit in which they are employed, with respect to the prevention of money laundering and terrorism financing, and serve as an entity.

Impact of risk factors on the business operations of the banking corporation

The Bank is required, as are all banking corporations, to include a table of risk factors in each of the following categories, and to estimate the impact of each risk factor on its business operations. As part of these preparations, it is necessary to estimate both the potential exposure or damage as a result of the occurrence of a certain event, and the probability that the aforementioned event will indeed occur. Additionally, the adequacy of control regarding the risk environment, as well as the other actions which the Bank performs for the purpose of manging the risk, have an impact on the level of exposure to the risk. Therefore, the risk assessment specified in the following table constitutes a subjective assessment by the Bank regarding the impact of the residual risk on its business operations.

The Bank performs risk assessment, both qualitative and quantitative, within the framework of the ICAAP process. As part of the above, risks are quantified and capital allocations are established (for both Tier 1 and Tier 2) for the various risks. The capital allocations reflect potential loss upon the occurrence of an extreme scenario, and thereby allow qualitative risk assessment which is based on a quantitative estimate.

Presented below is the impact of risk factors on the business operations of the banking corporation:

	Risk factor	Risk impact
1	**Total impact of credit risks** Risk due to the possibility that the borrower will not fulfill its contractual liabilities to the Bank. Deterioration in the stability of various borrowers and/or in their ability to repay the credit may have an adverse effect on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the Bank's credit policy and the exposure restrictions with respect to different types of borrowers in the various operating segments.	Medium
1.1	**Risk with respect to the quality of borrowers and securities** Risk due to a deterioration in the quality of borrowers and/or in the value of securities provided as collateral for the credit to the Bank, which may have an adverse effect on the chances of collecting the credit, and therefore also on the value of the Bank's assets and profitability. The exposure to this risk is managed, inter alia, by implementing a clear definition of the credit policy, ensuring strict implementation of the underwriting process, and restricting activities to specific types of borrowers in the various operating segments and products.	Medium
1.2	**Risk with respect to branch concentration** Risk due to the high scope of credit given to borrowers who belong to a certain branch of the economy, with respect to the credit portfolio. Deterioration in the results of the business activities in that sector in the economy could result in harm to the repayment ability and/or to the value of the securities which were given by some of the borrowers in this sector, and as a result, could have an adverse effect on the value of the Bank's assets and profitability. This exposure to this risk is managed, inter alia, in accordance with restrictions determined by the Bank of Israel on this matter, and in accordance with restrictions determined by the Board of Directors, regarding the maximum scope of the exposure to the different sectors of the economy. The Bank is complying the aforementioned restrictions.	Medium

	Risk factor	Risk impact
1.3	**Risk due to concentration of borrowers / group of borrowers** Risk due to a deterioration in the condition of a large borrower or large group of borrowers (relative to the credit portfolio) which may result in an adverse effect on the chances of collecting the credit, and on the value of the Bank's assets and its profitability. The exposure to this risk is managed, inter alia, in accordance with the restrictions of the Bank of Israel and of the Board of Directors on the maximum scope of exposure to a borrower and to a group of borrowers. Compliance with these restrictions is also continuously monitored. The Bank is complying with all of the restrictions.	Low
2	**Total impact of market risks** Risk due to changes of prices or rates in financial markets or of other economic parameters, which affect the value of the Bank's assets or liabilities, and which could result in erosion of its capital, or could reduce its profitability. The exposure to this risk is managed separately with respect to each risk, as specified below, and in concentrated form, using the VaR model.	Low
2.1	**Interest rate risk** Risk due to the difference between the sensitivity of the assets' value to unexpected changes in interest rates, and the same sensitivity of liabilities - changes which may result in the erosion of the Bank's capital. Due to the exposure to interest in the various linkage bases, a future decline in financing income may occur (throughout the lifetime of the assets or liabilities). The management of the exposure to this risk is implemented, inter alia, in accordance with the estimates regarding market variables, and subject to the restrictions on sensitivity from the Bank's net discounted financial cash flow to a scenario involving a change in the NIS interest curves and the CPI-linked interest rate. The exposure restrictions are monitored on a routine basis.	Low
2.2	**Inflation risk** Risk due to changes in the inflation rate, which may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the CPI-linked segment. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The exposure restrictions are monitored on a routine basis.	Low
2.3	**Exchange rate risk** Risk due to changes in the inflation rate, which may result in loss in the amount of the economic difference between the assets and the liabilities (active financial capital) in the foreign currency and foreign currency linked segment. The exposure to this risk is managed, inter alia, subject to restrictions on the amount of active financial capital, in consideration of the changes which apply to relevant economic figures, in accordance with market conditions. The Bank's policy is to avoid, as much as possible, exposure to exchange rate risks between the various foreign currencies. The exposure restrictions are monitored on a routine basis.	Low

	Risk factor	Risk impact
2.4	**Stock and bond price risk** Risk due to the loss of value of stocks and bonds held by the Bank. The Bank has a portfolio of securities which is mostly comprised of government bonds, and to a lesser degree, corporate bonds. The Bank's policy does not allow significant activity in stocks (whether for trading purposes or for investment purposes). The Bank's rate of holding (including indirect holding) in stocks and stock indices is negligible. Management of the exposure to this risk is implemented, inter alia, through restrictions on the amounts, features, marketability, and average lifetimes of the investments, as well as the amount of loss expected from the investments. The restrictions are maintained using both the VaR model and using extreme scenarios.	Low
3	**Liquidity risk** Risk which is due to the uncertainty regarding the availability of sources and the ability to raise them (without having an exceptional impact on prices) and regarding the ability to realize assets within a defined period of time, and at a reasonable price. In situations involving irregular supply and demand in financial markets, unplanned dependency may be created on the raising of sources, which could affect financing income. The exposure to this risk is managed, inter alia, through the expansion of the base of depositors, and the reduction of reliance on large depositors, extension of the average lifetime of the sources and maintaining high level of liquidity. The Bank has a control system which is based on an internal model that includes the evaluation of several scenarios. The Bank also evaluates, over time, the behavior of its customers, which could have an effect on the exposure to this risk.	Low
4	**Operational risk** Risk of loss due to inadequacy or failure of internal processes, people, systems, or external events. The exposure to this risk is managed, inter alia, through a survey of operational risks, creation of policies, estimation of the severity of risks, writing of policies, application of controls and implementation of systems regarding issues which have an impact on risk exposure, such as human resources, information security, processes, etc. The Bank has an orderly approval process prior to the launching of any new product / activity / process, which includes an evaluation of the risks and the application of appropriate controls. The Bank monitors operational loss and near loss events, for the purpose of learning lessons and improving control.	Medium
5	**Information technology risks** Risk which is due to failure in the routine operation of the Bank's information systems, which is comprised of work processes that are performed in the various IT units, or the routine operations of a system, and/or hardware or software infrastructure component, including information security risks and banking communication risks, which could impact business and/or operational processes in the Bank.	Medium

	Risk factor	Risk impact
6	**Information security and cyber risks** Risk of harm to a material asset of the Bank, by means of an attack through cyberspace, including exposure of information (leak), availability of information (shutdown) and the reliability and completeness of information (disruption). Management of information security risks in the Bank supports the response to threats and risks, and protection of the Bank's information assets and IT systems.	Medium
7	**Legal risk** Risks which are due to unexpected events, such as legal claims, including class actions, inability to enforce contracts, or judgments issued by judicial instances against the Bank, which may result in harm to the Bank's profitability. The exposure to this risk is managed, inter alia, through legal controls and an internal and external legal counsel system. Past experience indicates that such events have not exposed the Bank to significant losses.	Low
8	**Regulatory risk** Regulatory risk is a current or future risk applicable to the Bank's income and capital, which could be created due to changes in regulation or legislation, and which could have a significant impact on the Bank's activities and duties. The Bank, as a banking corporation and public company, is subject to many regulatory provisions, as reflected in legislation, secondary legislation, and policies and execution procedures issued by various authorities and supervised entities. The management of the exposure to this risk is implemented, inter alia, by conducting routine monitoring of draft legislation and legislative memoranda, provisions of the law, and drafts and directives issued by the various regulators (the Banking Supervision Department, the Israel Securities Authority, the Prohibition of Money Laundering and Financing of Terrorism Authority, the Information and Technology Authority at the Ministry of Justice, etc.). Additionally, monitoring is performed regarding new rulings issued by the various judicial instances in Israel. In order to ensure the completeness of the provisions with respect to which monitoring is performed, the legal department is responsible for reviewing the current professional publications issued by several leading law firms in Israel, on subjects pertaining to banking, capital markets, real estate, labor laws, etc.	Medium
9	**Reputation risk** Risk which is due to harm to the Bank's reputation as a stable and reliable financial institution due to publications, whether true or false, from the perspective of its customers, investors, and various regulatory authorities. Harm to reputation may result in deviation of customers' activities to other providers of financial services, causing a deterioration in the Bank's operations and profitability (mostly from the exposure to margin risk). Management of this exposure is divided into two parts: prevention of the risk, and management of the risk after an event has occurred, or in case of indications regarding the occurrence of an event.	Medium

	Risk factor	Risk impact
10	**Strategy risk** Strategy risk is due to wrong business decisions, inadequate implementation of decisions, or lack of response to sectoral, economic or technological changes. The risk is also due to, inter alia, entry into new segments, expansion of existing services and increasing investments in infrastructure with the aim of realizing the business strategy. This risk is a function of the correspondence between the Bank's strategic goals, the business plans which were developed to achieve such goals, the resources which were allocated towards the fulfillment of its goals, and the quality of implementation. The exposure to this risk is managed, inter alia, by creating an orderly strategic process, receiving external advice from experts in the field, and additional actions intended to mitigate the risk.	Medium
11	**Compliance risk** Compliance risk is due to the Bank's failure to comply with consumer directives, provisions of the law, directives issued by the Commissioner of Banks, and other relevant regulatory directives. The duties which apply to the Bank are cross-organizational and pertain to a wide variety of activities, processes and products.	Medium
12	**Risk associated with the prohibition on money laundering and terrorism financing** Risk associated with the prohibition on money laundering and terrorism financing involves the risk of the imposition of significant financial sanctions on the Bank, due to its non-fulfillment of the provisions of the law regarding the prohibition on money laundering and the prohibition on the terrorism financing, as well as the risk that criminal responsibility will materialize for the Bank and its employees. Additionally, the realization of an offense in breach of the provisions of the law regarding the prohibition on money laundering and terrorism financing may cause the realization of reputation risk.	Medium
13	**Administrative enforcement risk** Administrative enforcement risk is the risk of the imposition of significant financial sanctions and/or sanctions which restrict engagement on any of the Bank's employees due to non-compliance with securities laws. The Bank is working to mitigate the risk by creating an internal enforcement department, formulating an internal enforcement program in accordance with the principles which were determined by the Israel Securities Authority, conducting a survey intended to identify gaps in the area, and closing such gaps, performing training and implementation activities, and routinely handling events which could be considered breaches, including appropriate learning of lessons. The Bank has a high enforcement committee and a disciplinary committee.	Low

For additional details, see the report regarding risks on the Bank's website.

Chapter 4 - Accounting Policy and Critical Accounting Estimates, Controls and Procedures

4.1. Accounting policy regarding critical issues

Provision for credit losses

The Bank determines the provisions for credit losses in pledged loans for residential apartments in accordance with the depth of arrears formula, as determined in Proper Banking Management Directive 314, issued by the Commissioner of Banks. Additionally, in accordance with the instructions which were issued by the Banking Supervision Department, a collective provision for credit losses is calculated with respect to the balance of the housing loans, which will not fall below 0.35% of the balance of the housing loans for which a provision is not maintained, in accordance with the extent of the arrears or specific provision.

Regarding other retail credit, and also regarding business credit, the Bank determines its provisions in accordance with the circular issued by the Commissioner of Banks on the subject of "measurement and disclosure of impaired debt, credit risk and provision for credit losses", which was published on December 31, 2007.

For additional details regarding the accounting policy, see 1.B.7 to the financial statements.

For details regarding the quantitative impact - see Notes 13 and 30 to the financial statements.

Deferred taxes

Deferred taxes are calculated with respect to the temporary differences between the value of assets and liabilities in the financial statements and the amounts which will be taken into account for tax purposes. The calculation of deferred taxes was performed according to the tax rates which are expected to apply when these taxes are charged to profit and loss, as known proximate to the approval date of the financial statements. Deferred taxes are calculated according to the tax rates which are expected to apply upon usage of the reserve or realization of the tax benefit, based on the tax laws which ere in effect on the balance sheet date.

Upon the recording of deferred taxes receivable, the Bank performs estimates and assessments regarding the possibility of their future realization.

For additional details regarding the accounting policy, see 1.B.13 to the financial statements.

For details regarding the quantitative impact - see Note 8 to the financial statements.

Derivative instruments

In accordance with the directives issued by the Commissioner of Banks, the derivative instruments in the Bank are presented in the balance sheet at fair value. The fair value of derivatives was determined based on quoted market prices in active markets, or on the estimated fair value which was determined according to the prices of similar assets, or similar liabilities (the mark to model method). The estimation methods include use of various parameters, including interest curves, currency rates and standard deviations. The estimation includes taking into account assumptions regarding various factors, such as the credit risks and liquidity of the counterparty to the transaction. There are no cases regarding which the revaluation of the derivatives and fair value was not determined based on a model, but rather based on price quotes which are received from third parties.

For additional details regarding the accounting policy, see 1.B.14 to the financial statements.

For details regarding the quantitative impact - see Note 28 to the financial statements.

Fair value measurement of financial instruments

On April 28, 2011, the Commissioner of Banks published a circular which applies to the banking system FAS 157 (ASC 820-10), Fair Value Measurements and Disclosures. As part of the application of the standard, the Bank makes use of valuation techniques which maximize the use of relevant observable inputs, and minimizes the use of unobservable inputs. Fair value measurement is based on the assumption that the transaction is performed in the principal market of the asset or liability, or in the absence of a principal market, in the most effective market.

The Bank classifies fair value measurements using the fair value hierarchy, which reflects the significance of the data which were used to perform the measurements.

For additional details regarding the accounting policy, see 1.B.15 to the financial statements.

For additional details regarding the quantitative impact of the implementation of fair value measurement, see Note 33 to the financial statements.

Other than temporary impairment of securities

The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, qualitative and quantitative indicators are evaluated. Additionally, in case of the cumulative fulfillment of the following two situations, the Bank recognizes other than temporary impairment:

- Decrease of 40% in the value of the security relative to amortized cost.
- Decrease for a continuous period of nine months.

If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

For additional details regarding the accounting policy, see Note 1.B.5 to the financial statements.

In 2017, a provision for impairment was not recorded; in 2016, the Bank recorded a provision for impairment in the amount of NIS 0.1 million.

Contingent liabilities

The Bank is party to legal proceedings which were initiated against it by the Bank's customers, former customers and various third parties which consider themselves harmed or injured by the Bank's activities. For the purpose of risk assessment in legal proceedings, bank management relies on the opinion of the Bank's internal lawyers, or on the opinion of external legal counsel, which are evaluated by the Bank's internal counsel. These assessments are based on the best judgment of legal counsel, in consideration of the stage of the proceedings, and on the legal experience which they have accumulated on various issues in Israel.

Risk assessment in class actions involves more difficulty, due to the limited accumulated legal experience regarding the results of such claims in Israel. Additionally, there are class actions whose chances cannot be estimated, due to their current stage.

It should be taken into account that the results of proceedings may differ from the assessment which was determined regarding a claim, due to the fact that, in the legal sector, it is not possible reach assessments with certainty.

For additional details regarding the accounting policy, see 1.B.17 to the financial statements.

For additional details regarding contingent liabilities, see Note 26 to the financial statements.

Reserves to cover employee rights

In accordance with the directives issued by the Commissioner of Banks, the calculation of the discount rate to cover employee rights will be based on the market returns of government bonds in Israel, and in accordance with the directives, the banking corporation has determined a policy and procedures which specify the method by which government bonds should be chosen, which will be used to calculate the discount rate.

For additional details regarding the accounting policy, see 1.B.16 to the financial statements.

For details regarding the quantitative impact - see Note 23 to the financial statements.

4.2. Critical Accounting Estimates

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and in accordance with directives issued by the Commissioner of Banks, requires management to use estimates and assessments which affect the reported amounts of assets, liabilities, income and expenses. The actual results of these estimates may differ from the estimates and/or approximations. Estimates and approximations are generally based on economic forecasts, estimates regarding the various markets, and past experience, and involve the application of judgment, which management believes is reasonable at the time of the signing of the financial statements.

4.3. Controls and Policies

Evaluation of controls and policies with respect to disclosure in the financial statements

Bank management, in collaboration with the CEO and the chief accountant of the banking corporation, evaluated, as of the end of the period covered in this report, the effectiveness of controls and policies regarding disclosure in the banking corporation. Based on this evaluation, the Bank's CEO and chief accountant concluded that, as of the end of this period, the controls and policies regarding disclosure in the Bank are effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the annual report, in accordance with the public reporting directives issued by the Commissioner of Banks, and on the date specified in those directives.

Internal Control over Financial Reporting

On December 5, 2005, the Commissioner of Banks published a circular specifying provisions for the implementation of the requirements of sections 302 and 404 of the SOX Act. In Section 404, the SEC and the Public Company Accounting Oversight Board (PCAOB) specified provisions regarding the responsibility of management for internal control over financial reporting.

The Commissioner's directives in the aforementioned circular determine:

- Banking corporations must apply the requirements of sections 302 and 404, and the directives which were published by virtue thereof by the SEC.
- Adequate internal control requires the maintenance of a monitoring system in accordance with a defined and recognized framework, and the COSO 1992 model meets the requirements, and is fit to serve for the purpose of the assessment of internal control.
- The application of the requirements specified in the Directive requires upgrading and/or creating an infrastructure system of internal controls in the Bank, and the process of developing such systems requires the Bank to prepare and to establish stages and interim goals, until they have been fully implemented.

As part of the application of the directive, the Bank identified, in collaboration with an external accounting firm, accounts and business processes which are associated with financial reporting and due disclosure. These processes included documentation and assessment of risks and controls, while mapping out the risks and internal controls which exist on the level of processes and transactions.

The Bank also concluded an evaluation of the effectiveness of controls, including documentation of the tests regarding the effectiveness of controls and an analysis of existing gaps vs. the internal control model. The Bank is implementing the directive on a routine basis.

during the quarter ended December 31, 2017, no change occurred to the Bank's internal control over financial reporting, which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting.

Chapter 5 - Additional Information

5.1. Ethical code of conduct

The Bank has an ethical code of conduct which was approved by management in 2009, and which is intended to reflect the Bank's policy regarding the professional ethics of its employees, and to establish the ethical guidelines according to which its employees are expected to act.

The Bank ensures to comply with the law and the directives issued by the various authorities, and these are set forth in its policies. The Bank's ethical code of conduct is intended to add a value infrastructure to its policies, in order to ensure a value-based and high-quality working environment for its employees.

The ethical code of conduct is founded upon several principles, including personal honesty, integrity, professionalism, responsibility, and loyalty to the Bank and its customers.

5.2. Donations and community activities

- The Bank has donated to social causes for many years, within the framework of the Bank's pre-approved budget, and in accordance with the decisions of the donations committee of bank management, and the committee's work policy. During the reporting period, no donations over NIS 50 thousand were given to any single entity.
- The Bank's donations primarily focus on associations which work to provide assistance, support and help to weak population groups which require economic and physical assistance. These associations include associations which work to assist at-risk children and youth, persons requiring economic assistance, persons with disabilities, and more. Some of these associations, in addition to the direct assistance which is given by them to those population groups, also work to help them overcome the cycle of distress, inter alia, by integrating them into supporting environments.
- Apart from the monetary donations, the Bank also encourages its employees to take an active part in voluntary activities for the community in general, and for population groups in need, in particular. Thus, in accordance with the aim of promoting values of contribution and community involvement among employees, the Bank initiates shared events for employees and for population groups in need, as well as additional activities in which employees actively participate, and allocates work hours to finance those activities.
- The Bank also buys, each year, from associations or organizations which employ employees with limitations and from populations in need, products which are made by those employees, and provides them as gifts to the Bank's employees and customers, or donates them to populations in need.

The Bank's Board of Directors would like to thank the Bank's employees and managers for their dedicated work, and for their contribution towards the advancement of the Bank's business affairs.

Gil Topaz	**Zeev Nahari**
CEO	Chairman of the Board of Directors

February 27, 2018

Certification

I, Gil Topaz, hereby certify that:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2017 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting (as defined in public reporting regulations regarding the "Report of the Board of Directors and Management"). And:
   A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:
   A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And
   B. Any fraud, whether material or immaterial, which involves management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

Approval date of the financial statements:
February 27, 2018

Gil Topaz
CEO

Certification

I, Alexander Saltzman, hereby certify the following statements:

1. I have reviewed the annual report of Bank of Jerusalem Ltd. (hereinafter: the "Bank") for 2017 (hereinafter: the "Report").
2. Based on my knowledge, the report does not include any misrepresentation of any significant fact, and does not lack any presentation of any significant fact, which is required in order for the presentations included therein, in light of the circumstances under which those presentations were included, not to be misleading with reference to the period covered in the report.
3. Based on my knowledge, the financial statements and other financial information adequately reflect, in all material respects, the Bank's financial position, results of operations, changes in equity and cash flows, as of the dates and for the periods specified in the report.
4. I, along with others in the Bank who are providing this certification, am responsible for the Bank's establishment and fulfillment of controls and policies with respect to disclosure and internal control over financial reporting (as defined in public reporting regulations regarding the "Report of the Board of Directors and Management"). And:
   A. We have established certain controls and policies, or have caused the establishment of certain controls and policies, which are intended to ensure that significant information which is attributed to the Bank, including its consolidated corporations, is brought to our attention by other parties in the Bank and in those corporations, particularly during the period involving the preparation of the report;
   B. We have established internal control over financial reporting, or have caused the establishment, under our supervision, of internal control over financial reporting, in a manner which is intended to provide a reasonable measure of confidence regarding the reliability of the financial reporting, and that the financial statements for external purposes have been prepared in accordance with generally accepted accounting principles, and in accordance with the directives and guidelines issued by the Commissioner of Banks;
   C. We have assessed the effectiveness of the controls and policies regarding the Bank's disclosure, and have presented, in the report, our conclusions regarding the effectiveness of controls and policies regarding the disclosure, as of the end of the period covered in the report, based on our assessment; And
   D. We have disclosed in the report any change to the Bank's internal control over financial reporting, which occurred in the fourth quarter, and which significantly affected, or which is likely to significantly affect, the Bank's internal control over financial reporting; And
5. I and others in the Bank hereby provide this certification, and have disclosed to the auditor, to the Board of Directors and to the Board of Directors' Audit Committees, based on our most current assessment regarding internal control over financial reporting:
   A. All material deficiencies and material weaknesses in the establishment or application of internal control over financial reporting, which may be expected to harm the Bank's ability to record, process, summarize and report financial information; And
   B. Any fraud, whether material or immaterial, which involves management or other employees who have a significant position in the Bank's internal control over financial reporting.

The above shall not derogate from my responsibility, or from the responsibility of any other person, as prescribed by law.

Approval date of the financial statements:
February 27, 2018

Alexander Saltzman
VP, Monetary Division Manager
and Chief Accountant

Financial Statements

2017 Report for

Bank of Jerusalem Ltd. and its Consolidated Companies

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

The Board of Directors and Management of Bank of Jerusalem Ltd. (hereinafter: the "Bank") are responsible for establishing and maintaining adequate internal control over financial reporting (as defined in the public reporting regulations, with respect to the "Board of Directors' report"). The Bank's system of internal controls was planned with the aim of providing a reasonable measure of assurance, to the Bank's Board of Directors and management, regarding the appropriate preparation and presentation of the financial statements which are published in accordance with generally accepted accounting principles and in accordance with directives and guidelines issued by the Commissioner of Banks. Independently of the quality of their planning, all internal control systems are bound by inherent restrictions. Therefore, even if it has been determined that these systems are effective, they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial reports.

Management, under the supervision of the Board of Directors, implements a comprehensive system of controls, which is intended to ensure that transactions are performed in accordance with the permissions given by management, that the assets are protected, and that the accounting records are reliable. Additionally, management, under the supervision of the Board of Directors, implements measures in order to ensure that the channels of data and communication are effective, and monitor their implementation, including the implementation of internal control procedures.

Bank management, under the supervision of the Board of Directors, evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2017, based on criteria which were determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management believes that as of December 31, 2017, the Bank's internal control over financial reporting is effective.

Zeev Nahari	Gil Topaz	Alexander Saltzman
Chairman of the Board of Directors	CEO	VP, Monetary Division Manager and Chief Accountant

February 27, 2018

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Auditor's Report to the Shareholders of Bank of Jerusalem Ltd. – In Accordance with the Public Reporting Regulations of the Commissioner of Banks Regarding Internal Control over Financial Reporting

We have audited internal controls of Bank of Jerusalem Ltd. and its subsidiaries (hereinafter, jointly: the "Bank") as of December 31, 2017, based on the criteria which were set forth in the combined framework of internal control which was published by The Committee of Sponsoring Organizations of the Treadway Commission (hereinafter: "COSO"). The Board of Directors and management of the Bank are responsible for maintaining effective internal control over financial reporting, and for assessing the effectiveness of internal control over financial reporting, as included in the attached report of the Board of Directors and management regarding the Bank's internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting, based on our audit.

We have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States regarding auditing of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. According to these standards, we are required to plan and perform the audit with the aim of reaching a reasonable measure assurance that effective internal control of financial reporting was applied, in all material respects. Our audit also included reaching an understanding of the internal control over financial reporting, assessing the risk of material weakness, and assessing and evaluating the effectiveness of the planning and implementation of internal control, based on the assessed risk. Our audit also included the application of other procedures which we considered necessary, in light of the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Internal auditing with respect to a bank's financial reporting is a process intended to provide a reasonable measure of assurance regarding the reliability of the financial reporting and the preparation of the financial statements for external purposes, in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and directives and instructions issued by the Commissioner of Banks. Internal control over financial reporting in a bank includes the policies and procedures which: (1) Pertain to the management of records which, to a reasonable level of detail, accurately and adequately reflect the transactions and transfers of the Bank's assets (including removing them from its possession); (2) Provide a reasonable measure of assurance that the transactions are duly recorded, in order to allow the preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and the directives and instructions of the Commissioner of Banks, and that the intake of funds, and the spending of funds, by the Bank, is done only in accordance with authorizations given by the Bank's Board of Directors and management; and (3) Provide a reasonable measure of assurance regarding the prevention or timely disclosure of any unauthorized purchase, use or transfer (including removal from possession) of the Bank's assets, which could have a material effect on the financial statements.

Due to inherent limitations, internal control over financial reporting may fail to prevent or identify misstatements. Additionally, reaching conclusions regarding the future based on any current assessment of effectiveness involves exposure to the risk that the controls will become inadequate due to changes in circumstances, or that the extent of fulfillment of the policy or procedures will change for the worse.

In our opinion, the Bank maintained, in all material respects, internal control over financial reporting as of December 31, 2017, based on the criteria which were determined in the combined framework of internal control over financial reporting that was published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel, and certain auditing standards whose application, in an audit of banking corporations, was determined in accordance with the directives and instructions of the Commissioner of Banks, the balance sheets – of the Bank and in consolidated terms - as of December 31, 2017 and 2016, as well as the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows – of the Bank and in consolidated terms – for each of the three years in the period ended December 31, 2017, and our report dated February 27, 2018 includes an unqualified opinion regarding those financial statements.

Tel Aviv,
February 27, 2018

Kost Forer Gabbay & Kasierer
Certified Public Accountants

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Auditor's Report to the Shareholders of Bank of Jerusalem Ltd. – Annual Financial Statements

We have audited the attached balance sheets of Bank of Jerusalem Ltd. (hereinafter: the "Bank") as of December 31, 2017 and 2016, as well as the consolidated balance sheets as of those dates, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows – of the Bank and in consolidated terms – for each of the three years in the period 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 audit in accordance with generally accepted auditing standards in Israel, including standards set forth in the Auditors' Regulations (Auditor's Mode of Performance), 5733-1973, and certain auditing standards, the application of which to audits of banking corporations was determined in accordance with the directives and instructions issued by the Commissioner of Banks. According to these standards, we are required to plan and perform the audit in order to obtain a reasonable measure of assurance about whether the financial statements are free of any material misstatement. Performing an audit includes testing, on a sample basis, the evidence provided to support the amounts and information presented in the financial statements. An audit also includes performing an evaluation of the accounting principles used and of the significant estimates made by the Bank's Board of Directors and management, as well as an evaluation of the overall adequacy of presentation in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above adequately present, in all material respects, the financial position - of the Bank and in consolidated terms - as of December 31, 2017 and 2016, as well as the results of operations, changes in equity and cash flows – of the Bank and in consolidated terms - for each of the three years in the period ended December 31, 2017, in accordance with generally accepted accounting principles in Israel (Israeli GAAP). Additionally, in our opinion, the aforementioned financial statements were prepared in accordance with the directives and instructions issued by the Commissioner of Banks.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding the audit of internal control of financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as of December 31, 2017, based on the criteria which were determined in the combined framework for internal control, as published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2018, includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting.

Tel Aviv,
February 27, 2018

Kost Forer Gabbay & Kasierer
Certified Public Accountants

Statement of Income

Reported amounts in millions of NIS

		Consolidated			The Bank		
		For the year ended December 31					
	Note	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Interest income	2	**473.5**	438.3	406.3	**473.5**	438.2	407.2
Interest expenses	2	**110.1**	95.3	72.2	**111.1**	96.2	74.1
Interest income, net	2	**363.4**	343.0	334.1	**362.4**	342.0	333.1
Expenses with respect to credit losses	13,30	**36.9**	30.4	40.4	**36.9**	30.4	40.4
Interest income, net, after expenses with respect to credit losses		**326.5**	312.6	293.7	**325.5**	311.6	292.7
Non-interest income							
Non-interest financing income (expenses)	3	**(0.6)**	35.4	0.9	**(0.6)**	35.4	0.9
Fees	4	**114.6**	120.9	124.5	**108.6**	115.0	118.6
Other income	5	**11.5**	11.5	17.3	**11.5**	11.5	16.5
Total non-interest income		**125.5**	167.8	142.7	**119.5**	161.9	136.0
Operating and other expenses							
Payroll and associated expenses	6	**176.4**	173.4	166.3	**155.0**	152.8	147.7
Maintenance and depreciation of buildings and equipment	16	**95.6**	89.9	81.8	**44.6**	42.9	42.5
Other expenses	7	**127.8**	123.2	117.7	**207.9**	198.4	174.1
Total operating and other expenses		**399.8**	386.5	365.8	**407.5**	394.1	364.3
Profit before taxes		**52.2**	93.9	70.6	**37.5**	79.4	64.4
Provision for taxes on income	8	**15.2**	38.3	22.0	**11.8**	35.0	21.2
Profit after taxes		**37.0**	55.6	48.6	**25.7**	44.4	43.2
The Bank's share in the profits of investee companies after tax impact		**-**	-	-	**11.3**	11.2	5.4
Net profit		**37.0**	55.6	48.6	**37.0**	55.6	**48.6**
Earnings per share (in NIS)							
Basic and diluted net earnings per share (NIS)	9	**0.52**	0.79	0.69	**0.52**	0.79	0.69

Zeev Nahari
Chairman of the Board of Directors

Gil Topaz
CEO

Alexander Saltzman
VP, Monetary Division Manager and Chief Accountant

Approval date of the financial statements:
February 27, 2018

The notes to the financial statements constitute an inseparable part thereof.

Consolidated Statement of Comprehensive Income

Reported amounts in millions of NIS

		For the year ended December 31		
	Note	**2017**	**2016**	**2015**
Net profit		**37.0**	55.6	48.6
Other comprehensive income (loss)				
Adjustments with respect to the presentation of available for sale securities at fair value, net	10	**2.0**	(27.7)	3.9
Adjustments of liabilities with respect to employee benefits	10	**(3.2)**	-	(0.9)
Other comprehensive income (loss) before tax		**(1.2)**	(27.7)	3.0
Attributable tax impact	10	**0.3**	10.2	(0.9)
Other comprehensive income (loss) after taxes		**(0.9)**	(17.5)	2.1
Total comprehensive income	10	**36.1**	38.1	50.7

The notes to the financial statements constitute an inseparable part thereof.

Balance Sheet

Reported amounts in millions of NIS

		Consolidated		The Bank	
		As of December 31			
	Note	2017	2016	2017	2016
Assets					
Cash and deposits in banks	11	**2,659.0**	2,522.0	**2,659.0**	2,522.0
Securities (1)	12	**858.3**	1,434.5	**858.3**	1,434.5
Credit to the public	13,30	**9,772.4**	9,892.6	**9,772.4**	9,892.6
Provision for credit losses		**(101.7)**	(102.5)	**(101.7)**	(102.5)
Credit to the public, net		**9,670.7**	9,790.1	**9,670.7**	9,790.1
Investments in investee companies	15	**-**	-	**408.3**	397.0
Buildings and equipment	16	**150.6**	157.8	**10.3**	11.3
Intangible assets	17	**0.4**	0.8	**0.4**	0.8
Assets with respect to derivative instruments	28	**64.0**	151.1	**64.0**	151.1
Other assets	18	**150.6**	145.7	**137.3**	134.2
Total assets		**13,553.6**	14,202.0	**13,808.3**	14,441.0
Liabilities and capital					
Public deposits	19	**10,560.1**	10,868.3	**12,114.8**	12,147.7
Deposits from banks	20	**33.6**	36.5	**33.6**	36.5
Government deposits		**0.5**	1.1	**0.5**	1.1
Lent securities		**34.4**	590.4	**34.4**	590.4
Bonds and deferred liability notes	21	**1,872.2**	1,582.1	**582.2**	559.3
Liabilities in respect of derivative instruments	28	**66.2**	146.7	**66.2**	146.7
Other liabilities (2)	22	**149.3**	168.6	**139.3**	151.0
Total liabilities		**12,716.3**	13,393.7	**12,971.0**	13,632.7
Equity	25A	**837.3**	808.3	**837.3**	808.3
Total liabilities and capital		**13,553.6**	14,202.0	**13,808.3**	14,441.0

(1) For details regarding securities which are measured at fair value, and regarding securities which were pledged, see Note 27.
(2) Of which, a provision for credit losses with respect to off-balance sheet credit instruments in the Bank, and in consolidated form, as of December 31, 2017 in the amount of NIS 3.2 million, as compared with NIS 2.9 million as of December 31, 2016.

The notes to the financial statements constitute an inseparable part thereof.

Statement of Changes in Equity

Reported amounts in millions of NIS

	Paid-up share capital	Capital reserves: From premiums	Capital reserves: From benefit Due to Share-based payment transactions	Total Paid-up share capital and capital reserves	Other comprehensive income (loss) Accumulated	Retained earnings	Total Equity
Balance as of January 1, 2015	127.3	95.3	4.2	226.8	14.6	509.0	750.4
Net income for the period	-	-	-	-	-	48.6	48.6
Dividend	-	-	-	-	-	(17.1)	(17.1)
Other comprehensive income, net, after tax impact	-	-	-	-	2.1	-	2.1
Balance as of December 31, 2015	**127.3**	**95.3**	**4.2**	**226.8**	**16.7**	**540.5**	**784.0**
Balance as of January 1, 2016	127.3	95.3	4.2	226.8	16.7	540.5	784.0
Net income for the period	-	-	-	-	-	55.6	55.6
Dividend	-	-	-	-	-	(13.8)	(13.8)
Expiration of benefit with respect to share-based payment transactions	-	4.2	(4.2)	-	-	-	-
Other comprehensive income, net, after tax impact	-	-	-	-	(17.5)	-	(17.5)
Balance as of December 31, 2016	**127.3**	**99.5**	**-**	**226.8**	**(0.8)**	**582.3**	**808.3**
Balance as of January 1, 2017	127.3	99.5	-	226.8	(0.8)	582.3	808.3
Net income for the period	-	-	-	-	-	37.0	37.0
Dividend	-	-	-	-	-	(7.1)	(7.1)
Other comprehensive income, net, after tax impact	-	-	-	-	(0.9)	-	(0.9)
Balance as of December 31, 2017	**127.3**	**99.5**	**-**	**226.8**	**(1.7)**	**612.2**	**837.3**

The notes to the financial statements constitute an inseparable part thereof.

Statement of Cash Flows

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
Cash flows from operating activities						
Net profit for the year	**37.0**	55.6	48.6	**37.0**	55.6	48.6
Adjustments:						
The banking corporation's share in undistributed profits of investee companies	**-**	-	-	**(11.3)**	(11.4)	(4.3)
Depreciation of buildings and equipment	**55.7**	52.1	44.6	**1.3**	1.5	1.9
Expenses with respect to credit losses	**36.9**	30.4	40.4	**36.9**	30.4	40.4
Profit from the sale of available for sale securities	**(1.8)**	(35.2)	(4.5)	**(1.8)**	(35.2)	(4.5)
Impairment of assets held for sale	**-**	0.1	-	**-**	0.1	-
Realized and unrealized profit from adjustments to the fair value of held for trading securities	**2.6**	0.1	1.4	**2.5**	0.1	1.4
Profit from the realization of buildings and equipment	**-**	-	(5.8)	**-**	-	(5.0)
Expenses due to share-based payment transactions	**-**	-	-	**-**	-	-
Deferred taxes, net	**(2.7)**	25.4	9.4	**(2.0)**	24.2	9.6
Retirement pay - increase in the excess of reserves over funds (increase in the excess of funds over reserves)	**3.9**	0.7	1.3	**3.8**	0.8	1.2
Accrual differences which were included under investing and financing activities	**8.5**	11.1	(3.9)	**8.5**	28.9	(3.6)
Net change in current assets:						
Credit to the public	**82.5**	68.7	(363.2)	**82.5**	68.8	(363.2)
Assets with respect to derivative instruments	**87.1**	44.0	(154.7)	**87.1**	44.0	(154.7)
Held for trading securities	**219.9**	10.4	(303.5)	**220.0**	10.4	(303.5)
Other assets	**(1.5)**	(34.9)	10.7	**(0.4)**	(36.4)	31.4
Net change in current liabilities:						
Deposits from banks	**(2.9)**	(2.9)	(3.1)	**(2.9)**	(2.9)	(3.1)
Public deposits	**(308.2)**	(150.7)	41.8	**(32.9)**	(353.7)	253.4
Government deposits	**(0.6)**	0.3	(4.2)	**(0.6)**	0.3	(4.2)
Lent securities	**(556.0)**	203.1	(195.4)	**(556.0)**	203.1	(195.4)
Liabilities in respect of derivative instruments	**(80.5)**	(48.5)	156.2	**(80.5)**	(48.5)	156.2
Other liabilities	**6.6**	39.0	(2.3)	**29.3**	(2.4)	(13.3)
Net cash from operating activities	**(413.5)**	268.8	(686.2)	**(179.5)**	(22.3)	(510.7)

The notes to the financial statements constitute an inseparable part thereof.

Statement of cash flows

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Cash flows from investing activities						
Acquisition of available for sale securities	**(2,845.3)**	(4,365.4)	(3,242.9)	**(2,845.3)**	(4,365.4)	(3,242.9)
Consideration from the sale of available for sale securities	**2,468.3**	4,281.9	2,652.4	**2,468.3**	4,281.9	2,618.4
Consideration from the redemption of available for sale securities	**726.0**	414.3	27.8	**726.0**	414.3	27.8
Acquisition of buildings and equipment	**(51.1)**	(50.9)	(56.0)	**(0.3)**	-	(0.3)
Profit from the realization of buildings and equipment	**0.5**	-	8.2	**-**	-	6.7
Net cash from investing activities	**298.4**	279.9	(610.5)	**348.7**	330.8	(590.3)
Cash flows from financing activities						
Issuance of bonds and deferred liability notes	**505.4**	224.5	465.3	**-**	224.5	-
Redemption of bonds and deferred liability notes	**(246.2)**	(309.3)	(357.6)	**(25.1)**	(69.1)	(88.0)
Dividend paid to shareholders	**(7.1)**	(13.8)	(17.1)	**(7.1)**	(13.8)	(17.1)
Net cash from financing activities	**252.1**	(98.6)	90.6	**(32.2)**	141.6	(105.1)
Impact of movements in exchange rate on cash balances	**(5.2)**	(7.8)	(19.2)	**(5.2)**	(7.8)	(19.2)
Increase in cash and deposits in banks	**142.2**	457.9	(1,186.9)	**142.2**	457.9	(1,186.9)
Balance of cash and deposits in banks at start of year	**2,522.0**	2,071.9	3,278.0	**2,522.0**	2,071.9	3,278.0
Balance of cash and deposits in banks at end of year	**2,659.0**	2,522.0	2,071.9	**2,659.0**	2,522.0	2,071.9
Interest and taxes paid and/or received:						
Interest received	**599.6**	611.0	733.5	**599.6**	611.0	733.5
Interest paid	**149.3**	163.5	191.2	**149.3**	163.5	191.2
Taxes on income paid	**33.1**	24.8	16.4	**30.3**	21.9	14.0
Taxes on income received	**18.7**	18.6	29.4	**15.7**	16.1	15.7
Annex C - Non-cash investing activities during the reporting period						
Acquisition of fixed assets on credit	**8.5**	10.6	8.6	**-**	-	-

The notes to the financial statements constitute an inseparable part thereof.

Notes to the Financial Statements

2017 Report for

Bank of Jerusalem Ltd. and its Consolidated Companies

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Note 1 - Accounting Policy

Bank of Jerusalem Ltd. (hereinafter: the "Bank") is a commercial bank which is engaged in the provision of housing credit and other retail credit, in business financing for residential construction, and in the raising of deposits for limited periods, activities in the capital market, management of checking accounts and provision of private banking services to foreign residents.

The Bank is a subsidiary of Export Investment Co. Ltd. (hereinafter: "Export"), and its shares are listed for trading on the Tel Aviv Stock Exchange.

The Bank's financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and in accordance with the public reporting regulations and directives issued by the Commissioner of Banks.

Regarding most issues, these directives are based on generally accepted accounting principles for banks the United States. Regarding other, less material issues, the directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).

When International Financial Reporting Standards (IFRS) allow several alternatives, or do not include specific reference to a particular situation, these directives include specific guidelines for adoption, which are primarily based on generally accepted accounting principles for banks in the United States.

Presented below is a summary of the significant accounting principles which were consistently applied in the preparation of the financial statements, and which comply with the directives and guidelines issued by the Commissioner of Banks:

A. Framework for preparation of the financial statements

1. Measurement basis of the financial statements

The Bank prepared the financial statements according to historical cost adjusted to the consumer price index. The aforementioned adjusted amounts which were included in the financial statements as of December 31, 2003 served as a starting point for nominal financial reporting beginning on January 1, 2004. Additions which were performed after the date of the transition were included at nominal values. In accordance with accounting standard 12, regarding the "Discontinuation of the adjustment of financial statements", the adjustment of the financial statements for inflation was discontinued on December 31, 2003, and from that date onwards, the Bank began reporting according to reported amounts. The amounts of non-monetary assets do not necessarily represent disposal value of current economic value, but rather only the reported amounts of those assets.

In the financial statements, "cost" means cost according to reported amounts.

The summary of the Bank's data in historical nominal values for tax purposes is provided in Note 36.

2. Functional currency and presentation currency

The functional currency and presentation currency of the Bank and its subsidiaries is the New Israeli Shekel. The New Israeli Shekel is the currency which represents the Group's main economic operating environment.

3. Foreign currency and linkage

Assets and liabilities in foreign currency or linked thereto, and those linked to the consumer price index, are included in the financial statements as follows:

A. Those linked to the consumer price index are presented according to the known index on the balance sheet date.

B. Those denominated in foreign currency, or linked thereto, are presented according to the representative exchange rates which were published by the Bank of Israel on the balance sheet date, except where the terms of the agreement specify otherwise.

Note 1 - Accounting Policy (Cont.)

Presented below are details regarding the consumer price index and the representative USD exchange rate, and their rates of increase (decrease):

	As of December 31			Rate of increase (decrease) in		
	2017	2016	2015	2017	2016	2015
	In NIS			In percent		
USD rate	3.467	3.845	3.902	(9.8)	1.5	0.3
Consumer price index - 1993 base (points):						
Known index (November vs. November)	221.3	220.7	221.4	0.3	(0.3)	(0.9)
Index in lieu (December vs. December)	221.6	220.7	221.1	0.4	(0.2)	(1.0)

Transactions in currencies other than the functional currency were handled as follows:

A. A transaction denominated in foreign currency is recorded, at the time of initial recognition, in the functional currency, while using the immediate exchange rate between the functional currency and the foreign currency on the date of the transaction for each balance sheet date. Monetary items in foreign currency balance sheet date according to the immediate exchange rate on the balance sheet date.

B. On each balance sheet date, non-monetary items in foreign currency which are measured at historical cost are translated according to the exchange rate as of the date of the transaction.

C. On each balance sheet date, non-monetary items in foreign currency which are measured at fair value are translated according to the exchange rate on the date of the determination of fair value.

D. Foreign currency differences due to the settlement of monetary items, or due to the translation of monetary items according to different exchange rates than whose which were used for translation at the time of initial recognition during the period, or than those which were used for translation in previous financial statements, are recognized in the statement of income for the period in which they materialized.

4. Use of estimates in the preparation of the financial statements

The preparation of the financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines issued by the Commissioner of Banks requires management to use estimates, approximations and judgment which affect the reported amounts of assets and liabilities, the disclosure regarding contingent assets and contingent liabilities, and the amounts of income and expenses during the reporting period. It is hereby clarified that actual results may differ from these estimates.

At the time of formulation of accounting estimates which are used in the preparation of the Bank's financial statements, bank management is required to make assumptions regarding circumstances and events which involve significant uncertainty. In its judgment regarding the determination of estimates, bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.

The underlying estimates and assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period when the estimates were amended, and in each affected future period.

Note 1 - Accounting Policy (Cont.)

B. Accounting policy which was applied in the preparation of the financial statements

B.1. Consolidation of financial statements

A. General:

When the banking corporation holds financial rights which confer control of the investee entity, that entity is classified as a subsidiary.

There are two models for the consolidation of an investee entity: the variable interest model and the voting rights model. The banking corporation is first required to assess whether the investee entity is a variable interest entity, as specified below. If it was determined that the entity does not qualify as a variable interest entity, the banking corporation is required to assess whether it holds financial rights which confer control upon the investee entity, based on the voting rights which it holds.

The consolidated financial statements present the operating results and financial performance of the banking corporation and its subsidiaries, as the financial statements of a single economic entity. Therefore, intra-group balances attributable to transactions between the entities in the group, and profit and loss due to intra-group transactions, on assets which remain in the Group, are canceled in their entirety.

B. Variable interests model:

The banking corporation consolidates a variable interest entity, and is considered the main beneficiary of that entity, when it has variable interests (or a combination of variable interests) which grant it a financial right that confers control.

C. Voting rights model:

In general, the holding, directly or indirectly, of more than half of the voting shares in an investee entity, indicates that it should be consolidated in the financial statements. However, the banking corporation may have the power to control an investee entity even if it holds a lower rate of ownership, for example, through a contract, an agreement with other shareholders, or according to a court order.

B.2. Business combinations

A business combination takes place when the group obtains control of one business, or of several businesses (hereinafter: the "Acquired Asset").

The banking corporation treats each business combination by implementing the purchase method. In applying this method, the banking corporation identifies the buyer, determines the acquisition date and recognizes the recognizable assets which were acquired and the liabilities which were accepted, as well as any non-controlling interests in the acquired asset, and measures them according to their fair value on the acquisition date, excluding exceptions.

The banking corporation measures the consideration which was transferred according to the fair value of the were assets which were transferred, of the liabilities which were accepted, and of the equity rights which were issued. Costs associated with the purchase, such as agent fees, consulting fees, legal fees, and general and administrative expenses, are recognized as an expense in the periods when the costs materialized and the services are received, excluding issuance costs with respect to securities which constitute debt and equity securities which are recognized in accordance with the rules which apply to those securities.

On March 12, 2014, a tax decision was received from the Israel Tax Authority, regarding the implementation of a structural change, according to which approval was given, as of December 31, 2013, for the plan involving the merger of Clal Finance Batucha Investment Management Ltd. into Bank of Jerusalem. As a result of the presentation of the deferred tax asset with respect to the carryforward losses, retained earnings were created from the acquisition were created in the amount of NIS 57.1 million.

In accordance with a directive issued by the Banking Supervision Department, this profit is recorded as deferred income, which will be amortized over a period of 5 years, in a straight line (NIS 11.4 million per year during the years 2014 to 2018) from the acquisition date, and is included in the statement of income under the item for other income.

It is noted that for the purpose of measuring capital adequacy, in accordance with the arrangement with the Banking Supervision Department, with the aim of implementing the provisions of Basel III, the balance of the aforementioned deferred income will be set off from the balance of deferred taxes which was created as a result of the aforementioned acquisition, at the end of each reporting period.

B.3. Recognition basis under income and expenses

Income and expenses are recognized in the statement of income on an accrual basis, excluding:

1. For details regarding the recognition of income with respect to impaired debts, see section B.6 below.
2. Fees from financing transactions which deal with fees with respect to receipts, guarantees and certificate credit are recognized on a proportionate basis for the transaction periods.
3. For details regarding the recognition of income and expenses with respect to securities and with respect to derivative financial instruments, see section B.4 below and section B.14 below, respectively.
4. Direct fees involved in the creation of the loan are deferred and recognized as an adjustment of returns over the lifetime of the loan. These fees include, inter alia, fees which were received from the borrower as prepaid interest, or which are intended to reduce the nominal interest rate on the loan, fees which constitute a reimbursement of expenses to the Bank with respect to the creation of the loan, fees which represent remuneration to the Bank with respect to its consent to provide a loan under complex terms, or within a short timeframe, as well as fees which the borrower was charged in connection with the process of creating the loan, such as management fees, placement fees, organization fees, underwriting fees, and other fees associated with loan provision transactions.
5. Fees which are received as a result of a restructuring (which is not the refinancing of troubled debt) are treated in the following manner:

   The Bank evaluates the changes which were implemented, and determines whether, as a result, the terms of the new loan are at least as preferable for the Bank as the terms of comparable loans to other customers with similar collection risks, or whether the changes are only minor.

   A minor change is considered a change in the terms of the loan where, as a result of the change, the present value of the cash flows from the loan after the change is less than 10% different than the present value of the remaining cash flows, in accordance with the terms of the original debt instrument. In the above case, all net commissions which were not amortized with respect to the original loan are included in the existing loan amount as an adjustment of returns, as part of the interest income over the remainder of the loan period. However, if it was determined that the change in the loan terms is not minor, the loan which was refinanced is treated as a new loan, and accordingly, the fees which have not yet been amortized are immediately charged as interest income in the statement of income (including early repayment fees, if any).

6. Early repayment fees which were created from transactions before January 1, 2014 are recognized under interest income, and are distributed in the statement of income at equal rates, according to the remainder of the credit repayment period, or within three years from the repayment date - according to the shorter period of the two. Early repayment fees which were created after January 1, 2014 are immediately recognized or treated in accordance with the other fees which have not yet been amortized.

   For details regarding directives issued by the Commissioner of Banks on the subject of "Revenue from contracts with customers", see section E.2 below.

B.4. Setting off of financial assets and liabilities

The Bank applies the rules which were specified in the circular issued by the Commissioner of Banks on December 12, 2012, which updates the public reporting regulations of the Commissioner of Banks regarding the setting off of assets and liabilities. The amendments specified in the circular are intended to adjust the directives on this issue to generally accepted accounting principles in the United States.

In accordance with the directives, the Bank sets off assets and liabilities which are due to an identical counterparty, which are presented in the balance sheet according to the net amount, upon the fulfillment of the following cumulative conditions:

- with respect to those liabilities, there is a legally enforceable right to set off the liabilities from the assets.
- there is an intent to repay the liabilities and to realize the assets on a net basis and/or simultaneously.
- The Bank and the counterparty owe determinable amounts to one another.

Assets and liabilities with two counterparties are presented in the balance sheet according to the net amount, upon the fulfillment of the cumulative conditions specified above, and provided that there is an agreement between the three parties which clearly establishes the Bank's right to those liabilities for setting off.

In certain cases, a bank is entitled to set off fair value amounts which were recognized with respect to derivative instruments and fair value amounts which were recognized with respect to the right to demand repayment of a collateral in cash (receivables) or the obligation to repay a collateral in cash (payables), which are due to derivative instruments which were performed with the same counterparty, in accordance with a master netting arrangement. The Bank does not set off between amounts with respect to derivative instruments against liabilities with respect to derivative instruments, unless all of the aforementioned cumulative conditions are fulfilled.

The Bank evaluates the existence of legal restrictions in order to determine that the right is legally enforceable. In order for a legally enforceable right to exist, the Bank evaluates whether the right to offset will also be valid in case of bankruptcy or other receivership proceedings.

Deposits whose repayment to the depositor is contingent upon the collection rate from the credit were offset from the credit which was given from those deposits, when the Bank has no risk of loss from the credit. The margin in the aforementioned activity is included under the item for "Fees".

Note 1 - Accounting Policy (Cont.)

B.5. Securities

1. Held to maturity bonds - bonds regarding which the Bank has the intent and ability to hold them until the maturity date, excluding bonds which are repayable through an early repayment, or which may be settled by other means, in a manner whereby the Bank does not cover substantially all of its recorded investment. Bonds held to maturity are presented according at amortized cost as of the reporting date.
2. Available for sale securities - securities which were not classified as held to maturity bonds or as held for trading securities. Available for sale securities are presented in the balance sheet according to their fair value on the reporting date. The fair value is based on quoted prices for securities which have quoted prices, or based on revaluation data which are received from external sources, regarding bonds which have no price. The profit or loss with respect to them, less the appropriate reserve for tax, is presented in a separate item under equity: "Adjustments with respect to the presentation of available for sale securities at fair value ".
3. Held for trading securities - securities which were acquired and which are held with the aim of selling them in the near term, or securities which the Bank has chosen to measure at fair value through profit and loss according to the fair value alternative, excluding shares for which there is no available fair value. Held for trading securities are presented according to their fair value on the reporting date. Profit or loss from adjustments to fair value are charged to the statement of income, under the item for non-interest financing income.
4. Classification of income (expenses) in the statement of income:
   - Interest income based on accrual on bonds which are held to maturity, available for sale, and held for trading are recognized under the item for "interest income".
   - Realized and unrealized profit (loss) from adjustments to fair value of bonds held for trading is presented under the item for "Non-interest financing income with respect to activities for trading purposes".
   - Profit (loss) from the sale of bonds held to maturity and available for sale (including impairment loss) is presented in the item for "Non-interest financing income with respect to activities for non-trading purposes".
5. The Bank periodically evaluates whether the impairment which has occurred in the fair value of securities which are classified under the available for sale portfolio or under the held to maturity portfolio below cost (amortized cost) is other than temporary. For this purpose, the following indicators are evaluated, inter alia:
   - The banking corporation's intent and ability to hold the securities for a sufficient period, which will allow restoring the security to its original cost.
   - The scope of the value of collateral which backs up the security.
   - The period of time during which the value of the security was low relative to its cost.
   - Rate of impairment from total cost.
   - An evaluation of the terms which reflect the financial position of the issuing entity, including whether the impairment is due to specific reasons in the issuer, or due to the existence of macro-economic conditions.

   Additionally, in the event of one of the following situations, the Bank recognizes other than temporary impairment:
   - A security which was sold by the publication date of the report for this period.
   - A security which, proximate to the publication date of the report for this period, the banking corporation intends to sell within a short time frame.

- A bond regarding which significant impairment has occurred in the bond rating on the date of its acquisition by the banking corporation, and the bond rating on the publication date of the report for this period.
- A bond which, after its acquisition, was classified by the banking corporation as troubled.
- A bond regarding which there was a payment failure after its acquisition.
- A security whose fair value, in general, as of the end of the reporting period, and also proximate to the publication date of the financial statements, is significantly lower than the cost (amortized cost), unless it has been proven, with a high degree of likelihood and based on objective evidence, that the impairment is of a temporary nature only.

Additionally, in case of the cumulative fulfillment of the following two situations, the Bank recognizes other than temporary impairment:

- Decrease of 40% in the value of the security relative to amortized cost.
- Decrease for a continuous period of nine months.

If the decrease in fair value is considered as being of a other than temporary nature, the cost (amortized cost) of the security is amortized to fair value, in a manner whereby the loss amounts which were accumulated to equity in the item for other comprehensive income will be classified on the date of the impairment to the statement of income. This value will be used as the basis for new cost, and will not be amended even if an increase in fair value has been recorded in reporting periods subsequent to the impairment date.

On subsequent dates to the recognition of impairment, interest income from investments in securities which constitute debt instruments will generally be recognized on an accrual basis, in accordance with the difference between the expected cash flows of the debt instrument to the instrument's fair value on the date of the impairment (new cost basis). Regarding beneficiary rights which were acquired, or beneficiary rights which continue to be held by the banking corporation, through the securitization of financial assets, and which are accounted by the prospective interested method, it is possible that in rare cases, if there is no available reasonable estimate regarding amounts and regarding the timing of the cash flows which are expected for collection, the Bank will recognize income in accordance with the cost repayment method, or in accordance with recognition on a cash basis.

B.6. Transfers and servicing of financial assets and extinguishments of liabilities

The Bank applies the measurement and disclosure rules which were specified in ASC 860-10 (FAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended by ASC 860-10, Transfers and Servicing of Financial Assets (FAS 166), for the purpose of handling transfers of financial assets and extinguishments of liabilities. In accordance with these rules, the transfer of a financial asset will be accounted for as a sale, if and only if all of the following conditions are fulfilled: (1) The transferred financial asset has been isolated from the transferring entity, also in case of bankruptcy or other receivership proceedings; (2) Any recipient (or, if the recipient is an entity which whose entire purpose is to deal in securitization or in asset-backed financing activities, and where that entity is prevented from pledging or replacing the financial assets which it has received, any third party which holds beneficiary rights) may pledge or replace the assets (or the beneficiary rights) which it has received, if no condition exists which also restricts the recipient (or a third party who holds the beneficiary rights) from exercising its right to pledge or to replace, and also provides the transferor with a benefit greater than a trivial benefit; (3)

Note 1 - Accounting Policy (Cont.)

The transferor, or consolidated companies which were included in its financial statements, or its agents, do not maintain effective control of the financial assets or if the beneficiary rights which are attributed to these transferred assets.

Additionally, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the entire financial asset; All cash flows which are received from the assets must be divided between the participatory rights in a proportional rate to their share in ownership; The rights must not be subordinated to other rights; There must be no right of recourse to the transferor or to other holders of participatory rights (excluding in case of breach of representations or liabilities, current contractual liabilities to service a financial asset in its entirety and management of the transfer agreement, and contractual undertakings to divide the offsetting of any benefits which were received by any holder of the participatory rights); And the transferor and the holder of participatory rights must not have the right to pledge or exchange the financial asset in its entirety, excluding if all holders of participatory rights agree to pledge or to exchange the financial asset in its entirety.

If the transaction fulfills the conditions for treatment as a sale transaction, the transfered financial assets are written off from the Bank's balance sheet. If the terms of the sale are not fulfilled, the transfer is considered a secured debt. The sale of part of a financial asset which is not a participatory right is treated as a secured debt, i.e., the transferred assets continue to be recorded in the Bank's balance sheet, and the consideration from the sale is recognized as a liability of the Bank.

The Bank monitors the fair value of securities which were borrowed and lent, and of securities which were transferred under repurchasing and resale agreements, on a daily basis, and collateral is required in appropriate cases. Interest which was received or paid with respect to such securities is reported as financing income or expenses, respectively.

Borrowing or lending transactions of securities

1. Unsecured borrowing of securities:

When the banking corporation borrows securities, through unsecured loans, the banking corporation recognizes the security, and against it, a deposit according to the value of that security which was received in the loan transaction. The security which was borrowed by the banking corporation is classified as a security in the trading portfolio.

2. Unsecured lending of securities:

When the banking corporation lends a security which it borrowed in an unsecured loan transaction, credit and deposit against it are recognized in the amount of the market value of the transferred security. Changes to the accrual basis are treated as interest income, and changes in market value (beyond changes in the accrual basis) are classified under the item for "non-interest financing income".

Note 1 - Accounting Policy (Cont.)

3. Short sale of borrowed securities:

When a banking corporation short sells securities which were borrowed by it, cash against deposit is recognized. The deposit is only revalued if the value of the security increased during the relevant period, and is recognized under the item for "non-interest financing income".

The Bank writes off a liability only if the liability has been extinguished, in other words, if one of the following conditions has been fulfilled: (a) the Bank paid to the lender and was released from its obligation due to the liability, or (b) the Bank was legally released, through legal proceedings, or with the consent of the lender, from its status as primary debtor with respect to the liability.

B.7. Measurement and disclosure of impaired debt, credit risk and provision for credit losses

In accordance with the directive issued by the Commissioner of Banks on the subject of the measurement and disclosure of impaired debts, credit risk and the provision for credit losses, the Bank applies, as of January 1, 2011, the American accounting principles on the subject (ASC 310), and positions of banking supervision authorities in the United States, and of the Securities Exchange Commission in the United States, as adopted in the public reporting regulations. Additionally, beginning on January 1, 2012, the Bank has applied the directives issued by the Banking Supervision Department on the subject of updating the disclosure of credit quality of debts, and of the provision for credit losses.

The directive is applied to all debit balances, including deposits in banks, bonds, securities which were borrowed or acquired within the framework of resale agreements, credit to the public, credit to the government, etc. Credit to the public and other debit balances regarding which no specific rules were established in the public reporting regulations on the subject of the measurement of the provision for credit losses (such as credit to the government, deposits in banks, etc.) are reported in the Bank's books according to the recorded debit balance. The recorded debit balance is defined as the debit balance, after the deduction of accounting write-offs, but before the deduction of the provision for credit losses with respect to that debt. The recorded debit balance does not include accrued interest which is unrecognized, or which was previously recognized and subsequently canceled. Regarding other debit balances, for which specific rules on the subject of measurement and recognition of the provision for impairment (such as bonds), the Bank continues applying the same measurement rules.

Classification of troubled debts

The Bank established policies for the identification of troubled credit and for the classification of debts as impaired. In accordance with the policies, the Bank classifies all of its troubled debts and off-balance sheet credit items under the classifications of: special supervision, subordinated or impaired, as follows:

- Credit under special supervision - credit under special balance sheet supervision is credit regarding which potential weaknesses exist which are worthy of special attention from the Corporation's management. Off-balance sheet credit is classified as credit under special supervision if the realization of contingent liabilities with respect to the item is defined as "possible", and if the debts which may be recognized as a result of the contingent realization would be appropriately classified under this category.
- Subordinated credit - is defined as credit which is insufficiently hedged by the present established value and the debtor's repayment ability, or the pledged collateral, if any. Balance

sheet credit risk which has been classified as above has a well defined weakness or weaknesses, which endanger the realization of the debt. Credit regarding which a provision for credit losses is recognized, on a collective basis, will be classified as subordinated when it becomes debt in arrears of 90 days or more. Regarding debts which are evaluated and provided on a collective basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income.

- Impaired debt - credit regarding which the banking corporation expects that it will not be able to collect all of the amounts with respect to it, according to the contractual terms of the debt agreement, and the provision for credit losses with respect to it, is measured according to the individual provision track. The aforementioned classification should also be applied to credit in arrears of over 90 days, and to troubled debt which was restructured, where as part of the restructuring, the Bank provided a concession to the debtor which, under different conditions, it would not have considered providing. Debt which has been classified as impaired will be assessed on an individual basis, for the purpose of implementing a provision for credit losses, or for writing it off. In light of the fact that the debt regarding which the troubled debt was restructured will not be repaid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, also after the debt has been returned to the repayment track, under the new terms.
- Troubled debt in restructuring - in April 2011, the FASB published an accounting standard update ASU 2011-02, on the subject of a decision available to a credit provider, regarding whether a debt restructuring constitutes a troubled debt restructuring. In accordance with American standards on the subject (ASC 310), a debt which has been restructured as troubled debt is a debt which has undergone formal restructuring, as part of which - due to economic or legal reasons which are associated with a debtor's financial difficulties - the Bank has granted a concession to the borrower. For the purpose of determining whether a debt arrangement which was performed by the Bank constitutes a restructuring of troubled debt, the Bank performs a qualitative test of the entire set of circumstances of the arrangement, and of the circumstances in which it was performed, with the aim of determining whether: (1) The debtor is experiencing financial difficulties; and (2) the Bank has granted a concession to the debtor under the arrangement. For the purpose of determining whether the debtor is experiencing financial difficulties, the Bank evaluates whether there are indicators that the borrower is experiencing difficulties on the date of the arrangement, or regarding the existence of a reasonable possibility that the borrower will run into financial difficulties if the arrangement is not implemented. The Bank evaluates, inter alia, the existence of one or more of the circumstances specified below:
- As of the date of the debt arrangement, the borrower is in default, including when another debt of the borrower is in default;
- Regarding debts which, as of the arrangement date, are not in arrears, the Bank evaluates whether, according to the current repayment ability, it is probable that, in the foreseeable future, the borrower will enter a state of default, and will not fulfill the original contractual terms of the debt;
- The debtor has been declared bankrupt, is undergoing receivership proceedings, or there are significant doubts as to the borrower's continued existence as a going concern; And
- Without changing the terms of the debt, the debtor will be incapable of raising debt from other sources according to the conventional market interest rate for debtors who are not in default.

Note 1 - Accounting Policy (Cont.)

Accrual of interest and recognition of interest income:

- **Impaired debt** - on the date of a debt's classification as impaired, the banking corporation cancels any interest which has accrued and been recognized in the statement of income, but which has not yet been collected. Additionally, from the date of classification and thereafter, the banking corporation does not accrue interest income with respect to a debt which is classified as impaired debt, except for the following regarding troubled debt in re-organization.

  If there is doubt regarding whether the balance of impaired debt will be collected, the interest payments which were received are recorded as amortization of the principal.

  If the debit balance is considered collectible in its entirety, interest payments which were received in cash will be recognized as interest income in profit and loss. Interest income is recognized up to the amount which would have been accrued during the reporting period on the remaining registered balance of the debt, according to the contractual rate. Any balance beyond this amount, which has not been recorded as an amortization of the remaining recorded balance, is recorded as the collection of previous accounting write-offs.

- **Debt which has undergone troubled debt restructuring** - Debt which has formally undergone troubled debt restructuring, such that, after the restructuring, there is a reasonable measure of confidence that the debt will be repaid and settled under the new terms, is treated as impaired debt, which accrues interest income, provided that the restructuring is supported by a current credit assessment, and is well documented in terms of the debtor's financial position, and the repayment forecast, according to the new terms. Otherwise, the restructured debt is treated as impaired debt which does not accrue interest income.

- **Debts for which a collective provision for credit losses is calculated** - Debt for which a collective provision for credit losses is calculated is not classified as impaired debt, and the banking corporation does not stop accruing interest income with respect to it, even if the debt is in arrears of 90 or more days. These debts are subject to other evaluation methods which ensure that the bank's net profit is not biased upwards. Fees with respect to late payments on such debts are included as income on the date when the right to receive the fee from the customer materialized, provided that the collection is reasonably assured.

Provision for credit losses:

A banking corporation is required to maintain a provision for credit losses at an appropriate level in order to cover expected credit losses with reference to its credit portfolio, including with respect to off-balance sheet credit risk. The provisions for credit losses will include:

- **Individual provision for credit losses** - the individual provision for credit losses is performed based on a measurement of the debt's impairment, based on the present value of the expected future cash flows, discounted by the debt's effective interest rate, or when the debt is dependent on collaterals, or when possession of the asset is expected to be received according to the fair value of the collateral which was pledged to secure that credit (less selling costs). The need for a specific provision is evaluated with respect to each debt whose contractual balance (without deducting accounting write-offs which are not associated with legal concessions), unrecognized interest, provisions for credit losses and collaterals) is NIS 1 million or more, and any other debt which was identified for the purpose of a specific evaluation by the banking corporation.

  For this purpose, the Bank defines debt as debt contingent upon a security when its repayment is expected to be performed exclusively from the security which is pledged in favor of the Bank, or

Note 1 - Accounting Policy (Cont.)

when the Bank is expected to receive repayment of the asset which is held by the borrower, even if there is no specific pledge on the asset, when the borrower has no other available and reliable material sources for repayment.

- **The collective provision for credit losses** - is applied for large groups of relatively small and homogeneous debts, and with respect to debts which were specifically evaluated and found to be non-impaired. The measurement of credit losses is based on the rules which were determined in ASC 450 (FAC 5) - accounting treatment of contingencies, and on transitional provisions, as specified below. With respect to the years 2011-2012, a transitional provision was issued regarding the calculation of credit losses on a collective basis. According to the transitional provision, the rates of the collective provision for credit losses on a collective basis will be determined during the transition period, based on the range of historical provision rates for doubtful debts in the last five years, and in accordance with the directive issued by the Commissioner specifically, also the data for 2011, segmented by market branches, and on the net rate of accounting write-offs which were actually recorded beginning on January 1, 2011.

  Additionally, the Bank evaluates, on each reporting date, whether the balance of the collective provision is not lower than the balance of the general, additional and special provision for doubtful debts as of that date, which is calculated in accordance with Proper Banking Management Directive 315, regarding "provision for doubtful debts", gross of tax.

  The provision which is evaluated on a collective basis for off-balance sheet credit instruments is based on the provision rates which were determined for balance sheet credit, in consideration of the expected rate of credit realization of off-balance sheet credit risk. The rate of credit realization is calculated by the Bank based the credit conversion factors specified in Proper Banking Management Directive 203, measurement and capital adequacy - credit risk - the standard approach, with certain adjustments in cases where the Bank has past experience which indicates the credit realization rates.

- **Collective provision with respect to credit to private individuals** - On January 19, 2015, a circular was published on the subject of the collective provision with respect to credit to private individuals. The circular prescribes that the determination of an adequate provision for credit losses of banking corporations and credit card companies should take into account both past losses due to credit to private individuals, and adjustments with respect to factors which are relevant to the collection chances of credit to private individuals (hereinafter: the "Qualitative Adjustments"). Banks are required to verify, beginning with the public reports for 2014, that the rate of qualitative adjustments to the collective provision for credit losses with respect to non-troubled credit to private individuals does not fall below 0.75% of the balance of non-troubled credit to private individuals as of that date. The above does not include credit risk due to receivables with respect to bank credit cards which do not charge interest, and individual treatment was established for banking corporations whose annual loss rates are particularly low. Additionally, adjustments with respect to environmental factors will not apply to a banking corporation regarding which the Banking Supervision Department has issued specific directives.

- **Provision for credit losses with respect to housing loans**

  Beginning on January 1, 2006, the Bank has applied the directives issued by the Commissioner of Banks regarding the application of the Proper Banking Management Directive on the subject of "provisions for doubtful debts with respect to housing loans" (hereinafter: the "Directives Issued by the Commissioner"). The Commissioner's directives referred to a number of main issues on all matters associated with the method used to calculate the provisions for doubtful debts with respect to a housing loan, including standard calculation rules to determine the minimum provision with respect to housing loans, whose extent of arrears exceeds six months. The provision is calculated at rates of 8% to 80% of the balance of the debt in arrears, in accordance with the extent of the arrears.

The Bank's policy is to write-off housing loans which are provided to losses but where, as a result of collection processes, there is no balance of collateral to realize the debt. Update to guidelines on the subject of residential real estate (hereinafter: the "Guidelines")

In accordance with the Commissioner's circular dated March 21, 2013, beginning on June 30, 2013, the balance of the collective provision for credit losses with respect to housing loans supervisor 0.35% of the balance of the aforementioned loans as of the reporting date. The above does not apply to housing loans with respect to which a provision is held according to the extent of the arrears, or a specific provision.

Note 1 - Accounting Policy (Cont.)

Accounting write-off:

The Bank performs accounting write-offs in the following cases:

- Any debt, or any part thereof, which is evaluated on an individual basis, and which is considered noncollectable, or any debt with respect to which the Bank has performed long term collection efforts.
- Any debt with respect to which the Bank conducts collection efforts, and for which specific provisions for credit losses have been made. Generally, in a period which does not exceed two years.
- In case of debt whose collection is conditional on securities, any part of the surplus debt over the value of the collaterals which is identified as noncollectable debt will be immediately written off, against the provision for credit losses.
- Troubled debts where the provision with respect to them is measured based on a collective provision for credit losses, where the period of the arrears exceeds 150 days.
- It is clarified that accounting write-offs do not involve a legal concession, and reduce the reported balance of the loan for accounting purposes only, while creating a new cost basis for the debt in the Bank's books.

B.8. Fixed assets

Recognition and measurement

Buildings and equipment are presented at cost, less accumulated depreciation and impairment loss. The cost includes costs which are directly attributable to fixed assets and to bringing it to the location and condition needed for its operation. When significant parts of fixed assets have a different lifetime, they are accounted for as separate items of the fixed assets. Buildings up for sale are presented according to their cost or disposal value, whichever is lower.

Subsequent costs

The cost of replacing a part of a fixed asset item is recognized as part of the book value of that item if it is expected that the future economic benefits embodied in the replaced part will flow to the Bank if its cost is reliably measurable. The book value of the replaced part is written off. Current maintenance costs of fixed asset items are charged to the statement of income upon their materialization.

Costs of software intended for self use:

Costs which the banking corporation discounts as part of the asset cost include direct external costs of materials and services which are required for the process of developing or purchasing software, payroll costs with respect to employees who are directly associated with the project, and who dedicate their time to it, according to the scope of time which is directly dedicated to the project, as well as financing costs which are created during the software development process. General and administrative expenses, and indirect costs, are not discounted as part of the asset's cost, but rather are applied to the statement of income upon their creation.

Discounted costs are amortized in a straight line over the useful lifetime of the software, beginning on the date the software was ready for its intended use. Software is considered ready for its intended use after all of the main tests have been completed regarding it. The useful lifetime of software is re-estimated in each period. When determining useful lifetime, the banking corporation take into account many factors, such as technological changes, obsolescence and competitive status.

Depreciation

Depreciation is calculated from cost and charged to the statement of income (unless it was included in the book value of another asset), according to its useful lifetime, using the straight line method, beginning on the date when the asset is ready for use relative to its original cost. Leasehold improvements are amortized over the lease period, including an option which is likely to be realized, or their useful lifetime, whichever period is shorter. Estimates regarding useful lifetime and residual value are re-evaluated from time to time. Amortization is calculated according to equal annual rates, as follows:

	% of depreciation	
Offices for rent	4	
Furniture and office equipment	7-10	(mostly 7%)
Computers and associated equipment	20-33	
Software costs	20-33	
Leasehold improvements	10	

The amortization of intangible assets, including software assets, is charged to the statement of income according to the straight line method over the estimated useful lifetime of intangible assets, beginning from the date when the assets became available for use.

Intangible assets which are created in the Bank (such as software under development) are not systematically amortized so long as they are not available for use, in accordance with management's decision. Therefore, impairment with respect to these intangible assets is evaluated at least once per year, until the date when they become available for use, in accordance with management's decision.

Write-offs

The book value of fixed assets is written off upon disposal or when future economic benefits are no longer expected to flow from its use or disposal. The difference between the net consideration from the disposal, if any, and the book value of the asset which was written off, is charged to the statement of income, under the item for "Other income".

B.9. Impairment of non-financial assets

The Bank evaluates, for each reporting date, the need to record a provision for impairment of non-monetary assets (such as buildings and equipment and intangible assets, including goodwill) when there are indicators, due to events or changes in circumstances, which indicate that its assets in the balance sheet are presented at an amount exceeding their recoverable value.

The recoverable value of an asset or cash generating unit is the higher of either the net selling price or the value in use. Value in use is the present value of the estimated future cash flows, discounted by the interest rate before tax, which are expected to arise from the use and disposal of the asset. When the book value of the asset exceeds its recoverable value, the Bank recognizes impairment loss in the amount of the difference between the asset's book value and its recoverable value. Loss which has been recognized as stated above will be canceled only if changes have occurred in the estimates which were used in the determination of the asset's recoverable value from the date of recognition of the last impairment loss, excluding loss from impairment of goodwill which has not been canceled.

Indicators of impairment of software costs for self use -

- The software is not expected to provide a significant service.
- A change is expected to the manner or scope of use of the software, currently or in the future.
- A significant change to the software is expected.

Note 1 - Accounting Policy (Cont.)

- The expected costs in order to develop or change the software significantly exceed the original expected amount.

Additionally, indicators have been added that the software is not expected to serve the banking corporation -

- Shortage in budgeting or expenses for the project.
- Deviations from the budget.
- Programming difficulties which are not expected to be solved on time.
- A new technology has arisen on the market which causes management not to expect to continue the current development.
- Information has been obtained indicating that the software is available on the market at a significantly lower cost than the expected cost of development.

Generally accepted accounting principles in the United States on the subject of "intangible assets", see section D.2 below.

For details regarding software development costs for self use, and the amortization thereof, see sections B.7 above.

B.10. Leases:

1. A lease is an agreement under which the lessor transfer to the lessee, in consideration of a single payment or a series of payments, the right to use an asset for an agreed upon period of time. There are two types of leases: finance lease (a lease which essentially involves a transfer of all risks and benefits associated with the ownership of the property, regardless of a transfer of the property rights at the end of the arrangement), and operating lease (non-finance lease).
2. The lease period is the non-cancelable period for which the lessee has contractually agreed to lease the property, together with any additional periods for which the lessee has an option to extend the lease of the property, for an additional payment, or without an additional payment, where, on the date of the engagement in the lease, it was reasonably certain that the lessee would exercise the option.

   If the banking corporation is the lessee in an operating lease: The leased assets are not recognized in the balance sheet, and the banking corporation recognizes the lease payments with respect to the operating lease as an expense, in a straight line over the lease period (which includes the option period that is available to the lessee, which, on the date of the engagement in the lease, is reasonably certain to be exercised).

B.11. Segmental reporting

1. Supervised Operating Segments

The banking corporation reports regarding its operating segments in accordance with a uniform and comparable framework, as determined by the Banking Supervision Department, which includes a disclosure requirement regarding "supervised operating segments", in accordance with the definitions of the Banking Supervision Department. The segmentation into supervisory operating segments is mostly based on customer characteristics. Private customers are classified according to their portfolio of financial assets, and business customers are classified according to their turnover.

The framework for report regarding supervised operating segments was prepared according to accounting principles which were adopted for the purpose of the preparation and presentation of the banking corporation's financial statements.

2. Operating segments according to the approach of management:

The approach of management to the segmentation of the Bank's activities is not significantly different than the approach to the segmentation of supervised segments, and therefore, the Bank reports the operating segments in accordance with the uniform framework which was determined by the Commissioner only.

B.12. Deferred issuance expenses

Bond issuance and distribution expenses are presented at cost, and are amortized over the repayment periods of the liabilities, in accordance with the effective interest method.

B.13. Taxes on income

1. The tax rate which applies to the banking corporation is the tax rate which applies to financial institutions for value added tax purposes. This rate include capital gains tax and payroll tax which are applied to income in accordance with that law. Payroll tax is included under the item for "salary and related expenses" in the statement of income.
2. The financial statements include current taxes and deferred taxes. Current taxes are the amount of taxes on income which should be paid or which can be returned during the current period. Deferred taxes were recognized with respect to temporary differences between the financial reporting and the tax base of an asset or liability, and with respect to carryforward losses for tax purposes.
3. Deferred tax assets and deferred tax liabilities are measured according to the legal tax rates which are expected to apply to taxable income in the period when the asset is expected to be realized, or when the liability is expected to be settled, based on the tax rates and tax laws which were enacted until the end of the reporting period. A law will be considered as having been "enacted" only upon its publication in the Official Gazette.
4. The banking corporation recognizes a deferred tax liability with respect to all of the taxable temporary differences, unless the deferred tax liability is due to the recognition of goodwill which is not amortized for tax purposes, or a deferred tax liability with respect to subsidiaries, see section 5 below.
5. The banking corporation did not recognize a deferred tax liability with respect to temporary differences which were created until December 31, 2016, with respect to investment in local subsidiaries. These temporary differences may be taxable if the banking corporation realizes the investment in the local subsidiaries. Since these investments were purchased by the banking corporation for holding purposes, and since the Bank does not intend to realize them, the aforementioned liability was not recognized. Beginning on January 1, 2017, the banking corporation recognized a deferred tax liability with respect to taxable temporary differences with respect to local subsidiaries.
6. The banking corporation recognizes a deferred tax asset with respect to all of the deductible temporary differences and carryforward losses. A deferred tax asset is amortized by the amount of the valuation allowance if, based on the weight of current evidence, it is more likely than not that a part of all of the deferred tax asset will not be realized. Regarding tax assets with respect to carryforward losses, the banking corporation applies additional criteria in order to estimate the probability that there will be sufficient taxable income against which the losses for tax purposes can be managed.
7. Interest income and expenses with respect to taxes on income will be classified as "taxes on income".

Note 1 - Accounting Policy (Cont.)

8. The banking corporation applies the accounting treatment regarding uncertainty involving taxes on income, with respect to uncertain tax positions vis-à-vis the tax authorities (FIN 48). In these cases, a dual-stage approach is applied: in the first stage, the Bank recognizes in the books only tax positions which are more likely than not to be accepted, based on their technical facts only (in accordance with the tax laws, regulatory guidelines and the conventional practice, if any). A banking corporation which meets the conditions of the first stage recognizes the tax position based on the highest amount which is more likely than not to be recognized, with a cumulative probability of over 50%.

   For details regarding directives issued by the Commissioner of Banks on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect taxes on income", see section D.2. below.

B.14. Derivative financial instruments

In accordance with the directives issued by the Commissioner of Banks, a banking corporation is required to recognize all derivative instruments, including certain derivative instruments which are embedded in other contracts, as assets or liabilities in the balance sheet, and to measure them at fair value. The change in the fair value of a derivative instrument will be reported in the statement of income, in accordance with the designation of the derivative instrument. Changes to the fair value of non-hedging derivative instruments are recognized in the statement of income under the item for non-interest financing income.

The Bank engages in contracts which do not entirely meet the definition of a derivative instrument. Such contracts may include embedded derivative instruments. An embedded derivative instrument will be separated from the host contract and accounted for as a derivative instrument, upon the cumulative fulfillment of the following three conditions: the economic characteristics of the embedded derivative must not be clearly and closely associated with those of the host contract; the hybrid instrument must not be re-measured according to its fair value, in accordance with GAAP, while reporting the changes in the fair value under the statement of income at the time of their creation, and where a separate instrument with the same terms as those of the embedded instrument would have met the definition of a derivative instrument. Once an embedded derivative has been identified, it is separated from the host contract and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract. The separated embedded derivatives in the Bank are due to the provision of foreign currency-linked credit which includes a minimum limit for the linkage basis, and the raising of savings plans with identical characteristics.

Profit or loss from a derivative which was not designated as a hedging instrument is recognized under the statement of income on an ongoing basis. Transactions with derivative instruments constitute a part of the Bank's assets and liabilities management unit. The fair value of derivative instruments is presented in the balance sheet as assets with respect to derivative instruments or as other liabilities with respect to derivative instruments, as applicable, and the results from transactions with derivative instruments which are due to their recording on a fair value basis are included in the statement of income under the item for non-interest financing income.

Note 1 - Accounting Policy (Cont.)

B.15. Fair value measurement and fair value alternative

On April 28, 2011, a circular was published by the Commissioner of Banks on the subject of fair value measurements and fair value alternatives. The circular adopts the following standards, inter alia:

Fair value measurement: ASC 820-10 (FAS 157) (hereinafter: "ASC 820-10").

ASC 820-10 defines fair value and determines a consistent framework for fair value measurement by defining fair value measurement techniques regarding assets and liabilities and determining a fair value hierarchy and detailed instructions for implementation.

The circular distinguishes between two types of data which are used in the determination of fair value:

Observable inputs represent data which are observable on the market and which are received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation. These input types create a fair value hierarchy, as specified below:

Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.

Level 2 inputs: quoted prices for similar assets or liabilities in active markets; Quoted prices for identical assets or liabilities in inactive markets; Prices which are derived from valuation models, in which all significant inputs are observable or supported by observable market inputs.

Level 3 inputs: unobservable inputs for the asset or liability which are due to valuation models where one or more of their significant inputs are unobservable.

In the measurement of fair value, the banking corporation makes use of valuation techniques which maximize the use of relevant observable inputs, and minimizes the use of unobservable inputs.

Fair value measurement is based on the assumption that the transaction is performed in the principal market of the asset or liability, or in the absence of a principal market, in the most effective market of the asset or liability. The principal market is the market with the largest volume and activity level for the asset or liability. The most beneficial market is the market which maximizes the amount which would be received upon the sale of the asset, or minimizes the amount which would be paid upon the transfer of the liability, after taking into account transaction costs and delivery costs.

In general, in certain fair value measurements which are not on level 1, the banking corporation performs adjustments for the inputs of the relevant market, in order to reflect, inter alia, the counterparty's credit risk, the credit quality of the banking corporation itself, liquidity constraints, etc. For additional information, see Note 33D. Additionally, when there is significant credit risk with respect to a derivative instrument, for which a quoted price is not available on an active market, and there are no indications from an active market regarding the credit quality of the counterparty, which could be considered as an input on level 1 or level 2, the fair value measurement of the derivative instrument is considered a fair value measurement on level 3.

When the inputs which are used to measure fair value are classified to different levels of the fair value hierarchy, the banking corporation classifies the fair value measurement, in its entirety, to the lowest level of the input which is significant to the measurement in its entirety.

B.16. Employee rights

Post-retirement benefits - severance pay and other benefits (hereinafter: "Severance Pay") - defined benefit plans

Severance pay benefits constitute a part of the remuneration which is paid to employees for their services. In general, the amount of the benefit which will be paid depends on certain future events which are included in the plan benefit formula, which frequently include the duration of the employee's life, or the lives of their survivors, the number of years of service provided by the employee, and the employee's remuneration during the years immediately before retirement or conclusion of employment.

The Bank calculates the expected long term rate of return on plan assets using the historical rates of return over a long time period, in a portfolio with a similar composition of assets. For this purpose, the Bank uses available market data regarding each of the significant categories of assets in the portfolio, and weighs them according to the composition of plan assets.

The liability with respect to expected benefit reflects the present actuarial value of all benefits which are attributed to the service provided by the employee before the balance sheet date. The measurement of this liability will be based on actuarial assumptions as appropriate for the Bank's balance sheet date (for example, turnover, mortality, discount rate, etc.) and data from the population census as of the present date.

If the liability with respect to an expected benefit exceeds the fair value of the plan assets, the Bank recognizes in the balance sheet a liability which is equal to the non-financed liability with respect to an expected benefit. If the fair value of the plan assets exceeds the liability with respect to an expected benefit, the Bank recognizes, in the balance sheet, an asset which is equal to the liability which is over-financed with respect to the expected benefit.

The Bank evaluates its assumptions on a quarterly basis, and updates theses assumptions accordingly.

Actuarial profit or loss constitutes a change in the value of a liability with respect to an expected benefit or of the plan assets, due to the fact that actual experience is different from the estimate, or due to a change in the actuarial assumption.

Actuarial profit or loss which is not due to a change in the discount rate as of January 1, 2013, and in the subsequent periods, is included under accumulated other comprehensive income, and is amortized using the straight line method throughout the average remaining service period of the employees who are expected to receive benefits according to the plan.

Actuarial loss as of January 1, 2013, which is due to the difference between the discount rate for the calculation of employee rights linked to the consumer price index, which was determined according to the transitional provision in the public reporting regulations (4%) and the discount rates as of that date of CPI-linked liabilities to employees, which were determined along with the above, is included under accumulated other comprehensive income. Actuarial profits from January 1, 2013 and thereafter, which are due to current changes in discount rates during the reporting periods, are recorded under accumulated other comprehensive income, and reduce the aforementioned recorded loss balance, until the balance has been reduced to zero.

Actuarial losses which are due to current changes in discount rates during the reporting periods, and actuarial profits which are due to current changes in discount rates during the reporting periods, after reducing to zero the aforementioned recorded balance of loss, are amortized according to the straight line method over the average remaining service period of employees who are expected to receive benefits according to the plan.

The discount rate with respect to employee benefits is calculated based on the yields of government bonds in Israel, plus the average margin of corporate bonds with a rating of AA (international) or higher as of the reporting date. Due to practical considerations, the margin was established according to the difference between the yield to maturity rates, by repayment periods, on corporate bonds with a rating of AA or higher in the United States, and yield to maturity rates for those repayment periods, on US government bonds, as of the reporting date.

Note 1 - Accounting Policy (Cont.)

The Bank adopts the directives issued by the Banking Supervision Department regarding internal control over the financial reporting process regarding employee rights, including regarding an evaluation of a "material liability" to provide to its employees benefits with respect to increased severance pay and/or early pension.

Defined deposit plans - post-retirement benefits

A defined deposit plan is a plan which provides post-retirement benefits in consideration of services which were provided, provides a personal account for each plan participant, and defines the method for determination of the deposits to the employee's account, instead of determining the amount of benefits which the employee will receive. In a post-retirement defined deposit plan, the benefits which a plan participant will receive are dependent only on the amount deposited in the plan participant's account, on the returns which are accrued on the investments of those deposits, and on the realization of benefits of other participants in the plan, which may be allocated to the account of that participant.

If deposits for the defined plan to the account of a certain person are required with respect to periods during which that person provides services, the net pension cost or the other post-retirement benefit cost, net, for the period, will be the required deposit for that period. If a plan requires deposits for periods after the person has retired or concluded employment, the estimated cost will be accrued during the employee's period of service.

The Bank's liabilities to pay severance pay in accordance with section 14 of the Severance Pay Law are treated as a defined deposit plan.

Holiday gift

The Bank recognizes the non-discounted amount of the current benefit on the service provision date. Additionally, the Bank accrues the liability throughout the relevant period which was determined in accordance with principles of other post-retirement benefits.

Paid absences

Vacation

The Bank accrues the liability through the relevant period which was determined. For the purpose of calculating the liability, actuarial assumptions and discount rates are not taken into account. All components of the benefit cost for the period are immediately applied to the statement of income. For the purpose of determining the discount rate and the allocation method for the service cost periods, the Bank applies the principles of the defined benefit pension plans, with the required adjustments.

Sick days

The Bank does not accrue liabilities with respect to sick days.

Note 1 - Accounting Policy (Cont.)

Other long term benefits to active employees - jubilee bonuses

The Bank accrues the liability over the period granting eligibility for the benefit. For the purpose of calculating the liability with respect to these benefits, actuarial assumptions and discount rates are taken into account. All components of the benefit cost for the period, including actuarial profit and loss, are immediately charged to the statement of income.

B.17. Contingent liabilities

In accordance with directives issued by the Commissioner of Banks, the provisions of ASC 450 were adopted, as were its accompanying directives, regarding the accounting treatment of pending legal claims, excluding in certain rare cases, such as class actions whose results the Bank and its legal counsel are unable to estimate.

The financial statements of the banking corporation include adequate provisions with respect to claims, according to the assessment of management, and based on the estimates of legal counsel.

In accordance with the directives issued by the Commissioner of Banks, the banking corporation creates a provision with respect to claims, upon the fulfillment of two cumulative conditions:

1. It is probable, i.e., probability of over 70%, that a liability materialized at the end of the reporting period, in accordance with the information which is available until the date when the financial statements were published; And
2. The amount of the liability is reasonably measurable.

   The estimate of bank management, which is based on the opinion of its legal counsel, regarding the probability of the realization of the exposure to risk in claims, is determined based on the following three areas of probability:

1. Probable risk - where the probability of the realization of the exposure to risks is above 70%. With respect to claims included in this risk group, appropriate provisions were included in the financial statements.
2. Possible risk - where the probability of the realization of the exposure to risks is between 20% and 70%. with respect to claims included in this risk group, no provisions were included in the financial statements; only disclosure was provided.
3. Low risk - where the probability of the realization of the exposure to risks is less than or equal to 20%. With respect to claims included in this risk group, no provisions were included in the financial statements, and no disclosure was provided.

In case of a probable exposure, the provision is included in the financial statements in the amount of the entire exposure, as estimated by bank management. In case of a possible exposure, a provision is not included in the financial statements, but rather, only disclosure is provided for the amount of the exposure. In case of improbable exposure, there is no need to perform provisions and/or disclosure. With respect to claims to which the exposure is low, although the maximum liability or possible loss could place in doubt the Bank's continued operation, disclosure is provided.

B.18. Earnings per share

Earnings per share are calculated according to a distribution of the net profit attributed to shareholders in the Company, by the number of weighted ordinary shares in the period. Basic earnings per share include only shares which actually exist during the period.

Potential ordinary shares (convertible securities, such as convertible bonds, warants and options to employees) are only included in the calculation of diluted earnings per share if their impact dilutes earnings per share in a manner whereby their conversion reduces earnings per share or increases loss per share from continuing operations. Additionally, potential ordinary shares which were converted during the period are included under diluted earnings per share only until the conversion date, and from that date onwards, are included under basic earnings per share.

B.19. Interested parties and related parties

Information regarding balance-sheet and off-balance sheet balances, and information regarding the results of transactions (hereinafter: the "Information") with interested parties and related parties, is given with respect to any person who is defined as an interested party in accordance with the definitions provided in section 1 of the public reporting regulations, or as a related party, according to the definitions provided in Proper Banking Management Directive 312, regarding the "business affairs of a banking corporation with related parties". In addition to the disclosure requirements which are required by virtue of the public reporting regulations, the banking corporation also applies the disclosure requirements which are required due to the adoption of issue 850 of the codification, regarding "disclosures with regard to related parties". Information regarding interested parties and related parties refers to the banking corporation and its consolidated companies, and is not presented on the basis of the banking corporation solo.

C. Statement of cash flows

The report was prepared in accordance with directives issued by the Commissioner of Banks and International Accounting Standard (IAS) 7 regarding the statement of cash flows. Cash flows from activities involving assets and liabilities are presented net, excluding operations involving housing credit, movement in non-monetary items, non-held for trading securities, and bonds and deferred liability notes. Cash also includes deposits in banks whose original period from their deposit date was up to three months.

D. Initial adoption of accounting standards, updates to accounting standards and directives issued by the Banking Supervision Department:

Beginning with reporting periods commencing on January 1, 2017, the Bank initially applies accounting standards and directives issued by the Banking Supervision Department in the manner specified below:

1. Directives issued by the Banking Supervision Department on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States;
2. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to taxes on income";
3. Definition of primary repayment source.

Presented below is a description of the changes which were implemented to the accounting policy, in these consolidated annual financial statements, and the impact of their initial adoption:

1. Directives issued by the Banking Supervision Department on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States.

On March 21, 2016, the Banking Supervision Department published a circular on the subject of "reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States". The circular updates the accounting treatment, and adopts American accounting standards on the following subjects: generally accepted accounting principles for banks in the United States, ASC 830 - Foreign Currency Matters; generally accepted accounting principles for banks in the United States, ASC 250 - Accounting Changes and Error Corrections; and generally accepted accounting principles for banks in the United States, ASC 855-10 - Subsequent Events.

The new provisions which were established in accordance with the circular apply from January 1, 2017 and thereafter. At the time of initial adoption, it is required to act in accordance with transitional provisions which were determined on those matters, mutatis mutandis. The above includes a retrospective correction of the comparative figures, if required with respect to these subjects. In its implementation of the guidelines of subject 830 of the codification, on the subject of "Foreign currency", in reporting periods until January 1, 2019, a banking corporation may not include the foreign currency differences with respect to available-for-sale bonds as part of the adjustments to fair value of those bonds, but rather, will continue treating them as required under the public reporting regulations before the adoption of this subject.

The impact of adopting the foregoing provisions on the financial statements was immaterial as of December 31, 2017.

2. Directives issued by the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to taxes on income"

On October 22, 2015, the Banking Supervision Department published a circular on the subject of "reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States regarding taxes on income". In accordance with the circular, banking corporations and credit card companies are required to adopt the generally accepted accounting principles for banks in the US regarding taxes on income, including, inter alia, the rules for presentation, measurement and disclosure which were set forth in the provisions of subject 740 in the codification, regarding "taxes on income", and the provisions of subject 830-740 in the codification, regarding "Foreign Currency Matters - Taxes on Income". Additionally, on October 23, 2016, the Banking Supervision Department published a circular which includes several updates to the public reporting regulations, and updates the method of initial adoption of the new provisions, which was determined in the circular dated October 22, 2015.

Presented below is a review of the primary changes due to the initial adoption of the aforementioned directives:

- Recognition of deferred tax assets:

  Deferred tax assets are recognized in their entirety and amortized by creating a valuation allowance in amounts for which it is not possible to determine, with a probability level of "more likely than not that", that the asset will be realized. The provisions of this circular are being applied from January 1, 2017 and thereafter.

- Investment in local subsidiaries:

  A deferred tax liability will be recognized unless the investment can be repaid based on a tax exemption, and the banking corporation expects to eventually use this resource.

- Tax rates and tax laws:

  The calculation of current and deferred taxes is based on the enacted tax rates. A law will be considered as having been "enacted" only upon its publication in the Official Gazette.

Note 1 - Accounting Policy (Cont.)

- Allocation of expenses or tax income for the year:

  Generally accepted accounting principles in the United States set forth rules for the allocation of the total tax expense or income in the period between the various components of the financial statements (continuing operations, discontinued operations, and debit or credit items applied directly to equity). As part of the above, subsequent changes in deferred taxes, following changes in the tax rate, are recognized in the statement of income, even if they refer to items which were previously recognized outside of the statement of income.

- Classification of interest and fines in the statement of income:

  Interest income and expenses with respect to taxes on income, and fines to tax authorities, will be classified as "taxes on income".

  The new provisions apply from January 1, 2017 and thereafter. Temporary differences with respect to previous periods are continuing to be accounted in accordance with the provisions which applied until December 31, 2016.

  The impact of the adoption of the aforementioned provisions on the financial statements is immaterial.

3. Definition of primary repayment source in the classification of troubled debt:

On February 20, 2017, the Commissioner of Banks published an updated collection of questions and answers regarding "implementation of public reporting directives regarding impaired debts, credit risk and provision for credit losses". The file includes question B3, which refers to the definition of the primary repayment source, and how it is reflected in the classification of debt as troubled. According to the response, the determination of the appropriate classification for each debt, until a default occurs or becomes highly probable , in general, is based on the debtor's payment ability, i.e., the expected strength of the primary repayment source. The primary repayment source is defined as a sustainable source of cash over time, which must be under the debtor's control, and which must be set aside, explicitly or essentially, to cover the debt. In general, a repayment source will be recognized as the primary repayment source when the Bank shows that the debtor is highly likely to produce, within a reasonable period of time, suitable cash flows from ongoing business operations, which will serve to repay all of the required repayments in full, by the dates specified in the agreement. Along with the primary repayment source, most credit transactions have secondary and even tertiary repayment sources.

The banking corporation adopts these guidelines from July 1, 2017 and thereafter.

The impact of the adoption of the aforementioned provisions on the financial statements is immaterial.

Note 1 - Accounting Policy (Cont.)

E. New accounting standards and directives issued by the Commissioner of Banks, in the period prior to their adoption:

1. Directives issued by the Banking Supervision Department on the subject of reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States.

On October 13, 2016, the Commissioner of Banks published a circular on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States", which adjusted the accounting treatment for various subjects to the generally accepted accounting principles for banks in the United States.

Presented below are main amendments to the directives:

1. Non-current assets held for sale and discontinued operations - a banking corporation is required to adopt subject 205-20 of the codification, on the subject of "Discontinued operations".
2. Property, plant and equipment, impairment of property, plant and equipment, and investment property - a banking corporation is required to adopt subject 360 of the codification, on the subject of "Property, plant and equipment".
3. Earnings per share - a banking corporation is required to adopt subject 260 of the codification, on the subject of "Earnings per share".
4. Statement of cash flows - A banking corporation is required to adopt subject 230-10 of the codification, on the subject of "Statements of cash flows".
5. Reporting for interim periods - a banking corporation is required to adopt subject 270 of the codification, on the subject of "interim financial reporting".
6. Discounting of interest - A banking corporation is required to adopt subject 835-20 of the codification, on the subject of "Discounting of interest".
7. Guarantees - a banking corporation is required to adopt subject 460 of the codification, on the subject of "Guarantees".

   The provisions of this circular will apply beginning on January 1, 2018 and thereafter, and will include a retrospective correction of comparative figures, if required.

The Bank estimates that the adoption of the provisions is not expected to have a significant impact on the financial statements.

2. Directives issued by the Commissioner of Banks on the subject of "Revenue from contracts with customers "

On January 11, 2015, the Commissioner of Banks published a circular which included amendments to the public reporting regulations on the subject of the adoption of an update to the accounting principles on the subject of "Revenue from contracts with customers". The amendments were intended to adjust the public reporting regulations to US GAAP on the subject of "revenue from contracts with customers".

Upon initial adoption, it is possible to choose between the option of retrospective adoption by restatement of comparative figures, or the option of retrospective adoption by recording of the cumulative effect of the standard's initial adoption, while charging the cumulative effect which will be recognized on the date of initial adoption to equity.

On February 10, 2016, the Commissioner of Banks published a circular in which it was determined that the amendments to the public reporting regulations will be applied for the first time beginning on January 1, 2018. The new standard does not apply, inter alia, to financial instruments and contractual rights or obligations which fall under the application of Chapter 310 of the codification, including leases, securities and derivatives. Specifically, the standard's provisions do not apply to the accounting treatment of interest income and expenses and non-interest financing income.

The Bank believes that the implementation of the provisions is not expected to have a significant impact on the financial statements.

3. New American standard on the subject of "measurement of financial instruments"

In January 2016, the FASB published ASU 2016-01 (hereinafter: the "Update"), which refers to certain aspects of the rules for the recognition, measurement, presentation and disclosure of financial instruments.

Presented below is a review of the primary changes in the update:

Investments in equity securities (excluding investments accounted by the equity method or investments in subsidiaries), in general, will be measured at fair value through profit and loss. Notwithstanding the foregoing, a banking corporation is entitled to measure investments in equity securities, whose fair value cannot be easily determined, at cost less impairment, including adjustments for changes in observable prices in ordinary transactions for identical or similar transactions of the same issuer. All of the adjustments to investment cost are applied to the statement of income. The update simplifies the impairment test with respect to these investments, to which the aforementioned practical easement is applied, by adding a requirement for a qualitative test, which will be performed in each reporting period, for the purpose of identifying impairment. Additionally, previously recognized impairment loss can be reversed in the amount of the subsequent increase in the observable price.

The adoption of the new standard with respect to public companies will apply in annual periods commencing after December 15, 2017, including the interim periods in those annual periods. The standard will be adopted retrospectively, including recording of the cumulative effect against retained earnings at the beginning of the reporting period when the standard is initially applied.

The Bank is preparing for the implementation of directive, and at this stage, it is not possible to estimate the effects due to the implementation of the circular.

4. New American standard on leases

On February 25, 2016, the Financial Accounting Standards Board (the "FASB") published a new standard on the subject of "Leases" (ASU 2016-02).

The new standard signifies a new era, in which lessees will recognize, in the balance sheet, any lease whose period exceeds 12 months, independent of the classification of the lease.

Therefore, in accordance with the new standard, the evaluation regarding whether a lease will be recognized in the balance sheet or off the balance sheet depends on the preliminary question of whether it really constitutes a lease arrangement, and not on the question involving the classification of the lease (as operational or financial). The tests regarding the identification of the lease according to the new standard are not identical to the terms which currently exist in U.S. GAAP. From a resultant perspective, a difference is not expected relative to the current situation, due to the method of distribution of rental expenses and the amortization of the balance sheet items.

Additionally, the new standard replaces the current provisions for sale - leaseback transactions, and establishes a new model which refers both to the lessor and to the lessee.

In accordance with the update, the new U.S. principles are to be adopted beginning with interim periods and annual periods beginning after December 15, 2018.

Note 1 - Accounting Policy (Cont.)

5. Amendment No. 2016-13 to the FASB codification regarding financial instruments - credit losses

In June 2016, the FASB published ASU 2016-13 (hereinafter: the "Update"), which is mostly intended to provide more useful information to the users of financial statements regarding the expected credit losses with respect to financial instruments and with respect to other undertakings to provide credit, on each reporting date.

Presented below is a review of the primary changes in the update:

Assets measured at amortized cost:

- A financial asset (or group of financial assets) which is measured at amortized cost will be presented according to the net amount which is expected to be collected. In other words, the provision for credit losses will reduce the amortized cost of the associated financial asset.
- The statement of income will reflect the measurement of credit losses with respect to financial assets which were recognized during the period, as well as changes in expected credit losses which occurred during the period.
- The measurement of expected credit losses will be based on relevant information regarding past events, including historical experience, the present terms and reasonable and supportive forecasts which affect the ability to collect the reported amount.
- The instructions regarding financial assets which were purchased with deteriorated credit quality were updated.

Debt securities classified as available-for-sale:

- Credit losses which refer to debt securities which are classified as available-for-sale will be recognized in the provision for credit losses, and not as a write off of the security. Credit losses and reversal of credit losses will be recognized in the statement of income for the current period.
- The banking corporation will not use the period of time during which the security is in an unrealized loss position in order to avoid recognition of credit losses. In determining whether credit losses have occurred, it is not necessary to take into account the historical and implicit fluctuations in the fair value of the security, or changes in fair value after the reporting date.
- The instructions regarding financial assets which were purchased with deteriorated credit quality were updated.

The amendments in this update will apply in the United States from annual periods beginning after December 15, 2019. The Banking Supervision Department has not yet determined the manner and date for the implementation of the aforementioned rules; however, the banks were requested, at this stage, to collect certain data for the future adoption of the standard.

6. Amendment No. 2017-07 to the FASB codification, regarding remuneration - retirement benefits, improvement of presentation of net pension cost for the period, and net post-retirement benefit cost for the period:

In March 2017, the FASB published update ASU 2017-07, which is intended to improve the presentation of the net pension cost for the period and the net post-retirement benefit for the period (hereinafter: the "Net Benefit Cost") in the statements of income, and to reduce the discountable amounts for assets (hereinafter: the "Amendments").

Note 1 - Accounting Policy (Cont.)

The amendments to the update require the employer to split the service cost with respect to other components of the net benefit cost, and to present them under profit and loss, as follows:

- The service cost component will be presented in the same section or sections as other compensation costs which are due to the provision of services by the employees during the period.
- The other components of the net benefit cost (such as the interest cost, actual return on plan assets, the amortization of each previous service cost, the amortization of net profit or loss included in which is included in, other comprehensive income), will be presented separately from the service cost component.

7. Circular regarding branch-specific liability restrictions

On July 10, 2017, the Commissioner of Banks published a circular which constitutes an update to the provisions of Proper Bank Management Directive 315. The main change in the circular is the cancellation of the mechanism for a general provision and additional provision due to a deviation from the various risk characteristics. This provision will affect the calculation of the collective provision, in a manner whereby it will not be necessary to verify that the collective provision is not lower than the general balance of the additional and special provision.

In addition to the above, a provision was determined regarding the maximum branch-specific liability, where the liability for a certain branch will not exceed 20% of the total liability, and in certain cases, 22%, and additionally, a requirement was added to the Proper Banking Management Directive, to receive an updated financial report upon the provision or renewal of credit.

The adoption date of the directive was set as January 1, 2018; early adoption is possible.

Note 2 - Interest Income and Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
A. Interest income						
From credit to the public	**469.0**	432.3	393.6	**469.0**	432.3	393.6
From deposits in the Bank of Israel and from cash	**1.3**	0.9	1.9	**1.3**	0.9	1.9
From deposits in banks	**-**	0.1	0.2	**-**	0.1	0.2
From bonds	**3.2**	4.1	10.1	**3.2**	4.1	11.1
From other assets	**-**	0.9	0.5	**-**	0.8	0.4
Total interest income	**473.5**	438.3	406.3	**473.5**	438.2	407.2
B.Interest expenses						
On public deposits	**74.4**	64.2	48.3	**95.0**	83.5	63.7
On deposits from banks	**1.9**	1.7	1.6	**1.9**	1.7	1.6
On lent securities	**0.3**	0.4	0.4	**0.3**	0.4	0.4
On liability certificates and deferred liability notes	**33.5**	29.0	21.9	**13.9**	10.6	8.4
Total interest expenses	**110.1**	95.3	72.2	**111.1**	96.2	74.1
Total interest income, net	**363.4**	343.0	334.1	**362.4**	342.0	333.1
C. Details of interest income on an accrual basis from bonds						
Available for sale	**2.7**	3.1	9.1	**2.7**	3.1	10.1
Held for trading	**0.5**	1.0	1.0	**0.5**	1.0	1.0
Total included under interest income	**3.2**	4.1	10.1	**3.2**	4.1	11.1

Note 3 - Non-Interest Financing Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
A. Non-interest financing income with respect to activities which were not for the purpose of trading						
1. From activities with derivative instruments						
Net income with respect to other derivative instruments (ALM) (1)(2)	**(0.9)**	-(6)	4.9	**(0.9)**	-(6)	4.9
2. Net rate differentials (without the impact of derivatives)	**(3.5)**	(0.3)	(7.8)	**(3.5)**	(0.3)	(7.8)
3. From investment in bonds						
Profit from the sale of available for sale bonds (3)	**2.7**	36.2	5.3	**2.7**	36.2	5.3
Loss from the sale of available for sale bonds (3)	**(0.9)**	(1.1)	(0.7)	**(0.9)**	(1.1)	(0.7)
Reversal of provision for impairment with respect to available for sale bonds (3)	-	-	-	**-**	-	-
Total from investment in bonds	**1.8**	35.1	4.6	**1.8**	35.1	4.6
4. Losses from investment in stocks						
Provision for impairment with respect to available for sale stocks (3)	-	(0.1)	-	**-**	(0.1)	-
5. Profit with respect to sold loans	**2.5**	-	-	**2.5**	-	-
Total non-interest financing income with respect to non-trading activities	**(0.1)**	34.7	1.7	**(0.1)**	34.7	1.7
B. Non-interest financing income with respect to activities for trading purposes*						
Income (expenses), net, with respect to other derivative instruments	**(1.2)**	(1.7)	(1.6)	**(1.2)**	(1.7)	(1.6)
Realized and unrealized profit (loss) from adjustments to the fair value of held for trading bonds, net (4)	**0.7**	2.4	0.9	**0.7**	2.4	0.9
Realized and unrealized profit (loss) from adjustments to the fair value of held for trading shares, net (5)	**-**	-	(0.1)	**-**	-	(0.1)
Total with respect to activities for trading purposes	**(0.5)**	0.7	(0.8)	**(0.5)**	0.7	(0.8)
Non-interest financing income	**(0.6)**	35.4	0.9	**(0.6)**	35.4	0.9

(1) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(2) Of which, with respect to credit derivatives in which the banking corporation is a beneficiary as of December 31, 2017, December 31, 2016 and December 31, 2015, in the amount of NIS 1.1 million, NIS 0 million and NIS 0 million, respectively.
(3) Reclassified under accumulated other comprehensive income
(4) Of which, the part of the profit (loss) which is associated with held for trading bonds and ETF's which are still held as of the balance sheet date, in the Bank and in consolidated terms, as of December 31, 2017, December 31, 2016 and December 31, 2015, in the amount of NIS 4.4 million, NIS (5.4) million and NIS (3.1) million, respectively.
(5) As of December 31, 2017, December 31, 2016 and December 31, 2015, there was no profit (loss) associated with held for trading bonds which are still held as of the balance sheet date, in the Bank and in consolidated terms.
(6) Represents an amount lower than NIS 0.1 million.

Note 4 - Fees

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
Activities with securities	**32.5**	39.4	47.8	**32.5**	39.4	47.8
Project accompaniment fees	**22.6**	22.4	18.7	**22.6**	22.4	18.7
Conversion differences	**11.0**	12.7	13.2	**11.0**	12.7	13.2
Net income from credit portfolio services	**10.0**	11.0	12.3	**10.0**	11.0	12.3
ATM withdrawal fees	**7.9**	4.5	2.0	**7.9**	4.5	2.0
Handling of credit	**7.1**	7.8	9.2	**7.1**	7.8	9.2
Fees from life insurance	**7.3**	7.5	8.3	**2.8**	3.2	4.1
Fees from financing activities	**7.4**	8.0	7.0	**7.4**	8.0	7.0
Fees from property insurance	**1.5**	1.6	1.8	**-**	-	-
Financial product distribution fees	**3.4**	3.1	3.5	**3.4**	3.1	3.5
Other fees	**3.9**	2.9	0.7	**3.9**	2.9	0.8
Total operating fees	**114.6**	120.9	124.5	**108.6**	115.0	118.6

Note 5 - Other Income

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
Capital gains from the sale of buildings and equipment (1)	**-**	-	5.8	**-**	-	5.0
Profit from amortization of deferred income with respect to the acquisition of Clal Batucha (2)	**11.5**	11.5	11.5	**11.5**	11.5	11.5
Total other income	**11.5**	11.5	17.3	**11.5**	11.5	16.5

(1) On October 28, 2015, the Bank sold a real estate property in Jerusalem where a branch of the Bank was located. Profit from the sale of the property amounted to approximately NIS 5.0 million before tax.

(2) As a result of the adjustment of the value of the assets which were acquired by the Bank upon the acquisition of Clal Batucha on December 15, 2013, profit was created from the acquisition at an opportune price of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income in the Bank's balance sheet, which will be amortized over a period of 5 years, using the straight line method. For details, see Note 1.B.2.

Note 6 - Payroll and Associated Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
Payroll	**123.6**	122.5	120.4	**106.9**	106.4	105.2
National Insurance and payroll tax	**27.8**	26.9	27.4	**26.5**	25.6	26.2
Other associated expenses, including study fund, vacation pay and sick pay	**19.4**	18.7	14.4	**15.6**	16.5	13.1
Expenses with respect to defined benefit (severance pay)	**4.8**	4.3	3.1	**4.8**	3.0	1.9
Other associated expenses	**0.8**	1.0	1.0	**1.2**	1.3	1.3
Total salary and associated expenses	**176.4**	173.4	166.3	**155.0**	152.8	147.7

Note 7 - Other Expenses

Reported amounts in millions of NIS

	Consolidated			The Bank		
	For the year ended December 31					
	2017	2016	2015	2017	2016	2015
IT	**58.5**	54.9	49.2	**139.9**	131.4	106.9
Professional services	**14.8**	13.7	14.4	**14.3**	13.2	13.9
Marketing and advertising	**16.5**	13.8	14.2	**16.5**	13.8	14.2
Fees	**8.6**	10.2	9.2	**8.4**	10.0	9.0
Vehicle maintenance	**4.3**	4.1	4.7	**4.0**	3.7	4.2
Call center	**4.6**	7.7	7.8	**4.6**	7.7	7.8
Training and continuing education	**4.0**	2.8	2.9	**4.0**	2.7	2.8
Communications (mail, telephone, deliveries, etc.)	**4.7**	4.2	3.5	**4.7**	4.2	3.5
Salary of the Board members (1)	**1.7**	1.7	1.8	**1.7**	1.7	1.8
Office expenses	**2.6**	2.9	2.5	**2.6**	2.9	2.5
Insurance	**1.4**	1.4	1.3	**1.4**	1.4	1.3
Amortization of intangible assets	**0.4**	0.4	0.4	**0.4**	0.4	0.4
Others	**5.7**	5.4	5.8	**5.4**	5.3	5.8
Total other expenses	**127.8**	123.2	117.7	**207.9**	198.4	174.1

(1) Not including the salary of the Chairman of the Board, which was recorded under the item for payroll expenses

Note 8 - Provision for Taxes on Income

Reported amounts in millions of NIS

A - Composition of the provision for taxes on income

	Consolidated			The Bank		
	For the year ended December 31					
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Current taxes with respect to the accounting year	**12.5**	24.3	27.9	**11.1**	23.4	26.3
Current taxes with respect to previous years	**2.9**	-	-	**2.9**	-	-
Total current taxes	**15.4**	24.3	27.9	**14.0**	23.4	26.3
Plus (less):						
Current taxes with respect to the accounting year	**2.5**	14.0	(5.9)	**0.5**	11.6	(5.1)
Deferred taxes with respect to previous years	**(2.7)**	-	-	**(2.7)**	-	-
Total deferred taxes	**(0.2)**	14.0	(5.9)	**(2.2)**	11.6	(5.1)
Provision for taxes on income	**15.2**	38.3	22.0	**11.8**	35.0	21.2

B - Adjustment between the theoretical tax amount which would have applied had the profit been taxable according to the statutory tax rate which applied in Israel to the Bank, and the provision for taxes on income, as charged to the statement of income:

	Consolidated			The Bank		
	For the year ended December 31					
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Profit before tax	**52.2**	93.9	70.6	**37.5**	79.4	64.4
Statutory tax rate which applies to the Bank in Israel	**35.04%**	35.90%	37.58%	**35.04%**	35.90%	37.58%
Tax amount based on the statutory tax rate	**18.3**	33.7	26.5	**13.1**	28.5	24.2
Tax (tax savings) with respect to:						
Other unrecognized expenses	**1.1**	1.2	1.2	**1.1**	1.2	1.2
Tax exempt and tax restricted income	**(4.0)**	(4.2)	(5.2)	**(4.0)**	(4.2)	(4.9)
Taxes with respect to previous years	**0.2**	(0.2)	-	**0.2**	-	-
Change in the balance of deferred taxes due to change in the tax rate	**(0.1)**	9.2	0.7	**-**	9.0	0.7
Income of subsidiaries in Israel	**-**	(1.6)	(0.6)	**1.6**	-	-
Other differences	**(0.3)**	0.2	(0.6)	**(0.2)**	0.5	-
Provision for taxes on income	**15.2**	38.3	22.0	**11.8**	35.0	21.2

C - Tax assessments

The Bank has assessments which are considered final up to and including 2014, and deduction assessments up to and including 2013, according to the approval of the tax assessor.

In consolidated companies, the assessments are considered final up to and including 2012.

Note 8 - Provision for Taxes on Income (Cont.)

Reported amounts in millions of NIS

D - Balances of deferred taxes receivable and provision for deferred taxes (1)

	Consolidated				The Bank			
	For the year ended December 31							
	2017	2016	2017	2016	2017	2016	2017	2016
			Average tax rate				Average tax rate	
Deferred taxes receivable:								
Tax asset with respect to losses	**31.0**	37.3	23.0%	23.1%	**29.8**	34.1	23.0%	23.2%
With respect to timing differences:								
Provision for vacation, jubilee bonus and severance pay	**3.1**	1.3	32.0%	30.8%	**3.0**	1.2	34.2%	32.7%
Deferred liability notes	**0.1**	0.2	34.2%	34.7%	**0.1**	0.2	34.2%	34.7%
From provision for credit losses	**49.6**	44.1	34.2%	34.3%	**49.6**	44.1	34.2%	34.2%
From interest which was not charged to income this year	**0.1**	0.1	34.2%	34.4%	**0.1**	0.1	34.2%	34.4%
With respect to the adjustment of non-monetary assets and others	**(0.4)**	(2.5)	34.2%	23.0%	**(0.1)**	0.3	34.2%	33.9%
Total deferred taxes receivable	**83.5**	80.5	28.9%	29.4%	**82.5**	80.0	29.1%	29.5%
Reserve for deferred taxes								
With respect to the adjustment of non-monetary assets and others	(2.8)	-	23.0%	-	-	-	-	-
Total deferred tax reserves	**(2.8)**	-	23.0%	-	**-**	-	-	-

Current taxes and deferred taxes were calculated in accordance with the new tax rates which were in effect on the reporting date.

(1) Realization of net deferred taxes receivable, based on a forecast according to which the Bank will have taxable income in the future, in appropriate amounts, and management's estimate regarding whether or not their realization is likely.

E - Tax rates which apply to the Bank and its subsidiaries

A. The Bank is defined as a "financial institution" for the purpose of the Value Added Tax Law, 5735-1975, and as such, its activities are subject to payroll tax and capital gains tax, in accordance with the rate set forth in the Value Added Tax Law.

B. In November 2015, the Value Added Tax Ordinance (Tax Rate for NPO's and Financial Institutions) (Amendment), 5775-2015 was published, which determined that the payroll tax rate which applies to financial institutions will amount to 17% of the salary which was paid for work performed in October or later, and that the capital gains tax rate published 17% of the produced profits.
The provision regarding capital gains tax in the 2015 tax year will apply regarding the proportional part of the profit for that year.

C. In January 2016, the Law in Amendment of the Income Tax Ordinance (No. 216) was approved (Reduction of Corporate Tax Rate), 5776-2016, which includes a reduction of the corporate tax rate from 26.5% to 25%. This amendment entered into effect on January 1, 2016. In accordance with the aforementioned amendment, the overall tax rate which will apply to financial institutions, including the Company, beginning on January 2016, 2016 and thereafter, will amount to 35.90%.

D. In December 2016, the Economic Efficiency Law (Legislative Amendments Regarding the Implementation

Note 8 - Provision for Taxes on Income (Cont.)

of the Economic Policy for the Budget Years 2017 and 2018), 5777-2016, was approved. and will enter into effect on January 1, 2017. As part of the foregoing, approval was given, inter alia, for decreasing the corporate tax rate from 25% to 24% beginning in January 2017, and to 23% beginning in January 2018 and thereafter. In accordance with the aforementioned amendment, the overall tax rate which will apply to financial institutions, including the Company, in 2017, will be 35.04%, and in 2018 and thereafter, will be 34.19%.

E. Following the aforementioned changes to the corporate tax rate in 2016, the Bank recorded, in the consolidated report, tax expenses in the amount of NIS 9.2 million, against a reduction of the deferred tax assets (in the Bank's report - NIS 9.0 million).

F. Presented below are the statutory tax rates which apply to financial institutions, including the Bank, following the aforementioned changes:

Year	Tax rate Companies	Tax rate Profit	Tax rate Total
		In percent	
2014	26.50	18.00	37.71
2015	26.50	17.75(1)	37.58(1)
2016	25.00	17.00	35.90
2017	24.00	17.00	35.04
2018 and thereafter	23.00	17.00	34.19

(1) Weighted rate.

G. Since 2017, the Bank has applied the directives of the Banking Supervision Department on the subject of "Reporting by banking corporations and credit card companies in Israel, in accordance with generally accepted accounting principles in the United States, with respect to taxes on income". According to the directives, the Bank is required to recognize deferred tax liabilities with respect to the increase in the equity of subsidiaries which accrued from 2017 onwards, which are considered a "licensed dealer for value added tax purposes. The impact of the adoption of the provision on the Bank's profits was immaterial. For additional information, see Note 1.D.2.

H. For details regarding the tax arrangement following the acquisition of Clal Batucha, see Note 1.B.2.

Note 9 - Earnings per Share Attributed to the Bank's Shareholders

Reported amounts in millions of NIS

	Consolidated		
	For the year ended December 31		
	2017	**2016**	**2015**
Total net earnings attributed to the holders of the Bank's ordinary shares	**37.0**	55.6	48.6
Weighted average of number of ordinary shares which was used in the calculation of basic and diluted earnings	**70.5**	70.5	70.5
Earnings per share (in NIS)			
Basic and diluted earnings	**0.52**	0.79	0.69

Note 10 - Cumulative Other Comprehensive Income (Loss)

Reported amounts in millions of NIS

A. Changes in accumulated other comprehensive income (loss) after tax impact

	Adjustments with respect to the presentation of available for sale securities at fair value, net	Adjustments with respect to employee benefits	Total
Balance as of January 1, 2015	**13.4**	**1.2**	**14.6**
Net change during the period	2.6	(0.5)	2.1
Balance as of January 1, 2016	**16.0**	**0.7**	**16.7**
Net change during the period	(17.5)	-	(17.5)
Balance as of January 1, 2017	**(1.5)**	**0.7**	**(0.8)**
Net change during the period	1.3	(2.2)	(0.9)
Balance as of December 31, 2017	**(0.2)**	**(1.5)**	**(1.7)**

B. Changes in components of accumulated other comprehensive income (loss), before tax impact and after tax impact

	For the year ended								
	2017			2016			2015		
	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax	Before tax	Tax impact	After tax
Adjustments with respect to the presentation of available for sale securities at fair value									
Unrealized net profit (loss) from adjustments to fair value	3.9	(1.4)	2.5	7.3	(2.6)	4.7	8.5	(3.0)	5.5
Profit (loss) with respect to available for sale securities which were reclassified to the statement of income (1)	(1.9)	0.7	(1.2)	(35.0)	12.8	(22.2)	(4.6)	1.7	(2.9)
Net change during the period	**2.0**	**(0.7)**	**1.3**	(27.7)	10.2	(17.5)	3.9	(1.3)	2.6
Employee benefits									
Actuarial profit (loss) for the period	(2.9)	0.9	(2.0)	0.3	(0.1)	0.2	(0.7)	0.3	(0.4)
Net profit (loss) which was reclassified to the statement of income (2)	(0.3)	0.1	(0.2)	(0.3)	0.1	(0.2)	(0.2)	0.1	(0.1)
Net change during the period	**(3.2)**	**1.0**	**(2.2)**	**-**	**-**	**-**	**(0.9)**	**0.4**	**(0.5)**
Total net change during the period	**(1.2)**	**0.3**	**(0.9)**	**(27.7)**	**10.2**	**(17.5)**	**3.0**	**(0.9)**	**2.1**

(1) The pre-tax amount is reported in the statement of income under the item for non-interest financing income. For details, see Note 3.

(2) The pre-tax amount is reported in the statement of income under the item for expenses with respect to employee benefits. For details, see Note 23.

Note 11 - Cash and Deposits in Banks - Consolidated and in the Bank

Reported amounts in millions of NIS

	As of December 31	
	2017	2016
Cash and deposits in central banks	2,577.1	2,426.3
Cash and deposits in commercial banks	81.9	95.7
Total cash and deposits in banks	**2,659.0**	**2,522.0**
Of which: cash, deposits in banks and deposits at the Bank of Israel, for an original period of up to 3 months	**2,659.0**	**2,522.0**

Note 12 - Securities - Consolidated and in the Bank

Reported amounts in millions of NIS

	As of December 31, 2017				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
A.Available for sale securities					
Bonds and ETF's					
Of the Government of Israel (4)	404.0	403.7	0.3	-	404.0
Of foreign governments	118.7	119.3	-	0.6	118.7
Of others in Israel	0.6	0.6	-	-	0.6
Total available for sale securities	**523.3**	**523.6**	**0.3(2)**	**0.6(2)**	**523.3**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
B.Held for trading securities					
Bonds and ETF's					
Of the Government of Israel (5)	333.3	329.1	4.4	0.2	333.3
ETF's	1.7	1.5	0.2	-	1.7
Total bonds and ETF's	**335.0**	**330.6**	**4.6**	**0.2**	**335.0**
Total held for trading securities	**335.0**	**330.6**	**4.6(3)**	**0.2(3)**	**335.0**
Total securities	**858.3**	**854.2**	**4.9**	**0.8**	**858.3**

Footnotes at the end of Note 12B.

Note 12 - Securities - Consolidated and in the Bank (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2016				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value (1)
A.Available for sale securities					
Bonds					
Of the Government of Israel (4)	637.2	640.1	0.5	3.4	637.2
Of foreign governments	232.8	232.7	0.3	0.2	232.8
Of others in Israel	0.8	0.7	0.1	-	0.8
Total bonds	**870.8**	**873.5**	**0.9**	**3.6**	**870.8**
Stocks and funds	**6.1**	**5.7**	**0.4**	**-**	**6.1**
Total available for sale securities	**876.9**	**879.2**	**1.3(2)**	**3.6(2)**	**876.9**

	Book value	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
B.Held for trading securities					
Bonds					
Of the Government of Israel (5)	531.2	533.9	3.7	6.4	531.2
Of foreign governments	26.4	29.1	-	2.7	26.4
Total held for trading securities	**557.6**	**563.0**	**3.7(3)**	**9.1(3)**	**557.6**
Total securities	**1,434.5**	**1,442.2**	**5.0**	**12.7**	**1,434.5**

(1) Fair value inputs are generally based on market prices, which do not necessarily reflect the price which would be received from the sale of securities in large scopes.
(2) Included under equity, in the item for "Included adjustments with respect to the presentation of available for sale securities at fair value".
(3) Charged to the statement of income.
(4) Of which, a total of NIS 59.1 million and NIS 78.9 million were pledged to the stock exchange clearing house as of December 31, 2017 and December 31, 2016, respectively.
(5) Of which, a total of NIS 116.5 million and NIS 234.5 million were pledged to the stock exchange clearing house as of December 31, 2017 and December 31, 2016, respectively. In accordance with the arrangement for the distribution of the stock exchange's share capital between the stock exchange member companies, 5,390,416 ordinary shares with no par value were allocated in the Bank's name. The Bank was given a share certificate with respect to its holding of those shares. The Bank holds, after the aforementioned structural change, 5.39% of the shares of the stock exchange.
(6) In accordance with the arrangement for the distribution of the stock exchange's share capital between the stock exchange member companies, 5,390,416 ordinary shares with no par value were allocated in the Bank's name. The Bank was given a share certificate with respect to its holding of those shares. The Bank holds, after the aforementioned structural change, 5.39% of the shares of the stock exchange. As of December 31, 2017, the Bank is presenting these shares in the balance sheet at a cost of 0. 3. On January 18, 2018, the Bank's Board of Directors resolved to approve the submission of a proposal to the stock exchange, for the sale of all of the Bank's shares in the stock exchange, in accordance with the principles which were specified in the message of the stock exchange dated December 28, 2017, which was addressed to all shareholders on the stock exchange, to sell and transfer their shares in the stock exchange member company. Insofar as the Bank's offer will be accepted, in its entirety, the Bank is expected to receive, in exchange, on the closing date of the transaction, a total of approximately NIS 26,952 thousand, and to record income in its financial statements in a similar amount (the consideration with respect to the aforementioned shares reflects a market price of NIS 500 million). At present, there is no certainty that the sale of all or some of the Bank's shares on the stock exchange will be completed, in light of the conditions which are included in the Bank's offer, according to the principles which were specified in the message of the stock exchange.
For details regarding the results of operations of bond investment activities, see Note 2 and Note 3.

Note 12 - Securities - Consolidated and in the Bank (Cont.)

Reported amounts in millions of NIS

C. Fair value and unrealized losses, by time period and rate of impairment [(1)], of available for sale securities which are held in unrealized losing positions

	As of December 31, 2017			
	(Audited)			
	Less than 12 months [(2)]			
	Value Fair	Unrealized losses [(1)]		
		0-20%	20-40%	Total
Bonds				
Of the Government of Israel	70.1[(3)]	-	-	-
Of foreign governments	118.6	0.6	-	0.6
Total available for sale securities	**188.7**	**0.6**	**-**	**0.6**

	As of December 31, 2016			
	(Audited)			
Bonds				
Of the Government of Israel	296.5	3.4	-	3.4
Of foreign governments	87.6	0.2	-	0.2
Total available for sale securities	**384.1**	**3.6**	**-**	**3.6**

(1) In the Bank's estimate, the impairments presented in this note are of a temporary nature, and therefore, there is no need to record impairment.
(2) In the reporting periods, unrealized losses were not recorded for periods exceeding 12 months.
(3) Represents an amount lower than NIS 0.1 million.

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

1. Debts (1), credit to the public and balance of the provision for credit losses

	As of December 31, 2017					
	Commercial	Residential	Other private	Total public	Banks and governments	Total
Recorded debit balance (1)						
Debts evaluated on an individual basis	1,116.3	1.3	15.6	1,133.2	-	1,133.2
Debts evaluated on a collective basis (*)	237.4	7,276.8	1,125.0	8,639.2	-	8,639.2
(*) Of which: by extent of arrears	187.0	6,830.1	-	7,017.1	-	7,017.1
Total debts (**)	**1,353.7**	**7,278.1**	**1,140.6**	**9,772.4**	**-**	**9,772.4**
(**) Of which:						
Debts under restructuring	5.1	-	14.2	19.3	-	19.3
Other impaired debts	20.6	1.3	-	21.9	-	21.9
Total impaired debts	**25.7**	**1.3**	**14.2**	**41.2**	**-**	**41.2**
Debts in arrears of 90 days or more	2.7	152.4	9.9	165.0	-	165.0
Other troubled debts	0.1	-	10.5	10.6	-	10.6
Total troubled debts	**28.5**	**153.7**	**34.6**	**216.8**	**-**	**216.8**
Balance of the provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	4.7	0.1	9.4	14.2	-	14.2
Debts evaluated on a collective basis (*)	0.9	42.9	43.7	87.5	-	87.5
(*) Of which: by extent of arrears	0.7	42.9	-	43.6	-	43.6
Total (**)	**5.6**	**43.0**	**53.1**	**101.7**	**-**	**101.7**
(**) Of which: with respect to impaired debts	1.0	0.1	9.4	10.5	-	10.5

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

			As of December 31, 2016			
Recorded debit balance (1)						
Debts evaluated on an individual basis	1,532.7(3)	-	19.7	1,552.4	-	1,552.4
Debts evaluated on a collective basis (*)	221.9(3)	7,014.1	1,104.2	8,340.2	-	8,340.2
(*) Of which: by extent of arrears	152.5	6,669.7	-	6,822.2	-	6,822.2
Total debts (**)	**1,754.6**	**7,014.1**	**1,123.9**	**9,892.6**	**-**	**9,892.6**
(**) Of which:						-
Debts under restructuring	6.1	-	15.7	21.8	-	21.8
Other impaired debts	24.1	-	-	24.1	-	24.1
Total impaired debts	**30.2**	**-**	**15.7**	**45.9**	**-**	**45.9**
Debts in arrears of 90 days or more	5.1	137.4	10.6	153.1	-	153.1
Other troubled debts	1.5	-	10.6	12.1	-	12.1
Total troubled debts	**36.8**	**137.4**	**36.9**	**211.1**	-	**211.1**
Balance of the provision for credit losses with respect to debts						
With respect to debts which were evaluated on an individual basis	5.9	-	9.8	15.7	-	15.7
Debts evaluated on a collective basis (*)	1.5	44.6(2)	40.7	86.8	-	86.8
(*) Of which: by extent of arrears	0.5	44.6	-	45.1	-	45.1
Total (**)	**7.4**	**44.6**(2)	**50.5**	**102.5**	-	**102.5**
(**) Of which: with respect to impaired debts	1.4	-	9.7	11.1	-	11.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 0.7 million, and which was calculated on a collective basis in the amount of NIS 25.1 million. (as of December 31, 2016 - NIS 1.0 million and NIS 24.1 million, respectively).

(3) Restated.

Note 13 - Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

2. Movement in the balance of the provision for credit losses

	Commercial	Residential	Other private	Total public	Banks and governments	Total
Balance of the provision for credit losses as of December 31, 2014	10.2	64.5	36.0	110.7	-	110.7
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses as of December 31, 2015 *	**9.1**	**60.2**	**45.1**	**114.4**	**-**	**114.4**
Expenses with respect to credit losses	0.7	(7.7)	37.4	30.4	-	30.4
Accounting write-offs	(0.4)	(7.7)	(41.3)	(49.4)	-	(49.4)
Collection of debts which were written off in previous years	0.2	-	9.8	10.0	-	10.0
Net accounting write-offs	(0.2)	(7.7)	(31.5)	(39.4)	-	(39.4)
Other	-	-	-	-	-	-
Balance of the provision for credit losses as of December 31, 2016 *	**9.6**	**44.8**	**51.0**	**105.4**	**-**	**105.4**
Expenses with respect to credit losses	(1.8)	(1.3)	40.0	36.9	-	36.9
Accounting write-offs	(0.5)	(0.5)	(47.8)	(48.8)	-	(48.8)
Collection of debts which were written off in previous years	0.6	0.4	10.4	11.4	-	11.4
Net accounting write-offs	0.1	(0.1)	(37.4)	(37.4)	-	(37.4)
Balance of the provision for credit losses as of December 31, 2017 *	**7.9**	**43.4**	**53.6**	**104.9**	**-**	**104.9**
(*) Of which: with respect to off-balance sheet credit instruments						
As of December 31, 2015	1.8	0.4	0.6	2.8	-	2.8
As of December 31, 2016	2.2	0.2	0.5	2.9	-	2.9
As of December 31, 2017	2.3	0.4	0.5	3.2	-	3.2

Note 14 - Credit to the Government (Consolidated and in the Bank)

Reported amounts in millions of NIS

	As of December 31	
	2017	2016
Credit within the framework of arrangements for the supplementation of interest to entitled individuals of the Ministry of Construction & Housing(1)	-(1)	0.2
Less - supplementation of interest in advance from the government	-(1)	(0.2)
Total credit to the government	**-(1)**	**-**

(1) Represents an amount lower than NIS 0.1 million.
(2) In accordance with an agreement between the Government of Israel and the Bank, the government undertook to supplement to the Bank, with respect to certain housing loans which were given to individuals who are entitled to assistance in accordance with the instructions of the Ministry of Construction & Housing, the interest margin between the average low interest rate which was practiced in mortgage banks, according to an agreed upon formula, and the actual interest rate on the aforementioned loans. The supplementation of interest, as stated above, with respect to each loan period in advance, discounted by an interest rate of 2% per year, was provided as a deposit in favor of the Bank at the Accountant General, which bears interest at an identical rate.

Note 15 - Investment in Investee Companies

A. Composition of the investment

	Consolidated		The Bank	
	As of December 31			
	2017	2016	2017	2016
Consolidated companies				
Investment in shares	-	-	408.3	397.0
Of which: Profit which accumulated from the acquisition date	-	-	311.4	300.1

B. The Bank's share in the profit or loss of investee companies

	Consolidated			The Bank		
	2017	2016	2015	2017	2016	2015
The Bank's share in the profits of investee companies	-	-	-	14.7	14.9	7.0
Provision for taxes						
Current taxes	-	-	-	1.4	1.3	1.6
Deferred taxes	-	-	-	2.0	2.4	-
Total provision for taxes	-	-	-	3.4	3.7	1.6
The Bank's share in the profits of investee companies, after tax impact	-	-	-	11.3	11.2	5.4

Note 15 - Investment in Investee Companies (Cont.)

Reported amounts in millions of NIS

C. Details regarding investee companies

Name of company	Details regarding the Company	Share in capital which confers the right to receive profits and voting rights	Investment in stocks by book value as of December 31		Contribution to net profit As of December 31(8)	
		In percent	2017	2016	2017	2016
Tomer Jerusalem Ltd.	(1)	100	**164.5**	157.7	**6.8**	6.6
Ir Shalem International Insurance Agency (1996) Ltd.	(2)	100	**174.3**	169.9	**4.4**	4.2
Jerusalem Investment Portfolio Management Ltd.	(3)	100	**35.4**	35.3	**0.1**	-
Jerusalem Capital Markets Fund Management (1980) Ltd.	(4)	100	**1.6**	1.6	**-**	-
Jerusalem Underwriting and Issuances Ltd.	(5)	100	**6.6**	6.6	**-**	-
Bank of Jerusalem Trust Company Ltd.	(6)	100	**0.5**	0.5	**-**	-
Jerusalem Finance & Issuance (2005) Ltd.	(7)	100	**25.4**	25.4	**-**	0.4

(1) The majority of the activities of Tomer Jerusalem Ltd. (hereinafter: "Tomer") involve serving as the Bank's asset company, and providing IT services to the Bank.
(2) Ir Shalem International Insurance Agency (1996) Ltd. operates as an insurance agency which provides services related to insurance for the assets and life insurance policies of loan recipients in the Bank.
(3) Jerusalem Investment Portfolio Management Ltd. was engaged in the provision of consulting services and investment portfolio management services. In 2014 - inactive.
(4) Jerusalem Capital Markets Fund Management (1980) Ltd. was engaged in mutual fund management. In 2006, the mutual fund operation was sold - inactive.
(5) Jerusalem Underwriting and Issuances Ltd. was engaged in the underwriting of issuances. The Company decided to terminate its operations as an underwriter, and changed its status in the Registrar of Underwriters to "inactive".
(6) The Bank of Jerusalem Trust Company Ltd. is engaged in the holding in trust of accounts and financial assets of foreign residents and other parties.
(7) Jerusalem Finance & Issuance (2005) Ltd. (a subsidiary wholly controlled and owned by the Bank) works to raise sources through the issuance of bonds and deferred liability notes to the public, on behalf of the Bank. In 2017, Finance & Issuance (2005) raised approximately NIS 508.6 million par value through an issuance of liability certificates, and in 2016, approximately NIS 128.4 million par value. For details, see the note regarding bonds and deferred liability notes.
(8) Amounts lower than NIS 0.1 million are not presented in this note.

D. Acquisition of liability certificates which were issued by a subsidiary

As of December 31, 2017 and as of December 31, 2016, the Bank has no holdings in liability certificates of the subsidiary Jerusalem Finance & Issuance (2005) Ltd.

Note 16 - Buildings and Equipment

Reported amounts in millions of NIS

	Consolidated				The Bank			
	Buildings and real estate (1)(5)	Equipment, furniture and vehicles	Software costs (3)	Total	Buildings and real estate (1)(5)	Equipment, furniture and vehicles	Software costs	Total
Cost of assets(2)(3)								
Balance as of December 31, 2015	**66.7**	**57.8**	**251.3**	**375.8**	**40.1**	**29.7**	**0.8**	**70.6**
Additions	1.2	2.6	49.2(4)	53.0	-	-	-	-
Write-offs	-	2.4	37.7	40.1	-	-	-	-
Balance as of December 31, 2016	**67.9**	**58.0**	**262.8**	**388.7**	**40.1**	**29.7**	**0.8**	**70.6**
Additions	0.8	2.8	45.3(4)	48.9	-	-	0.3	0.3
Write-offs	-	0.4	-	0.4	-	-	-	-
Balance as of December 31, 2017	**68.7**	**60.4**	**308.1**	**437.2**	**40.1**	**29.7**	**1.1**	**70.9**
Depreciation and impairment loss								
Balance as of December 31, 2015	**38.8**	**45.1**	**135.0**	**218.9**	**30.2**	**27.2**	**0.4**	**57.8**
Depreciation for the year	3.2	4.4	44.5	52.1	0.8	0.5	0.2	1.5
Write-offs	-	2.4	37.7	40.1	-	-	-	-
Balance as of December 31, 2016	**42.0**	**47.1**	**141.8**	**230.9**	**31.0**	**27.7**	**0.6**	**59.3**
Depreciation for the year	3.7	4.2	47.9	55.8	0.7	0.4	0.2	1.3
Write-offs	-	0.1		0.1	-	-	-	-
Balance as of December 31, 2017	**45.7**	**51.2**	**189.7**	**286.6**	**31.7**	**28.1**	**0.8**	**60.6**
Balance for amortization (book value)								
As of December 31, 2017	23.0	9.2	118.4	150.6	8.4	1.6	0.3	10.3
As of December 31, 2016	25.9	10.9	121.0	157.8	9.1	2.0	0.2	11.3
As of December 31, 2015	27.9	12.7	116.3	156.9	9.9	2.5	0.4	12.8
Average weighted depreciation rate in percent as of December 31, 2017	9.72	14.91	22.98		5.22	7.79	25.51	
Average weighted depreciation rate in percent as of December 31, 2016	9.79	15.33	21.92		5.52	8.66	25.00	

(1) Including leasehold improvements.
(2) The Bank and the subsidiaries own property, the cost of which amounts to NIS 143.9 million (consolidated) and NIS 44.9 million (in the Bank) (in 2016 - NIS 58.2 million and NIS 42.5 million, respectively), which was fully amortized, and is still in use. During 2016, fully amortized assets were written off in the amount of NIS 40.2 million.
(3) Includes costs for the consumption of materials and services which are associated with software development.
(4) Includes discounted expenses with respect to work salary and outsourcing, in the amount of NIS 14.0 million (as of December 31, 2016 - NIS 14.5 million).
(5) The Bank has no rights which have not yet been recorded in the Land Registry.

Note 17 - Intangible Assets and Goodwill

Reported amounts in millions of NIS

	Customer relations [1]
Cost	
Balance as of December 31, 2015	2.0
Additions during the year	-
Balance as of December 31, 2016	2.0
Additions during the year	-
Balance as of December 31, 2017	**2.0**
Amortization	
Balance as of December 31, 2015	(0.8)
Depreciation for the year	(0.4)
Balance as of December 31, 2016	(1.2)
Depreciation for the year	(0.4)
Balance as of December 31, 2017	**(1.6)**
Book value	
As of December 31, 2017	**0.4**
As of December 31, 2016	0.8
As of December 31, 2015	1.2

(1) The fair value of the customer relations which were purchased in the transaction involving the acquisition of Clal Finance Ltd.'s entire stake in Clal Batucha, on December 15, 2013, was calculated by discounting the cash flows, net of tax, which are expected to be generated from the customer relations of the acquired company, net of theoretical expenses with respect to the use of the business's assets. The customer relations are amortized equally over a period of 5 years.
On October 16, 2017, the Bank engaged with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. in agreements for the sale of the Bank's independent customer portfolios and the institutional customers portfolios, in the brokerage operating segment.
Upon the completion of the transaction, the Bank is expected to write off the balance of the amortized cost of relations.
For additional details regarding the sale agreement, see Note 35 to the financial statements.

Note 18 - Other Assets

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2017	**2016**	**2017**	**2016**
Deferred tax receivable, net (see Note 8)	**83.5**	80.5	**82.5**	80.0
Surplus of advance payments paid	**26.2**	25.7	**23.3**	23.2
prepaid expenses and income receivable	**7.2**	7.6	**5.5**	5.5
Bond issuance expenses [1]	**7.5**	6.3	**-**	-
Surplus of plan assets over the liability with respect to employee benefits (see Note 23)	**-**	0.1	**-**	0.2
Other receivables and debit balances	**26.2**	25.5	**26.0**	25.3
Total other assets	**150.6**	145.7	**137.3**	134.2

(1) Bond issuance expenses are amortized according to the effective interest method.

Note 19 - Public Deposits

Reported amounts in millions of NIS

A. Deposit types by depositor types

	Consolidated		Bank	
	December 31		December 31	
	2017	2016	2017	2016
In Israel				
On demand				
Non-interest bearing	**1,442.8**	1,564.8	**1,487.0**	1,602.3
Interest bearing	**1,470.8**	746.1	**1,470.8**	746.1
Total on demand	**2,913.6**	2,310.9	**2,957.8**	2,348.4
For fixed periods	**7,646.5**	8,557.4	**9,157.0**	9,799.3
Total public deposits*	**10,560.1**	10,868.3	**12,114.8**	12,147.7
*** Of which:**				
Deposits of private individuals	**8,320.6**	8,450.2	**8,320.6**	8,450.2
Deposits of institutional entities	**727.4**	1,005.2	**727.4**	1,005.2
Deposits of corporations and others	**1,512.1**	1,412.9	**3,066.8**	2,692.3

B. Public deposits by size, on a consolidated basis

Maximum deposit in millions of NIS	December 31	
	2017	2016
Up to 1	**5,740.6**	5,773.6
1 to 5	**2,569.7**	2,630.3
5 to 10	**300.7**	319.4
10 to 50	**1,001.7**	862.9
50 to 100	**133.3**	394.6
100 to 201	**814.1**	887.5
Total	**10,560.1**	10,868.3

Note 20 - Deposits from Banks

Reported amounts in millions of NIS

In Israel	December 31	
	2017	2016
Deposits for defined periods from commercial banks	**33.6**	36.5

Note 21 - Bonds and Deferred Liability Notes

Reported amounts in millions of NIS

A - Composition

	Average lifetime (1)	Internal rate of return (2)	Consolidated		Bank	
			December 31			
			2017	2016	2017	2016
	years	In percent				
Bonds and deferred liability notes which are not convertible to shares:						
In unlinked Israeli currency	**2.99**	**1.62**	**342.3**	428.6	**197.9**	212.2
In CPI-linked Israeli currency	**3.07**	**1.52**	**1,529.9**	1,153.2	**384.3**	346.8
In USD-linked Israeli currency			**-**	0.3	**-**	0.3
Total bonds and deferred liability notes			**1,872.2**	1,582.1	**582.2**	559.3
Of which: deferred liability notes (non-contingent)			**262.5**	338.7	**262.5**	338.7
Of which: contingent convertible bonds			**232.1**	126.7	**232.1**	126.7

(1) Average lifetime is the average of weighted payment periods in the discounted flow, according to the internal rate of return.
(2) The internal rate of return is the interest rate which deducts the expected flow of payments to the balance sheet balance included in the financial statements.

B - Additional details

A. On June 9, 2016, Jerusalem Finance & Issuance (2005) Ltd., a wholly owned subsidiary of the Bank (hereinafter: the "Subsidiary"), issued NIS 128.4 million of contingent convertible bonds (CoCo) (Series 11), which also include a mechanism for the absorption of losses by writing off principal. The liability certificates were issued through a shelf offering report dated June 7, 2016, and a supplementary notice dated June 9, 2016. The deferred liability notes are repayable in a single payment on June 7, 2026, with an option which is available to the subsidiary for an early repayment no earlier than June 7, 2021, and no later than July 7, 2021, linked to the index for April 2016, bearing fixed annual interest at a rate of 3.2% per year, until the early repayment date. At present, and insofar as the Company does not exercise its right to early redemption, the stated interest rate of the bond will be updated in accordance with the difference between the interest rate anchor (the annual average yield of government bonds with remaining period to maturity of 5 years) on the issuance date and the rate as of the date of the interest update.Upon the fulfillment of circumstances for reaching a reaching a point of non viability, as defined below, the Company will write off the principal of the liability certificates.

A point of non viability will be reached if the equity ratio of Bank of Jerusalem Ltd. falls below 5%, or upon the earlier of either: (1) An announcement by the Commissioner of Banks stating that delisting is necessary in order to avoid reaching a point of non viability, or (2) A decision by the Commissioner of Banks to implement a capital injection from the public sector, or an equivalent support, without which the Bank would reach a point of discontinuity, as determined by the Commissioner of Banks. The liability certificates comply with the provisions of Proper Banking Management Directive 202, and are recognized by the Commissioner of Banks as Tier 2 capital.

B. On December 29, 2016, the Bank issued a credit-linked note which meets the requirements of Proper Banking Management Directive 203, in the amount of NIS 98.3 million. The credit portfolio for which the note was issued includes housing loans in accordance with Proper Banking Management Directive 451, which were given by the Bank. The will update the amount of the liability on a monthly basis, in accordance with changes in the scope of the credit portfolio. The final repayment of the liability amount will be performed on February 15, 2044.

C. On December 11, 2017, the Company issued NIS 402.7 million par value of bonds (Series J). In accordance with the bond terms, the Company is required to pay interest in the amount of 0.68% each May 31, and the principal will be repaid in 3 installments, beginning in May 2022.

D. On December 11, 2017, Jerusalem Finance & Issuance (2005) Ltd. issued NIS 105.9 million of contingent convertible bonds (CoCo) (Series 12), which also include a mechanism for the absorption of losses by writing off principal. In accordance with the terms of the bonds, the deferred liability notes are repayable in a single payment on December 11, 2027, with an option which is available to the Company for an early repayment no earlier than December 11, 2022, and no later than January 11, 2023, linked to the index for November 2017, bearing fixed annual interest at a rate of 1.9% per year, paid on a semi-annual basis, until the early repayment date. At present, and insofar as the Company does not exercise its right to early redemption, the stated interest rate of the bond will be updated in accordance with the difference between the interest rate anchor (the annual average yield of government bonds with remaining period to maturity of 5 years) on the issuance date and the rate as of the date of the interest update. Upon the fulfillment of circumstances for reaching a reaching a point of non viability (as defined in section A above), the Company will write off the principal of the liability certificates. The liability certificates fulfill the provisions of Proper Banking Management Directive 202, and are recognized by the Commissioner of Banks as Tier 2 capital.

E. Jerusalem Finance & Issuance (2005) Ltd. has an agreement with the Bank, in which it was determined that the issuance consideration of the certificates of deposit according to the prospectus will be deposited in the Bank, through an interest bearing deposit, interest bearing deposit, which will have identical repayment terms as the terms of the certificates of deposit, and at interest terms which will be identical or preferable thereto, as will be agreed upon, from time to time, with the Bank. The deposit will be available to the Bank to use in its judgment, and with a repayment rating equal to the other deposits in the Bank.

F. On May 9, 2017, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and changed the rating outlook from "stable" to "positive". Therefore, their rating is ilA-.

On December 7, 2017, the rating company Standard & Poor's Maalot announced that it had set the rating of the bonds (Series M), and the rating of the contingent convertible bonds (Series 12) which were issued by the Company, as ilA+ and ilBBB+, respectively.

G. On November 14, 2016, Jerusalem Finance & Issuance (2005) Ltd. (a wholly owned subsidiary of the Bank) published a new shelf prospectus based on its financial statements as of June 30, 2016, according to which the Company is entitled to issue, in the future, various securities according to the scope and conditions which will be determined in accordance with shelf offering reports, if and insofar as they will be published by the Company in the future (the "Shelf Prospectus").

(2) Within the framework of issuances to the public of liability certificates by Jerusalem Finance & Issuance (2005) Ltd., the Bank undertook towards Jerusalem Finance & Issuance (2005) Ltd. and the trustee for those issuances, to uphold all of the terms of the liability certificates which were issued by it and which will be held by the public.

Note 22 - Other Liabilities

Reported amounts in millions of NIS

	Consolidated		The Bank	
	December 31			
	2017	2016	2017	2016
Deferred income	**11.4**	22.8	**11.4**	22.8
Accrued income	**24.9**	21.8	**24.9**	21.8
Payables with respect to credit card activities	**30.7**	34.5	**30.7**	34.5
Payables with respect to fixed assets	**8.5**	10.6	**-**	-
Payroll and associated payables	**10.9**	11.1	**9.5**	10.2
Surplus of the liability with respect to employee benefits over plan assets (see Note 23)	**3.7**	-	**3.7**	-
Provision for credit losses with respect to off-balance sheet items (see Note 30D)	**3.2**	2.9	**3.2**	2.9
Reserve for deferred taxes	**2.8**	-	**-**	-
Other payables and credit balances	**53.2**	64.9	**59.6**	58.8
Total other liabilities	**149.3**	168.6	**139.3**	151.0

Note 23 - Employee Rights

Reported amounts in millions of NIS

Presented below are details regarding the main rights and benefits owed to employees:

A - Retirement pay

The retirement pay reserve included in the balance sheet, together with payments with respect to insurance policies, cover the liability to pay retirement pay to employees. Amounts which were deposited by the Bank and its subsidiaries in insurance companies within the framework of personal managers insurance plans are not included in the balance sheet, due to the fact that they are not under the Bank's control. The withdrawal of fund amounts is conditional upon the fulfillment of the provisions of the Severance Pay Law.

Towards some of its employees, the Bank undertook to transfer to their ownership, upon the conclusion of their employment, for any reason, the severance pay component which is held in recognized provident funds (in accordance with section 14 of the Severance Pay Law). Towards these employees, the Bank is not required to supplement the difference between the employees' last salary, multiplied by the number of work years, and the amount which has accrued in their favor in the aforementioned funds, and therefore, the provision for severance pay, and the funds for severance pay, do not include amounts with respect to those employees.

As of December 31, 2017, the balance of the surplus of the reserve for severance pay over the funds (included under the item for other liabilities) amounted to NIS 3.7 million in the Bank and in consolidated terms. As of December 31, 2016, the balance of the surplus of the reserve for severance pay over the funds (included under the item for other liabilities) amounted to NIS 0.1 million in the Bank and NIS 0.2 million in consolidated terms.

For additional details, see below in this note.

B - Reserve for jubilee bonuses

The employees of the Bank and its subsidiaries are entitled, upon reaching a certain level of seniority, to receive a special bonus ("jubilee bonus"). The financial statements included provisions for jubilee bonuses, the balance of which is: consolidated - NIS 2.4 million (2016 - NIS 2.2 million), in the Bank - NIS 1.8 million (2016 - NIS 1.7 million), under the item for "payroll and associated payables", within the framework of "other liabilities".

C - Vacation

The employees of the Bank and its subsidiaries are entitled by law, and in accordance with employment agreements, to receive annual vacation days. The balance of the provision for vacation days as of the balance sheet date amounts to NIS 2.4 million, consolidated and in the Bank, in the amount of NIS 2.2 million (2016 - NIS 2.1 million consolidated, and NIS 1.9 million in the Bank), and is included in the financial statements under the item for "payroll and associated payables", within the framework of "other liabilities".

D - Other rights

In general, the Bank's employees, including members of the management board are not entitled to receive increased severance pay upon retirement.

E - Share-based payment

For details regarding shared-based payment transactions, see below in Note 24.

Note 23 - Employee Rights (Cont.)

F - Remuneration policy

1. Officer remuneration policy (2014-2016)

On July 20, 2014, the general shareholders' meeting of the Bank approved the remuneration policy for the Bank's corporate officers for the years 2014 - 2016, in accordance with section 267A of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"), and in accordance with Proper Banking Management Directive 301A, regarding the remuneration policy of a banking corporation (hereinafter: "Directive 301A"). On August 20, 2015, the general meeting approved an update to the aforementioned remuneration policy (hereinafter: the "Previous Remuneration Policy for Corporate Officers").

On August 13, 2015, the Commissioner of Banks published an update to Directive 301A, which primarily determined the following: (a) provisions regarding the reimbursement of variable remuneration which was paid to key employees; (b) A provision stipulating that the remuneration for the Chairman of the Board and the other Board members will be fixed remuneration only. This update applies to the aforementioned corporate officer remuneration policy, in accordance with transitional provisions specified therein (hereinafter: the "Amendment to Directive 301A").

Following the approval of The Remuneration for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permission of Expenses for Tax Purposes with Respect to Extraordinary Remuneration), 5776-2016 (hereinafter: the "Remuneration for Corporate Officers in Financial Corporations Law"), and its expected implications on the amount of remuneration in banking corporations, and the composition thereof, on September 29, 2016, the Commissioner of Banks published an update to Directive 301A, which primarily includes the following provisions: (A) The minimum group of key employees was reduced; (B) The adoption of the change which was implemented to the First Addendum A to the Companies Law (Part B) in the Companies Ordinance (Amendment to the First Addendum A to the Law), 5776 - 2016, with respect to the CEO, and the application thereof also to the other key employees; (3) An increase to the level of variable remuneration which is exempt from the deferral requirement.

The previous remuneration policy for corporate officers applies to corporate officers, as this term is defined in the Companies Law, and includes the directors, including the Chairman of the Board, the CEO, members of the management board and corporate officers who are not members of the management board. The previous remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, retirement terms, insurance and indemnification, and applies beginning on January 1, 2014, for a period of three years (2014-2016), as specified in the Bank's annual report for 2016.

2. Remuneration policy for employees and key employees who are not corporate officers (2014-2016)

On July 1, 2014, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, principles regarding the remuneration policy for employees and key employees who are not corporate officers, in accordance with Directive 301A. A detailed policy document, based on the aforementioned principles, was approved by the Bank's Board of Directors on November 11, 2014, following the recommendation of the Remuneration Committee. On July 31, 2015, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, an update to the aforementioned Remuneration Committee (hereinafter: "Previous Remuneration Policy for Employees and Key Employees who are not Corporate Officers".

The remuneration policy for employees and key employees who are not corporate officers also applies to key employees, as this term is defined in Directive 301A, who are not corporate officers (hereinafter:

"Key Employees Who are not Corporate Officers"). The policy refers to the remuneration terms of the Bank's employees and key employees who are not corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, and retirement terms, as specified in the Bank's annual report for 2016. IT is noted that the amendment to Directive 301A, dated August 13, 2015, as stated above, applied to the repayment of variable remuneration which was paid to a key employee in accordance with and subject to the transitional provisions which were determined therein. The previous remuneration policy for employees and key employees who are not corporate officers was in effect beginning on January 1, 2014, for a period of three years (2014-2016). The current remuneration policy for employees and key employees who are not corporate officers for the years 2017-2019, as specified below.

Remuneration policy for the years 2017-2019

1. General

The current remuneration policy for corporate officers for the years 2017-2019 enters into effect on January 1, 2017, as specified below.

1.1 Officer remuneration policy for the years 2017-2019

On December 21, 2016, the Bank's general meeting of shareholders approved a new remuneration policy for the Bank's corporate officers for the years 2017-2019 (hereinbefore and hereinafter: the "Current Remuneration Policy for Corporate Officers"), in accordance with sections 267A and 267B of the Companies Law, Directive 301A and the provisions of the Remuneration For Corporate Officers In Financial Corporations Law.

The current remuneration policy for corporate officers applies to corporate officers, as this term is defined in the Companies Law, and includes the directors, including the Chairman of the Board, the CEO, members of the management board and corporate officers who are not members of the management board. For the sake of order, it is hereby clarified that the term "corporate officer" below will not include members of the Bank's Board of Directors, except for the Chairman of the Board, who will be considered a corporate officer for the purpose of the corporate officer remuneration policy.

The current remuneration policy for corporate officers refers to the remuneration terms of corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, retirement terms, insurance and indemnification, and applies beginning on January 1, 2017, for a period of three years (2017-2019).

1.2 Remuneration policy for employees and key employees who are not corporate officers for the years 2017-2019

On October 27, 2016, the Bank's Board of Directors approved, following the recommendation of the Remuneration Committee, the remuneration policy for employees and key employees who are not corporate officers, in accordance with Directive 301A. (hereinbefore and hereinafter: the "Current Remuneration Policy For Employees And Key Employees Who Are Not Corporate Officers")

The policy refers to the remuneration terms of the Bank's employees and key employees who are not corporate officers, including fixed remuneration (including the salary component and fringe benefits), variable remuneration, and retirement terms, and is effective as of January 1, 2017, for a period of three years (2017-2019).

The current remuneration policy for corporate officers and the current remuneration policy for employees and key employees who are not corporate officers shall hereinafter jointly be referred to as the "Current Remuneration Policy Documents".

Note 23 - Employee Rights (Cont.)

It is noted that, in accordance with the current remuneration policy documents, the Bank’s Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the current remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policies and procedures. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the current remuneration documents do not encourage any deviation from the Bank's risk restrictions, or from the Bank's capital policy. Additionally, the Remuneration Committee will perform, once per year, an evaluation of the remuneration mechanism and its operation, including an evaluation of, inter alia, the degree to which the remuneration mechanism complies with the policy established by the Board of Directors.

2. Entities responsible for overseeing remuneration in the Bank:

2.1 As of the date of this report, the Audit Committee also serves as the Board of Directors' Remuneration Committee is the main entity responsible for supervising the subject of remuneration in the Bank, and its responsibilities on the matter are as defined and specified in the Companies Law, in Directive 301A and in the remuneration policy documents. The composition of the Bank's Audit Committee, which also serves, as stated above, as the Remuneration Committee, includes the following Board members: S. Eshel (Chairman) (outside director), Y. Orbach (outside director), R. Arad (outside director), R. Harmelech (director), I. Sobel (outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law) (for the sake of convenience, the Audit Committee, in its function as the Remuneration Committee, shall hereinafter be referred to as: the "Remuneration Committee").

The Remuneration Committee and the Board of Directors used the assistance and legal counsel services of Yehuda Raveh & Co. Law Offices and of Ronit Yafeh, Adv., who assisted in reviewing the relevant directives among the directives issued by the Banking Supervision Department, the Companies Law and formulation of the current remuneration policy documents.

The current remuneration policy for corporate officers also applies to the directors in the Bank (as of the approval date of this report, ten directors serve in the Bank, including the Chairman of the Board) and other corporate officers who are not directors (as of the approval date of this report, ten corporate officers who are not directors serve in the Bank, including the CEO).

2.2 The current remuneration policy for employees and key employees who are not corporate officers applies, as of the approval date of this report, also to two key employees who are not corporate officers in accordance with the Companies Law, as specified below. The corporate officers in the Bank, as this term is defined in Directive 301A, include the senior position holders listed under this definition in the aforementioned directive; As of date of this report, all of the senior position holders who are listed under this definition are also corporate officers in accordance with the Companies Law, and therefore, are subject to the current remuneration policy for corporate officers, excluding the following position holders, who are senior position holders, as this term is defined in Directive 301A, but who are not corporate officers in accordance with the Companies Law: (a) the Compliance Officer and the prevention of money laundering supervisor; (b) the human resources department manager.

Excluding the corporate officers, as this term is defined in Directive 301A, as stated above, who are not corporate officers in accordance with the Companies Law, no additional employees were classified in the Bank as key employees; This is in accordance with the provisions of Proper Banking Management Directive 301A. Additionally, and in accordance with the decision of the Bank’s Board of Directors, following the recommendation of the Remuneration Committee, and following an evaluation of the activities of various senior position holders in the Bank, no senior position holders were found whose activities could have a significant impact on the Bank's risk profile or groups of employees who are subject to those remuneration arrangements which may cumulatively expose the Bank to significant risk, even if each of the employees separately does not expose the Bank to significant risk. In 2015, and in accordance with the Board of Directors' resolution, the issue was again discussed by the Risk Management Committee, and after the committee evaluated the activities of the Bank's various senior position holders, the committee re-approved the Board of Directors' aforementioned resolution from 2014, which determined that senior position holders had not been identified whose activities may have a material impact on the Bank's risk profile.

3. Planning and structure of the remuneration processes

3.1 Characteristics and goals of the current remuneration policy documents:

(A) The goal of the current remuneration policy documents is, inter alia, to establish rules for the manner by which remuneration is provided to corporate officers and key employees who are not corporate officers in the Bank, as adjusted to the Bank's strategic plans, the Bank's work plan, the fulfillment of the Bank's strategic financial goals, which are determined from time to time in the Bank's strategy discussions, the Bank's profitability and the market conditions, in the long term perspective, through appropriate consideration and balancing of the desire to create appropriate incentives for achieving the Bank's short and long term goals, and increasing the sense of identification with the Bank and its activities.

The current remuneration policy documents were prepared in view of organization-wide considerations, such as the entire remuneration costs and the desired remuneration margins between the various ranks in the Bank, improving the efficiency ratios in the Bank, while emphasizing the moderation of the Bank's fixed costs, the Bank's size and scope of operations, against the desire to ensure fulfillment of the Bank's risk management policy.

(B) The remuneration components specified in the current remuneration policy documents include:

- **Fixed remuneration** - this component is intended to remunerate the corporate officers, employees and key employees for the time which they have invested in the performance of their positions, and to maintain them as employees in the Bank, in light of their skills, know-how and expertise, which are appropriate for the Bank's needs, and also to allow the recruitment of a high-quality workforce for the Bank; The salary level will be determined by the competent organs in the Bank, in consideration of their education, skills, expertise, professional experience, achievements, position, areas of responsibility and previous salary agreements which were signed, and the ratio between their terms of tenure and the terms of tenure and employment of the Bank's other employees.

  The fixed remuneration components include: parameters for the determination of the monthly salaries of employees, key employees who are not corporate officers, and corporate officers, and the determination of the maximum limit of the monthly salary (in accordance with the scope of the position) for the Chairman and the CEO; Details regarding fringe benefits; Fixed annual payment to the CEO and to members of the management board, in accordance with the decision reached by the Remuneration Committee and the Board of Directors, who will be entitled to provide a payment up to a total of one monthly salary, after a tenure period of at least 4 work years as the CEO and/or as a member of the management board in the Bank; A signing bonus, in special cases which justify such a bonus, to a new corporate officer in the Bank, restricted to the first year of their work, up to a total of two monthly salaries.

Note 23 - Employee Rights (Cont.)

- **Variable remuneration** - variable remuneration is intended, inter alia, to encourage and increase the motivation of employees, key employees who are not corporate officers, and corporate officers, to work towards achieving the Bank's goals and objectives, over the long term, while merging their interests with those of the Bank and its shareholders, and while complying with the Bank's risk management policy. The variable remuneration is comprised of a variable annual bonus and the provision of special bonuses. In general, the variable annual bonus will be based on a series of indicators which is comprised of the fulfillment of personal targets, the performance of the unit in the Bank for which the corporate officer is responsible, and the performance of the Bank as a whole, and as specified in section 5.3 below. The remuneration policy for corporate officers specifies the maximum limit for the variable annual bonus for each of the following individuals: the CEO, members of the management board, and corporate officers who are not members of the management board.
- **Payments with respect to termination of employment** - in case of dismissal of corporate officers and key employees who are not corporate officers, they will be entitled to receive 100% severance pay, unless the employment agreement of that corporate officer or key employee who is not a corporate officers includes a provision specifying that section 14 of the Severance Pay Law, 5723-1963, applies, in which case the above provision will apply. Advance notice period - in accordance with the current remuneration policy for corporate officers: Chairman - up to 3 months; CEO - up to 6 months; corporate officer - up to 3 months; Adjustment bonus according to the terms set forth in the policy documents: Chairman - up to 3 monthly salaries; CEO - up to 6 monthly salaries; corporate officer - up to 3 monthly salaries.
- In accordance with Directive 301, remuneration with respect to the termination of employment, beyond that stated in the employment terms of all of the Bank's employees, will include taking into account actual performance over time, and the reason for the termination of employment, and the reason for the termination of employment, and will be classified accordingly as variable remuneration, and will be subject to payment postponement arrangements beyond the date of departure, over a minimum period of no less than 3 years. According to the current remuneration policy for corporate officers, it was determined that an adjustment bonus of up to 3 monthly salaries will be classified as fixed remuneration.
- The current remuneration policy documents includes the possibility, in case of special considerations, to reduce the variable remuneration in the discretion of the Board of Directors, after the receipt of a recommendation from the Remuneration Committee.
- The current remuneration policy documents include a stipulation specifying that the employee and/or key employee who is not a corporate officer and/or corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements. Additionally, a stipulation was added according to which any variable remuneration will be granted and paid subject to the condition that it is repayable upon the fulfillment of certain defined criteria which are defined in the current remuneration policy documents. With respect to key employees, the repayment period will be set as 5 years from the date of provision of the variable remuneration. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, The Bank's Board of Directors, after receiving the recommendation of the Remuneration Committee, will be entitled to extend the repayment period beyond the additional two years, insofar as the relevant investigation has not yet concluded, and the extent of the corporate officer's liability has not yet been determined.

Note 23 - Employee Rights (Cont.)

3.2 The Bank ensures that employees who are engaged in the field of risks and compliance are compensated independently of the business areas which they oversee, in the following manner: With respect to corporate officers who are responsible for control and monitoring in the Bank, who include, inter alia, corporate officers who are responsible for risk and compliance functions, it was determined that the ratio between the variable remuneration and the fixed remuneration will tend more towards fixed remuneration, relative to this ratio for employees who are not responsible for control and monitoring functions.

4. Description of the methods by which current and future risks are taken into account in the remuneration process:

4.1 The main risks which the Bank takes into account in its implementation of remuneration measures are those specified in the Bank's "risk appetite" documents, which include: credit risks, financial risks, operational risks, compliance and money laundering risks.

4.2 In order to create a balanced structure of incentives, and to prevent the taking or risks beyond the risk appetite, several methods were established in the current remuneration policy documents by which current and future risks are taken into account in the remuneration process, as specified below:

(A) A maximum limit was established, on a personal basis, for the budget of the annual bonus for each one of the corporate officers and key employees who are not corporate officers; A maximum limit was also defined for all corporate officers, as well as a maximum limit for all employees (who are non-nostro employees) and key employees.

(B) In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration given to a corporate officer and to a key employee who is not a corporate officer will not exceed 100% of the cost of salary for each corporate officer.

(C) In accordance with the current remuneration policy documents, the fulfillment of the personal targets which will be determined for the corporate officers will include, inter alia, an evaluation of the fulfillment of the Bank's risk appetite, as determined by the Board of Directors, fulfillment of the Bank's risk indicators, including compliance with laws and regulatory directives, and fulfillment of the risk indicator regarding money laundering and operational risks.

Additionally, the Bank's Board of Directors will evaluate, from time to time, inter alia, through the Remuneration Committee, the current remuneration policy documents, and the need to adjust them to the provisions of the Companies Law regarding corporate officers, and to Directive 301A, and will ensure that the existing remuneration agreements and the remuneration mechanism are appropriately applied in accordance with the policy documents and procedures. The Board of Directors will also verify that the actual remuneration in accordance with the current remuneration policy documents, the risk indicators, and the results of the risk indicators, are consistent with the planned mechanism, and will implement adjustments to them as needed. As part of the above, the Board of Directors will verify that the remuneration incentives which were determined in the current remuneration policy documents do not encourage any deviation from the Bank's risk appetite restrictions, or from the Bank's capital policy.

4.3 Methods by which the risks are taken into account in the determination of variable remunerations are by virtue of the determination of the various maximum limits, for the maximum remuneration amount; Additionally, the risks are taken into account by reducing the remuneration in cases of non-fulfillment of the risk indicators.

Note 23 - Employee Rights (Cont.)

5. The connection between performance during the performance measurement period and remuneration levels

5.1 The Bank's main performance indicators and personal KPI's are as follows:

(A) Payment of the variable annual bonus is contingent upon the fulfillment of two cumulative preconditions:

- Fulfillment of the following rates of return: 2017 - 7.8%; 2018 - 8.25%; 2019 - 8.25% (hereinafter: "Minimum Rate Of Return")
- Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year and the outline which was established by the Board of Directors for the purpose of fulfilling the capital adequacy ratios.
- "Rate of return" means comprehensive income, as reported in the Bank's audited financial statements, relative to average equity, as defined in the directives issued by the Commissioner of Banks - public reporting regulations, directive no. 620. In the calculation of the rate of return, profits / losses which are due to non-recurring events will be neutralized (financial profits / losses, such as nostro, will not be considered as non-recurring), as well as capital profits / losses, in the discretion of the Board of Directors. For the avoidance of doubt, comprehensive income after offsetting the expenses with respect to the payment of bonuses to the CEO, corporate officers and employees, including key employees, and after taking into account the expenses with respect to options for corporate officers (and for any other entity, if any), as these have been recorded, or will be recorded, in the Bank's books. Neutralization of profits / losses which are due to non-recurring events, capital profits / losses will be neutralized in the discretion of the Board of Directors.

  In general, the variable annual bonus to corporate officers and key employees who are not corporate officers will be based on the provision of remuneration of up to three monthly salaries, subject to discretion, which will be based, inter alia, on the combined performance of the following: the performance of the corporate officer, the performance of the unit in the Bank to which the corporate officer belongs, and the performance of the Bank as a whole. Additionally, the Remuneration Committee and the Board of Directors will be entitled to grant to the corporate officers additional variable bonuses, beyond the aforementioned 3 monthly salaries, up to the maximum limit for the annual bonus which was determined for the corporate officer, according to measurable parameters which will be determined proximate to the commencement of each bonus year, where such indicators will include various targets.

5.2 The manner by which personal remuneration amounts are connected to the Bank's overall performance is by determining preconditions for the payment of the variable bonus, and the maximum amount of the bonus which can be granted; The personal remuneration amount was determined in accordance with the fulfillment of predefined personal key performance indicators and measurable indicators.

5.3 The variable remuneration which will be provided granted to corporate officers (excluding the Chairman) will be based on their fulfillment of the targets which were established for them, which are associated with the Corporation's performance and the personal performance of the corporate officer, as follows:

(A) CEO:

- Provision of up to 3 monthly salaries, subject to discretion, which will be based, inter alia, on a combination of the performance of the CEO and the performance of the Bank as a whole.
- Additionally, the Remuneration Committee and the Board of Directors will be entitled to grant an additional variable annual bonus to the CEO, beyond the aforementioned 3 salaries, up to

the maximum limit of the variable annual bonus according to measurable parameters which will be determined proximate to the start of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee, and subject to the rules set forth in the Remuneration for Corporate Officers in Financial Corporations Law.

(B) Corporate officers:

- Provision of up to 3 monthly salaries, subject to discretion, which will be based, inter alia, on a combination of the performance of the corporate officer, the performance of the unit in the Bank to which the corporate officer belongs, and the performance of the Bank as a whole.
- Additionally, the Remuneration Committee and the Board of Directors will be entitled to grant an additional variable annual bonus to the corporate officer, beyond the aforementioned 3 salaries, up to the maximum limit of the variable annual bonus according to measurable parameters which will be determined proximate to the start of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee, and subject to the rules set forth in the Remuneration for Corporate Officers in Financial Corporations Law.

5.4 The current remuneration policy for corporate officers includes an option to provide a bonus in special circumstances to the corporate officers (excluding the CEO and the Chairman) in a year when the actual rate of return was lower than the minimum rate of return, but no less than a rate of return of 6%, and subject to the fulfillment of the required capital adequacy ratios in accordance with the directives of the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital ratios. The scope of the total bonus, as stated above, is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

5.5 The current remuneration policy for employees and key employees who are not corporate officers allows the granting of bonuses to outstanding employees and key employees in the following manner (at the start of each year, the CEO will be required to present for approval to the Remuneration Committee the principles for the distribution of the bonuses to outstanding employees and key employees):

The Bank's CEO will be entitled to provide a bonus to outstanding employees and key employees, in an amount which will not exceed NIS 1,150,000, subject to the following conditions:

(A) Up to 40% of the bonus amount will be distributed throughout the bonus year, in accordance with targets which will be determined by the CEO, in order to encourage the employees towards excellence, subject to the fulfillment of the required capital adequacy ratios in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios.

(B) The balance of the outstanding bonus amount will be distributed only if variable annual remuneration has not been distributed, since the Bank has not fulfilled the minimum conditions, subject to the following conditions: an annual rate of return, during the bonus year, which is no less than a rate of return of 6%; Fulfillment of the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks during the bonus year and the outline which was established by the Board of Directors for the purpose of fulfilling the capital adequacy ratios. The distribution of the balance of the bonus amount will be distributed to up to 20% of the employees and key employees who are not dealers and/or nostro employees; The bonus will be distributed up to one monthly salary per employee, including to a key employee, and no more than NIS 20,000 per employee, including to a key employee.

5.6 Notwithstanding that stated in section 5.5(a) (b) above, and for the sake of order, it is hereby clarified that, in 2017, in light of the significant projects which have been promoted by the Bank throughout the year, the Remuneration Committee and the Board of Directors approved a one-time transfer of NIS 300 thousand from section 5.5 (a) to section 5.5 (b) above, for distribution to outstanding employees (not including key employees) with respect to 2017, even if the Bank does not meet the minimum condition which grants eligibility for distribution of the division of the balance for outstanding employees (fulfillment of a rate of return of 6%), but meets the other conditions for the distribution of the balance of the outstanding bonus.

6. Ways in which the Bank adjusts remuneration in order to take into account longer term performance:

6.1 The current remuneration policy documents specify an arrangement for the distribution of the variable remuneration, an arrangement which reinforces the foundation for the variable component over the long term performance which serves as the basis for the payment of the variable bonus, including an arrangement according to which, insofar as the variable remuneration which was provided to the corporate officer does not exceed 40% of the fixed remuneration of that corporate officer, the distribution and postponement of the variable remuneration will be implemented as follows: 40% will be deferred and distributed over two years, in a straight line, and the execution of each payment will be made contingent upon fulfillment of a rate of return of 6% or higher regarding the year in which the payment is to be paid, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the purpose of fulfilling the capital adequacy ratios. In the event that, in a certain year, the rate of return is lower than 6%, and/or the Bank has not fulfilled the capital adequacy ratio and the outline which was determined by thew Board of Directors for the fulfillment of the capital adequacy ratios, the deferred payment will not be paid, and will be postponed to the following year (hereinafter: the "Updated Payment Date"). In case the rate of return in the financial statements which are published shortly before the updated payment date is lower than a rate of return of 6% and/or the Bank has not fulfilled the required capital adequacy ratio and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios, that part of the postponed variable bonus will be canceled, and the corporate officer will not be entitled to receive it.

6.2 Insofar as the variable remuneration which was provided to the corporate officer exceeds 40% of the fixed remuneration of that corporate officer, the distribution and postponement of the variable remuneration will be implemented as follows: 50% of the variable remuneration will be deferred and distributed over three years, in a straight line, and the execution of each payment will be made contingent upon fulfillment of a rate of return of 6% or higher regarding the year in which the payment is to be paid, and on the condition that the provision of that part of the deferred variable remuneration will not harm the required capital adequacy ratios, in accordance with the directives issued by the Commissioner of Banks, and the outline which was determined by the Board of Directors for the purpose of fulfilling the capital adequacy ratios. In the event that, in a certain year, the rate of return is lower than 6%, and/or the Bank has not fulfilled the capital adequacy ratio and the outline which was determined by thew Board of Directors for the fulfillment of the capital adequacy ratios, the deferred payment will not be paid, and will be postponed to the following year (hereinafter: the "Updated Payment Date"). In case the rate of return in the financial statements which are published shortly before the updated payment date is lower than a rate of return of 6% and/or the Bank has not fulfilled the required capital adequacy ratios and the outline which was determined by the Board of Directors for the fulfillment of the capital adequacy ratios, that part of the postponed variable bonus will be canceled, and the corporate officer will not be entitled to receive it. The arrangement applies to all corporate officers and key employees who are not corporate officers. Unless the variable remuneration which has been provided to a corporate officer and/or key employee who is not a corporate officer with respect to the year of the bonus does not exceed one sixth (1/6) of the fixed remuneration of that corporate officer and/or key employee who is not a corporate officer in the same year, in which case the Remuneration Committee and the Board of Directors will be entitled to decide that it is not necessary to postpone any payment with respect to that variable remuneration.

6.3 The current remuneration policy documents also include a stipulation according to which the corporate officer, employee and key employee who is not a corporate officer will repay to the Bank, under the conditions specified in the policy, amounts which were paid to him as part of the terms of tenure and employment, if these were paid to him based on data which were found to be erroneous, and which were restated in the Bank's financial statements (clawback). Additionally, a stipulation was added according to which any variable remuneration will be granted and paid subject to the condition that it is repayable upon the fulfillment of certain defined criteria which are defined in the current remuneration policy documents. With respect to employees and key employees who are not corporate officers, the repayment period will be set as 5 years from the date of provision of the variable bonus. Regarding key employees who are corporate officers, as defined in the Companies Law, the repayment period will be extended by an additional two years, upon the fulfillment of the conditions specified in the directive, The Bank's Board of Directors, after receiving the recommendation of the Remuneration Committee, will be entitled to extend the repayment period beyond the additional two years, insofar as the relevant investigation has not yet concluded, and the extent of the corporate officer's liability has not yet been determined.

7. Forms of variable remuneration:

7.1 In accordance with Directive 301A, ratios were established between the variable remuneration and the fixed remuneration, in a manner whereby, in any case, the variable remuneration to a corporate officer will not exceed 100% of the cost of salary for each corporate officer, subject to the following provisions, and the restrictions and rules set forth in The Remuneration for Corporate Officers in Financial Corporations Law.

7.2 The variable remuneration, in accordance with the current remuneration policy documents, includes remuneration by way of the payment of cash only, and does not includes stocks or stock-based instruments, and other forms.

7.3 Beyond the annual variable remuneration, as specified extensively above, the current remuneration policy documents include an option to provide special bonuses, such as:

(A) A bonus in special circumstances to the corporate officers (excluding the Chairman and the CEO) - the Remuneration Committee and the Board of Directors are entitled to provide a bonus in special circumstances to corporate officers, as stated above, in a year when the actual rate of return is lower than the minimum rate of return, but no less than a rate of return of 6%, and subject to the fulfillment of the capital adequacy ratios which are required in accordance with the directives of the Commissioner of Banks, and the outline which was determined by the Board of Directors for the fulfillment of the capital ratios. The scope of the total bonus is limited to an immaterial amount which will not exceed NIS 150,000, while determining a maximum limit of up to one salary for the corporate officer.

(B) Bonuses to outstanding employees and key employees (at the start of each year, the CEO will be required to present for approval, to the Remuneration Committee, the principles for the distribution of the bonuses to outstanding employees and key employees): the bank's CEO will be entitled to grant bonuses to outstanding employees and key employees in an amount which will not exceed NIS 1,150,000, in accordance with the conditions specified in section 5.5. above.

In 2017, the Remuneration Committee convened 8 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 100,152 (including VAT).

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

	As of December 31	
	2017	**2016**
Severance pay		
Liability amount	**66.3**	62.1
Fair value of plan assets	**62.6**	62.3
Surplus of liability (asset) over plan assets	**3.7**	(0.2)
Surplus of the liability which was included under the item for "other liabilities"	**3.7**	-
Surplus of plan assets included under the item for "other assets"	**-**	0.2
Other benefits*		
Liability amount	**5.9**	5.2
Fair value of plan assets	**-**	-
Surplus of liability over plan assets	**5.9**	5.2
Surplus of the liability which was included under the item for "other liabilities"	**5.9**	5.2
Surplus of plan assets included under the item for "other assets"	**-**	-
Total		
Surplus of the liability with respect to employee benefits over plan assets, included under the item for "other liabilities"	**9.6**	5.2
Surplus of plan assets over the liability with respect to employee benefits which was included under the item for "other assets"	**-**	0.2

* Primarily includes provisions for vacation and jubilee bonus.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans

1. Liabilities and financial position

	For the year ended December 31	
	2017	**2016**
A. Change in liability with respect to expected benefit		
Liability with respect to expected benefit (reserve for retirement pay) at start of year	**62.1**	57.8
Cost of service	**3.6**	3.5
Cost of interest	**1.6**	1.8
Other costs	**1.6**	-
Actuarial loss (gains)	**3.2**	(0.4)
Benefits paid	**(5.8)**	(0.6)
Liability with respect to expected benefit (reserve for retirement pay) at end of year	**66.3**	62.1
Liability with respect to cumulative benefit at end of year	**64.6**	59.8
B. Change in the fair value of plan assets and the plan's financial position		
Fair value of plan assets at start of year	**62.3**	58.7
Actual return on plan assets	**1.9**	0.6
Deposits to the plan by the banking corporation	**3.4**	3.6
Benefits paid	**(5.0)**	(0.6)
Fair value of plan assets (provision for retirement pay) at end of year	**62.6**	62.3
Financing condition - net asset (liability) recognized at end of year	**(3.7)**	0.2
C. Amounts recognized in the consolidated balance sheet		
Amounts recognized under other assets	**-**	0.2
Amounts which were recognized under the item for other liabilities	**3.7**	-
Net asset (liability) which was recognized at the end of the year	**(3.7)**	0.2
D. Amounts recognized under accumulated other comprehensive income (loss) before tax impact		
Actuarial profit (loss), net	**(1.1)**	2.3
Net liability with respect to the transition	**(1.3)**	(1.3)
Closing balance of accumulated other comprehensive income	**(2.4)**	1.0
E. Plans in which the liability for the cumulative and forecasted benefit exceeds the plan assets		
Liability with respect to expected benefit	**66.3**	62.1
Liability with respect to cumulative benefit	**64.6**	59.8
Fair value of plan assets	**(62.6)**	(62.3)

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

2. Expenses for the period

	For the year ended December 31		
	2017	**2016**	**2015**
A. Net components of the benefit cost which were recognized under profit and loss			
Cost of service	**3.6**	3.5	3.4
Cost of interest	**1.6**	1.8	1.9
Other costs	**1.6**	-	-
Projected returns on plan assets	**(1.7)**	(0.7)	(1.5)
Amortization of unrecognized amounts:			
Net actuarial gains (loss) for the period	**(0.3)**	(0.3)	(0.4)
Net liability (asset) with respect to transition (1)	**-**	-	(0.3)
Total amortization of unrecognized amounts	**(0.3)**	(0.3)	(0.7)
Total cost of the benefit, net	**4.8**	**4.3**	**3.1**

(1) Amortization of actuarial gains which are due to changes in the discount rate or actuarial gains or losses which are not due to changes in the discount rate are all as defined on January 1, 2013 (date of the initial adoption of generally accepted accounting principles for banks in the United States, with respect to employee rights) and which were included under accumulated other comprehensive income.

B. Changes in plan assets and in liabilities for benefits which were recognized under comprehensive income (loss) before tax impact

	2017	2016	2015
Net actuarial gains for the period	**2.9**	(0.3)	0.7
Amortization of actuarial profit (loss)	**0.3**	0.3	0.4
Amortization of net liability (asset) with respect to transition	**-**	-	(0.2)
Total amount recognized under other comprehensive income	**3.2**	**-**	**0.9**
Total net cost of the benefit	**4.8**	**4.3**	**3.1**
Total amount recognized in the cost of the benefit, net for the period, and under other comprehensive income	**8.0**	**4.3**	**4.0**

C. Estimated amounts included under accumulated other comprehensive income which are expected to be amortized for accumulated other comprehensive income to the statement of income as an expense (income) in 2018, before tax effect

Net actuarial gains (loss) for the period	(0.3)
Net asset (liability) with respect to transition	-
Net cost (credit) with respect to previous service	-
Total amount expected to be amortized from accumulated other comprehensive income	**(0.3)**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

3. Assumptions

A. Assumptions on a weighted average basis which are used to determine the liability with respect to the benefit and to measure the net benefit cost for the years ended December 31

	As of December 31	
	2017	**2016**
1. Main assumptions used in the determination of the liability with respect to the benefit		
Discount rate	2.6%	3.1%
CPI rate of increase	1.5%	1.5%
Churn rate	9.0%	9.0%
Real rate of increase in remuneration	1.0%	1.0%
2. Main assumptions used in the measurement of the net benefit cost for the period		
Discount rate	**1.5%**	1.5%
Projected long term returns on plan assets	**2.6%**	2.4%
Real rate of increase in remuneration	**1.0%**	1.0%

B. Impact of a change of percentage point on the liability with respect to the expected benefit, before tax impact *

	Retirement plan			
	Increase of one percentage point		Decrease of one percentage point	
	As of December 31			
	2017	**2016**	**2017**	**2016**
Discount rate	**(14.6)**	(10.3)	**22.4**	12.6
Churn rate	**0.1**	0.1	**(0.1)**	(0.1)
Rate of increase in remuneration	**23.6**	13.3	**(15.3)**	(10.8)

* The sensitivity analysis is provided only with respect to assumptions which have a significant impact on the liability.

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets

A. Composition of fair value of plan assets

	For the year ended December 31							
	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset type								
Cash and deposits in banks	0.4	-	-	0.4	0.2	-	-	0.2
Shares	20.1	-	-	20.1	20.1	-	-	20.1
Bonds:								
Government	8.9	-	-	8.9	8.2	-	-	8.2
Corporate	5.7	5.2	13.5	24.4	6.1	5.8	13.1	25.0
Total bonds	**14.6**	**5.2**	**13.5**	**33.3**	**14.3**	**5.8**	**13.1**	**33.2**
Other	0.4	0.3	7.9	8.6	0.5	0.3	8.0	8.8
Total	**35.5**	**5.5**	**21.4**	**62.4**	**35.1**	**6.1**	**21.1**	**62.3**

B. Fair value of plan assets according to asset type and allocation target for 2018

	Allocation target	% of plan assets	
	2018	As of December 31	
	%	2017	2016
Cash and deposits in banks	0%-3%	1%	0.3%
Shares	29%-41%	32%	32.3%
Bonds:			
Government	0%-25%	14%	13.1%
Corporate	18%-54%	39%	40.1%
Total bonds		**53.3%**	**53.2%**
Other	2%-26%	13.8%	14.2%
Total		**100.0%**	**100.0%**

Note 23 - Employee Rights (Cont.)

Reported amounts in millions of NIS

Defined benefit plans (Cont.)

4. Plan assets (Cont.)

C. Movement in the fair value of plan assets whose value is measured based on significant unobservable inputs (level 3)

	Movement in 2017		
	Actual return on plan assets		
	Opening balance	Profit, acquisitions, sales and settlements, net	Closing balance
Asset type			
Corporate	13.1	0.4	13.5
Other	8.0	(0.1)	7.9
Total	**21.1**	**0.3**	**21.4**

	Movement in 2016		
	Actual return on plan assets		
	Opening balance	Profit, acquisitions, sales and settlements, net	Closing balance
Corporate	9.5	3.6	13.1
Other	7.2	0.8	8.0
Total	**16.7**	**4.4**	**21.1**

5. Cash flows

		Actual deposits	
	Forecast *	For the year ended December 31	
	2018	2017	2016
A. Deposits			
Deposits	3.5	3.4	3.6

* Estimate of deposits to be paid to the defined benefit plan in the current fiscal year.

B. Benefits which the Bank expects to pay in the future	
one year	
2018	6.1
2019	6.2
2020	6.8
2021	5.7
2022	5.1
2023-2027	21.4
2028 and thereafter	25.7
Total	**77.0**

Note 24 - Share Based Payment Transactions

1. Previous CEO of the Bank

In accordance with the employment terms of the former CEO, Mr. Uriel Paz, concluded his tenure as the Bank's CEO on October 31, 2015. Mr. Paz was entitled to two types of options - type A unit and type B units. The amount of type A option units will change in accordance with the returns of the Bank's stock.

In case of termination of the employer - employee relationship between the Bank and Mr. Uriel Paz, the options which vested will be exercisable within 180 days after the date of termination of the employer - employee relationship, after which they will expire.

Mr. Paz concluded his tenure as the Bank's CEO on October 31, 2015, and did not exercise the options which vested within the aforementioned period, and accordingly, all of the allocated options expired on April 30, 2016.

In the Bank's financial statements as of December 31, 2017 and 2016, receipts were not recorded with respect to options to the Bank's previous CEO. The estimated economic value of the options, which was calculated by an external valuer using the binomial model, was estimated at approximately NIS 4.2 million, which were classified upon the expiration of the options in 2016, as a premium.

2. Executives

A. As of the date of this report, two of the Bank's executives have phantom units (Class A and Class B) which were provided to them in accordance with a plan for the allocation of phantom units, which was approved by the Bank's Board of Directors on November 29, 2011 (hereinafter: the "Managers" and the "Plan"). The balance of units which were allocated in accordance with the plan to other managers expired upon the termination of the employer - employee relationship with them, in accordance with the provisions of the plan.

B. The units were provided without consideration. Each phantom unit confers the right to receive, once exercised, a consideration which reflects the difference between the average price of the Bank's stock in the 30 business days which preceded the exercise date, and the exercise addition. The phantom units will be exercisable for a period of 48 months after the vesting date of each tranche, subject to the provisions of the options plan.

C. As of the date of this report, the two executives specified above remain with 3 tranches (out of 4) which are exercisable in an immaterial scope.

Note 25A - Equity

A. The Bank's registered share capital as of December 31, 2017 is comprised of 100,250,000 ordinary shares with a par value of NIS 1 each (as of December 31, 2016 - similar). Issued and paid-up capital as of December 31, 2017 - 70,517,741 shares listed for trading on the Tel Aviv Stock Exchange (as of December 31, 2016 - similar).

B. Dividends

1. Policy and restrictions regarding dividend distributions

On April 27, 2017, the Bank's Board of Directors resolved to adopt an updated dividend distribution policy (the "Dividend Distribution Policy"). In accordance with this policy, up to 30% of the Bank's net profit in accordance with the Bank's financial statements may be distributed, provided that, inter alia, the Bank meets the regulatory capital adequacy targets which apply to it, including after the dividend distribution. It was further determined in the policy that, upon reaching the long term capital adequacy targets, in an increasing trend, whereby the Board of Directors has instructed management to work according to them (as of the date of the immediate report, 10.5% of the Tier 1 equity ratio), dividends may be distributed in the amount of up to 50% of net profit, subject to the fulfillment of all of the other required conditions for a distribution in accordance with the law, and to the restrictions which apply to the Bank (for details regarding the Bank's previous dividend distribution policy, see Note 25a(b) to the Bank's financial statements for 2016).

The actual dividend distribution is subject to specific resolutions of the Board of Directors, before any distribution, and subject to the provisions of the law which apply to a dividend distribution, including the provisions of the Companies Law, 5759-1999, the directives of the Bank of Israel, and restrictions which apply to the Bank, and therefore, under certain circumstances, it it possible that a dividend distribution may be disallowed for the Bank.

The dividend distribution policy will remain in effect so long as the Board of Directors has not decided otherwise, and may be subject to changes from time to time, and its provisions will not derogate from the authority of the Bank's Board of Directors to decide, from time to time, in light of business considerations and the provisions of the law and the regulatory directives which apply to the Bank, to change the policy, or to change the rate of the dividend which will be distributed with respect to a certain period, or to decide not to distribute dividends with respect to a certain period.

It is hereby clarified, for the avoidance of doubt, that the approval of the dividend distribution policy does not create any undertaking whatsoever, towards any third party whatsoever, to distribute dividends in practice and/or regarding dividend payment dates and/or rates, and that any dividend distribution in practice will be subject to the fulfillment of all of the conditions which are required for a distribution in accordance with the law and in accordance with the restrictions which apply to the Bank, with reference to the distribution and the specific resolution of the Board of Directors.

The above information regarding dividend distributions constitutes forward looking information, which may not be realized, in whole or in part, or which may be realized differently than expected. This information is based on various assessments and forecasts which were available to the Bank's Board of Directors. This information may not be realized, due to changes which may occur as a result of various factors which are not under the Bank's exclusive control. The influencing factors include forecasts and assessments regarding changes in the state of the economy, legislation, directives issued by supervisory and other entities, and changes in the Bank's profitability, in the strategic plan and in the work plan.

2. Dividend distributions

Presented below are details regarding dividend distributions in the Bank during the years 2015-2017:

one year	NIS millions
2017	7.1
2016	13.8
2015	17.1

On January 4, 2018, the Bank's Board of Directors resolved to distribute interim dividends in the amount of NIS 5.5 million. The dividend, in the amount of NIS 0.078 per ordinary share with a par value of NIS 1, was paid on January 28, 2018, to shareholders who held the Bank's shares on January 14, 2018 (the effective date).

Note 25B - Equity - Capital Adequacy, Leveraging and Liquidity in Accordance with Directives Issued by the Commissioner of Banks

Reported amounts in millions of NIS

1. Capital adequacy in accordance with the directives of the Commissioner of Banks
Calculated in accordance with Proper Bank Management Directives 201-211 and Directive 299, regarding "Measurement and capital adequacy".

	As of December 31	
	2017	**2016**
A. Consolidated data		
1 - Capital for the calculation of capital ratio		
Tier 1 capital, after supervisory adjustments and deductions	822.9	800.4
Additional Tier 1 capital, after deductions	-	-
Tier 2 capital, after deductions	407.6	352.1
Total Total capital	**1,230.5**	**1,152.5**
2 - Weighted balances of risk assets		
Credit risk	7,286.2	7,148.4
Market risks	42.8	21.2
Operational risk	768.5	753.9
Total weighted balances of risk assets	**8,097.5**	**7,923.5**
3 - Ratio of capital to risk components		
Ratio of Tier 1 capital to risk components	**10.2%**	**10.1%**
Ratio of total capital to risk components	**15.2%**	**14.5%**
Ratio of minimum Tier 1 capital required by the Commissioner of Banks (1)	9.9%	9.8%
Minimum total capital ratio required by the Commissioner of Banks (1)	13.4%	13.3%
B. Capital components for the purpose of calculating the capital ratio (in consolidated figures)		
1 - Tier 1 capital		
Equity	837.3	808.3
Differences between equity and Tier 1 capital	-	-
Total Tier 1 capital, before supervised adjustments and deductions	**837.3**	**808.3**
Supervisory adjustments and deductions:		
Goodwill and intangible assets	(0.4)	(0.8)
Deferred taxes receivable	(14.0)	(7.1)
Total supervised adjustments and deductions - Tier 1 capital	**(14.4)**	**(7.9)**
Total Tier 1 capital, after supervisory adjustments and deductions	**822.9**	**800.4**
2 - Tier 2 capital		
Tier 2 capital: instruments, before deductions	316.9	263.3
Tier 2 capital: provisions, before deductions	90.7	88.8
Total Tier 2 capital, before deductions	**407.6**	**352.1**
Deductions - Tier 2 capital	-	-
Total Tier 2 capital	**407.6**	**352.1**

(1) The capital ratios which are required by the Commissioner of Banks on January 1, 2015, plus a capital requirement reflecting 1% of the balance of housing loans on the reporting date. This requirement was gradually applied until January 1, 2017.

Note 25B - Capital Adequacy, Liquidity and Leveraging in Accordance with the Directives issued by the Commissioner of Banks (Cont.)

	As of December 31	
	2017	**2016**
C. Impact of the transitional provisions on Tier I capital		
Ratio of Tier I capital to the risk components, before the effect of the transitional provisions (1)(2)	10.1%	10.0%
Impact of the transitional provisions	0.1%	0.1%
Ratio of Tier I capital to the risk components, after the effect of the transitional provisions in Directive 299	**10.2%**	**10.1%**

2. Liquidity coverage ratio (LCR) according to the directives issued by the Commissioner of Banks (in the consolidated data) (3)

Calculated in accordance with Proper Banking Management Directive 221, on the subject of the liquidity coverage ratio.

	For the three months ended December 31	
	2017	**2016**
Liquidity coverage ratio	243%	458%
Minimum liquidity coverage ratio required by the Commissioner of Banks	100%	100%

3. The leverage ratio in accordance with the directives issued by the Commissioner of Banks (in the consolidated data)

Calculated in accordance with Proper Banking Management Directive 218, on the subject of the leverage ratio.

	As of December 31	
	2017	**2016**
Tier I capital	822.9	800.4
Total exposures	14,414.2	14,973.1
Leverage ratio	**5.7%**	**5.3%**
Minimum leverage ratio required by the Commissioner of Banks	5.0%	5.0%

(1) As of the balance sheet date, there is no impact due to the increased efficiency plan.
(2) Including the impact of generally accepted accounting principles in the United States with respect to employee rights.
(3) The information is presented in terms of simple averages of daily observations during the reported quarter.

Note 26 - Contingent Liabilities and Special Engagements

Reported amounts in millions of NIS

A - Off-balance sheet engagement with respect to activity according to collection rate (1)

	As of December 31	
	2017	**2016**
Balance of credit from deposits by collection rate (2)		
CPI-linked Israeli currency	**748.9**	910.3
Unlinked Israeli currency	**46.7**	44.2
Total	**795.6**	954.5
Information regarding the provision of loans during the year		
Loans from deposits by collection rate	**3.1**	0.9
Current loans	**1.6**	1.2
Total	**4.7**	2.1

	As of December 31						
	2017						2016
	Up to 1 year	1 Year to 3 Years	Over 3 to 5 Years	5 to 10 years	Over 10 to 20 Years	Total	Total
Flows with respect to fee collection and interest margins, with respect to activity by collection rate (3)							
Future contractual cash flows	9.5	16.4	10.0	7.8	0.7	**44.4**	59.1
Discounted expected cash flows (4)(5)	8.8	14.5	8.3	5.8	0.4	**37.8**	51.3

(1) Credits and deposits from deposits whose repayment to the depositor is conditional upon the collection of credits, with the collection fees.
(2) Pending loans and government deposits given for them, in the amount of NIS 27.8 million (2016 - NIS 52.6 million), were not included in this note.
(3) Includes the foreign currency segment and the unlinked NIS segment, which does not exceed 10% of the total deposits, according to collection degree.
(4) Discounting was performed according to a rate of 3.51% (2016 - 3.67%).
(5) These data do not take into account the estimate of early repayments.

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

B - Legal claims

1. The Bank is party to legal proceedings, including motions to approve class actions which its customers or former customers have initiated against it, who consider themselves as having incurred damages or injury due to the Bank's activities in the ordinary course of business. In the opinion of Bank management, based on the opinion of its legal counsel, with respect to the chances of pending claims, including motions to approve class actions and claims which will not be dismissed or canceled, adequate provisions have been included in these financial statements to cover possible damages due to all claims, in cases where a provision was required in accordance with generally accepted accounting principles.
2. On August 17, 2016, a statement of claim and a motion to approve it the claim as a class action were filed with the District Court of Tel Aviv-Yafo against the Bank, and against nine additional banks, alleging that the banks collect, from businesses which are their customers, and which are not included under the definition of a "small business", fees beyond what they are permitted to charge according to their fee tables. Therefore, the plaintiffs are petitioning to order the banks to reimburse the aforementioned fees to those clients, which were allegedly collected unlawfully. The plaintiffs further request the issuance of a mandamus order against the defendants, which will prohibit them from continuing to charge fees to the aforementioned clients, in a manner which is not in accordance with their fee tables. The plaintiffs estimated the damage amount caused to the entire group by the ten sued banks as approximately NIS 1 billion.

   Due to the fact that the scope of the relevant fees which were paid by the customers of Bank of Jerusalem, with the aforementioned characteristics, during the period which is the subject of the claim, is insignificant, accordingly, the financial scope of the aforementioned claim, insofar as refers to Bank of Jerusalem, is immaterial. On May 7, 2017, the Court determined that each of the petitioners is required to deposit a guarantee in the amount of NIS 250,000, by June 8, 2017. It was further determined that in case any petitioner does not make the aforementioned deposit, their motion for approval of the claim as a class action will be struck out. On May 29, 2017, Petitioner 1 filed a motion for leave to appeal with the Supreme Court, regarding the decision with respect to the motion to deposit a guarantee, and a motion for a stay of execution, as well as a motion to attach evidence. The motion for leave to appeal was dismissed, and the petitioner did not deposit a guarantee. Therefore, on November 7, 2017, a decision was given to strike out the motion to approve the claim as a class action.
3. On November 17, 2014, a claim and a motion to approve the claim as a class action was filed with the Tel Aviv District Court - Economic Department, against the Bank and against several additional defendants who had served as directors in Clal, alleging that Clal Batucha, in its role as portfolio manager, had performed. on behalf of its customers. transactions with securities of member companies of the IDB Group, in a manner which gave preference to its interests and to the interests of various member companies of the IDB Group, over the interests of its customers. The plaintiff contends that Clal Batucha breached the provisions of the law, including the provisions of the Engagement in Investment Consulting Law, pertaining to the duty of loyalty of Clal Batucha towards its customers, its obligation to inform its customers regarding the conflict of interest which applied to it in the performance of such actions, and without obtaining their advance consent, before performing any transaction which involved a conflict of interests, as well as a prohibition against giving preference to the financial assets of Clal Batucha or of a related corporation thereto. The plaintiff alleges that he was engaged in an investment management agreement with Clal Batucha, which had acquired, for his portfolio, securities of member companies of the IDB Group, and by so doing, Clal Batucha caused him to incur significant losses.

   The amount of the personal claim is estimated at approximately NIS 19,000. the petitioner stated that it is not possible to estimate, at this stage, the amount of the collective claim. On June 30, 2015, Clal Finance

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

filed, on behalf of the Bank, the Bank's response to the motion. In January 2016, the petitioner filed its response to the respondent's response.

On January 8, 2017, a decision was given regarding the motion to approve (hereinafter: the "Decision"), which approved the management of the claim as a class action against Clal Batucha, and dismissed the motion with respect to the directors. The group members, as determined in the decision, include "anyone who received investment management services from Clal Finance Batucha" ("Batucha"), and as part of the portfolio management activity, Batucha acquired for them (or for another party on their behalf) securities, without receiving approval in advance with respect to each such transaction, and caused them to incur damage as a result of the acquisition. It was further determined in the decision that the group will include anyone in whose account securities were purchased, as stated above, during the period of up to 7 years before the filing of the motion to approve, until the date when the merger transaction of Clal Batucha into Bank of Jerusalem was completed. On May 28, 2017, a statement of defense was filed on behalf of the Bank. On December 17, 2017, a counterplea was filed on behalf of the petitioner.

On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha with respect to this claim, insofar as any will arise. The above was subject to the obligation of Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, including payment in accordance with a judgment which will be given regarding the claim, if any, insofar as the total amount of such damages exceeds NIS 2.5 million. On December 21, 2014, Clal Finance Ltd. and Clal Insurance Enterprises Holdings Ltd. notified Bank of Jerusalem that Clal Finance Ltd. had assigned its liabilities and rights in accordance with section 10 of the purchase agreement to Clal Insurance Enterprises Holdings Ltd. In light of the above, the indemnity undertaking of Clal Finance Ltd. now applies to Clal Insurance Enterprises Holdings Ltd. In the opinion of bank management, based on the assessment of its legal counsel regarding the chances of the claim, the provision which was included in the financial statements, after deducting the indemnification, is adequate.

4. On June 5, 2017, a claim and a motion to approve the claim as a class action were filed with the District Court of Tel Aviv-Yafo, against the Bank, and against 10 additional banks, alleging that the Bank unlawfully collected charge return fees from its customers, in cases when the charge which was not honored in the customer's account was in a lower amount than the fee which was collected by the Bank with respect to the reimbursement of the charge.

   The plaintiff has no personal cause of action against Bank of Jerusalem, but estimates that the damage which was allegedly caused to all customers of Bank of Jerusalem, due to the Bank's conduct in the cases which are the subject of the claim, amounts to approximately NIS 200 thousand, and set his claim against the Bank in that amount. The Bank's response to the motion and the claim has not yet been filed, and therefore, it is not yet possible to estimate the claim's chances.

5. On August 6, 2017, a motion was filed and received by the Bank, which had been which was filed with the District Court of the Central District, to approve a claim as a class action against the Bank, pertaining to the cancellation of benefits on checking account fees which are collected from customers, who are allegedly entitled to those benefits, with no time limit. Allegedly, these customers were misled by the Bank in publications which it had distributed.

   The plaintiffs requested, inter alia, that the Court order the Bank to pay to the class which the plaintiffs wish to represent, compensation in the amount of approximately NIS 9.2 million, or any other amount which the Honorable Court considers appropriate to rule in light of the circumstances, and to order the Bank to provide, to the plaintiffs and to other class members, an exemption from checking account fees until the date when they close the account.

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

The Bank's response to the motion and the claim has not yet been filed, and therefore, it is not yet possible to estimates the claim's chances.

6. On July 30, 2017, a claim and a motion to approve the claim as a class action were filed against the Bank, alleging that the Bank collects from its customers securities deposit management fees with respect to securities which were previously listed on the stock exchange, and have been delisted from the stock exchange, in breach of the provisions of the law and of the Bank's price list for individuals / small businesses. It was further alleged that the Bank also unlawfully collects securities deposit management fees with respect to securities which were never listed on the stock exchange. On November 26, 2017, a ruling was given in which the agreed-upon motion to withdraw which had been filed by the parties was approved.
7. On November 9, 2017, a motion to approve a class action against the Bank was filed with the District Court of Jerusalem, in which it was alleged that, as part of a hacking incident which took place in January 2016, of the website "Stock Exchange Trading - Jerusalem Brokerage", sensitive information regarding the Bank's customers was published. According to the petitioner, the Bank's conduct on the matter constitutes a breach of the Protection of Privacy Law, of directives issued by the Banking Supervision Department, and negligence. Based on these causes of action, the petitioner filed, against the Bank, a motion to approve a class action in the amount of NIS 3 million (representing an estimate which is subject to change). The Bank is required to file its response to the motion to approve by March 4, 2018. At this stage, it is not possible to estimate the claim's chances, due to the preliminary stage of the claim.
8. As of December 31, 2017, the Bank has no significant exposure to claims which were filed against it, whose chances are not low, except as stated in section 3 of this note.

C - Other contingent liabilities

1. In January 2012, a decision was approved in the general shareholders' meeting of the Bank, according to which the Bank will grant, to any person who will serve, from time to time, as a corporate officer in the Bank and in its subsidiaries, an letter of indemnity with respect to financial debt which may be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking. The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

   On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letters of indemnity to directors who are controlling shareholders and/or their relatives and/or anyone in whom the controlling shareholders may have a personal interest in the provision of the letters of indemnity, for an additional three year period, beginning on October 9, 2016 (the date when 3 years passed since the date when the letters of indemnity were approved for Mr. Zalman Shoval, Mr. Gideon Shoval and Mr. Moshe Bauer), under the same conditions as the current letters of indemnity which were approved in October 2013, as stated above, to all other corporate officers, including to the other directors and to the aforementioned directors.
2. As part of the founding of the Company Jerusalem Finance & Issuance (2005) Ltd., a wholly controlled subsidiary of the Bank (hereinafter: "Finance & Issuance"), the Bank undertook to indemnify Finance & Issuance with respect to all of its undertakings, in order to comply with the directives issued by the Commissioner of Banks on the subject of the minimum capital ratio (section 4 of Proper Banking Management Directive 311).

Note 26 - Contingent Liabilities and Special Engagements (Cont.)

Within the framework of issuances to the public of liability certificates by Finance & Issuance, the Bank undertook towards Finance & Issuance and the trustee for those issuances, to uphold all of the terms of the liability certificates which were issued by it and which will be held by the public. As of the reporting date, the balance of the Bank's liability amounted to NIS 144 million par value of bonds (Series B), NIS 711 million par value (Series I), NIS 100 million par value of deferred liability notes (Series N), NIS 131 million par value of deferred liability notes (Series 10), NIS 128 million par value of deferred liability notes (Series 11), NIS 106 million par value of deferred liability notes (Series 12), and NIS 403 million of bonds (Series M), which were issued by Finance & Issuance. The Bank's aforementioned undertaking is irrevocable and non-modifiable, due to the fact that the rights of the certificate of deposit holders are dependent upon them.

3. On August 6, 2013, Bank of Jerusalem acquired all of the shares of Clal Batucha from Clal Finance Ltd., which held 100% of the shares of Clal Batucha. Therefore, in accordance with the purchase agreement, the Bank is also responsible for the liabilities and debts of Clal Batucha, with respect to its past activities, if any, including with respect to existing claims against Clal Batucha, which have been estimated, for the purpose of the attribution of purchasing costs, in the total amount of NIS 5 million (discounted as of the purchasing date - NIS 4.6 million). The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 2.5 thousand (discounted as of the acquisition date - NIS 2.3 million). The Bank is also liable, as a result of the purchase agreement, for the letters of indemnity of various entities which acquired various activities from Clal Batucha before the sale date. The above is subject to an undertaking by Clal Finance to indemnify the Bank with respect to damages due to events which occurred in Clal Batucha before the sale date, insofar as the total amount of such damages exceeds NIS 30 thousand.

D - Engagements

The Bank and a consolidated company engaged in long term rental contracts, which include an option for extension. The rental fees required for payment in the coming years with respect to these engagements are as follows:

	Consolidated		The Bank	
	December 31			
	2017	**2016**	**2017**	**2016**
First year	**17.7**	17.2	**5.1**	2.6
Second year	**17.7**	17.3	**5.2**	1.9
Third year	**15.3**	17.0	**3.3**	1.9
Fourth year	**12.0**	14.7	**3.1**	1.8
Fifth year and thereafter	**105.6**	107.3	**11.4**	1.4
Total long term rental contracts	**168.3**	173.5	**28.1**	9.6

Note 27 - Pledges, Conditions, Restrictive Terms and Securities

A. In accordance with the bylaws of the Maof Clearing House Ltd. (hereinafter: "Maof Clearing House"), the Bank is required, as a member of the Maof Clearing House, to deposit liquid collaterals for the entire exposure with respect to activities with derivatives and for its shares in the risk reserve. For this purpose, the Bank pledged in favor of the Maof Clearing House its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the name of the Maof Clearing House, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve (hereinafter: the "Collateral Account"). The value of the bonds which were deposited as of December 31, 2017 amounted to a total of NIS 156.4 million (as of December 31, 2016 - NIS 295.7 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Maof Clearing House, in which cash will be deposited with a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2017, funds had been deposited in this account in the amount of NIS 8.0 million (as of December 31, 2016: NIS 14.5 million).

   The accounts specified above are pledged by means of a floating pledge in favor of the Maof Clearing House, and are also pledged by means of a fixed pledge in favor of the Maof Clearing House.

B. As a stock exchange member company, the Bank is required to deposit liquid collaterals to secure the fulfillment of all of the liabilities of the Bank's customers towards the Stock Exchange Clearing House, with respect to transactions which were performed in the Stock Exchange Clearing House, and to secure their share in the risk reserve of the Stock Exchange Clearing House. For this purpose, the Bank pledged, in favor of the Stock Exchange Clearing House, by means of a first priority fixed pledge, its rights to the following accounts:

1. An account in the Stock Exchange Clearing House, under the Bank's name, and which is managed on the Bank's behalf, in which are deposited government bonds at a value equal to the entire collateral requirement from the Bank's customers, and with respect to the Bank's share in the risk reserve. The value of the bonds which were deposited as of December 31, 2017 amounted to a total of NIS 19.1 million (as of December 31, 2016 - NIS 17.7 million).
2. An account in Bank Leumi le-Israel Ltd., under the name of the Stock Exchange Clearing House, in which will be deposited cash in a value equal to no less than 25% of the Bank's share in the risk reserve, and additionally, cash will be deposited in this account, which will be paid as yields of securities which will be deposited in the Bank's collateral account. As of December 31, 2017, funds had been deposited in this account in the amount of NIS 7.0 million (as of December 31, 2016: NIS 4.6 million).

C. For the purpose of securing the credit which had been provided, or which will be provided, by the Bank of Israel to the Bank, within the framework of the Bank's activities in the RTGS system, the Bank pledged, in favor of the Bank of Israel, in accordance with an agreement with it dated January 24, 2011, bonds which are held by the Bank and which were deposited or will be deposited in a designated account managed in the Stock Exchange under the name of the Bank of Israel. The pledge is not restricted to any amount. As of December 31, 2017, no securities were pledged (as of December 31, 2016 - NIS 0 million).

D. Within the framework of the agreement dated November 21, 2016, as part of the sale of the portfolio of loans to Ayalon Insurance Company Ltd. and Ayalon Pension and Provident Funds Ltd. (hereinafter, jointly and severally: "Ayalon"), the Bank assigned to Ayalon 80% of all of its rights and obligations in the portfolio of loans and securities for loans. The total amount of the loans which were assigned to Ayalon in accordance with the agreement amounted, as of December 31, 2017, to a total of approximately NIS 82.4 million (as of December 31, 2016 - NIS 102.1 million).

Note 27 - Pledges, Conditions, Restrictive Terms and Securities (Cont.)

Notice with respect to the assignment of rights was recorded in the Bank's books at the Registrar of Companies.

Details regarding securities which were pledged in favor of Maof Clearing House and the Stock Exchange Clearing House, as specified above (NIS millions)

	Consolidated	
	As of December 31	
	2017	2016
Available for sale securities	**59.1**	78.9
Held for trading securities	**116.5**	234.5
Total	**175.6**	313.4

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates

A. Implementation of directives issued by the Commissioner on the subject of derivative instruments and hedging activities

The Bank's activities as a financial intermediary expose it to a variety of financial risks, including market risks. Market risk includes, inter alia, basis risks, interest rate risks, exchange rate volatility risks, and inflation rate risks. As part of the Bank's comprehensive strategy for managing the exposure level to market risk, as stated above, the Bank executes, inter alia, transactions with derivative financial instruments, in order to reduce its exposure to market risks. The Bank's activities in derivative financial instruments are performed as an intermediary, trader, or end user. The Bank has derivative financial instruments such as future foreign currency swap transactions and forward foreign currency contracts. The Bank does not perform transactions with options to its account (nostro), except for hedging purposes.

Transactions with derivative financial instruments are recorded at fair value, and changes in their fair value are routinely recorded in the statement of income.

Additionally, the Bank engages in contracts which in themselves do into constitute derivative instruments, but which do contain embedded derivatives. Regarding each contract, the Bank evaluates whether the economic characteristics of the embedded derivative are clearly and closely associated with those of the host contract, and determines whether a separate instrument, with the same terms as those of the embedded instrument, would have met the definition of a derivative instrument. When it is determined that an embedded derivative has economic characteristics which are not clearly and closely associated with the economic characteristics of the host contract, and that a separate instrument with the same conditions qualified as a derivative instrument, the derivative instrument is separated from the host contract, and treated as an independent derivative. An embedded derivative which has been separated is presented in the balance sheet together with the host contract.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank)

Reported amounts in millions of NIS

B - Scope of operations

1. Denominated amount of derivative instruments

	As of December 31, 2017				
	Interest contracts		Contracts Foreign	Contracts with respect	
	NIS - CPI	Other	currency	to Shares	Total
A. ALM derivatives (1)(2)					
Forward contracts	-	-	172.8	-	172.8
Swaps	280.0	254.5	-	-	534.5
Total	**280.0**	**254.5**	**172.8**	**-**	**707.3**
* Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	254.5	-	-	254.5
B. Other derivatives (1)					
Futures contracts	-	141.7	-	-	175.6
Option contracts traded on the stock exchange					
Written options	-	-	64.8	4,581.7	4,646.5
Acquired options	-	-	64.8	4,581.7	4,646.5
Other marketable option contracts					
Written options	-	-	-	2,213.2	2,213.2
Acquired options	-	-	-	2,213.2	2,213.2
Total	**-**	**-**	**-**	**-**	**13,861.1**
C. Credit derivatives and foreign currency spot transactions					
Credit derivatives in which the Bank is a beneficiary	-	86.8	-	-	86.8
Foreign currency spot contracts	-	-	113.9	-	113.9
Total denominated amount	**280.0**	**341.3**	**286.7**	**-**	**14,769.1**
2. Gross fair value of derivative instruments					
A. ALM derivatives (1)(2)					
Gross positive fair value	-	-	1.2	-	1.2
Gross negative fair value	2.0	0.9	0.4	-	3.3
B. Other derivatives (1)					
Gross positive fair value	-	-	0.4	62.4	62.8
Gross negative fair value	-	0.1	0.4	62.4	62.9
C. Credit derivatives					
Gross positive fair value	-	1.1	-	-	1.1
Gross negative fair value	-	-	-	-	-
Total gross positive fair value (in assets)	**-**	**1.1**	**1.6**	**62.4**	**65.1**
Total gross negative fair value (in liabilities)	**2.0**	**1.0**	**0.8**	**62.4**	**66.2**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(3) The total balance is subject to the net arrangements regarding the settling of accounts, or to similar arrangements.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates

Reported amounts in millions of NIS

B - Scope of operations

1. Denominated amount of derivative instruments

	As of December 31, 2016				
	Interest contracts		Contracts Foreign currency	Contracts with respect to Shares	Total
	NIS - CPI	Other			
A. ALM derivatives (1)(2)					
Forward contracts	-	-	328.8	-	328.8
Swaps*	50.0	352.7	-	-	402.7
Total	**50.0**	**352.7**	**328.8**	**-**	**731.5**
Of which, interest rate swaps in which the banking corporation has agreed to pay a fixed interest rate	-	352.7	-	-	352.7
B. Other derivatives (1)					
Futures contracts	-	175.6	-	-	175.6
Option contracts traded on the stock exchange					
Written options	-	-	140.7	3,150.8	3,291.5
Acquired options	-	-	140.7	3,150.8	3,291.5
Other option contracts					
Written options	-	-	-	2,181.9	2,181.9
Acquired options	-	-	-	2,181.9	2,181.9
Total	**-**	**175.6**	**281.4**	**10,665.4**	**11,122.4**
C. Credit derivatives and foreign currency spot transactions					
Credit derivatives in which the Bank is a beneficiary	-	98.3	-	-	98.3
Foreign currency spot contracts	-	-	17.9	-	17.9
Total denominated amount	**50.0**	**626.6**	**628.1**	**10,665.4**	**11,970.1**
2. Gross fair value of derivative instruments					
A. ALM derivatives (1)(2)					
Gross positive fair value	-	3.7	3.1	-	6.8
Gross negative fair value	-	1.3	1.0	-	2.3
B. Other derivatives					
Gross positive fair value	-	-	0.4	143.9	144.3
Gross negative fair value	-	0.1	0.4	143.9	144.4
Total gross positive fair value (in assets)	**-**	**3.7**	**3.5**	**143.9**	**151.1**
Total gross negative fair value (in liabilities)	**-**	**1.4**	**1.4**	**143.9**	**146.7**

(1) Excluding credit derivatives and foreign currency spot contracts.
(2) Derivatives which constitute a part of the Bank's assets and liabilities management unit, which were not designated to hedge relationships.
(3) The total balance is subject to the net arrangements regarding the settling of accounts, or to similar arrangements.

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Consolidated and in the Bank) (Cont.)

Reported amounts in millions of NIS

C. Credit risk with respect to derivative instruments by counterparty in the contract

	December 31, 2017				
	Stock exchanges	Banks	Dealers / brokers	Others	Total
Book value of assets with respect to derivative instruments (2)	54.1	2.1	7.8	1.1	65.1
Gross amounts which were not set off in the balance sheet:					
Amortization of credit risk with respect to security received in cash	-	-	-	(1.1)	(1.1)
Net amount of assets with respect to derivative instruments	**54.1**	**2.1**	**7.8**	**-**	**64.0**
Off-balance sheet credit risks, net, with respect to derivative instruments (1)	18.9	3.2	17.9	-	40.0
Total credit risk with respect to derivative instruments	**73.0**	**5.3**	**25.7**	**-**	**104.0**
Balance sheet balance of liabilities with respect to derivative instruments	54.9	3.4	7.9	-	66.2
Gross amounts which were not set off in the balance sheet:					
Pledged collateral in cash	-	0.3	-	-	0.3
Net amount of liabilities with respect to derivative instruments	**54.9**	**3.1**	**7.9**	**-**	**65.9**

	December 31, 2016				
	Stock exchanges	Banks	Dealers / brokers	Others	Total
Book value of assets with respect to derivative instruments (2)	105.0	8.0	38.1	-	151.1
Gross amounts which were not set off in the balance sheet:					
Amortization of credit risk with respect to security received in cash	-	(2.7)	-	-	(2.7)
Net amount of assets with respect to derivative instruments	**105.0**	**5.3**	**38.1**	**-**	**148.4**
Off-balance sheet credit risks, net, with respect to derivative instruments (1)	24.2	8.0	8.1	-	40.3
Total credit risk with respect to derivative instruments	**129.2**	**13.3**	**46.2**	**-**	**188.7**
Balance sheet balance of liabilities with respect to derivative instruments	117.9	2.4	26.4	-	146.7
Gross amounts which were not set off in the balance sheet:					
Pledged collateral in cash	-	0.3	-	-	0.3
Net amount of liabilities with respect to derivative instruments	**117.9**	**2.1**	**26.4**	**-**	**146.4**

Note 28 - Activities with Derivative Instruments - Scope, Credit Risks and Repayment Dates (Cont.)

Reported amounts in millions of NIS

D - Details regarding repayment dates (par value amounts)

	Up to 3 months	3 months to 1 year	1 Year to 5 years	Over 5 years	Total
			As of December 31, 2017		
Interest contracts (NIS - CPI)	30.0	100.0	150.0	-	280.0
Interest contracts (other)	141.7	213.0	41.5	86.8	483.0
Foreign currency contracts	384.1	32.2	-	-	416.3
Contracts with respect to shares	13,194.7	180.5	214.6	-	13,589.8
Total	**13,750.5**	**525.7**	**406.1**	**86.8**	**14,769.1**

	Up to 3 months	3 months to 1 year	1 Year to 5 years	Over 5 years	Total
			As of December 31, 2016		
Interest contracts (other)	175.6	-	186.0	265.0	626.6
Foreign currency contracts	542.4	85.7	-	-	628.1
Contracts with respect to shares	10,251.1	11.2	403.1	-	10,665.4
Total	**10,969.1**	**146.9**	**589.1**	**166.7**	**11,970.1**

(1) The difference is positive between all amounts with respect to derivative instruments (including derivative instruments with a negative fair value) which were included under the borrower's debt, as calculated for the purpose of restrictions on the borrower's debt, before the amortization of credit risk, and the balance sheet balance of assets with respect to the borrower's derivative instruments.

(2) Of which, the balance sheet balance of independent derivative instruments amounts to NIS 64.1 million (as of December 31, 2016 - NIS 151.1 million), which is included under the item for assets with respect to derivative instruments.

Note 29 - Supervised Operating Segments

A. General

In accordance with the circular issued by the Banking Supervision Department on November 3, 2014, beginning with the financial statements for 2015, the report regarding operating segments is prepared in accordance with the framework and classifications which were determined in the public reporting regulations of the Banking Supervision Department.

The full disclosure was included for the first time in the report as of March 31, 2016, and the comparative figures were reclassified in accordance with the classification of customers to the supervised operating segments, as of January 1, 2016.

B. Definitions

- Private individuals - individuals, including individuals who manage joint accounts, who, as of the reporting date, have no debts to the Bank, or whose debts are classified under the market segment "private individuals - housing loans and other".
- Private banking segment - private individuals where the balance of their financial assets portfolio in the Bank, on a consolidated basis (including monetary deposits, securities portfolios and other financial assets) exceeds NIS 3 million.
- Households - private individuals, excluding customers included under private banking.
- Business - customers who are not included under the definition of "private individuals" and who are not an institutional entity or banking corporation.
- Business turnover - annual sales turnover or annual income turnover.
- Micro business - businesses with a turnover of less than NIS 10 million.
- Small business - businesses with a turnover greater than or equal to NIS 10 million, and less than NIS 50 million.
- Medium business - businesses with a turnover greater than or equal to NIS 50 million, and less than NIS 250 million.
- Large business - businesses with a turnover greater than NIS 250 million.
- Financial management segment - includes the following segments: trading activities - investment in held for trading securities, market making activities regarding securities and derivative instruments, activities with derivative instruments which are not designated for hedging and are not a part of the banking corporation's assets and liabilities, repurchasing and borrowing transactions of held for trading securities, short sales of securities, underwriting services of securities, activities involved in the management of assets and liabilities - including investment in available for sale bonds and in held to maturity bonds, which were not associated with the segment of derivatives which are a part of the management of assets and liabilities, deposits in banks and from banks in Israel and abroad, deposits in governments and of governments, real investment activities - investment in available for sale stocks, other - management, operation, trust and safeguarding services for banks, consulting services, sale and credit portfolio management activities, and financial product development activities.
- Managed assets - securities of customers, loans managed by the Bank and assets due to the activity, by collection rate.

Note 29 - Supervised Operating Segments (Cont.)

C. The main principles which were applied in the division of the results of operations among the various segments:

Interest income, net

Margin received from the difference between the credit interest which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the credit's average lifetime) and profit received from the difference between the deposit interest rate which was provided to the segment's customers and the price of money (the economic transfer price which corresponds to the linkage segment and the average deposit lifetime).

Non-interest income

Non-interest income is directly charged to the segment where the customer activity is classified.

Expenses with respect to credit losses

The provision was charged to the operating segment under which the customer activity for which the provision was performed is classified. Similarly, a collection from a provision which was performed or reduced was also attributed to the segment under which the customer's activity is classified.

Operating and other expenses

Identifiable direct expenses were specifically charged to the operating segments. The balance of indirect expenses or direct expenses which were not directly attributable, was attributed according to the model which was used to attribute these expenses, based on the proportion of direct positions in the segment, relative to all positions in the Bank, which constitutes a best estimate of the customer's scope of activities in the operating segment.

Taxes on income

Taxes were calculated according to the effective tax rate, and were attributed accordingly to each segment.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2017							
	Households	Private banking	Small and micro businesses	Medium and large businesses [1]	Institutional entities	Segment Financial management	Unallocated amounts	Total
Interest income from externals	418.3	-	35.1	15.6	-	4.5	-	**473.5**
Interest expenses from externals	49.9	13.5	3.7	1.2	6.2	35.6	-	**110.1**
Interest income, net:								
From externals	368.4	(13.5)	31.4	14.4	(6.2)	(31.1)	-	**363.4**
Inter-segmental	(75.4)	18.1	(4.3)	(2.0)	8.0	55.6	-	**-**
Total interest income, net	293.0	4.6	27.1	12.4	1.8	24.5	**-**	**363.4**
Total non-interest income	64.0	5.4	26.4	11.3	19.0	(0.6)		**125.5**
Total income	357.0	10.0	53.5	23.7	20.8	23.9	-	**488.9**
Expenses with respect to credit losses	38.6	-	(2.4)	0.7	-	-	-	**36.9**
Operating and other expenses	293.4	15.4	26.3	7.9	45.9	10.9	-	**399.8**
Profit (loss) before taxes	25.0	(5.4)	29.6	15.1	(25.1)	13.0	-	**52.2**
Provision for taxes on income	7.2	(1.6)	8.7	4.5	(7.3)	3.7		**15.2**
Net profit (loss)	17.8	(3.8)	20.9	10.6	(17.8)	9.3	-	**37.0**
Out of total operating and other expenses:								
Direct expenses	152.9	6.4	11.6	2.4	27.6	6.1	-	**207.0**
Indirect expenses	140.5	9.0	14.7	5.5	18.3	4.8	-	**192.8**
Net profit - before loading indirect expenses	116.4	2.6	31.4	14.5	(4.8)	12.6	-	**172.7**
Average balance of assets	8,388.7	9.5	923.1	487.9	13.1	3,628.2	-	**13,450.5**
Average balance of credit to the public	8,388.7	9.5	923.1	420.0	13.1	-	-	**9,754.4**
Balance of credit to the public at the end of the reporting period	8,595.1	10.5	786.9	357.8	22.1	-	-	**9,772.4**
Balance of impaired debts	15.5	-	8.8	16.9	-	-	-	**41.2**
Balance of debts in arrears of over 90 days	162.3	-	2.7	-	-	-	-	**165.0**
Average balance of liabilities	6,635.1	1,625.8	926.0	560.2	898.5	1,985.8	-	**12,631.4**
Of which: average balance of public deposits	6,635.1	1,625.8	913.6	504.9	898.5	-	-	**10,577.9**
Balance of public deposits at the end of the reporting period	6,701.1	1,619.5	896.9	615.2	727.4	-	-	**10,560.1**
Average balance of risk assets	5,620.3	20.9	1,114.7	683.0	43.4	479.3	-	**7,961.6**
Balance of risk assets at the end of the reporting period	5,817.9	17.1	1,102.0	597.4	34.4	528.7	-	**8,097.5**
Average balance of managed assets	3,829.3	2,661.4	848.7	2,946.5	-	-	-	**10,285.9**
Separation of interest income, net:							-	
Margin from credit provision activity	267.5	-	26.5	12.0	-	-	-	**306.0**
Margin from deposits receipt activity	21.8	4.6	0.6	0.4	1.8	-	-	**29.2**
Other	3.7	-	-	-	-	24.5	-	**28.2**
Total interest income, net	293.0	4.6	27.1	12.4	1.8	24.5	-	**363.4**

(1) This segment includes activities with large businesses of an immaterial scope.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts, NIS millions

C. Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2017				
	Households segment				
	Housing loans	Other (2)	Total households	Total private banking	Total
Interest income from externals	272.4	145.9	**418.3**	**-**	**418.3**
Interest expenses from externals	-	49.9	**49.9**	**13.5**	**63.4**
Interest income, net:					
From externals	272.4	96.0	**368.4**	**(13.5)**	**354.9**
Inter-segmental	(132.8)	57.4	**(75.4)**	**18.1**	**(57.3)**
Total interest income, net	139.6	153.4	**293.0**	**4.6**	**297.6**
Total non-interest income	25.6	38.4	**64.0**	**5.4**	**69.4**
Total income	165.2	191.8	**357.0**	**10.0**	**367.0**
Expenses with respect to credit losses	(1.6)	40.2	**38.6**	**-**	**38.6**
Operating and other expenses	70.0	223.4	**293.4**	**15.4**	**308.8**
Profit (loss) before taxes	96.8	(71.8)	**25.0**	**(5.4)**	**19.6**
Provision for taxes on income	28.1	(20.9)	**7.2**	**(1.6)**	**5.6**
Net profit (loss)	68.7	(50.9)	**17.8**	**(3.8)**	**14.0**
Out of total operating and other expenses:					
Direct expenses	33.0	119.9	**152.9**	**6.4**	**159.3**
Indirect expenses	37.0	103.5	**140.5**	**9.0**	**149.5**
Net profit - before loading indirect expenses	94.8	21.6	**116.4**	**2.6**	**119.0**
Average balance of assets	7,085.9	1,302.8	**8,388.7**	**9.5**	**8,398.2**
Average balance of credit to the public	7,085.9	1,302.8	**8,388.7**	**9.5**	**8,398.2**
Balance of credit to the public at the end of the reporting period	7,278.1	1,317.0	**8,595.1**	**10.5**	**8,605.6**
Balance of impaired debts	1.3	14.2	**15.5**	**-**	**15.5**
Balance of debts in arrears of over 90 days	152.4	9.9	**162.3**	**-**	**162.3**
Average balance of liabilities	-	6,635.1	**6,635.1**	**1,625.8**	**8,260.9**
Of which: average balance of public deposits	-	6,635.1	**6,635.1**	**1,625.8**	**8,260.9**
Balance of public deposits at the end of the reporting period	-	6,701.1	**6,701.1**	**1,619.5**	**8,320.6**
Average balance of risk assets	4,014.8	1,605.5	**5,620.3**	**20.9**	**5,641.2**
Balance of risk assets at the end of the reporting period	4,221.3	1,596.6	**5,817.9**	**17.1**	**5,835.0**
Average balance of managed assets	878.8	2,950.5	**3,829.3**	**2,661.4**	**6,490.7**
Separation of interest income, net:					
Margin from credit provision activity	136.6	130.9	**267.5**	**-**	**267.5**
Margin from deposits receipt activity	-	21.8	**21.8**	**4.6**	**26.4**
Other	3.0	0.7	**3.7**	**-**	**3.7**
Total interest income, net	139.6	153.4	**293.0**	**4.6**	**297.6**

(2) This segment includes the credit card activity, the scope of which is immaterial.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

C. Information regarding supervised operating segments - consolidated (Cont.)

Micro, small, medium and large businesses - activity in Israel, consolidated

	For the year ended December 31, 2017						
	Small and micro businesses segment			Medium and large business segment(1)			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from externals	32.5	2.6	**35.1**	15.6	-	**15.6**	**50.7**
Interest expenses from externals	0.3	3.4	**3.7**	0.4	0.8	**1.2**	**4.9**
Interest income, net:							
From externals	32.2	(0.8)	**31.4**	15.2	(0.8)	**14.4**	**45.8**
Inter-segmental	(7.4)	3.1	**(4.3)**	(3.1)	1.1	**(2.0)**	**(6.3)**
Total interest income, net	24.8	2.3	**27.1**	12.1	0.3	**12.4**	**39.5**
Total non-interest income	16.4	10.0	**26.4**	10.7	0.6	**11.3**	**37.7**
Total income	41.2	12.3	**53.5**	22.8	0.9	**23.7**	**77.2**
Expenses with respect to credit losses	(2.4)	-	**(2.4)**	0.7	-	**0.7**	**(1.7)**
Operating and other expenses	15.7	10.6	**26.3**	7.9	-	**7.9**	**34.2**
Profit (loss) before taxes	27.9	1.7	**29.6**	14.2	0.9	**15.1**	**44.7**
Provision for taxes on income	8.1	0.6	**8.7**	4.2	0.3	**4.5**	**13.2**
Net profit (loss)	19.8	1.1	**20.9**	10.0	0.6	**10.6**	**31.5**
Out of total operating and other expenses:							
Direct expenses	6.4	5.2	**11.6**	2.4	-	**2.4**	**14.0**
Indirect expenses	9.3	5.4	**14.7**	5.5	-	**5.5**	**20.2**
Net profit - before loading indirect expenses	26.3	5.1	**31.4**	13.9	0.6	**14.5**	**45.9**
Average balance of assets	731.2	191.9	**923.1**	420.0	67.9	**487.9**	**1,411.0**
Average balance of credit to the public	731.2	191.9	**923.1**	420.0	-	**420.0**	**1,343.1**
Balance of credit to the public at the end of the reporting period	716.4	70.5	**786.9**	357.8	-	**357.8**	**1,144.7**
Balance of impaired debts	8.3	0.5	**8.8**	16.9	-	**16.9**	**25.7**
Balance of debts in arrears of over 90 days	2.7	-	**2.7**	-	-	**-**	**2.7**
Average balance of liabilities	340.1	585.9	**926.0**	369.8	190.4	**560.2**	**1,486.2**
Of which: average balance of public deposits	340.1	573.5	**913.6**	369.8	135.1	**504.9**	**1,418.5**
Balance of public deposits at the end of the reporting period	374.5	522.4	**896.9**	378.5	236.7	**615.2**	**1,512.1**
Average balance of risk assets	1,020.2	94.5	**1,114.7**	643.6	39.4	**683.0**	**1,797.7**
Balance of risk assets at the end of the reporting period	1,029.5	72.5	**1,102.0**	550.3	47.1	**597.4**	**1,699.4**
Average balance of managed assets	51.0	797.7	**848.7**	361.2	2,585.3	**2,946.5**	**3,795.2**
Separation of interest income, net:							
Margin from credit provision activity	24.4	2.1	**26.5**	12.0	-	**12.0**	**38.5**
Margin from deposits receipt activity	0.4	0.2	**0.6**	0.1	0.3	**0.4**	**1.0**
Other	-	-	**-**	-	-	**-**	**-**
Total interest income, net	24.8	2.3	**27.1**	12.1	0.3	**12.4**	**39.5**

(1) This segment includes activities with large businesses of an immaterial scope.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2017				
	Financial management segment [3]				
	Trading activity	Management of assets and liabilities activity	Real investing activities	Other	Total
Interest income from externals	0.5	4.0	-	-	**4.5**
Interest expenses from externals	-	35.6	-	-	**35.6**
Interest income, net:					**-**
From externals	0.5	(31.6)	-	-	**(31.1)**
Inter-segmental	(0.5)	56.1	-	-	**55.6**
Total interest income, net	-	24.5	-	-	**24.5**
Total non-interest income	(0.5)	(2.6)	-	2.5	**(0.6)**
Total income	(0.5)	21.9	-	2.5	**23.9**
Operating and other expenses	4.8	5.6	-	0.5	**10.9**
Profit (loss) before taxes	(5.3)	16.3	-	2.0	**13.0**
Provision for taxes on income (tax savings)	(1.6)	4.6	-	0.7	**3.7**
Net profit (loss)	(3.7)	11.7	-	1.3	**9.3**
Out of total operating and other expenses:					
Direct expenses	3.0	2.6	-	0.5	**6.1**
Indirect expenses	1.8	3.0	-	-	**4.8**
Net profit - before loading indirect expenses	(2.4)	13.6	-	1.4	**12.6**
Average balance of assets	453.3	3,174.9	-	-	**3,628.2**
Average balance of liabilities	284.5	1,701.3	-	-	**1,985.8**
Of which: average balance of public deposits	-	-	-	-	**-**
Balance of public deposits at the end of the reporting period	-	-	-	-	**-**
Average balance of risk assets	24.3	455.0	-	-	**479.3**
Balance of risk assets at the end of the reporting period	26.8	501.9	-	-	**528.7**
Average balance of managed assets	-	-	-	-	**-**
Components of interest income, net, and non-interest financing income					
Rate differentials, net	-	(0.4)	-	-	**(0.4)**
Index differences, net	-	0.5	-	-	**0.5**
Interest exposure, net	(0.5)	(1.0)	-	-	**(1.5)**
Exposures to shares, net	-	-	-	-	**-**
Interest margins associated with financial management	-	21.0	-	-	**21.0**
Total interest income, net, and non-interest income on an accrual basis	(0.5)	20.1	-	-	**19.6**
Profit or loss from the sale or non-temporary impairment of bonds	-	1.8	-	-	**1.8**
Change in difference between the fair value and the accrual basis of derivative instruments, which was recorded in profit and loss	-	-	-	-	**-**
Other non-interest income	-	-	-	2.5	**2.5**
Non-interest financing income	-	1.8	-	2.5	**4.3**
Total interest income, net, and non-interest financing income	(0.5)	21.9	-	2.5	**23.9**

(3) In accordance with transitional provisions for 2017, comparative figures were not presented with respect to this separate disclosure.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2016*							
	Households	Private banking	Small and micro businesses	Medium and large businesses (1)	Institutional entities	Financial management segment	Unallocated amounts	Total
Interest income from externals	374.2	-	42.6	15.5	-	6.0	-	**438.3**
Interest expenses from externals	40.9	13.4	1.5	0.1	8.4	31.0	-	**95.3**
Interest income, net:								
From externals	333.3	(13.4)	41.1	15.4	(8.4)	(25.0)	-	**343.0**
Inter-segmental	(67.2)	15.9	(8.1)	(3.6)	10.7	52.3	-	**-**
Total interest income, net	266.1	2.5	33.0	11.8	2.3	27.3	-	**343.0**
Total non-interest income	65.9	6.4	29.3	8.8	22.0	35.4		**167.8**
Total income	332.0	8.9	62.3	20.6	24.3	62.7	-	**510.8**
Expenses with respect to credit losses	29.4	0.1	(0.4)	1.3	-	-	-	**30.4**
Operating and other expenses	284.9	14.7	26.7	7.4	44.5	8.3	-	**386.5**
Profit (loss) before taxes	17.7	(5.9)	36.0	11.9	(20.2)	54.4	-	**93.9**
Provision for taxes on income	6.7	(2.4)	14.9	4.9	(8.2)	22.4		**38.3**
Net profit (loss)	11.0	(3.5)	21.1	7.0	(12.0)	32.0	-	**55.6**
Out of total operating and other expenses:								
Direct expenses	150.1	5.9	11.4	2.4	24.7	5.2	-	**199.7**
Indirect expenses	134.8	8.8	15.3	5.0	19.8	3.1	-	**186.8**
Net profit - before loading indirect expenses	90.1	1.7	36.3	11.9	(0.2)	38.5	-	**178.3**
Average balance of assets	8,336.1	6.6	1,350.1	633.1	41.4	3,823.0	-	**14,190.3**
Average balance of credit to the public	8,336.1	6.6	1,350.1	518.7	41.4	-	-	**10,252.9**
Balance of credit to the public at the end of the reporting period	8,284.2	6.3	1,191.0	408.9	2.2	-	-	**9,892.6**
Balance of impaired debts	15.7	-	16.6	13.6	-	-	-	**45.9**
Balance of debts in arrears of over 90 days	148.0	-	5.1	-	-	-	-	**153.1**
Average balance of liabilities	6,866.5	1,583.5	968.0	546.0	1,090.5	2,336.2	-	**13,390.7**
Of which: average balance of public deposits	6,866.5	1,583.5	968.0	431.7	1,090.5	-	-	**10,940.2**
Balance of public deposits at the end of the reporting period	6,854.4	1,595.8	929.7	483.2	1,005.2	-	-	**10,868.3**
Average balance of risk assets	5,576.9	23.9	1,436.4	559.7	49.1	485.4	-	**8,131.4**
Balance of risk assets at the end of the reporting period	5,562.2	21.8	1,222.2	620.0	41.9	455.4	-	**7,923.5**
Average balance of managed assets	4,186.6	2,447.5	1,337.4	3,569.2	-	-	-	**11,540.7**
Separation of interest income, net:								
Margin from credit provision activity	247.0	-	31.0	13.9	-	-	-	**291.9**
Margin from deposits receipt activity	13.7	2.5	1.3	0.2	2.3	-	-	**20.0**
Other	5.4	-	0.7	(2.3)	-	27.3	-	**31.1**
Total interest income, net	266.1	2.5	33.0	11.8	2.3	27.3	-	**343.0**

(1) This segment includes activities with large businesses of an immaterial scope.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts, NIS millions

C. Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2016*				
	Households segment				
	Housing loans	Other (2)	Total households	Total private banking	Total
Interest income from externals	241.9	132.3	**374.2**	**0.0**	**374.2**
Interest expenses from externals	-	40.9	**40.9**	**13.4**	**54.3**
Interest income, net:					
From externals	241.9	91.4	**333.3**	**(13.4)**	**319.9**
Inter-segmental	(111.1)	43.9	**(67.2)**	**15.9**	**(51.3)**
Total interest income, net	130.8	135.3	**266.1**	**2.5**	**268.6**
Total non-interest income	27.5	38.4	**65.9**	**6.4**	**72.3**
Total income	158.3	173.7	**332.0**	**8.9**	**340.9**
Expenses with respect to credit losses	(7.9)	37.3	**29.4**	**0.1**	**29.5**
Operating and other expenses	66.7	218.2	**284.9**	**14.7**	**299.6**
Profit (loss) before taxes	99.5	(81.8)	**17.7**	**(5.9)**	**11.8**
Provision for taxes on income	40.3	(33.6)	**6.7**	**(2.4)**	**4.3**
Net profit (loss)	59.2	(48.2)	**11.0**	**(3.5)**	**7.5**
Out of total operating and other expenses:					
Direct expenses	31.6	118.5	**150.1**	**5.9**	**156.0**
Indirect expenses	35.1	99.7	**134.8**	**8.8**	**143.6**
Net profit - before loading indirect expenses	79.5	10.6	**90.1**	**1.7**	**91.8**
Average balance of assets	7,052.8	1,283.3	**8,336.1**	**6.6**	**8,342.7**
Average balance of credit to the public	7,052.8	1,283.3	**8,336.1**	**6.6**	**8,342.7**
Balance of credit to the public at the end of the reporting period	7,014.1	1,270.1	**8,284.2**	**6.3**	**8,290.5**
Balance of impaired debts	-	15.7	**15.7**	**-**	**15.7**
Balance of debts in arrears of over 90 days	137.4	10.6	**148.0**	**-**	**148.0**
Average balance of liabilities	-	6,866.5	**6,866.5**	**1,583.5**	**8,450.0**
Of which: average balance of public deposits	-	6,866.5	**6,866.5**	**1,583.5**	**8,450.0**
Balance of public deposits at the end of the reporting period	-	6,854.4	**6,854.4**	**1,595.8**	**8,450.2**
Average balance of risk assets	4,131.6	1,445.3	**5,576.9**	**23.9**	**5,600.8**
Balance of risk assets at the end of the reporting period	3,987.9	1,574.3	**5,562.2**	**21.8**	**5,584.0**
Average balance of managed assets	1,041.0	3,145.6	**4,186.6**	**2,447.5**	**6,634.1**
Separation of interest income, net:					
Margin from credit provision activity	125.4	121.6	**247.0**	**-**	**247.0**
Margin from deposits receipt activity	-	13.7	**13.7**	**2.5**	**16.2**
Other	5.4	-	**5.4**	**-**	**5.4**
Total interest income, net	130.8	135.3	**266.1**	**2.5**	**268.6**

(2) This segment includes the credit card activity, the scope of which is immaterial.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2016*						
	Small and micro businesses segment			Medium and large business segment [1]			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from externals	41.0	1.6	42.6	15.5	-	15.5	**58.1**
Interest expenses from externals	0.2	1.3	1.5	-	0.1	0.1	**1.6**
Interest income, net:							
From externals	40.8	0.3	41.1	15.5	(0.1)	15.4	**56.5**
Inter-segmental	(10.2)	2.1	(8.1)	(3.7)	0.1	(3.6)	**(11.7)**
Total interest income, net	30.6	2.4	33.0	11.8	-	11.8	**44.8**
Total non-interest income	16.6	12.7	29.3	8.5	0.3	8.8	**38.1**
Total income	47.2	15.1	62.3	20.3	0.3	20.6	**82.9**
Expenses with respect to credit losses	(0.6)	0.2	(0.4)	1.3	-	1.3	**0.9**
Operating and other expenses	14.8	11.9	26.7	7.4	-	7.4	**34.1**
Profit (loss) before taxes	33.0	3.0	36.0	11.6	0.3	11.9	**47.9**
Provision for taxes on income	13.6	1.3	14.9	4.8	0.1	4.9	**19.8**
Net profit (loss)	19.4	1.7	21.1	6.8	0.2	7.0	**28.1**
Out of total operating and other expenses:							
Direct expenses	5.7	5.7	11.4	2.4	-	2.4	**13.8**
Indirect expenses	9.1	6.2	15.3	5.0	-	5.0	**20.3**
Net profit - before loading indirect expenses	29.8	6.5	36.3	11.7	0.2	11.9	**48.2**
Average balance of assets	1,017.2	332.9	1,350.1	518.7	114.4	633.1	**1,983.2**
Average balance of credit to the public	1,017.2	332.9	1,350.1	518.7	-	518.7	**1,868.8**
Balance of credit to the public at the end of the reporting period	840.2	350.8	1,191.0	408.9	-	408.9	**1,599.9**
Balance of impaired debts	16.0	0.6	16.6	13.6	-	13.6	**30.2**
Balance of debts in arrears of over 90 days	5.1	-	5.1	-	-	-	**5.1**
Average balance of liabilities	375.6	592.4	968.0	267.5	278.5	546.0	**1,514.0**
Of which: average balance of public deposits	375.6	592.4	968.0	267.5	164.2	431.7	**1,399.7**
Balance of public deposits at the end of the reporting period	400.9	528.8	929.7	311.0	172.2	483.2	**1,412.9**
Average balance of risk assets	1,369.6	66.8	1,436.4	556.0	3.7	559.7	**1,996.1**
Balance of risk assets at the end of the reporting period	1,118.7	103.5	1,222.2	617.9	2.1	620.0	**1,842.2**
Average balance of managed assets	14.4	1,323.0	1,337.4	222.8	3,346.4	3,569.2	**4,906.6**
Separation of interest income, net:							
Margin from credit provision activity	29.5	1.5	31.0	13.9	-	13.9	**44.9**
Margin from deposits receipt activity	0.4	0.9	1.3	0.2	-	0.2	**1.5**
Other	0.7	-	0.7	(2.3)	-	(2.3)	**(1.6)**
Total interest income, net	30.6	2.4	33.0	11.8	-	11.8	**44.8**

(1) This segment includes activities with large businesses of an immaterial scope.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

	For the year ended December 31, 2015*							
	Small and micro businesses segment			Medium and large business segment (1)				
	Households	Private banking	Small and micro businesses	Medium and large businesses (1)	Institutional entities	Financial management segment	Unallocated amounts	Total
Interest income from externals	336.0	0.2	43.5	13.9	-	12.7	-	**406.3**
Interest expenses from externals	26.4	11.8	0.7	-	9.4	23.9	-	**72.2**
Interest income, net:								
From externals	309.6	(11.6)	42.8	13.9	(9.4)	(11.2)	-	**334.1**
Inter-segmental	(66.8)	14.7	(9.4)	(2.1)	10.6	53.0	-	**-**
Total interest income, net	**242.8**	**3.1**	**33.4**	**11.8**	**1.2**	**41.8**	**-**	**334.1**
Total non-interest income	70.4	5.2	23.2	10.8	26.4	0.9	5.8	**142.7**
Total income	**313.2**	**8.3**	**56.6**	**22.6**	**27.6**	**42.7**	**5.8**	**476.8**
Expenses with respect to credit losses	41.5	-	(1.1)	-	-	-	-	**40.4**
Operating and other expenses	265.4	13.3	25.3	7.1	45.6	9.1	-	**365.8**
Profit (loss) before taxes	**6.3**	**(5.0)**	**32.4**	**15.5**	**(18.0)**	**33.6**	**5.8**	**70.6**
Provision for taxes on income	2.0	(1.6)	10.1	4.8	(5.6)	10.5	1.8	**22.0**
Net profit (loss)	**4.3**	**(3.4)**	**22.3**	**10.7**	**(12.4)**	**23.1**	**4.0**	**48.6**
Out of total operating and other expenses:								
Direct expenses	141.8	5.8	11.3	2.4	25.0	6.2		**192.5**
Indirect expenses	123.6	7.5	14.0	4.7	20.6	2.9		**173.3**
Net profit - before loading indirect expenses	90.9	1.7	31.8	13.9	1.8	11.4		**151.5**
Average balance of assets	7,937.0	4.7	1,130.0	795.3	6.8	4,105.9	-	**13,979.7**
Average balance of credit to the public	7,937.0	4.7	1,130.0	605.3	6.8	-	-	**9,683.8**
Balance of credit to the public at the end of the reporting period	8,187.7	5.0	1,200.9	607.3	-	-	-	**10,000.9**
Balance of impaired debts	15.8	-	9.9	-	-	-	-	**25.7**
Balance of debts in arrears of over 90 days	175.3	-	3.1	-	-	-	-	**178.4**
Average balance of liabilities	7,032.9	1,631.5	1,134.3	341.6	1,143.2	1,922.7	-	**13,206.2**
Of which: average balance of public deposits	7,032.9	1,631.5	1,134.3	151.6	1,143.2	-	-	**11,093.5**
Balance of public deposits at the end of the reporting period	6,762.9	1,594.0	1,115.6	167.7	1,378.8	-	-	**11,019.0**
Average balance of risk assets	5,261.5	23.4	1,370.3	598.9	81.3	569.1	-	**7,904.5**
Balance of risk assets at the end of the reporting period	5,379.5	22.9	1,296.5	662.5	82.0	570.4	-	**8,013.8**
Average balance of managed assets	4,804.5	3,113.7	936.9	4,015.4	12.5	-	-	**12,883.0**
Separation of interest income, net:								
Margin from credit provision activity	222.9	-	30.9	11.5	0.3	-	-	**265.6**
Margin from deposits receipt activity	14.2	2.4	1.6	0.1	0.7	-	-	**19.0**
Other	5.7	0.7	0.9	0.2	0.2	41.8	-	**49.5**
Total interest income, net	**242.8**	**3.1**	**33.4**	**11.8**	**1.2**	**41.8**	**-**	**334.1**

(1) This segment includes activities with large businesses of an immaterial scope.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts, NIS millions

C. Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2015*				
	Households segment				
	Housing loans	Other (2)	Total households	Total private banking	Total
Interest income from externals	219.2	116.8	**336.0**	**0.2**	**336.2**
Interest expenses from externals	-	26.4	**26.4**	**11.8**	**38.2**
Interest income, net:					
From externals	219.2	90.4	**309.6**	**(11.6)**	**298.0**
Inter-segmental	(101.4)	34.6	**(66.8)**	**14.7**	**(52.1)**
Total interest income, net	117.8	125.0	**242.8**	**3.1**	**245.9**
Total non-interest income	31.6	38.8	**70.4**	**5.2**	**75.6**
Total income	149.4	163.8	**313.2**	**8.3**	**321.5**
Expenses with respect to credit losses	0.7	40.8	**41.5**	**-**	**41.5**
Operating and other expenses	64.4	201.0	**265.4**	**13.3**	**278.7**
Profit (loss) before taxes	84.3	(78.0)	**6.3**	**(5.0)**	**1.3**
Provision for taxes on income	25.4	(23.4)	**2.0**	**(1.6)**	**0.4**
Net profit (loss)	58.9	(54.6)	**4.3**	**(3.4)**	**0.9**
Out of total operating and other expenses:	30.5	111.3	**141.8**	**5.8**	**147.6**
Direct expenses	33.9	89.7	**123.6**	**7.5**	**131.1**
Indirect expenses	80.2	10.7	**90.9**	**1.7**	**92.6**
Net profit - before loading indirect expenses					
Average balance of assets	6,872.6	1,064.4	**7,937.0**	**4.7**	**7,941.7**
Average balance of credit to the public	6,872.6	1,064.4	**7,937.0**	**4.7**	**7,941.7**
Balance of credit to the public at the end of the reporting period	7,020.7	1,167.0	**8,187.7**	**5.0**	**8,192.7**
Balance of impaired debts	-	15.8	**15.8**	**-**	**15.8**
Balance of debts in arrears of over 90 days	164.6	10.7	**175.3**	**-**	**175.3**
Average balance of liabilities	-	7,032.9	**7,032.9**	**1,631.5**	**8,664.4**
Of which: average balance of public deposits	-	7,032.9	**7,032.9**	**1,631.5**	**8,664.4**
Balance of public deposits at the end of the reporting period	-	6,762.9	**6,762.9**	**1,594.0**	**8,356.9**
Average balance of risk assets	3,994.3	1,267.2	**5,261.5**	**23.4**	**5,284.9**
Balance of risk assets at the end of the reporting period	4,048.6	1,330.9	**5,379.5**	**22.9**	**5,402.4**
Average balance of managed assets	1,246.4	3,558.1	**4,804.5**	**3,113.7**	**7,918.2**
Separation of interest income, net:					
Margin from credit provision activity	113.5	109.4	**222.9**	**-**	**222.9**
Margin from deposits receipt activity	-	14.2	**14.2**	**2.4**	**16.6**
Other	4.3	1.4	**5.7**	**0.7**	**6.4**
Total interest income, net	117.8	125.0	**242.8**	**3.1**	**245.9**

(2) This segment includes the credit card activity, the scope of which is immaterial.
* Reclassified.

Note 29 - Supervised Operating Segments (Cont.)

Reported amounts in millions of NIS

C. Information regarding supervised operating segments - consolidated (Cont.)

Private individuals - households and private banking - activity in Israel, consolidated

	For the year ended December 31, 2015*						
	Small and micro businesses segment			Medium and large business segment (1)			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Interest income from externals	40.6	2.9	**43.5**	13.9	-	**13.9**	**57.4**
Interest expenses from externals	-	0.7	**0.7**	-	-	**-**	**0.7**
Interest income, net:							
From externals	40.6	2.2	**42.8**	13.9	-	**13.9**	**56.7**
Inter-segmental	(11.5)	2.1	**(9.4)**	(2.2)	0.1	**(2.1)**	**(11.5)**
Total interest income, net	29.1	4.3	**33.4**	11.7	0.1	**11.8**	**45.2**
Total non-interest income	12.9	10.3	**23.2**	10.5	0.3	**10.8**	**34.0**
Total income	42.0	14.6	**56.6**	22.2	0.4	**22.6**	**79.2**
Expenses with respect to credit losses	(1.4)	0.3	**(1.1)**	-	-	**-**	**(1.1)**
Operating and other expenses	14.4	10.9	**25.3**	7.1	-	**7.1**	**32.4**
Profit (loss) before taxes	29.0	3.4	**32.4**	15.1	0.4	**15.5**	**47.9**
Provision for taxes on income	9.1	1.0	**10.1**	4.7	0.1	**4.8**	**14.9**
Net profit (loss)	19.9	2.4	**22.3**	10.4	0.3	**10.7**	**33.0**
Out of total operating and other expenses:							
Direct expenses	5.8	5.5	**11.3**	2.4	-	**2.4**	**13.7**
Indirect expenses	8.6	5.4	**14.0**	4.7	-	**4.7**	**18.7**
Net profit - before loading indirect expenses	25.8	6.0	**31.8**	13.6	0.3	**13.9**	**45.7**
Average balance of assets	953.0	177.0	**1,130.0**	605.3	190.0	**795.3**	**1,925.3**
Average balance of credit to the public	953.0	177.0	**1,130.0**	605.3	-	**605.3**	**1,735.3**
Balance of credit to the public at the end of the reporting period	1,067.6	133.3	**1,200.9**	607.3	-	**607.3**	**1,808.2**
Balance of impaired debts	8.6	1.3	**9.9**	-	-	**-**	**9.9**
Balance of debts in arrears of over 90 days	3.0	0.1	**3.1**	-	-	**-**	**3.1**
Average balance of liabilities	429.6	704.7	**1,134.3**	143.5	198.1	**341.6**	**1,475.9**
Of which: average balance of public deposits	429.6	704.7	**1,134.3**	143.5	8.1	**151.6**	**1,285.9**
Balance of public deposits at the end of the reporting period	442.5	673.1	**1,115.6**	158.5	9.2	**167.7**	**1,283.3**
Average balance of risk assets	1,267.8	102.5	**1,370.3**	597.9	1.0	**598.9**	**1,969.2**
Balance of risk assets at the end of the reporting period	1,195.7	100.8	**1,296.5**	661.7	0.8	**662.5**	**1,959.0**
Average balance of managed assets	9.3	927.6	**936.9**	164.1	3,851.3	**4,015.4**	**4,952.3**
Separation of interest income, net:							
Margin from credit provision activity	28.3	2.6	**30.9**	11.5	-	**11.5**	**42.4**
Margin from deposits receipt activity	0.4	1.2	**1.6**	0.1	-	**0.1**	**1.7**
Other	0.4	0.5	**0.9**	0.1	0.1	**0.2**	**1.1**
Total interest income, net	29.1	4.3	**33.4**	11.7	0.1	**11.8**	**45.2**

(1) This segment includes activities with large businesses of an immaterial scope.
* Reclassified.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

	December 31, 2017					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	9.6	44.8	51.0	105.4	-	105.4
Expenses with respect to credit losses	(1.8)	(1.3)	40.0	36.9	-	36.9
Accounting write-offs	(0.5)	(0.5)	(47.8)	(48.8)	-	(48.8)
Collection of debts which were written off in previous years	0.6	0.4	10.4	11.4	-	11.4
Net accounting write-offs	0.1	(0.1)	(37.4)	(37.4)	-	(37.4)
Balance of the provision for credit losses at end of year (**)	**7.9**	**43.4**	**53.6**	**104.9**	**-**	**104.9**
(*) Of which: with respect to off-balance sheet credit instruments	2.3	0.4	0.5	3.2	-	3.2
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts (1) and for debts (1) with respect to which it was calculated						
Recorded debit balance of debts (1):						
Evaluated on an individual basis	1,116.3	1.3	15.6	1,133.2	-	1,133.2
Evaluated on a collective basis (**)	237.4	7,276.8	1,125.0	8,639.2		8,639.2
Total debts (1)	**1,353.7**	**7,278.1**	**1,140.6**	**9,772.4**	**-**	**9,772.4**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	187.0	6,830.1	-	7,017.1	-	7,017.1
Provision for credit losses with respect to debts(1)						
Evaluated on an individual basis	4.7	0.1	9.4	14.2	-	14.2
Evaluated on a collective basis (***)	0.9	42.9	43.7	87.5	-	87.5
Total provision for credit losses	**5.6**	**43.0**	**53.1**	**101.7**	**-**	**101.7**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.7	42.9	-	43.6	-	43.6

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 0.7 million, and which was calculated on a collective basis in the amount of NIS 25.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts (1) and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

	December 31, 2016					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	9.1	60.2	45.1	114.4	-	114.4
Expenses with respect to credit losses	0.7	(7.7)	37.4	30.4	-	30.4
Accounting write-offs	(0.4)	(7.7)	(41.3)	(49.4)	-	(49.4)
Collection of debts which were written off in previous years	0.2	-	9.8	10.0	-	10.0
Net accounting write-offs	(0.2)	(7.7)	(31.5)	(39.4)	-	(39.4)
Balance of the provision for credit losses at end of year (**)	**9.6**	**44.8**	**51.0**	**105.4**	**-**	**105.4**
(*) Of which: with respect to off-balance sheet credit instruments	2.2	0.2	0.5	2.9	-	2.9
2. Additional information regarding the method used to calculate the provision for credit losses with respect to debts (1) and for debts (1) with respect to which it was calculated						
Recorded debit balance of debts (1):						
Evaluated on an individual basis	1,532.7(3)	-	19.7	1,552.4	-	1,552.4
Evaluated on a collective basis (**)	221.9(3)	7,014.1	1,104.2	8,340.2	-	8,340.2
Total debts (1)	**1,754.6**	**7,014.1**	**1,123.9**	**9,892.6**	**-**	**9,892.6**
(**) Of which: where the provision with respect to them was calculated according to the extent of the arrears	152.5	6,669.7	-	6,822.2	-	6,822.2
Provision for credit losses with respect to debts(1)						
Evaluated on an individual basis	5.9	-	9.8	15.7	-	15.7
Evaluated on a collective basis (***)	1.5	44.6(2)	40.7	86.8	-	86.8
Total provision for credit losses	**7.4**	**44.6**	**50.5**	**102.5**	**-**	**102.5**
(***) Of which: where the provision with respect to them was calculated according to the extent of the arrears	0.5	44.6	-	45.1	-	45.1

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Includes provision balances beyond what is required according to the extent of arrears method, which was calculated on an individual basis, in the amount of NIS 1 million, and which was calculated on a collective basis in the amount of NIS 24.1 million.
(3) Restated.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

A. Debts [1] and off-balance sheet credit instruments (Cont.)

Provision for credit losses (Cont.)

	December 31, 2015					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
1. Movement in the balance of the provision for credit losses						
Balance of the provision for credit losses at start of year	10.2	64.5	36.0	110.7	-	110.7
Expenses with respect to credit losses	(0.4)	0.5	40.3	40.4	-	40.4
Accounting write-offs	(1.1)	(4.9)	(37.1)	(43.1)	-	(43.1)
Collection of debts which were written off in previous years	0.4	0.1	5.9	6.4	-	6.4
Net accounting write-offs	(0.7)	(4.8)	(31.2)	(36.7)	-	(36.7)
Balance of the provision for credit losses at end of year (*)	**9.1**	**60.2**	**45.1**	**114.4**	**-**	**114.4**
(*) Of which: with respect to off-balance sheet credit instruments	1.8	0.4	0.6	2.8	-	2.8

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B.Debts (1)(Cont.)

1. Credit quality and arrears

	As of December 31, 2017					
		Troubled (2)			Non-impaired debts Additional Information	
Activities of borrowers in Israel	Non-troubled	Non-impaired	Impaired (3)	Total	In arrears of 90 days or more (4)	In arrears of 30 to 89 days (5)
Public - commercial						
Construction and real estate - construction	796.1	-	21.2	817.3	-	-
Construction and real estate - real estate activities	431.6	2.7	4.0	438.3	2.7	0.5
Financial services	87.2	-	-	87.2	-	-
Commercial - other	10.3	0.1	0.5	10.9	-	-
Total commercial	**1,325.2**	**2.8**	**25.7**	**1,353.7**	**2.7**	**0.5**
Private individuals - housing loans	7,124.4	152.4(6)	1.3	7,278.1	152.4	26.2
Private individuals - other	1,106.0	20.4	14.2	1,140.6	9.9	14.5
Total public - activities in Israel	**9,555.6**	**175.6**	**41.2**	**9,772.4**	**165.0**	**41.2**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,555.6**	**175.6**	**41.2**	**9,772.4**	**165.0**	**41.2**
Foreign banks	-	-	-	-	-	-
Total	**9,555.6**	**175.6**	**41.2**	**9,772.4**	**165.0**	**41.2**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Activities of borrowers in Israel	As of December 31, 2016					
		Troubled (2)			Non-impaired debts - additional information	
	Non-troubled	Non-impaired	Impaired (3)	Total	In arrears of 90 days or more (4)	In arrears of 30 to 89 days (5)
Public - commercial						
Construction and real estate - construction	935.2	-	18.6	953.8	-	-
Construction and real estate - real estate activities	443.4	6.5	11.0	460.9	5.1	2.0
Financial services	321.2	-	-	321.2	-	-
Commercial - other	18.0	0.1	0.6	18.7	-	-
Total commercial	**1,717.8**	**6.6**	**30.2**	**1,754.6**	**5.1**	**2.0**
Private individuals - housing loans	6,876.7	137.4(6)	-	7,014.1	137.4	29.3
Private individuals - other	1,087.0	21.2	15.7	1,123.9	10.6	24.8
Total public - activities in Israel	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activities in Israel	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**
Foreign banks	-	-	-	-	-	-
Total	**9,681.5**	**165.2**	**45.9**	**9,892.6**	**153.1**	**56.1**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.
(2) Credit risk which is impaired, subordinate or subject to special supervision, including with respect to housing loans for which a provision exists, according to the extent of the arrears, and with respect to housing loans for which no provision exists, according to the extent of the arrears, which are in arrears of 90 days or more.
(3) In general, impaired debt does not accrue interest income. For details regarding certain impaired debts which were restructured in the troubled debt restructuring, see Note 5.B.2.C. below.
(4) Classified as non-impaired troubled debts. Accumulate interest income.
(5) Accumulate interest income. Debts in arrears of 30 to 89 days, in the amount of NIS 8.7 million, were classified as non-impaired troubled debts (December 31, 2016 - NIS 8.6 million).
(6) Including the balance of housing loans in the amount of NIS 9.2 million, with a provision according to the extent of the arrears, regarding which an arrangement was signed regarding the repayment of a borrower's amounts in arrears, where a change was implemented to the amortization schedule with respect to the balance of the loan which has not yet come due (December 31, 2016 - NIS 7.9 million).

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts [1](Cont.)

2. Additional information regarding impaired debt

A. Impaired debts and specific provision

Activities of borrowers in Israel	As of December 31, 2017				
	Balance of [2] impaired debts for which a specific provision exists [3]	Balance of specific provision [3]	Balance of [2] impaired debts with respect to which no provision exists [3]	Total balance [2] of impaired debts	Balance of contractual principal of impaired debts
Public - commercial					
Construction and real estate - construction	-	-	21.2	21.2	28.7
Construction and real estate - real estate activities	-	-	4.0	4.0	5.3
Financial services	-	-	-	-	-
Commercial - other		-	0.5	0.5	0.4
Total commercial	**-**	**-**	**25.7**	**25.7**	**34.4**
Private individuals - housing loans	-	-	1.3	1.3	1.3
Private individuals - other		-	14.2	14.2	34.8
Total public - activities in Israel	**-**	**-**	**41.2**	**41.2**	**70.5**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**-**	**-**	**41.2**	**41.2**	**70.5**
Foreign banks	-	-	-	-	-
Total	**-**	**-**	**41.2**	**41.2**	**70.5**
Of which:					
Measured according to the present value of cash flows	-	-	4.3	4.3	
Debts in troubled debt restructuring	-	-	19.3	19.3	

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Activities of borrowers in Israel	As of December 31, 2016				
	Balance of (2) impaired debts for which a specific provision exists (3)	Balance of specific provision (3)	Balance of (2) impaired debts with respect to which no provision exists (3)	Total balance(2) of impaired debts	Balance of contractual principal of impaired debts
Public - commercial					
Construction and real estate - construction	-	-	18.6	18.6	26.1
Construction and real estate - real estate activities	-	-	11.0	11.0	12.3
Financial services	-	-	-	-	-
Commercial - other	-	-	0.6	0.6	0.6
Total commercial	**-**	**-**	**30.2**	**30.2**	**39.0**
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	-	-	15.7	15.7	33.9
Total public - activities in Israel	**-**	**-**	**45.9**	**45.9**	**72.9**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activities in Israel	**-**	**-**	**45.9**	**45.9**	**72.9**
Foreign banks	-	-	-	-	-
Total	**-**	**-**	**45.9**	**45.9**	**72.9**
Of which:					
Measured according to the present value of cash flows	-	-	5.2	5.2	
Debts in troubled debt restructuring	-	-	21.8	21.8	

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of a resale agreement.
(2) Recorded debit balance.
(3) Specific provision for credit losses.
(4) Reclassified.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts [1] (Cont.)

2. Additional information regarding impaired debt

B. Average balance and interest income from activities of borrowers in Israel

	As of December 31, 2017			As of December 31, 2016		
	Average balance of impaired debts [2]	Interest income which was recorded [3]	Of which, recorded on a cash basis	Average balance of impaired debts [2]	Interest income which was recorded [3]	Of which, recorded on a cash basis
Public - commercial						
Construction and real estate - construction	20.1	-	-	10.6	0.2	0.2
Construction and real estate - real estate activities	5.5	-	-	7.7	0.1	0.1
Commercial - other	0.5	-	-	0.9	0.1	0.1
Total commercial	**26.1**	**-**	**-**	**19.2**	**0.4**	**0.4**
Private individuals - housing loans	0.5	-	-	-	-	-
Private individuals - other	14.9	1.7	1.5	16.6	1.6	1.6
Total	41.5	1.7[4]	1.5	35.8	2.0[4]	2.0

	As of December 31, 2015		
Public - commercial			
Construction and real estate - construction	9.3	0.3	0.3
Construction and real estate - real estate activities	1.7	0.1	0.1
Commercial - other	3.1	0.1	0.1
Total commercial	**14.1**	**0.5**	**0.5**
Private individuals - housing loans	0.1	-	-
Private individuals - other	14.5	0.7	0.7
Total	**28.7**	**1.2**[4]	1.2

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Average recorded debit balance of impaired debts during the reporting period.
(3) Interest income which was recorded during the reporting period, with respect to the average balance of impaired debts, during the time period in which the debts were classified as impaired.
(4) Had the debts accrued interest in accordance with their original terms, interest income would have been recorded in the amount of NIS 2.5 million, for the year ended December 31, 2017 (for the year ended December 31, 2016 - NIS 2.3 million; and for the year ended December 31, 2015 - NIS 1.2 million).

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts [1](Cont.)

2. Additional information regarding impaired debt (Cont.)

C. Troubled debts in restructuring - borrowers' activities in Israel

	As of December 31, 2017				
	Recorded debit balance				
	Non-accruing Interest income	Accruing[2] In arrears of 90 days or more	Accruing[2] In arrears of 30 to 89 days	Accruing [2] Not in arrears	Total [3]
Public - commercial					
Construction and real estate - construction	0.1	-	-	3.3	3.4
Construction and real estate - real estate activities	0.6	-	-	0.6	1.2
Financial services	-	-	-	-	-
Commercial - other	0.1	-	-	0.4	0.5
Total commercial	**0.8**	**-**	**-**	**4.3**	**5.1**
Private individuals - housing loans	-	-	-	-	**-**
Private individuals - other	7.5	-	-	6.7	14.2
Total	**8.3**	**-**	**-**	**11.0**	**19.3**

	As of December 31, 2016				
	Recorded debit balance				
	Non-accruing Interest income	Accruing [2] In arrears of 90 days or more	Accruing [2] In arrears of 30 to 89 days	Accruing [2] Not in arrears	Total [3]
Public - commercial					
Construction and real estate - construction	0.2	-	-	4.1	4.3
Construction and real estate - real estate activities	0.6	-	-	0.6	1.2
Financial services	-	-	-	-	-
Commercial - other	-	-	-	0.6	0.6
Total commercial	**0.8**	**-**	**-**	**5.3**	**6.1**
Private individuals - housing loans	-	-	-	-	**-**
Private individuals - other	8.5	-	-	7.2	**15.7**
Total	**9.3**	**-**	**-**	**12.5**	**21.8**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.
(2) Accrues interest income.
(3) Included under impaired debts.
As of December 31, 2017, there are no liabilities in the Bank for the provision of additional credit to debtors regarding whom a troubled debt restructuring was performed, which involved the implementation of changes to the credit terms.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts [1](Cont.)

2. Additional information regarding impaired debt (Cont.)

C. Troubled debts in restructuring - borrowers' activities in Israel

	Restructurings which were performed in the reporting year								
	As of December 31, 2017			As of December 31, 2016			As of December 31, 2015		
	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring	Number of contracts	Debit balance recorded before restructuring	Debit balance recorded after restructuring
Public - commercial									
Construction and real estate - construction		-	-	1	-[4]	-[4]	-	-	-
Construction and real estate - real estate activities	-	-	-	-	-	-	1	0.7	0.7
Commercial - other	1	-[4]	-[4]	-	-	-	2	0.3	0.3
Total commercial	**1**	**-[4]**	**-[4]**	**1**	**-[4]**	**-[4]**	**3**	**1.0**	**1.0**
Private individuals - housing loans	-	-	-	-	-	-	-	-	-
Private individuals - other	259	6.2	6.2	364	8.5	8.5	465	10.1	10.1
Total activities in Israel	**260**	**6.2**	**6.2**	**365**	**8.5**	**8.5**	**468**	**11.1**	**11.1**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

	Failed restructurings (2)					
	December 31, 2017		December 31, 2016		December 31, 2015	
	Number of contracts	Recorded debit balance	Number of contracts	Recorded debit balance	Number of contracts	Recorded debit balance
Public - commercial						
Construction and real estate - construction	-	-	-	-	-	-
Construction and real estate - real estate activities	-	-	-	-	-	-
Commercial - other	-	-	-	-	-	-
Total commercial	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	54	0.5	53	0.9	72	0.3(3)
Total	**54**	**0.5**	**53**	**0.9**	**72**	**0.3**

(1) Credit to the public, credit to the government, deposits in banks and other debts, excluding bonds and securities which were borrowed or purchased within the framework of resale agreements.

(2) Debts which became, during the reporting year, debts in arrears of 30 days or more, which were restructured in a troubled debt restructuring during the 12 months which preceded the date when they became debts in arrears.

(3) Beginning with the reports for 2015, the Bank has applied an update to the collection of questions and answers on the subject of impaired debts, credit risk and the provision for credit losses, which requires, inter alia, debts which are estimated on a collective basis which were restructured, as well as failed restructurings, to be written off within a maximum of 60 days. The Bank will adopt the directive prospectively. For additional details, see Note 1H.7.

(4) Amount lower than NIS 0.1 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B. Debts (Cont.)

3. Additional information regarding housing loans

Balances as of the end of the year, by financing rate (LTV) (1), repayment type and interest type

		As of December 31, 2017			
		Balance of housing loans			Credit risk Off-balance sheet
		Total	Of which: Bullet and balloon	Of which: Variable interest	Total
First priority pledge: financing rate	Up to 60%	5,966.0	383.6	4,151.4	473.1
	Over 60%	1,307.0	64.1	1,014.1	48.7
Second priority pledge or no pledge		5.1	0.3	4.3	0.4
Total		**7,278.1**	**448.0**	**5,169.8**	**522.2**

		As of December 31, 2016 (2)			
		Balance of housing loans			Credit risk Off-balance sheet
		Total	Of which: Bullet and balloon	Of which: Variable interest	Total
First priority pledge: financing rate	Up to 60%	5,658.5	317.4	4,130.9	199.7
	Over 60%	1,348.8	57.5	1,092.6	23.4
Second priority pledge or no pledge		6.8	2.1	5.1	0.2
Total		**7,014.1**	**377.0**	**5,228.6**	**223.3**

(1) The ratio between the approved facility upon the provision of the facility, and the value of the asset, as approved by the Bank upon provision of the facility.

(2) Reclassified.

Credit quality - LTV ratio

The LTV ratio constitutes an additional indication of credit quality for the Bank. The LTV ratio is the ratio between the loan amount and the estimated value of the financed asset which was approved by the Bank when the facility was provided.

Note 30.B.3. presents debit balances with respect to housing loans, segmented by LTB ratio ranges and pledge priority levels.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

B1. Sale, purchase and syndication of credit to the public in 2017

1. Sale and purchase of credit to the public (consolidated basis)

	Credit risk which was sold					Credit risk which was purchased		
	Credit to the public which was sold this year	Off-balance sheet credit risk which was sold this year	Of which: troubled credit	Total profit (loss) with respect to sold credit	Balance at year-end of sold credit, for which the banking corporation provides service	Credit to the public which was purchased this year	Off-balance sheet credit risk which was acquired this year	Of which: troubled credit
Total commercial	34.1	-	-	2.5	116.5	-	-	-
Private individuals - housing loans	-	-	-	-	0.1	-	-	-
Private individuals - other	-	-	-	-	-	-	-	-
Total credit to the public risk	**34.1**	**-**	**-**	**2.5**	**116.6**	**-**	**-**	**-**

2. Syndications and participation in syndications of loans

	Syndication transactions initiated by the banking corporation				Syndication transactions initiated by others	
	Balance as of December 31, 2017					
	The banking corporation's share		Share of others		The banking corporation's share	
	Number of contracts	Recorded debit balance	Number of contracts	Recorded debit balance	Number of contracts	Recorded debit balance
Total commercial	307.6	148.7	801.2	295.5	-	-
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	-	-	-	-	-	-
Total credit to the public risk	**307.6**	**148.7**	**801.2**	**295.5**	**-**	**-**

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

C. Credit to the public and off-balance sheet credit risk, by the borrower's credit size (1)

Maximum credit limit, NIS thousands	December 31, 2017			December 31, 2016		
	Number of borrowers (2)	Credit (3)	Off-balance sheet credit risk (3)(4)	Number of borrowers (2)	Credit (3)	Off-balance sheet credit risk (3)(4)
Credit to borrowers - up to 10	9,718	28.2	9.1	10,615	27.8	11.4
Credit to borrowers - 10 to 20	6,600	77.9	15.1	6,738	81.8	17.6
Credit to borrowers - 20 to 40	10,888	296.4	27.1	10,658	286.7	31.3
Credit to borrowers - 40 to 80	12,131	572.9	30.7	12,247	591.4	35.2
Credit to borrowers - 80 to 150	2,810	283.0	17.5	3,032	302.6	22.0
Credit to borrowers - 150 to 300	3,462	735.6	11.4	3,724	791.4	16.0
Credit to borrowers - 300 to 600	4,973	2,092.5	31.2	4,806	2,016.4	37.0
Credit to borrowers - 600 to 1,200	3,080	2,244.9	208.5	2,715	2,011.9	158.6
Credit to borrowers - 1,200 to 2,000	884	1,061.7	202.7	741	976.9	108.8
Credit to borrowers - 2,000 to 4,000	389	776.3	203.5	340	797.4	104.1
Credit to borrowers - 4,000 to 8,000	142	571.2	150.7	134	549.2	175.7
Credit to borrowers - 8,000 to 20,000	55	367.2	269.9	53	402.1	201.8
Credit to borrowers - 20,000 to 40,000	29	329.9	438.6	27	375.3	393.4
Credit to borrowers - 40,000 to 200,000	12	334.7	314.1	12	407.1	248.6
Credit to borrowers - 200,000 to 280,000	-	-	-	1	274.6(5)	0.3
	55,173	**9,772.4**	**1,930.1**	**55,843**	**9,892.6**	**1,561.8**

(1) A borrower as defined in Proper Banking Management Directive 313, on the subject of "Restrictions on debt of a borrower or group of borrowers", whose balance of credit is greater than NIS 150.
(2) Number of borrowers, by total credit and off-balance sheet credit risk.
(3) Balance sheet and off-balance sheet credit risk are presented according to the effect of the provision for credit losses and before the effect of the deductible collaterals for the purpose of the debt of the borrower or group of borrowers.
(4) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the debt restrictions of a single borrower.
(5) Net debt of the borrower, after deducting collateral pledged to the Bank, approximately NIS 4.9 million.

Note 30 - Additional Information Regarding Credit Risk, Credit to the Public and Provision for Credit Losses (Cont.)

Reported amounts in millions of NIS

D. Off-balance sheet financial instruments

Contract balances or specified amounts at end of year

	December 31		December 31	
	2017	2016	2017	2016
	Balances of contracts (1)		Balance of the provision for credit losses (2)	
Transactions in which the balance represents credit risk:				
Guarantees to secure credit (1)	115.5	118.8	0.5	0.5
Guarantees to apartment buyers	19.1	32.2	-(3)	0.1
Other guarantees and liabilities	115.0	131.9	0.3	0.3
Unused credit facilities of credit cards	120.1	136.6	0.4	0.4
Unused revolving debitory account facilities and other credit facilities in accounts on demand	31.0	31.0	-(3)	-(3)
Irrevocable undertakings to provide credit which have been approved and not yet provided	1,543.0	1,124.9	2.0	1.6
Total	**1,943.7**	**1,575.4**	**3.2**	**2.9**

(1) Balances or specified amounts of contracts at the end of the period, before the effect of the provision for credit losses.
(2) Balance of the provision for credit losses at end of period.
(3) Balance lower than NIS 0.1 million.

Note 31 - Assets and Liabilities by Linkage Bases - Consolidated

Reported amounts in millions of NIS

	December 31, 2017					
	Israeli currency		Foreign currency [1]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,574.6	-	64.3	20.1	-	2,659.0
Securities	655.4	14.3	110.3	76.6	1.7	858.3
Credit to the public, net[2]	5,642.6	3,130.9	695.4	201.8	-	9,670.7
Buildings and equipment	-	-	-	-	150.6	150.6
Intangible assets	-	-	-	-	0.4	0.4
Assets with respect to derivative instruments	0.5	-	-	3.2	60.3	64.0
Other assets	109.9	7.1	-	-	33.6	150.6
Total assets	**8,983.0**	**3,152.3**	**870.0**	**301.7**	**246.6**	**13,553.6**
Liabilities						
Public deposits	7,782.6	1,519.8*	867.8	389.9	-	10,560.1
Deposits from banks	-	33.6	-	-	-	33.6
Government deposits	0.5	-	-	-	-	0.5
Lent securities	23.6	10.8	-	-	-	34.4
Bonds and deferred liability notes	342.3	1,529.9	-	-	-	1,872.2
Liabilities in respect of derivative instruments	3.7	2.0	-	0.2	60.3	66.2
Other liabilities	88.7	-	4.9	-	55.7	149.3
Total liabilities	**8,241.4**	**3,096.1**	**872.7**	**390.1**	**116.0**	**12,716.3**
Difference	741.6	56.2	(2.7)	(88.4)	130.6	837.3
Non-hedging derivative instruments [3]						
Derivative instruments (excluding options)	171.9	(279.0)	13.8	93.3	-	-
Total general	**913.5**	**(222.8)**	**11.1**	**4.9**	**130.6**	**837.3**

* Including savings plans, consolidated and in the Bank, with a minimum NIS limit of NIS 303.0 million.

Footnotes at the end of Note 31.

Note 31 - Assets and Liabilities by Linkage Bases - Consolidated (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2016					
	Israeli currency		Foreign currency [(1)]			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,417.8	-	75.6	28.6	-	2,522.0
Securities	1,125.0	10.5	149.1	143.8	6.1	1,434.5
Credit to the public, net[(2)]	5,305.5	3,403.8	893.3	187.5	-	9,790.1
Buildings and equipment	-	-	-	-	157.8	157.8
Intangible assets	-	-	-	-	0.8	0.8
Assets with respect to derivative instruments	2.5	-	3.9	0.3	144.4	151.1
Other assets	95.6	5.6	-	-	44.5	145.7
Total assets	**8,946.4**	**3,419.9**	**1,121.9**	**360.2**	**353.6**	**14,202.0**
Liabilities						
Public deposits	7,439.7	1,899.7*	1,129.0	399.9	-	10,868.3
Deposits from banks	-	36.5	-	-	-	36.5
Government deposits	1.1	-	-	-	-	1.1
Lent securities	415.1	175.3	-	-	-	590.4
Bonds and deferred liability notes	428.6	1,153.2	0.3	-	-	1,582.1
Liabilities in respect of derivative instruments	1.1	-	0.7	0.5	144.4	146.7
Other liabilities	111.5	-	12.0	0.4	44.7	168.6
Total liabilities	**8,397.1**	**3,264.7**	**1,142.0**	**400.8**	**189.1**	**13,393.7**
Difference	549.3	155.2	(20.1)	(40.6)	164.5	808.3
Non-hedging derivative instruments [(3)]						
Derivative instruments (excluding options)	(21.5)	(50.0)	26.2	45.3	-	-
Total general	**527.8**	**105.2**	**6.1**	**4.7**	**164.5**	**808.3**

* Including savings plans, consolidated and in the Bank, with a minimum NIS limit of NIS 314.2 million.

Footnotes at the end of Note 31.

Note 31 - Assets and Liabilities by Linkage Bases - Bank

Reported amounts in millions of NIS

	December 31, 2017					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,574.6	-	64.3	20.1	-	2,659.0
Securities	655.4	14.3	110.3	76.6	1.7	858.3
Credit to the public, net(2)	5,642.6	3,130.9	695.4	201.8	-	9,670.7
Investments in investee companies	22.1	-	-	-	386.2	408.3
Buildings and equipment	-	-	-	-	10.3	10.3
Intangible assets	-	-	-	-	0.4	0.4
Assets with respect to derivative instruments	0.5	-	-	3.2	60.3	64.0
Other assets	103.9	-	-	-	33.4	137.3
Total assets	**8,999.1**	**3,145.2**	**870.0**	**301.7**	**492.3**	**13,808.3**
Liabilities						
Public deposits	8,195.9	2,661.2*	867.8	389.9	-	12,114.8
Deposits from banks	-	33.6	-	-	-	33.6
Government deposits	0.5	-	-	-	-	0.5
Lent securities	23.6	10.8	-	-	-	34.4
Bonds and deferred liability notes	197.9	384.3	-	-	-	582.2
Liabilities in respect of derivative instruments	3.7	2.0	-	0.2	60.3	66.2
Other liabilities	77.2	-	4.9	-	57.2	139.3
Total liabilities	**8,498.8**	**3,091.9**	**872.7**	**390.1**	**117.5**	**12,971.0**
Difference	500.3	53.3	(2.7)	(88.4)	374.8	837.3
Non-hedging derivative instruments (3)						
Derivative instruments (excluding options)	171.9	(279.0)	13.8	93.3	-	-
Total general	**672.2**	**(225.7)**	**11.1**	**4.9**	**374.8**	**837.3**

* Including savings plans, consolidated and in the Bank, with a minimum NIS limit of NIS 303.0 million.
Footnotes at the end of Note 31.

Note 31 - Assets and Liabilities by Linkage Bases - Bank (Cont.)

Reported amounts in millions of NIS

	December 31, 2016					
	Israeli currency		Foreign currency (1)			
	Unlinked	CPI-linked	US Dollar	Other	Non-monetary items	Total
Assets						
Cash and deposits in banks	2,417.8	-	75.6	28.6	-	2,522.0
Securities	1,125.0	10.5	149.1	143.8	6.1	1,434.5
Credit to the public, net(2)	5,305.5	3,403.8	893.3	187.5	-	9,790.1
Investments in investee companies	22.1	-	-	-	374.9	397.0
Buildings and equipment	-	-	-	-	11.3	11.3
Intangible assets	-	-	-	-	0.8	0.8
Assets with respect to derivative instruments	108.3	-	42.5	0.3	-	151.1
Other assets	91.3	-	-	-	42.9	134.2
Total assets	**9,070.0**	**3,414.3**	**1,160.5**	**360.2**	**436.0**	**14,441.0**
Liabilities						
Public deposits	7,917.7	2,701.1*	1,129.0	399.9	-	12,147.7
Deposits from banks	-	36.5	-	-	-	36.5
Government deposits	1.1	-	-	-	-	1.1
Lent securities	415.1	175.3	-	-	-	590.4
Bonds and deferred liability notes	212.2	346.8	0.3	-	-	559.3
Liabilities in respect of derivative instruments	106.9	-	39.3	0.5	-	146.7
Other liabilities	93.9	-	12.0	0.4	44.7	151.0
Total liabilities	**8,746.9**	**3,259.7**	**1,180.6**	**400.8**	**44.7**	**13,632.7**
Difference	323.1	154.6	(20.1)	(40.6)	391.3	808.3
Non-hedging derivative instruments (3)						
Derivative instruments (excluding options)	(21.5)	(50.0)	26.2	45.3	-	-
Total general	**301.6**	**104.6**	**6.1**	**4.7**	**391.3**	**808.3**

* Including savings plans, consolidated and in the Bank, with a minimum NIS limit of NIS 314.2 million.

(1) Including linkage to foreign currency.
(2) After deducting provisions for credit losses which were attributed to linkage bases.
(3) Non-hedge according to hedge accounting

Note 32 - Assets and Liabilities by Currency and Repayment Period - Consolidated (1)

Reported amounts in millions of NIS

	As of December 31, 2017				
	Expected contractual cash flows				
	On demand Up to 1 month	1 month to 3 months	Over 3 months to 1 year	1 year to 2 years	2 years to 3 years
Israeli currency (including foreign currency-linked)					
Assets (*)	2,757.0	323.1	1,998.3	1,262.2	1,052.1
Liabilities (**)	3,506.3	713.5	1,811.6	1,874.6	1,074.8
Difference	(749.3)	(390.4)	186.7	(612.4)	(22.7)
Derivative instruments (excluding options)	(131.2)	-	24.1		
Difference after the effect of derivative instruments	(880.5)	(390.4)	210.8	(612.4)	(22.7)
Foreign currency (3)					
Assets (*)	131.3	3.2	77.3	198.4	162.3
Liabilities (**)	648.9	139.0	444.4	17.7	-
Difference	(517.6)	(135.8)	(367.1)	180.7	162.3
Of which: difference - in USD	(327.1)	(118.6)	(234.4)	160.0	78.6
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	131.2	-	(24.1)		
Difference after the effect of derivative instruments	(386.4)	(135.8)	(391.2)	180.7	162.3
Total					
Assets (*)	**2,888.3**	**326.3**	**2,075.6**	**1,460.6**	**1,214.4**
Liabilities (**)	**4,155.2**	**852.5**	**2,256.0**	**1,892.3**	**1,074.8**
Difference	**(1,266.9)**	**(526.2)**	**(180.4)**	**(431.7)**	**139.6**
(*) Of which: credit to the public	129.8	323.0	1,490.5	1,368.1	1,111.8
(**) Of which: public deposits	3,807.4	850.5	2,124.4	1,555.2	812.6
	As of December 31, 2016				
Israeli currency (including foreign currency-linked)					
Assets (*)	3,059.9	302.3	1,679.0	1,456.0	1,152.3
Liabilities (**)	4,198.8	678.2	2,046.6	1,850.8	1,078.9
Difference	(1,138.9)	(375.9)	(367.6)	(394.8)	73.4
Derivative instruments (excluding options)	(155.1)	19.1	64.5	-	-
Difference after the effect of derivative instruments	(1,294.0)	(356.8)	(303.1)	(394.8)	73.4
Foreign currency (3)					
Assets (*)	236.1	52.2	164.9	211.8	112.9
Liabilities (**)	865.8	330.0	289.1	68.7	-
Difference	629.7	(277.8)	(124.2)	143.1	112.9
Of which: difference - in USD	(422.8)	(294.0)	(54.4)	125.5	95.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	155.0	(19.0)	(64.5)	-	-
Difference after the effect of derivative instruments	784.7	(296.8)	(188.7)	143.1	112.9
Total					
Assets (*)	**3,296.0**	**354.5**	**1,843.9**	**1,667.8**	**1,265.2**
Liabilities (**)	**5,064.6**	**1,008.2**	**2,335.7**	**1,919.5**	**1,078.9**
Difference	**(1,768.6)**	**(653.7)**	**(491.8)**	**(251.7)**	**186.3**
(*) Of which: credit to the public	555.7	296.4	1,409.9	1,367.7	1,093.6
(**) Of which: public deposits	4,188.1	947.2	2,174.9	1,624.6	746.0

As of December 31, 2017								
Expected contractual cash flows						Balance sheet balances (4)		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 one year	Total Cash flows	No repayment period (2)	Total	Contractual rate of return (5)
832.7	722.6	2,554.8	2,818.4	621.2	14,942.4	3.3	12,114.8	4.04%
1,224.7	702.3	544.7	201.6	108.4	11,762.5		11,339.1	0.84%
(392.0)	20.3	2,010.1	2,616.8	512.8	3,179.9	3.3	775.7	
					(107.1)	-	(107.1)	
(392.0)	20.3	2,010.1	2,616.8	512.8	3,072.8	3.3	668.6	
94.1	114.5	349.4	225.5	8.5	1,364.5		1,171.7	3.54%
-	0.0	-	-	-	1,250.0		1,262.8	0.79%
94.1	114.5	349.4	225.5	8.5	114.5	-	(91.1)	
75.9	97.1	278.5	168.9	3.7	182.6		46.7	
-	-	-	-	-	-	-	-	
					107.1		107.1	
94.1	114.5	349.4	225.5	8.5	221.6	-	16.0	
926.8	**837.1**	**2,904.2**	**3,043.9**	**629.7**	**16,306.9**	**3.3**	**13,286.5**	**4.00%**
1,224.7	**702.3**	**544.7**	**201.6**	**108.4**	**13,012.5**	**-**	**12,601.9**	**0.84%**
(297.9)	**134.8**	**2,359.5**	**2,842.3**	**521.3**	**3,294.4**	**3.3**	**684.6**	
926.1	812.0	2,868.9	3,041.1	618.3	12,689.6	3.3	9,670.7	5.05%
738.2	449.4	239.5	169.0	-	10,746.2	-	9,302.4	0.71%
As of December 31, 2016								
836.2	706.7	2,722.0	2,567.0	535.3	15,016.7	4.4	12,515.9	3.76%
799.7	747.2	444.1	209.0	-	12,053.3	-	11,828.0	0.93%
36.5	(40.5)	2,277.9	2,358.0	535.3	2,963.4	4.4	687.9	
-	-	-	-	-	(71.5)	-	(71.5)	
36.5	(40.5)	2,277.9	2,358.0	535.3	2,891.9	4.4	616.4	
109.7	102.8	426.2	292.3	43.5	1,752.4	-	1,476.9	3.05%
-	-	0.3	-	-	1,553.9	-	1,521.0	0.55%
109.7	102.8	425.9	292.3	43.5	198.5	-	(44.1)	
90.1	86.0	348.0	235.1	38.3	247.5		8.7	
-	-	-	-	-	-	-	-	
-	-	-	-	-	71.5	-	71.5	
109.7	102.8	425.9	292.3	43.5	270.0	-	27.4	
945.9	**809.5**	**3,148.2**	**2,859.3**	**578.8**	**16,769.1**	**4.4**	**13,992.8**	**3.68%**
799.7	**747.2**	**444.4**	**209.0**	**-**	**13,607.2**	**-**	**13,349.0**	**0.89%**
146.2	**62.3**	**2,703.8**	**2,650.3**	**578.8**	**3,161.9**	**4.4**	**643.8**	
874.9	798.0	2,794.3	2,801.3	498.0	12,489.8	4.4	9,790.1	4.85%
540.9	264.8	394.9	165.9	-	11,047.3	-	9,399.9	0.81%

Note 32 - Assets and Liabilities by Currency and by Repayment Period - Consolidated (1) (Cont.)

Reported amounts in millions of NIS

	December 31, 2017				
	Expected contractual cash flows				
	On demand Up to 1 month	1 month to 3 months	Over 3 months to 1 year	1 year to 2 years	2 years to 3 years
Israeli currency (including foreign currency-linked)					
Assets (*)	2,757.0	323.1	1,998.3	1,262.2	1,052.1
Liabilities (**)	3,733.2	493.0	2,048.0	1,905.6	1,091.6
Difference	(976.2)	(169.9)	(49.7)	(643.4)	(39.5)
Derivative instruments (excluding options)	(131.2)	-	24.1	-	-
Difference after the effect of derivative instruments	(1,107.4)	(169.9)	(25.6)	(643.4)	(39.5)
Foreign currency (3)					
Assets (*)	131.3	3.2	77.3	198.4	162.3
Liabilities (**)	648.9	139.0	444.4	17.7	-
Difference	(517.6)	(135.8)	(367.1)	180.7	162.3
Of which: difference - in USD	(327.1)	(118.6)	(234.4)	160.0	78.6
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	131.2	-	(24.1)	-	-
Difference after the effect of derivative instruments	(386.4)	(135.8)	(391.2)	180.7	162.3
Total					
Assets (*)	**2,888.3**	**326.3**	**2,075.6**	**1,460.6**	**1,214.4**
Liabilities (**)	**4,382.1**	**632.0**	**2,492.4**	**1,923.3**	**1,091.6**
Difference	**(1,493.8)**	**(305.7)**	**(416.8)**	**(462.7)**	**122.8**
(*) Of which: credit to the public	129.8	323.0	1,490.5	1,368.1	1,111.8
(**) Of which: public deposits	4,205.4	631.1	2,436.0	1,819.0	986.6

	As of December 31, 2016				
	Expected contractual cash flows				
Israeli currency (including foreign currency-linked)					
Assets (*)	3,059.3	302.3	1,679.0	1,456.0	1,152.3
Liabilities (**)	4,400.4	478.3	2,088.0	2,086.7	1,083.5
Difference	(1,341.1)	(176.0)	(409.0)	(630.7)	68.8
Derivative instruments (excluding options)	(155.1)	19.1	64.5	-	-
Difference after the effect of derivative instruments	(1,496.2)	(156.9)	(344.5)	(630.7)	68.8
Foreign currency (3)					
Assets (*)	236.1	52.2	164.9	211.8	112.9
Liabilities (**)	865.8	330.0	289.1	68.7	-
Difference	(629.7)	(277.8)	(124.2)	143.1	112.9
Of which: difference - in USD	(422.8)	(294.0)	(54.4)	125.5	95.7
Of which: difference - with respect to foreign operation	-	-	-	-	-
Derivative instruments (excluding options)	155.0	(19.0)	(64.5)	-	-
Difference after the effect of derivative instruments	(474.7)	(296.8)	(188.7)	143.1	112.9
Total					
Assets (*)	**3,295.4**	**354.5**	**1,843.9**	**1,667.8**	**1,265.2**
Liabilities (**)	**5,266.2**	**808.3**	**2,377.1**	**2,155.4**	**1,083.5**
Difference	**(1,970.8)**	**(453.8)**	**(533.2)**	**(487.6)**	**181.7**
(*) Of which: credit to the public	555.7	296.4	1,409.9	1,367.7	1,093.6
(**) Of which: public deposits	4,421.6	805.1	2,289.5	2,091.0	977.1

Note 32 - Assets and Liabilities by Currency and Repayment Period - Consolidated (1)

Reported amounts in millions of NIS

December 31, 2017								
Expected contractual cash flows						Balance sheet balances (4)		
3 years to 4 years	4 years to 5 years	5 years to 10 years	10 years to 20 years	Over 20 years	Total Cash flows	No repayment period (2)	Total	Contractual rate of return (5)
832.7	722.6	2,554.8	2,818.4	621.2	14,942.4	3.3	12,114.8	4.04%
1,076.3	844.9	527.5	169.0	-	11,889.1		11,590.7	0.61%
(243.6)	(122.3)	2,027.3	2,649.4	621.2	3,053.3	3.3	524.1	
-	-	-	-	-	(107.1)		(107.1)	
(243.6)	(122.3)	2,027.3	2,649.4	621.2	2,946.2	3.3	417.0	
94.1	114.5	349.4	225.5	8.5	1,364.5	-	1,171.7	3.54%
-	0.0	-	-	-	1,250.0	-	1,262.8	0.79%
94.1	114.5	349.4	225.5	8.5	114.5	-	(91.1)	
75.9	97.1	278.5	168.9	3.7	182.6	-	46.7	
-	-	-	-	-	-	-	-	
-	-	-	-	-	107.1	-	107.1	
94.1	114.5	349.4	225.5	8.5	221.6	-	16.0	
926.8	**837.1**	**2,904.2**	**3,043.9**	**629.7**	**16,306.9**	**3.3**	**13,286.5**	**4.00%**
1,076.3	**844.9**	**527.5**	**169.0**	**-**	**13,139.1**	**-**	**12,853.5**	**0.63%**
(149.5)	**(7.8)**	**2,376.7**	**2,874.9**	**629.7**	**3,167.8**	**3.3**	**433.0**	
926.1	812.0	2,868.9	3,041.1	618.3	12,689.6	3.3	9,670.7	5.05%
893.0	733.3	509.1	169.0	-	12,382.5	-	12,114.8	0.66%
December 31, 2016								
Expected contractual cash flows						**Balance sheet balances (4)**		
836.2	706.7	2,722.0	2,567.0	535.3	15,016.1	4.4	12,528.1	3.76%
812.1	588.6	583.4	209.0	-	12,330.0	-	12,067.0	0.75%
24.1	118.1	2,138.6	2,358.0	535.3	2,686.1	4.4	461.1	
-	-	-	-	-	(71.5)	-	(71.5)	
24.1	118.1	2,138.6	2,358.0	535.3	2,614.6	4.4	389.6	
109.7	102.8	426.2	292.3	43.5	1,752.4	-	1,476.9	3.05%
-	-	0.3	-	-	1,553.9	-	1,521.0	0.55%
109.7	102.8	425.9	292.3	43.5	198.5	-	(44.1)	
90.1	86.0	348.0	235.1	38.3	247.5	-	8.7	
-	-	-	-	-	-	-	-	
-	-	-	-	-	71.5	-	71.5	
109.7	102.8	425.9	292.3	43.5	270.0	-	27.4	
945.9	**809.5**	**3,148.2**	**2,859.3**	**578.8**	**16,768.5**	**4.4**	**14,005.0**	**3.68%**
812.1	**588.6**	**583.7**	**209.0**	**-**	**13,883.9**	**-**	**13,588.0**	**0.73%**
133.8	**220.9**	**2,564.5**	**2,650.3**	**578.8**	**2,884.6**	**4.4**	**417.0**	
874.9	798.0	2,794.3	2,801.3	498.0	12,489.8	4.4	9,790.1	4.85%
704.2	402.8	534.2	165.9	-	12,391.4	-	12,147.8	0.70%

Note 32 - Footnote

(1) In this note, the contractual future cash flows expected with respect to the assets and liabilities items are presented by are presented by linkage bases, in accordance with the periods remaining until the contractual repayment date of each flow. The data are presented net of the effect of accounting write-offs and provisions for credit losses.
(2) Assets without a repayment period, including assets in the amount of NIS 3.3 million whose maturity date has passed (NIS 4.4 million as of December 31, 2016).
(3) Not including Israeli currency linked to foreign currency.
(4) As included in the note "Assets and Liabilities by Linkage Bases", including off-balance sheet amounts with respect to derivatives, uncleared, net.
(5) The projected rate of return is the interest rate which deducts the expected future contractual cash flows which are presented in this note with respect to monetary items, to their balance sheet balance.

Note 33A - Balances and Fair Value Estimates of Financial Instruments

A. Fair value of financial instruments

The information included in this note refers to the assessment of the fair value of financial instruments.

Regarding most of the Bank's financial instruments, "market prices" cannot be quoted, since there is no active market in which they are traded. Therefore, fair value is estimated using conventional pricing models, such as the present value of future cash flows, discounted at a rate which reflects the risk level embedded in the financial instrument. The estimation of fair value using forecasts of future cash flows and the determination of the discount interest rate are subjective. Therefore, for most financial instruments, the aforementioned fair value estimate is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value estimate is prepared according to the interest rates which are valid as of the reporting date, and do not take into account fluctuations in interest rates. Different assumptions regarding interest rates will result in fair value amounts which may be significantly different. The above generally applies to fixed interest bearing or non-interest bearing financial instruments. Additionally, the determination of fair value does not take into account fees which were received or paid though business activities, and do not include the tax impact.

It should be noted that it is possible that the difference between the balance sheet balance and the fair value balances will not be realized, due to the fact that, in most cases, the Bank may hold the financial instrument to maturity. Due to all of the above factors, it should be emphasized that the data included in this note do not indicate the value of the banking corporation as a going concern. Additionally, caution should be applied when conducting comparisons between the fair value amounts of various banks due to the multiplicity of valuation techniques and possible estimates for application when assessing fair value.

B. Main method and assumptions used to estimate the fair value of financial instruments

Deposits in banks, bonds and non-traded bills, and credit to the government - according to the discounted future cash flows method, based on interest rates at which the Bank executed similar transactions on the reporting date.

Marketable securities - by market value, non-marketable securities - by revaluation data which are received from external sources.

Credit to the public - the fair value of the balance of credit to the public is estimated using the method regarding the present value of future cash flows, less the appropriate discount rates. The balance of credit was distributed into categories by main population types, distributed by linkage and credit segments, according to fixed and variable interest rates. The cash flows (principal and interest) were discounted according to interest rates which are identical to the average interest rate used in the Bank for similar transactions on the reporting date. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal. The fair value of debit balances in checking accounts was estimated based on their balance sheet balance.

The fair value of troubled debt was calculated using discount interest rates which reflect the high credit risk embodied in them. These discount rates were no lower than the highest interest rate used by the Bank in its transactions as of the reporting date. Future cash flows for troubled debts were calculated after deducting write-offs and provisions for credit losses. The fair value calculation did not take into account early repayments of credit, whose impact is not unequivocal.

Deposits, bonds and deferred liability notes - according to the future discounted cash flows method, using the interest rates at which the Bank raises similar deposits, or in issuances of similar bonds or deferred liability notes, by the Bank on the reporting date, excluding bonds listed for trading on the stock exchange, which are presented at market value. The fair value of credit balances in checking accounts and of deposits without a repayment date were estimated according to the balance sheet balance.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Cont.)

Regarding off-balance sheet financial instrument whose balance represents credit risk - Fair value was estimated according to the present value of future cash flows, discounted by the interest rate which reflects the interest level at which a similar transaction would have been performed on the reporting date. Derivative instruments for which there is an active market were estimated according to market value, and derivative instruments which are not traded on an active market were estimated according to models which were used by the Bank in its current operations, and which take into account the risks embodied in the financial instrument.

Financial instruments for an original period of up to three months, and at variable market interest - The balance sheet balance constitutes an approximation of fair value, subject to changes in credit risk and in the Bank's margin in variable interest transactions.

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Cont.)

Reported amounts in millions of NIS

	As of December 31, 2017				
	Balance On the balance sheet	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits in banks	2,659.0	2,659.0	-	-	2,659.0
Securities (2)	858.3	857.7	0.6	-	858.3
Credit to the public, net(3)	9,670.7	-	-	9,576.3	9,576.3
Assets with respect to derivative instruments	64.0	0.4	63.6	1.1	65.1
Other financial assets	25.8	-	-	25.8	25.8
Total financial assets(4)	**13,277.8**	**3,517.1**	**64.2**	**9,603.2**	**13,184.5**
Financial liabilities					
Public deposits	10,560.1	-	2,913.6	7,686.8	10,600.4
Deposits from banks	33.6	-	-	40.3	40.3
Government deposits	0.5	-	-	0.5	0.5
Lent securities	34.4	34.4	-	-	34.4
Bonds and deferred liability notes	1,872.2	1,787.0	-	118.3	1,905.3
Liabilities in respect of derivative instruments	66.2	0.5	65.7	-	66.2
Other financial liabilities	92.9	-	-	92.9	92.9
Total financial liabilities (4)	**12,659.9**	**1,821.9**	**2,979.3**	**7,938.8**	**12,740.0**

	As of December 31, 2016				
	Balance On the balance sheet	Fair value			
		Level 1 (1)	Level 2 (1)	Level 3 (1)	Total
Financial assets					
Cash and deposits in banks	2,522.0	2,522.0	-	-	2,522.0
Securities (2)	1,434.5	1,427.6	0.8	6.1	1,434.5
Credit to the public, net(3)	9,790.1	-	-	9,744.5	9,744.5
Assets with respect to derivative instruments	151.1	147.9	3.2	-	151.1
Other financial assets	25.0	-	-	25.0	25.0
Total financial assets(4)	**13,922.7**	**4,097.5**	**4.0**	**9,775.6**	**13,877.1**
Financial liabilities					
Public deposits	10,868.3	-	2,310.9	8,574.9	10,885.8
Deposits from banks	36.5	-	-	43.0	43.0
Government deposits	1.1	-	-	1.1	1.1
Lent securities	590.4	590.4	-	-	590.4
Bonds and deferred liability notes	1,582.1	1,564.1	-	43.0	1,607.1
Liabilities in respect of derivative instruments	146.7	143.4	3.3	-	146.7
Other financial liabilities	124.0	-	-	124.0	124.0
Total financial liabilities (4)	**13,349.1**	**2,297.9**	**2,314.2**	**8,786.0**	**13,398.1**

Note 33A - Balances and Fair Value Estimates of Financial Instruments (Cont.)

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.
(2) For additional details regarding the balance sheet balance of securities, see the note regarding securities.
(3) Of which, damaged credit whose collection is conditional upon collateral as of December 31, 2017 and December 31, 2016 in the amount of NIS 4.2 million and NIS 17.0 million, respectively.
(4) Of which: Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2017 and December 31, 2016, in the amount of NIS 3,608.3 million and NIS 4,132.6 million, respectively. Liabilities whose balance sheet balance is identical to fair value (instruments which are presented in the balance sheet at fair value) or which constitute an approximation of fair value (instruments for an original period of up to 3 months regarding which use was made of the balance sheet balance as an approximation of fair value) as of December 31, 2017 and December 31, 2016, in the amount of NIS 3,107.1 million and NIS 3,172.0 million, respectively. For additional information regarding instruments which were measured at fair value on a repeated basis, and on a non-repeated basis, see Note 33B.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

Items measured at fair value on a repeated basis	As of December 31, 2017			
	Fair value measurements used in:			
	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total Fair value
Assets				
Available for sale securities:				
Bonds - Government of Israel	404.0	-	-	404.0
Bonds - foreign governments	118.7	-	-	118.7
Bonds - other companies	-	0.6	-	0.6
Total available for sale securities	**522.7**	**0.6**	**-**	**523.3**
Marketable securities:				
Bonds - Government of Israel	333.3	-	-	333.3
ETF's	1.7	-	-	1.7
Total held for trading securities	**335.0**	**-**	**-**	**335.0**
Assets with respect to derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	-	-	-
Foreign currency contracts	0.4	1.2	-	1.6
Share contracts	62.4	-	-	62.4
Contracts with respect to credit derivatives	-	-	1.1	1.1
Total assets with respect to derivative instruments	**62.8**	**1.2**	**1.1**	**65.1**
Total financial assets	**920.5**	**1.8**	**1.1**	**923.4**
Liabilities				
Lent securities	34.4	-	-	34.4
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	-	2.0	2.0
Interest contracts - other	0.1	0.9	-	1.0
Foreign currency contracts	0.4	0.4	-	0.8
Share contracts	62.4	-	-	62.4
Total liabilities in respect of derivative instruments	**62.9**	**1.3**	**2.0**	**66.2**
Total financial liabilities	**97.3**	**1.3**	**2.0**	**100.6**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

Note 33B - Items Measured at Fair Value on a Repeated Basis

Reported amounts in millions of NIS

Items measured at fair value on a repeated basis	As of December 31, 2016			
	Fair value measurements used in:			
	Level 1 (1)	Level 2 (1)	Level 3 (1)	Total Fair value
Assets				
Available for sale securities:				
Bonds - Government of Israel	637.2	-	-	637.2
Bonds - foreign governments	232.8	-	-	232.8
Bonds - other companies	-	0.8	-	0.8
Stocks and funds	-	-	6.1	6.1
Total available for sale securities	**870.0**	**0.8**	**6.1**	**876.9**
Marketable securities:				
Bonds - Government of Israel	531.2	-	-	531.2
Foreign government bonds	26.4	-	-	26.4
ETF's	-	-	-	-
Total held for trading securities	**557.6**	**-**	**-**	**557.6**
Assets with respect to derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	-	3.7	-	3.7
Foreign currency contracts	0.4	3.1	-	3.5
Share contracts	143.9	-	-	143.9
Total assets with respect to derivative instruments	**144.3**	**6.8**	**-**	**151.1**
Total financial assets	**1,571.9**	**7.6**	**6.1**	**1,585.6**
Liabilities				
Lent securities	590.4	-	-	590.4
Liabilities in respect of derivative instruments:				
Interest contracts - NIS/CPI	-	-	-	-
Interest contracts - other	0.1	1.3	-	1.4
Foreign currency contracts	0.4	1.0	-	1.4
Share contracts	143.9	-	-	143.9
Total liabilities with respect to derivative instruments	**144.4**	**2.3**	**-**	**146.7**
Total financial liabilities	**734.8**	**2.3**	**-**	**737.1**

(1) Level 1 - fair value measurements which use quoted prices on an active market. Level 2 - fair value measurements which use other significant observable inputs. Level 3 - fair value measurements which use significant unobservable inputs.

Note 33 - Changes in Items Measured at Fair Value on a Repeated Basis Which Were Included on Level 3

Reported amounts in millions of NIS

	As of December 31, 2017						
		Realized and unrealized net income (loss) which were included					
	Fair value at start of period	In the statement of income	In other comprehensive income	Acquisitions	Sales	Fair value at end of period	Unrealized profit (loss) with respect to instruments held at end of period
Stocks and reserves in the available-for-sale portfolio	6.1	(0.3)	-	-	(5.8)	-	-
Assets with respect to credit derivatives	-	1.1	-	-	-	1.1	1.1
Liabilities with respect to interest contracts (NIS - CPI)	-	(2.0)	-	-	-	(2.0)	(2.0)
	As of December 31, 2016						
Stocks and reserves in the available-for-sale portfolio	5.9	(0.1)	(0.3)	-	-	6.1	0.3

Note 33D - Quantitative Information Regarding Items Measured at Fair Value on a Repeated Basis Which were Included on Level 3

	As of December 31, 2017			
	(Audited)			
	Fair value	Valuation technique	Unobservable inputs	Weighted average
Assets with respect to credit derivatives	1.1	Discounted cash flows	InterestMortgages Risk of defaultMortgages	2.64
Assets and liabilities with respect to interest contracts (NIS - CPI)	(2.0)	Discounted cash flows	Transaction counterparty risk Inflation forecast	0.69%

Note 34 - Interested Parties and Related Parties [1] of the Bank and its Consolidated Companies

Reported amounts in millions of NIS

A - Balances

	2017									
	Interested parties									
	Shareholders								Anyone who was a interested party when the transaction was executed	
	Controlling shareholders [2]		Others [3]		Corporate officers[4]		Others [5][6]			
	As of December 31[7]	Highest balance during the year [8]	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year[8]
Assets										
Credit to the public	-	0.1	-	-	0.6	0.7	-	-	1.2	1.3
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	-	0.1	-	-	0.6	0.7	-	-	1.2	1.3
Liabilities										
Public deposits	5.0	5.3	-	-	1.2	1.5	0.3	0.3	-	-
Other liabilities - Other payables and credit balances	-	-	-	-	-	-	-	-	-	-
Shares (included in equity)[9]	699.7	699.7	-	-	0.1	0.1	-	-	-	-

	2016									
	Interested parties									
	Shareholders								Anyone who was a interested party when the transaction was executed	
	Controlling shareholders [2]		Others [3]		Corporate officers [4]		Others [5][6]			
	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year [8]	As of December 31[7]	Highest balance during the year[8]	As of December 31[7]	Highest balance during the year[8]
Assets										
Credit to the public	-	0.1	-	-	1.5	1.6	-	-	0.4	0.6
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Credit to the public, net	-	0.1	-	-	1.5	1.6	-	-	0.4	0.6
Liabilities										
Public deposits	5.4	7.1	-	-	1.7	1.7	0.3[10]	3.8[10]	-	-
Other liabilities - Other payables and credit balances	-	-	-	-	-	-	-	-	-	-
Shares (included in equity)[9]	699.7	699.7	-	-	0.1	0.1	-	-	-	-

Footnotes at the end of Note 34.

Note 34 - The Bank's Interested Parties and Related Parties [1] (Consolidated)

Reported amounts in millions of NIS

B - Summary business results

	2017				2016				2015			
	Interested parties				Interested parties				Interested parties			
	Shareholders				Shareholders				Shareholders			
	Controlling shareholders [2]	Others [3]	Corporate officers [4]	Others [5][6]	Controlling shareholders [2]	Others [3]	Corporate officers [4]	Others [5][6]	Controlling shareholders [2]	Others [3]	Corporate officers [4]	Others [5][6]
Interest income, net	(0.1)	-	0.1	-	(0.1)	-	0.1	-	(0.1)	-	-	-
Expenses with respect to credit losses	-	-	-	-	-	-	-	-	-	-	-	-
Non-interest income	-	-	-	-	-	-	-	-	0.2	-	-	(0.6)
Operating and other expenses	0.3	-	15.0	0.7	0.3	-	13.9	0.8	0.3	-	14.1	0.6
Total	**(0.4)**	**-**	**(14.9)**	**(0.7)**	**(0.4)**	**-**	**(13.8)**	**(0.8)**	**(0.2)**	**-**	**(14.1)**	**(1.2)**

C - Remuneration and any other benefit to interested parties

	2017							
	Interested parties							
	Shareholders							
	Controlling shareholders [2]		Others [3]		Corporate officers [4]		Others [5][6]	
	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients	Total benefit	Number of benefit recipients
Interested party who is employed in the Corporation or on its behalf (*)	-	-	-	-	13.6	14	-	-
Director who is not employed in the Corporation or on its behalf (*)	0.3	2	-	-	1.4	9	-	-
Other interested party who is not employed in the Corporation or on its behalf	-	-	-	-	-	-	0.7	6
	2016							
Interested party who is employed in the Corporation or on its behalf (*)	-	-	-	-	12.4	12	-	-
Director who is not employed in the Corporation or on its behalf (*)	0.3	2	-	-	1.5	9	-	-
Other interested party who is not employed in the Corporation or on its behalf	-	-	-	-	-	-	0.8	2
	2015							
Interested party who is employed in the Corporation or on its behalf (*)	-	-	-	-	12.6	13	-	-
Director who is not employed in the Corporation or on its behalf (*)	0.3	2	-	-	1.5	9	-	-
Other interested party who is not employed in the Corporation or on its behalf	-	-	-	-	-	-	0.6	2

(*) Not including payroll tax.

Footnotes at the end of Note 34.

Note 34 - The Bank's Interested Parties and Related Parties (1) (Consolidated)

Reported amounts in millions of NIS

D - Interest income, net, in transactions with the banking corporation and its consolidated companies with interested parties and related parties

	2017	2016	2015
A. With respect to assets			
From credit to the public	0.1	0.1	-
B. With respect to liabilities			
On public deposits	(0.1)	(0.1)	(0.1)
Total interest income, net	-	-	(0.1)

(1) Interested party, related party, related person - as defined in section 80.D of the public reporting regulations.
(2) Controlling shareholders and their relatives - as defined in section 80.D(1) of the public reporting regulations.
(3) Other holders - including holders of 5% or more of the means of control of the banking corporation, and those who are entitled to appoint one or more directors of the banking corporation, or its CEO - in accordance with section 80.D(2) of the public reporting regulations.
(4) Corporate officers - as defined in section 80.D(3) of the public reporting regulations.
(5) In accordance with section 80.D(4) of the public reporting regulations.
(6) Of which: Total assets as of the balance sheet date in the amount of NIS 0 million, and total liabilities as of the balance sheet date in the amount of NIS 0.3 million, with respect to corporations, where the person or corporation which was included in one of the aforementioned groups of interested parties, in accordance with the Securities Law, holds twenty five percent or more of their issued share capital, or of the voting rights therein, or who is entitled to appoint twenty five percent or more of their directors.
(7) Balance as of the balance sheet date.
(8) Highest balance during the year - based on end of month balances at the end of each month.
(9) Holdings of interested parties and related parties in the capital of the banking corporation.
(10) These amounts were held by a member company of the controlling shareholder in trust, on behalf of unrelated third parties.
(11) Balances lower than NIS 0.1 million are not presented in this note.
(12) Reclassified.

Note 34 - The Bank's Interested Parties and Related Parties [(1)] (Consolidated)

C. Employment terms of the CEO

On November 1, 2015, Mr. Gil Topaz began serving as the Bank's CEO (hereinafter: the "CEO" or the "Bank's CEO").

The terms of employment and tenure of the Bank's CEO were approved in the general shareholders' meeting of the Bank on August 20, 2015, after the Board of Directors' approval was received, in its meeting on July 14, 2015, as well as the approval of the Remuneration Committee, in its meeting on July 8, 2015 (hereinafter: the "Employment Terms"). The employment terms of the CEO were determined in accordance with the Bank's remuneration policy for corporate officers for the years 2014-2016, which was approved by the general meeting on July 20, 2014, and updated on August 20, 2015 (hereinafter: the "Remuneration Policy for the Years 2014-2016").

On December 21, 2016, the general meeting of the Bank's shareholders approved an update to the terms of tenure and employment of the Bank's CEO, after the Board of Directors' approval was received on October 27, 2016, and the approval of the Remuneration Committee in its meeting on October 27, 2016 (hereinafter: the "Amendment To The Employment Terms Of The Bank's CEO"); in accordance with the provisions of The Remuneration for Corporate Officers in Financial Corporations Law (Special Approval and Non-Permissibility of Expenses for Tax Purposes due to Exceptional Remuneration), 5776-2016 (hereinafter: the "Remuneration for Corporate Officers in Financial Corporations Law"), and the new remuneration policy for corporate officers for the years 2017-2019, which was also approved in the aforementioned general meeting (hereinafter: "New Remuneration Policy"). For details regarding the new remuneration policy, see Note 23.

In accordance with the decision of the meeting, as stated above, the amendment refers to the maximum variable annual bonus, which will enter into effect on October 12, 2016, subject to the transitional provisions which were determined in the new remuneration policy for corporate officers, while with respect to those terms which were amended in accordance with the new remuneration policy, those will enter into effect beginning on January 1, 2017. It is hereby clarified that until the amendment to the employment terms of the CEO enters into effect, the previous terms of tenure and employment will continue to apply.

Presented below are details regarding the CEO's employment terms:

General

The CEO's employment period will be four years, beginning at the start of his tenure in the Bank. The parties will be entitled to terminate the work relationship at any time, subject to notice in writing, provided 6 months in advance.

During 6 months after the date of the termination of the employer - employee relationship, the CEO will be subject to provisions regarding non-competition, as specified in the terms of the transaction, and in consideration of an adjustment bonus. The Bank is entitled, in its exclusive discretion, to extend the non-competition period by an additional 3 months, against payment in the amount of his salary for this period.

Fixed remuneration

The CEO's monthly salary in 2015 and 2016 amounted to a gross total of NIS 97,750; Beginning with the salary for January 2017, his salary will amount to a gross total of NIS 103,500, for a full time position; beginning with the salary for January 2018, his salary will amount to a gross total of NIS 115,000, for a full time position; and beginning with the salary for January 2019, his salary will amount to a gross total of NIS 120,000, for a full time position (hereinafter: "Monthly Salary"). The monthly salary will be linked to increases in the consumer price index, as specified in the employment terms. The CEO will also be entitled to social benefits and fringe benefits, as specified in the employment terms.

Note 34 - The Bank's Interested Parties and Related Parties [1] (Consolidated)

Variable remuneration

- In accordance with the amendment to the employment terms of the Bank's CEO, the CEO will be entitled to a variable annual bonus in accordance with and subject to the new remuneration policy and the directives of the Commissioner of Banks.
- Subject to the foregoing, the variable annual bonus limit (minimum, maximum), respectively, to which the CEO will be entitled with respect to a certain calendar year, will be between NIS 300,000 and NIS 700,000, subject to the restrictions and rules prescribed in the Law Regarding Remuneration for Corporate Officers in Financial Corporations, and as specified below:
  - New minimum conditions were defined for the payment of a variable annual bonus, as specified in the new remuneration policy.
  - The calculation of "rate of return" was changed, in a manner whereby the calculation of "rate of return" will be according to comprehensive income as reported the Bank's audited annual financial statements, relative to average equity. In the calculation of the rate of return, profits / losses which are due to non-recurring events will be neutralized (financial profits / losses, such as nostro, will not be considered non-recurring), as well as capital profits / losses, in the discretion of the Board of Directors.
  - Subject to the fulfillment of the minimum conditions, a list of criteria was established which, upon fulfillment, will entitle the Remuneration Committee and the Board of Directors to grant up to 3 monthly salaries subject to discretion, and additionally, the Remuneration Committee and the Board of Directors will be entitled to approve an additional variable annual bonus, beyond these 3 salaries, according to measurable parameters which will be determined proximate to the commencement of each bonus year by the Board of Directors, after receiving approval from the Remuneration Committee, up to the Remuneration Committee limit, as specified in the remuneration policy, and subject to The Remuneration for Corporate Officers in Financial Corporations Law.
- Without derogating from the foregoing, in the event that it is found that there are components of remuneration, as defined and in accordance with the terms of The Remuneration for Corporate Officers in Financial Corporations Law, which are not included in the remuneration limit set forth in section 2(A) of The Remuneration for Corporate Officers in Financial Corporations Law, the variable annual remuneration to which the CEO will be entitled may be updated, as specified above, in order to include all and/or some of those components. Insofar as the update is immaterial, as specified in section 12.2 of the new remuneration policy, it will require the approval of the Remuneration Committee and the Board of Directors, and insofar as the update is material, the update will also require the approval of the general meeting. Additionally, the remuneration, in the foregoing case, will also be subject to the following conditions: (1) The total remuneration, as stated in The Remuneration for Corporate Officers in Financial Corporations Law, for the CEO, after the update, not exceed two and a half million New Israeli Shekels per year, CPI-linked, as specified in The Remuneration for Corporate Officers in Financial Corporations Law; and - (2) The total remuneration to the CEO will not exceed the remuneration to which the CEO was entitled according to his employment agreement prior to the amendment, on all matters associated with variable remuneration.
- The maximum variable remuneration will not exceed 100% of the fixed remuneration (as defined in the new remuneration policy) for the Bank's CEO.
- Any variable remuneration will be granted and will be paid subject to the condition that it is repayable, according to the conditions which are defined in the new remuneration policy.
- Conditions for distribution of variable remuneration - in light of the amendment to the new remuneration policy - a change has been made to this section, relative to the previous terms of tenure and employment.

Note 34 - The Bank's Interested Parties and Related Parties [(1)] (Consolidated)

The CEO's variable annual bonus with respect to a calendar year will be paid according to the dates and conditions which are specified in the new remuneration policy.

With respect to all types of variable remuneration, fringe benefits are not paid. In circumstances where the Bank's CEO is not entitled to receive severance pay, and in other circumstances, as will be determined (if determined) by the Board of Directors from time to time, after receiving the recommendation of the Remuneration Committee, the Bank will be entitled to revoke the CEO's entitlement to variable remuneration (in whole or in part), including the bonuses, and to all parts of the variable remuneration which have not yet been paid, including with respect to the deferred parts of the variable remuneration.

Retirement terms

- Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the CEO or to his survivors, as applicable, and will exhaust all of the Bank's liabilities in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the termination of employment of the banks CEO, the Bank will release, in favor of the Bank's CEO, all of the funds which accumulated in his favor in the pension plan, including the interest accrued thereupon, and the Bank will not be entitled to receive any sum out of the plan funds.
- Advance notice - The advance notice period in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 6 months, in writing. The Bank will be entitled to forgo the work of the Bank's CEO during the advance notice period, in whole or in part. In that case, the Bank's CEO will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be entitled to terminate the working relationship immediately, or during the advance notice period, provided that it will pay to the Bank's CEO the advance notice consideration which remains in his favor, in the amount of the monthly salary and the value of the fringe benefits and social benefits specified in the agreement, excluding the variable remuneration. In the event that the Bank's CEO has breached his obligation to submit advance notice to the Bank regarding his resignation, he will be required to pay liquidated damages to the Bank, in the amount of the total salary which he would have been entitled to receive, had he continued working.
- Adjustment bonus - upon the conclusion of the CEO's employment, an adjustment bonus will be paid to the CEO in an amount equal to 3 monthly salaries, according to the fixed salary, as stated above, which was paid to him upon the conclusion of his employment in the Bank.

  The adjustment bonus constitutes consideration for the 6 month non-competition undertaking.

  Variable retirement arrangements - in light of the amendment to the new remuneration policy - a change was made to this section, relative to the previous terms of tenure and employment, which will be paid according to the dates and conditions specified in the new remuneration policy.

Additional general provisions

All of the provisions of the agreement with the CEO will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time, and to The Remuneration of Corporate Officers in Financial Corporations Law, and will be amended as required accordingly.

The Board of Directors will be entitled, for special reasons, to decide to reduce the variable remuneration (in whole or in part) given to the Bank's CEO, after receiving the recommendation of the Remuneration Committee.

Note 34 - The Bank's Interested Parties and Related Parties [1] (Consolidated)

If it is found that amounts have been paid to the Bank's CEO as part of his terms of tenure and employment, which were based on figures which were found to be erroneous, and which were restated in the Bank's financial statements, and where, in light of the restatement of those figures, lower amounts should have been paid to the Bank's CEO than those which he actually reviewed, or if no amounts at all should have been paid, then the Bank's CEO will repay those amounts to the Bank, upon the Bank's demand, plus linkage differentials from the payment date until the repayment date.

G. Employment Terms of the Chairman of the Board

The Bank's Board of Directors, in its meeting on September 17, 2015, decided to appoint Mr. Zeev Nahari as a director and as the Chairman of the Bank's Board of Directors ("Chairman of the Board" or "Mr. Nahari"), in accordance with section 11c.(a)(3) of the Banking Ordinance, 1941, and the Bank's bylaws, until the date when the appointment will be presented for approval to the special general meeting which will be convened for this purpose, and subject to the receipt of the required approvals.

On October 11, 2015, approval was received from the Bank of Israel, certifying that it does not have an objection to the appointment of Mr. Nahari as a director and as the Chairman of the Bank's Board of Directors, and from that date onwards, Mr. Nahari has effectively served as a director and as the Chairman of the Bank's Board of Directors. On November 19, 2015, the general meeting approved the appointment of Mr. Nahari as a director in the Bank.

The Remuneration Committee and the Board of Directors, in their meetings which were held in September and October 2015, approved the terms of tenure and employment of the Chairman of the Board, Mr. Zeev Nahari (hereinafter: the "Employment Terms"). The employment terms of the Chairman of the Board were approved in the general meeting which was convened on November 19, 2015.

The employment terms of the Chairman of the Board correspond to the remuneration policy for the Bank's corporate officers (2017-2019).

Presented below are details regarding the principal employment terms of the Chairman of the Board:

General

The Chairman's period of employment will be 4 years, commencing with his actual tenure.

Notwithstanding the provisions of the above section, the parties will be entitled to terminate the work relationship at any time, by providing written notice three (3) months in advance.

During the employment period, the Chairman will be employed on a 4 day work week basis (no less than 80% position).

The Chairman of the Board undertakes not to engage in any other activity and/or in any other position and/or in nay other engagement and/or work, at or on behalf of any banking corporation or financial entity or entity active in the capital market, and/or in any other engagement which is prohibited in accordance with the Proper Banking Management Directives, unless advance written consent has been received for the foregoing from the Bank's Board of Directors. The Chairman of the Board undertook to avoid conflicts of interest.

Monthly salary and fringe benefits

The Chairman of the Board's monthly salary will amount to a gross total of NIS 95,000 per month of work (with respect to a 80% position). The salary will be linked to increases in the consumer price index, with the

Note 34 - The Bank's Interested Parties and Related Parties [1] (Consolidated) (Cont.)

base index being the index on the commencement date of his position. Additionally, the Chairman of the Board will be entitled to receive social benefits and fringe benefits which include, inter alia, social provisions; sick days, convalescence pay, a vehicle appropriate for his position, corporate officer's insurance according to the Bank's policy, insofar as there will be a transfer of control in the Bank, run-off insurance according to the Bank's conventional practice, letters of indemnity according to the customary terms for corporate officers of the Bank, reimbursement of expenses associated with the fulfillment of his position, and additional benefits.

Variable remuneration

In accordance with the terms of tenure and employment, and in accordance with Proper Banking Management Directive 301A, the Chairman of the Board will not be entitled to receive a variable annual bonus.

Retirement terms

Severance pay - the Bank's payments to the pension severance pay plan will come in place of the payment of severance pay which may be owed to the Chairman of the Board or to his survivors, as applicable, and will exhaust all of the Bank's obligations in connection with the payment of severance pay, as specified in section 14 of the Severance Pay Law. Upon the conclusion of the employment of the Chairman of the Board, the Bank will release, in favor of the Chairman of the Board, all funds which have accrued in his favor in the pension plan, including interest accrued thereupon, and the Bank will not be entitled to receive any amount out of the plan funds.

Advance notice - The advance notice period in case of the termination of the employer - employee relationship, as initiated by either of the parties, the advance notice period will be 3 months, in writing. The Bank will be entitled to forgo the work of the Chairman of the Board during the advance notice period, in whole or in part. In the above case, the Chairman of the Board will be entitled to receive payment of all of the rights set forth in the agreement, as if he had effectively worked during this period. However, the Bank will be entitled to terminate the working relationship immediately, or during the advance notice period, provided that it pays to the Chairman of the Board the consideration for the remaining advance notice period which remains in his favor, in the amount of the monthly salary and the value of the fringe and social benefits specified in the agreement.

Additional general provisions

All of the provisions of the agreement with Chairman of the Board will be subject to the Bank's remuneration policy, as this will be in effect from time to time, and to the directives issued by the Bank of Israel and the Commissioner of Banks, from time to time.

Note 35 - Various Issues

1. On May 9, 2017, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and changed the rating outlook from "stable" to "positive".
2. On October 16, 2017, the Bank engaged with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. (hereinafter: the "Buyers") in agreements for the sale of the Bank's independent customer portfolios and the institutional customers portfolios, in the brokerage operating segment (hereinafter: the "Sold Asset" and the "Sale Agreements", respectively), accordingly NIS 21 million (hereinafter, jointly: the "Transaction").

   Upon the completion of the transaction, the Bank is expected to transfer balances with respect to customer assets in securities (which do not constitute a balance sheet or off-balance sheet asset), and to write off assets and liabilities with respect to derivative instruments which amount, as of December 31, 2017, to a total of approximately NIS 60 million.

   The sale agreements include, inter alia, various representations in accordance with the standard practice for transactions of this kind, as well as an undertaking by the Bank to indemnify with respect to a breach of representations and past undertakings in connection with the sold asset, subject to the time limit and a maximum indemnification limit of 100% of the total consideration.

   The sale agreements also include certain non-competition restrictions which apply to the Bank for periods of up to four years after the transaction closing date.

   On January 25, 2018, the sale of the Bank's institutional brokerage activity to the buyers was completed, and on February 15, the sale of the Bank's private brokerage activity was completed.

   The transaction was thereby closed.

   The parties agreed between them that the Bank will continue providing stock exchange member company and operation services for a part of the sold activity, for a period of several months, and no later than June 30, 2018.

   After deducting various expenses which were required to close the transaction, the Bank will record, in its books with respect to 2018, pre-tax profit with respect to the transaction in the amount of approximately NIS 15 million.

   In light of the sale of the brokerage activity, it was agreed between the Bank and the provider which had provided to it outsourcing services in connection with the aforementioned activity, to transfer all of the disputes which had arisen between them on this matter to an arbitrator for resolution, whose identity was agreed upon between the parties.
3. On January 4, 2018, the Bank’s Board of Directors resolved to distribute interim dividends in the amount of NIS 5.5 million. For additional details, see Note 25 to the financial statements.
4. On January 18, 2018, the Bank’s Board of Directors resolved to to approve the submission of a proposal to the stock exchange, for the sale of all of the Bank's shares on the stock exchange, in accordance with the principles which were specified in the message of the stock exchange dated December 28, 2017, which was addressed to all shareholders on the stock exchange, to sell and transfer their shares in the stock exchange member company. At present, there is no certainty that the sale of all or some of the Bank's shares on the stock exchange will be competed, in light of the terms which are included in the Bank's proposal, according to the principles which were specified in the Stock Exchange's message. Insofar as the Bank's proposal will be accepted, in its entirety, the Bank is expected to receive, in exchange, upon the closing of the transaction, a total of approximately NIS 27 million, and to record profit in its financial statements in a similar amount (the consideration with respect to the aforementioned shares reflects a price of NIS 500 million on the stock exchange). For additional details, see Note 12 to the financial statements.
5. On February 1, 2018, an agreement was signed between the Bank and institutional entities of Clal Insurance Group (the "Buyer"), according to which the Bank sold, in an irrevocable, final and absolute bill

Note 35 - Various Issues (Cont.)

of sale transaction, 50% of its rights in connection with the portfolio of housing loans in the total amount of approximately NIS 600 million, which is comprised of housing loans which were provided by the Bank during a defined period which was agreed upon between the parties (the "Portfolio of Loans").

The balance of the portfolio of loans remains owned by the Bank, such that the buyer's rights to part of the sold portfolio of loans, and the Bank's rights to the part that remains owned by it, will have an identical precedence rank (pari passu).

In accordance with the management agreement which was signed between the parties, the Bank will manage and operate, for the buyer, the part of the portfolio of loans which was purchased by it, in the same manner and according to the same terms as those by which the Bank manages and operates housing loans for itself, including the part of the portfolio of loans which remains owned by it.

On February 21, 2018, the transaction was completed, and 50% of the Bank's rights in the portfolio of loans were assigned to the buyer, by means of an irrevocable, final and absolute bill of sale.

The profit which the Bank will record in its books with respect to the sale will amount to approximately NIS 10.7 million (before tax) in the financial statements for the first quarter of 2018.

Note 36 - Data Based on Nominal Historical Figures for Tax Purposes

	As of December 31	
	2017	2016
	NIS millions	
Total assets	**13,808.1**	14,441.0
Total liabilities	**12,971.1**	13,632.9
Equity	**837.0**	808.1

	For the year ended December 31		
	2017	2016	2015
Net profit	**37.1**	55.7	48.7

Corporate Governance, Audit and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

2017 Report for

Bank of Jerusalem Ltd. and its Consolidated Companies

Corporate Governance, Audit and Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof - Table of Contents

Part A - Corporate Governance and Audit

Board of Directors and management

Board of Directors

Names and occupations of the Board members as of December 31, 2017 (1)

Name of director	Main occupation
Zeev Nahari, C.P.A. (2)	Chairman of the Bank's Board of Directors.
Zalman Shoval (2)	CEO and Director of Export Investment Co. Ltd. (the parent company); Joint Chairman of the Faire Fund.
Yehuda Orbach, C.P.A. (3)	Chairman and member of various committees and entities, consultant, lecturer, reviewer and lecturer.
Dr. Ruth Arad (3)	Director
Shmuel Eshel (3)	Consulting and business accompaniment; Investment Committee Chairman of Cogito Capital Fund.
Moshe Bauer (2)	CEO and Director of C.F.C. Comprehensive Financing Co. Ltd.
Lior Ben Ami (2)	CEO-Partner of Spike IT Information Technology Ltd.
Ram Harmelech (2)	CEO and Owner of Manor Marang Ltd. and director.
Ira Sobel, C.P.A. (4)	Economic advisor to companies and director.
Dr. Nurit Kraus (4) (5)	CEO and founder of Redstart Modeling Services and Consulting Ltd.
Gideon Shoval (2)	CEO of Export Investment Co. Ltd.

(1) Additional details regarding the Bank's Board members, including their tenure commencement date, their membership in Board of Directors committees, service on additional boards of directors, their education, whether they are employees of the Bank, or of its subsidiary, related company or interested party, or any family member of another interested party, are presented in the Bank's periodic report for 2017.

(2) In the Bank's annual general meeting of shareholders which was held on November 29, 2017, a resolution was passed to appoint, for an additional period of tenure, the following directors who currently hold office in the Bank (and who are not outside directors): Messrs. Zeev Nahari (Chairman of the Board), Zalman Shoval, Gideon Shoval, Moshe Bauer, Ram Harmelech and Lior Ben Ami.

(3) Outside director in accordance with the Companies Law, 5759-1999.

(4) Outside director in accordance with Proper Banking Management Directive 301, and independent director in accordance with the Companies Law, 5759-1999.

(5) On January 28, 2018, and at the end of her second term, Dr. Nurit Krauss concluded her tenure as an outside director in accordance with Directive 301, and as an independent director in the Bank.

Report regarding directors with accounting and financial expertise

In accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the "Companies Law") and the Companies Regulations (Conditions and Tests for Director with Accounting and Financial Expertise and for Director with Professional Qualifications), 5765-2005, at least two directors must have accounting and financial expertise, as this term is defined in the Companies Law (hereinafter: "Directors with Accounting and Financial Expertise") and at least two of the outside directors must have accounting and financial expertise;

In accordance with Proper Banking Management Directive 301 (hereinafter: "Directive 301"), at least one fifth of all Board members must have accounting and financial expertise;

In accordance with the decision a resolution of the Bank's Board of Directors (as set forth in the Board's work policy), the minimum number of directors with accounting and financial expertise will be the number set forth in Directive 301, and in the Companies Law, i.e.: (a) At least one fifth of all Board members must have accounting and financial expertise, provided that at least two Board members have accounting and financial expertise, and at least two outside directors have accounting and financial expertise; (b) At least two members of the Audit Committee, which also serves as the Financial Statements Review Committee, must have accounting and financial expertise, This is for the reasons specified below:

(a) In the assessment of the Board of Directors, the aforementioned minimum number must allow the Board of Directors and the Audit Committee to fulfill the obligations applicable to them, in accordance with the provisions of the law and the incorporation documents, and in particular, their obligation to evaluate the Bank's financial position and to prepare the financial statements;

(b) The aforementioned minimum number must take into account the size of the Bank, the complexity of its operations, and the range of risks associated therewith.

As of the reporting date, all members of the Bank's Board of Directors, and all members of the Audit Committee (which serves as the Financial Statements Review Committee), have accounting and financial expertise, in accordance with their education, as specified in the periodic report for 2017, their main occupation, as specified above, as well as their qualifications and experience, as specified below:

Name	Education, qualifications and experience:
Zeev Nahari	In addition to his main occupation, as specified above, fulfilled various roles in Bank Leumi Le-Israel Ltd. (during the years 1965-2011); In his last position, served as an executive member of the management board with respect to funds, accounting and the capital market. Also served as Chairman of the Board of Arab Israeli Bank Ltd., and as Chairman or director in companies from the Bank Leumi Le-Israel Group, as specified in the Bank's periodic report for 2017; Also served as a director in Bank Leumi USA, Bank Leumi le-Israel Corporation and Israel Corporation Ltd. Served as an advisor to the Electric Corporation until December 31, 2016.
Zalman Shoval	In addition to his current main occupation, as specified above, formerly served as the CEO of Export Bank, Ambassador of Israel to the United States, Chairman of Bank of Jerusalem, member of the Knesset Finance Committee, member of the Knesset Foreign Affairs and Defense Committee, and as member of the Board of Hadassah (Israel), as specified in the Bank's periodic report for 2017.
Yehuda Orbach	In addition to his main occupation, as specified above, also served as VP, chief Internal Auditor in Union Bank of Israel Ltd. and in the Bank's subsidiaries from 2000 to 2014.
Dr. Ruth Arad	In addition to her main occupation, as specified above, previously served as the Chief Risks Controller at Bank Leumi Le-Israel Ltd. (during the years 1999-2011); Outside director at Isracard (and Chairman of the Risk Management Committee and member of the Audit Committee) (in the years 2011-2014); Lecturer at the University of Haifa (in 2013); Member of the Credit Committee of the Solo Foundation (in the years 2014 - 2016).
Shmuel Eshel	In addition to his current main occupation, as specified above, served as VP of Union Bank in the Mortgage Segment (2004-2009); Member of the management board in Union Bank, VP, Business Division Manager in Union Bank (1998-2004);
Moshe Bauer	In addition to his current main occupation, as specified above, formerly served as Foreign Currency Department Manager in Ellern Bank, as the Bank's Secretary, and subsequently as the Bank's Export Secretary.
Lior Ben Ami	In addition to his main occupation, as specified above, formerly served as Partner CEO of Help PC The Center for Home Computing Support (in the years 2006-2013); Manager of the Communication Products Division at Siemens Israel (in the years 2003-2005); Business Development and Strategy Manager at Paz Oil Ltd. (in the years 1997-2003) Executive VP in the Israel Ports and Railway Authority (in the years 1996-1997); Company analyst in the consulting unit of the capital markets and finance field; Economist in the planning and business control department at First International Bank of Israel (in the years 1993-1996); Assistant to the Chief Economist in the Research Department of the Monetary Division at the Bank of Israel (in the years 1992-1993).
Ram Harmelech	In addition to this current main occupation, as specified above, served as Executive VP, Business Division Manager and Credit Risk Manager in Mercantile Discount Bank (from 1998 to 2012); Also served as CEO of Maalot The Israeli Securities Rating Co. Ltd. from 1994 to 1998.

Name	Education, qualifications and experience:
Ira Sobel	In addition to her current main occupation, as specified above, also served as Senior Audit Manager in the Banking Segment of KMPG Somekh Chaikin, and as assistant to the firm's CEO (1994-2002). Served as a director on the boards of corporations specified in the Bank's periodic report for 2017.
Dr. Nurit Kraus	In addition to her current main occupation, as specified above, served as Model Validation Department Manager and Comprehensive Risk Department Manager at Bank Leumi (2006 to 2011); Algorithmic Trading Manager at Schonfeld Securities in the United States (2000 to 2006).
Gideon Shoval	In addition to his current main occupation, as specified above, serves as a director in Export Investment Co. Ltd.

Additional details regarding the Board of Directors and Its Committees

During 2017 and until the publication date of the report, the following changes took place in the composition of the Board of Directors:

On November 29, 2017, in the annual general meeting of the Bank's shareholders, a resolution was passed to renew the appointment of the following directors who currently hold office in the Bank for an additional term (and who are not outside / independent directors): Messrs. Zeev Nahari (Chairman of the Board), Zalman Shoval, Gideon Shoval, Moshe Bauer, Ram Harmelech and Lior Ben Ami.

On January 28, 2018, and at the end of her second term, Dr. Nurit Krauss concluded her tenure as an outside director in accordance with Directive 301, and as an independent director in the Bank.

As of the publication date of the report, and after the conclusion of the second term of Dr. Nurit Krauss, as stated above, the Bank's Board of Directors includes 10 directors, of which 3 are outside directors, as defined in the Companies Law, who are also outside directors in accordance with Directive 301, as well as an outside director in accordance with Directive 301, who is also an independent director in accordance with the Companies Law. The number of directors stated above is in accordance with section 22 of Directive 301, as amended in July 2017, according to which the Board of Directors of a banking corporation will be comprised of no more than 10 directors (it is noted that, subject to the Commissioner's approval, the banking corporation may have more than 10 directors, if it believes that the matter is necessary for the proper functioning of the Board). The amendment to section 22 above, in accordance with the transitional provision, enters into effect on July 1, 2020; however, the number of directors may not be increased during the transition period until the application date.

It is noted that on October 14, 2010, the Commissioner of Banks contacted the Bank's Board of Directors, within the framework of an evaluation of the functioning and structure of the Bank's Board of Directors, in order to determine rules regarding the composition of the Board of Directors and the ratio between outside directors and other directors. in 2017, the composition of the Bank's Board of Directors fulfilled the ratio between outside directors and other directors, as agreed vis-à-vis the Banking Supervision Department.

It is further noted that the Bank's Board of Directors approved, on January 18, 2018, and in accordance with section 28(3) of Directive 301, as amended in July 2017, a policy regarding the maximum tenure period of the Chairman of the Board. In accordance with the aforementioned policy of the Board of Directors, the maximum period which was determined for the tenure of the Chairman of the Bank's Board of Directors, under the policy, is 10 years.

Committees of the Board of Directors and composition thereof:

In 2017, no changes were made to the composition of the Board of Directors' committees.

As of the publication date of the report, and in accordance with the Board of Directors' resolution from January 18, 2018 (effective beginning on January 29, 2018), it was resolved that the Audit Committee would also serve as the Remuneration Committee (in accordance with amendment 27 to the Companies Law, and with section 38(c) of Directive 301, provision in July 2017). It was further resolved to update the compositions of the Board of Directors' committee;

As of the publication date of the report, and further to the aforementioned resolution, listed below are the Board of Directors' committees, and the compositions thereof:

- **Audit Committee (also serves as the Financial Statements Review Committee, Remuneration Committee and approval of transactions with related parties committee) -** Messrs. Shmuel Eshel (Chairman) (outside director), Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301, and independent director in accordance with the Companies Law), Mr. Ram Harmelech and Dr. Ruth Arad (outside director).
- **Risk Management Committee** - Messrs. Zeev Nahari (Chairman), Gideon Shoval, Ram Harmelech, Yehuda Orbach (outside director), Dr. Ruth Arad (outside director).
- **Capital Planning and Strategy Committee -** Messrs. Zeev Nahari (Chairman), Gideon Shoval, Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law), Shmuel Eshel (outside director) and Lior Ben Ami.
- **Resources Committee** - Messrs. Yehuda Orbach (Chairman), Shmuel Eshel (outside director), Ira Sobel (outside director in accordance with Directive 301 and independent director in accordance with the Companies Law) and Lior Ben Ami.

In 2017, 18 meetings of the Board of Directors were held, and 52 meetings of the Board of Directors' committees were held.

Management and corporate officers

On February 9, 2017, and further to the approval of the Board of Directors for the change to the organizational structure, according to which the compliance and enforcement department will be transferred from the risk division to Legal Counsel, the Bank's Board of Directors approved the appointment of Ms. Sarit Weisstuch, VP and Legal Counsel, as the Manager of the Legal Counsel, Compliance and Enforcement Department (previously served as legal department manager).

On February 28, 2017, Mr. Michael Ben Yishai concluded his tenure as VP, the Bank's Chief Risk Officer, and a member of bank management, due to his retirement.

On March 1, 2017, Ms. Dafna Landau began serving as VP, Chief Risk Officer and member of bank management.

On June 15, 2017, the Bank's Board of Directors approved the appointment of Mr. David Levy, Retail Division Manager and member of the management board in the Bank, as Executive VP (prior to the appointment, served as VP in the aforementioned position).

On October 31, 2017, Ms. Ayelet Rusk concluded her tenure as Real Estate Sector Manager.

On November 1, 2017, Mr. Liran Ovadya began serving as Real Estate Sector Manager.

On December 31, 2017, Mr. Michael Tayer, Executive VP, resources division manager and member of bank management, announced his resignation. Mr. Michael Tayer will conclude his tenure as a corporate officer of the Bank on March 31, 2018.

On January 18, 2018, the Bank's Board of Directors approved the appointment of Adv. Odelia Nissan as Compliance Officer and as Money Laundering Prevention Supervisor, subordinate to Adv. Sarit Weisstuch, VP and Manager of the Legal Counsel, Compliance and Enforcement Department.

Members of the Bank's management board as of December 31, 2017 (1)

Gil Topaz, C.P.A., Adv.	CEO
Michael Tayer	Executive VP, Resource Division Manager
David Levy	Executive VP, Retail Division Manager
Sarit Weisstuch, Adv.	VP, Legal Counsel, Manager of the Legal Counsel, Compliance and Enforcement Department.
Alex Saltzman, C.P.A.	VP, Finance Division Manager
Daphna Landau	VP, Chief Risk Officer and Risk Division Manager
Moshe Omer	VP, Finance Division Manager

Corporate officers who are not members of the management board as of December 31, 2017 (1)

Ron Sagi	VP, Chief Internal Auditor, holds the status of management member
Carmel Florenz, Adv.	Bank Secretary
Hagar Peretz Dayan	Manager of the Bank's CEO, Marketing and Strategy Division
Liran Ovadya	Real Estate Sector Department Manager

(1) Additional details regarding the Bank's corporate officers (who are not directors) are presented in the Bank's periodic report for 2017, and on the MAGNA website of the Israel Securities Authority: http://www.magna.isa.gov.il

Internal Auditor

Mr. Ron Sagi has served as the Internal Auditor of the Bank since March 20, 2012. He holds a B.A. in Economics from The Hebrew University. Mr. Ron Sagi has a great deal of experience in the banking industry. From the years 2003 to 2010, he served as VP and manager of the Bank's operations and banking infrastructures division, and from December 2010 until his appointment as the Bank's Internal Auditor, served as acting and deputy Internal Auditor.

The Internal Auditor complies with the conditions set forth in section 3(A) of the Internal Audit Law, with the provisions of section 146(B) of the Companies Law, 5759-1999, and with the provisions of section 8 of the Internal Audit Law, 5752-1992. The Internal Auditor is not a family member of any other corporate officer or interested party in the Bank, has no significant business relations with the Bank, and does not directly hold any of the Bank's securities. The Internal Auditor is also responsible for the public complaints handling unit, and does not serve in any other position other than the above positions, and additionally, the Internal Auditor does not serve in any other position outside of the Bank which creates or which may create a conflict of interests with his position as Internal Auditor.

At the time of Mr. Sagi's appointment to the position of Internal Auditor, the Board of Directors believed that the significant banking experience which Mr. Sagi accumulated in his various positions in the Bank, his education (including completing specific studies in the field of internal auditing), and his qualifications for the position during his fulfillment of the position of deputy auditor, will enable him to deal successfully with the challenges involved in internal auditing, during a period of significant changes in the Bank's business affairs.

The employees of the internal audit department fulfill the requirements of Proper Banking Management Directive 307 - Internal Audit Function, and are appointed only with the approval of the Internal Auditor.

The Internal Auditor is subordinate to the Chairman of the Bank's Board of Directors.

The scope of employment of the Internal Auditor and his subordinate staff of employees amounted in 2017 to an annual average of approximately 10 positions (including the performance of internal auditing by means of professional external entities, at an average scope of 1.5 positions). The average scope of positions in the public complaints unit amounted in 2017 to 1.5 positions.

Audit plan

Internal auditing in the Bank operates in accordance with the annual work plan, which is based on the multi-annual audit work plan, which is comprised of a work plan for the current year, and a work plan for the coming three years.

The multi-annual work plan refers to most audit subjects, including the Bank's organizational units, subsidiaries and auxiliary corporations, work processes, marketed products and IT systems. Additionally, the Internal Audit Unit also controls the Bank's management processes regarding the exposure to various risks, including: credit risks, financial risks, operational risks (including embezzlement and fraud risks), compliance risks, etc. Additionally, the Internal Audit Unit monitors the correction of significant deficiencies which are identified in the audit work performed by the Internal Auditor, the Auditor and the Commissioner of Banks in the Bank of Israel. The Internal Auditor submits a semi-annual report and summary annual report to the Chairman of the Board, to the bank's CEO, to the Audit Committee members and to the Board of Directors.

The annual and multi-annual work plans are prepared in accordance with the Internal Audit Law, 5752 - 1992 and in accordance with Proper Banking Management Directive 307 - internal audit function.

The multi-annual work plan is derived from a structured methodology for the assessment of risks and controls, which was used to determine the frequency of audits on each individual subject.

According to the methodology which was used to prepare the new multi-annual work plan, the frequency of audits in the various entities was determined in accordance with the risk assessment. Regarding subjects with a higher risk level, it was determined that the frequency of auditing will be once per year, and regarding subjects with a lower risk level, the frequency of audits will be once every two or four years. Regarding information systems, auditing frequency was determined as appropriate for the system's risk. The multi-annual work plan was prepared by the Internal Audit Unit with the assistance of an external company. Each year, the multi-annual work plan is updated, including taking into account changes in the organizational structure, changes and developments in the business, operational and risk management activities, regulatory provisions, audit findings, and more.

The annual work plan is derived from the multi-annual work plan.

The Audit Committee and Board of Directors approved the multi-annual work plan and the work plan for 2017, including the resources of the Internal Audit Unit, as required according to the new multi-annual work plan.

As part of the process of implementing ICAAP in the Bank, and in accordance with the directives issued by the Commissioner of Banks, an independent entity is required to challenge and evaluate the process performed by the Bank. The Bank's Internal Audit Unit was determined as the independent entity which will be responsible for preparing the independent survey document. The independent review document reviews the risk management system which is applied by the Bank, the ratio between risk and capital level of the banking corporation, and the methodology which was developed to monitor compliance with the internal capital policy. The independent survey document includes details regarding the applied controls and evaluation processes, the entity who performed them, and main conclusions from the survey. The document is presented to the Audit Committee and Board of Directors. For the purpose of preparing this survey, the Internal Audit Unit enlists the assistance of external professional consultants.

The annual and multi-annual work plan for 2017 was discussed and approved by the Audit Committee on October 8, 2016, and later by the Chairman of the Board and by the assembly of the Board, in its meeting on December 22, 2016.

During 2017, the Internal Audit Unit operated in accordance with this work plan. However, in light of changes in business operations, and in several of the Bank's significant processes, and in accordance with the recommendation issued by the Internal Audit Unit, the Audit Committee approved, during the year, several updates to the work plan. The annual and multi-annual work plans provide the Internal Auditor with the ability to exercise judgment and to deviate from the plans, provided that he updates the Chairman of the Board and the Audit Committee Chairman on an ongoing basis, and receives their approval for the above.

Additionally, significant transactions which were performed by the Bank, if any, are reported to the Internal Auditor and are evaluated by him, including the approval process for those transactions.

The Internal Auditor is entitled, within the framework of the approved budget, to make use of outsourcing for the performance of audit works which require special knowledge and expertise and/or if the unit is understaffed.

The Internal Auditor prepares the internal audit plans in accordance with conventional standards, and operates in accordance with the directives and guidelines issued by the Commissioner of Banks.

In the second half of 2016, an external assessment process was performed regarding the quality of work performed in the Bank's Internal Audit Unit, and regarding its compliance with the requirement to prepare audit reports, in accordance with conventional professional standards. The findings of this evaluation were presented to the Audit Committee and Board of Directors in the first quarter of 2017. Once per year, the Internal Audit Unit performs an internal process of assessing the quality of the internal audit function, whose findings are presented to the Audit Committee.

The Internal Auditor is given free access to information, in accordance with the provisions of section 9 of the Internal Audit Law, 5752-1992, and in accordance with section 30 of Proper Banking Management Directive 307 - internal audit function, including continuous and immediate access to the Bank's information systems, including to financial data which are saved in those systems, and data of subsidiaries.

Reference to corporations which constitute material holdings

The Internal Auditor also serves as the Internal Auditor for all of the Bank's subsidiaries. The subsidiaries are included in the annual and multi-annual work plans, are audited at a frequency which was determined according to the assessment of current risks and controls, as specified in the previous section.

Audit reports and discussions regarding audit reports

In accordance with the work policy of the Audit Committee and the work policy of the Internal Auditor, which is derived from the former, each audit report is submitted in writing to the audited entity, to the CEO, to the Chairman of the Board, and to the Audit Committee Chairman. A discussion with the audited entities is held regarding each audit report, and additionally, a summary discussion is held regarding the significant findings and recommendations with members of the management board, and, if necessary, with the Bank's CEO. The audit reports are also presented to the Audit Committee for a discussion, after receiving the appropriate reference to the report's findings from the audited entity and from the Bank's CEO. Material audit reports are submitted to the Board of Directors.

A summary of the activities of the Internal Audit Unit in the first half of 2017 was discussed by management, and later by the Audit Committee on September 7, 2017, and by the Board of Directors on September 14, 2017. A summary of the activities of the Internal Audit Unit in the year 2017 was discussed by management, and later by the Audit Committee on January 25, 2018, and by the Board of Directors on February 27, 2018. The Internal Audit Unit also reports to the Audit Committee, on a quarterly basis, regarding the method and degree of application of the findings of the Internal Audit Unit which arose from the audit plans regarding the bank's operating segments.

In case particularly severe findings are identified, an immediate report is submitted to the CEO, the Chairman of the Audit Committee and the Chairman of the Board. According to decisions of the Audit Committee, audit reports which present severe findings are also presented to the Board of Directors for discussion.

The summary reports regarding the activities of the Internal Audit Unit, and regarding the method and degree of implementation of the recommendations of the Internal Audit Unit, are also presented to the Chairman of the Board and to the Bank's CEO.

Remuneration of the Internal Auditor

The Internal Auditor's employment cost during the reporting year amounted to a total of NIS 1,157 thousand (including an update to provisions with respect to previous years), as specified in the chapter regarding the salaries of executives, below.

Assessment of the Board of Directors

Once per year, the Audit Committee holds a meeting with the Internal Auditor only. This meeting was held on January 25, 2018.

Based on the routine reports which are submitted by the Internal Auditor, and in accordance with the work policies regarding the internal audit function, the Audit Committee was satisfactorily convinced of the Internal Auditor's fulfillment of the professional standards according to which he prepared the audit reports regarding the Bank's various activities. Additionally, the Audit Committee conducted a survey of the Internal Audit Unit's work which was performed by an external entity, in accordance with Proper Banking Management Directive 307, regarding internal auditing.

The Audit Committee and Board of Directors believe that the fees and payments given to the Internal Auditor have no impact on the auditor's professional judgment.

The Board of Directors and the Audit Committee also believe that the scope, characteristics and continuity of the activities and work plan of the Internal Auditor are reasonable in light of the applicable circumstances, and constitute an appropriate solution for fulfilling the Bank's internal audit goals.

Disclosure regarding the financial statements approval process

The organ in the Bank which is responsible for oversight (as defined in Proper Bank Management Directive 303) is the bank's Board of Directors. The names of the Board members, as well as their accounting and financial expertise, are specified in the chapter below regarding the Board of Directors and management.

Fundamental issues pertaining to the disclosure given in the financial statements are discussed in the disclosure committee led by the CEO (in the financial statements for 2017, led by the Acting CEO), and with the participation of the Chief Accountant, Legal Counsel, Chief Risk Officer, additional members of the management board, the Bank's secretary, Manager of the CEO, Marketing and Strategy Division, the Accounting Department Manager and the Financial Statements Unit Manager. The meeting includes the preparation, as observers, of the Internal Auditor and an external accountant. The committee's discussions involve subjects which have a significant impact on the financial statements, subjects which are of interest to the public, developments which are required for reporting to the public, and any other issue which the committee views as necessary to discuss before submitting the reports to the Audit Committee.

Prior to the approval of the financial statements by the Board of Directors, the draft financial statements, the draft Report of the Board of Directors and Management, the draft corporate governance report, and additional details regarding the banking corporation's business affairs and the management thereof, and the draft risks report, are submitted to the Audit Committee. In parallel, a draft is submitted to the Board members who are not members of the Audit Committee.

The Audit Committee is comprised of the following Board members: the Committee Chairman, Mr. Shmuel Eshel (outside director), Mr. Yehuda Orbach (outside director), Ms. Ira Sobel (outside director in accordance with Directive 301 and independent director), Mr. Ram Harmelech and Dr. Ruth Arad (outside director).

The Board of Directors' Audit Committee discusses the financial statements with the participation of the Chairman of the Board as an non-member observer, and who is not present during the process of reaching decisions in the committee, in accordance with Proper Banking Management Directive 301 (before then, the Audit Committee holds a separate discussion regarding credit classified a "troubled debt", and a provision for credit losses and pending claims against the bank).

The meeting is also attended by the CEO, Legal Counsel, Chief Risk Officer, Internal Auditor and Auditors.

The committee meeting includes a detailed discussion of the financial statements, and a decision is reached regarding the issuance of a recommendation to the Board of Directors regarding the approval of the financial statements.

After the committee's aforementioned recommendation regarding the approval of the financial statements is received, updates are submitted regarding the draft reports, following the discussion in the aforementioned committee meeting, to the Board members for review, several days before the date of the scheduled meeting for the approval of the reports (the aforementioned draft is submitted before the above date to the Board members, concurrently with its submission to the Audit Committee).

The Board meeting, with the participation of the CEO, the Chief Accountant, Internal Auditor, Chief Risk Officer and Legal Counsel includes a review of the financial results and the financial position, and a presentation of the data regarding the Bank's operations. Additionally, answers are provided to the Board members' questions.

As background material in advance of the discussion, the Board of Directors receives the draft financial statements, along with extensive associated background material regarding the Bank's activities.

The meeting is also attended by the Bank's auditor, who provides his professional opinion regarding the financial statements, and regarding accounting issues in connection with the financial statements and control issues which arose during the performance of the audit. At the end of the discussion, the Board of Directors decides regarding the approval of the financial statements.

Auditor's professional fees (1)(2)(3)

NIS thousands

	Consolidated		The Bank	
	For the year ended December 31			
	2017	2016	2017	2016
For auditing activities(4)				
Auditor	1,412	1,384	1,255	1,232
For services associated with auditing(5)				
Auditor	18	29	-	-
For tax services(6)				
Auditor	430	405	283	405
For other services				
Auditor	318	279	318	279
Total auditors' fees	**2,178**	**2,098**	**1,855**	**1,916**

(1) Report by the Board of Directors to the annual general shareholders' meeting regarding the auditors' fees for audit activities, with respect to additional audit activities, in accordance with sections 165 and 167 of the Companies Law, 5759-1999.
(2) The auditors' fees include payments to partnerships and corporations under their control, as well as payments in accordance with the VAT Law.
(3) Including paid fees and accrued fees.
(4) Audit of annual financial statements and review of interim statements.
(5) Audit related fees, primarily including prospectuses.
(6) Current tax services and preparation of reports to tax authorities.

Salary of corporate officers

Presented below are details regarding the benefits and amounts which were paid, or for which provisions were recorded, for the Chairman of the Board of Directors and for the five highest salary recipients among the corporate officers

For the year ended December 31, 2017											
Details of remuneration recipient					Remuneration for services				Other remuneration	Total
	Name	Position	Scope of employment	Stake in the Corporation's capital	Salary (1)	Supplementation of reserves with respect to associated expenses due to changes in salary	Bonus (2)	Benefit with respect to share-based payment (3)	Interest (4)	
A.	Zeev Nahari(5)	Chairman of the Board of Directors	80%	-	1,649	-	-	-	-	1,649
B.	Gil Topaz(6)	CEO	Full	-	1,782	-	-	-	3	1,785
C.	David Levy(7)	Executive VP, Retail Division Manager	Full	-	1,327	-	-	-	-	1,327
D.	Michael Tayer(8)	Executive VP, Resource Division Manager	Full	-	1,223	-	-	-	8	1,230
E.	Ron Sagi(9)	VP, Chief Internal Auditor, holds the status of management member	Full	-	1,060	97	-	-	-	1,157
F.	Daphna Landau(10)	VP, Risk Division Manager	Full	-	997	-	-	-	-	997

For the year ended December 31, 2016										
Details of remuneration recipient					Remuneration for services				Other remuneration	Total
	Name	Position	Scope of employment	Stake in the Corporation's capital	Salary (1)	Supplementation of reserves with respect to associated expenses due to changes in salary	Bonus (2)	Benefit with respect to share-based payment (3)	Interest (4)	
A.	Zeev Nahari(5)	Chairman of the Board of Directors	80%	-	1,683	-	-	-	-	1,683
B.	Gil Topaz(6)	CEO	Full	-	1,705	-	-	-	2	1,707
C.	Israel Boker(11)	Acting CEO, Executive VP, outgoing Retail Division Manager	Full	-	1,245	-	-	-	1	1,246
D.	Michael Tayer(8)	Executive VP, Resource Division Manager	Full	-	1,132	-	-	-	-	1,132
E.	Michael Ben Yishai(12)	VP, Risk Division Manager	Full	-	983	-	32	-	-	1,015
F.	Ron Sagi(9)	VP, Chief Internal Auditor, holds the status of management member	Full	-	985	-	-	-	1	986

(1) Includes provisions for severance pay, remuneration, study funds and National Insurance, as well as fringe benefits, but does not include the supplementation of reserves with respect to associated expenses due to changes in salary and payroll tax.

(2) In accordance with the remuneration policy for corporate officers (for the years 2014-2016), and in light of the fact that the "reported returns" (as defined in the aforementioned policy) were lower than 6.5%, the deferred remuneration with respect to 2014 which was supposed to be paid in 2016 and 2017, was canceled (see Note 23 to the financial statements); For details

regarding amounts which were canceled for the corporate officers who are presented in this chapter, see notes (8) and (11) below.

(3) For details, see Note 24 to the financial statements.

(4) Includes an interest benefit with respect to loans given under employee conditions.

(5) Mr. Zeev Nahari - the Bank's Chairman of the Board since October 11, 2015 - for details regarding his employment terms, see Note 34.

(6) Mr. Gil Topaz - the Bank's CEO since November 1, 2015 - for details regarding his employment terms, see Note 34.

(7) Mr. David Levy - Retail Division Manager. Employed in the Bank and began serving in his position on November 1, 2016, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Mr. Tayer is linked to the consumer price index.

Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Mr. Levy will also be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accumulated for him in the various funds.

(8) Mr. Michael Tayer - Resources Division Manager, employed in the Bank since September 18, 2011, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Tayer is linked to the consumer price index.

Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Michael Tayer will be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accumulated for him in the various funds. Within the framework of the executives program, phantom units were allocated to Mr. Michael Tayer (Class A and Class B) (for details regarding the aforementioned executives program, see Note 34).

In accordance with the remuneration policy for corporate officers (for 2014-2016), and due to the fact that the reported returns (as defined in the aforementioned policy), were lower than 6.5% in the years 2015, 2016 and 2017, the deferred remuneration with respect to 2014, which was supposed to be paid during each of those years, in the amount of NIS 37 thousand, was canceled.

(9) Mr. Ron Sagi, Chief Internal Auditor, employed in the Bank since September 20, 1998, in accordance with a personal employment agreement for an undefined period. The monthly salary of Mr. Sagi is linked to the consumer price index.

Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Mr. Sagi will also be entitled to have the Bank release to him, upon the conclusion of his employment, all of the funds which have accumulated for him in the various funds.

Mr. Ron Sagi has a balance of credit under preferred conditions, similarly to all of the Bank's employees, which amounts to NIS 1 thousand as of December 31, 2017.

(10) Ms. Daphna Landau - Chief Risk Officer and Risk Division Manager. Employed in the Bank since January 1, 2017, and began serving in the aforementioned position on March 1, 2017, in accordance with a personal employment agreement, for an undefined period. The monthly salary of Ms. Landau is linked to the consumer price index.

Each of the parties to the employment agreement is entitled to terminate the agreement by providing notice three months in advance. Additionally, Ms. Landau will be entitled to have the Bank release to her, upon the conclusion of her employment, all of the funds which have accumulated for her in the various funds.

(11) Mr. Israel Boker - On July 24, 2016, Mr. Israel Boker concluded his tenure as Acting CEO, Executive VP, member of the management board and Retail Division Manager in the Bank. According to his employment terms, each of the parties to the employment agreement was entitled to terminate the agreement by providing notice three months in advance. Additionally, Mr. Boker was entitled to have the Bank release to him, upon termination of employment, all of the funds which have accumulated for him in the various funds, and to an adjustment bonus in an amount equal to three monthly salaries in the amount of the fixed salary of Mr. Boker, as specified in the employment agreement. In accordance with the remuneration policy for corporate officers (for 2014-2016), and due to the fact that the reported returns (as defined in the aforementioned policy), were lower than 6.5% in the years 2015, 2016 and 2017, the deferred remuneration with respect to 2014, which was supposed to be paid during each of those years, in the amount of NIS 58 thousand, was canceled.

(12) Mr. Michael Ben Yishai - On February 28, 2017, Mr. Ben Yishai concluded his tenure as Bank's Risks Division Manager.

In accordance with the remuneration policy for corporate officers (for the years 2014-2016), and due to the fact that the reported returns, as defined in the aforementioned policy, are lower than 6.5%, which would confer eligibility for the variable bonus, the Bank's Board of Directors approved, after receiving approval from the Remuneration Committee, the provision of a special bonus to the Bank's corporate officers, including to Mr. Michael Ben Yishai, in the amount of NIS 32 thousand with respect to 2016.

Provision of a letter of indemnity to corporate officers in the Bank and in its subsidiaries

On January 29, 2012, the general shareholders' meeting of the Bank approved a decision, according to which the Bank will provide, to anyone who serves, from time to time, as corporate officers in the Bank and in its subsidiaries, a letter of indemnity with respect to financial debt which may be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking (hereinafter: the "Letter of Indemnity"). The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity.

On October 9, 2013, the general shareholders' meeting of the Bank approved updates to the letter of indemnity for corporate officers in the Bank and in its subsidiaries, and accordingly, a reference was added in the letter of indemnity to additional laws, in order to allow indemnification in cases which are permitted by law, also by virtue of those laws. Additionally, a generally applicable section was added which may allow indemnification (with respect to trial expenses and payments to parties injured by the breach), insofar as such indemnification will be permitted in accordance with additional laws. For details regarding the update to the letter of undertaking.

On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letter of indemnity to directors who are controlling shareholders and/or their relatives and/or in whom the controlling shareholders may have a personal interest in the provision of letters of indemnity to them, for an additional period of three years, beginning on October 9, 2016 (the date when 3 years passed since the date of approval of the letters of indemnity to Mr. Zalman Shoval, Gideon Shoval and Moshe Bauer), under the same conditions as those of the current letters of indemnity, which were approved in October 2013, as stated above, and to all other corporate officers, including to the other directors and to the aforementioned directors.

Remuneration policy for the Bank's corporate officers for the years 2017-2019

On December 21, 2016, the Bank's general meeting of shareholders approved a new remuneration policy for the Bank's corporate officers for the years 2017-2019, as approved by the Bank's Board of Directors on October 27, 2016, after receiving the recommendation of the Remuneration Committee; For additional details, see Note 23 to the financial statements.

Remuneration policy for the Bank's employees and key employees who are not corporate officers, for the years 2017-2019

On October 27, 2016, after accepting the recommendation of the Remuneration Committee, the Bank's Board of Directors approved the remuneration policy for employees and key employees in the Bank who are not corporate officers, for the years 2017-2019. For details regarding the with respect to for employees and key employees in the Bank who are not corporate officers, see Note 23 to the financial statements.

Transactions with controlling shareholders

In February 2010, the Audit Committee reached, for the first time, a decision regarding the classification of banking transactions (extraordinary and non-extraordinary), and non-banking transactions (insignificant and non-insignificant). The original decision was reached following discussions vis-à-vis the Israel Securities Authority and The Association of Banks in Israel, regarding the agreed-upon framework for reporting with respect to report regarding, divided into banking transactions (extraordinary and non-extraordinary) and non-banking transactions (insignificant and non-insignificant). In the understandings, it was determined that non-extraordinary banking transactions will be specified in the annual statements on a cumulative basis.

Additionally, the Securities Regulations (Periodic and Immediate Reports) require the provision of disclosure, in the periodic report, regarding all transactions with controlling shareholders, excluding insignificant transactions, while distinguishing between extraordinary transactions and non-extraordinary transactions.

On February 21, 2017, the Audit Committee approved criteria for distinction between extraordinary and non-extraordinary banking transactions, as well as criteria for the definition of insignificant and non-insignificant non-banking transactions (for details regarding the original decision of the Audit Committee, as stated above, see the description of transactions with the controlling shareholder in the Bank's annual report as of December 31, 2016, which was published on February 28, 2017, and which is presented herein by way of reference, on page 249.)

On January 11, 2018, the Audit Committee ratified criteria for distinction between extraordinary and non-extraordinary banking transactions, as well as criteria for the definition of insignificant and non-insignificant non-banking transactions, subject to adjustments and updates, and in the wording specified below. The resolution will be in effect until the publication date of the financial statements for 2018.

Presented below are details regarding the criteria which were determined, as stated above, in the aforementioned meeting of the Audit Committee, distributed into banking transactions and non-banking transactions, as follows:

(A) Definitions:

For the purpose of the following decisions, including all of their sections, the following terms will have the meanings specified below:

A. "Supervised Capital" - as this term is defined in Proper Bank Management Directive 202 of the Commissioner of Banks.

B. "Debt" - as this term is defined in Proper Bank Management Directive 312 of the Commissioner of Banks.

C. "Market terms" - terms which are not preferable to the terms of similar transactions of the same type as the transaction, which are performed by the Bank with individuals or corporations who are not the Bank's controlling shareholders, or transactions with individuals in which the controlling shareholder does have a personal interest. Market conditions with respect to banking transactions are evaluated relative to the terms under which transactions of the same type, and in similar scopes, are performed according to the conventional practice regarding the evaluation of transactions with related parties, in accordance with Proper Bank Management Directive 312, with customers of the Bank who are not related parties or entities regarding which the controlling shareholders have a personal interest in the transaction with them; Market conditions with respect to transactions which are not banking transactions will be evaluated with respect to transactions of the same type as the Bank engages with suppliers and/or with respect to offers of other suppliers, which were evaluated before a decision was reached to enter the engagement. In cases where the Bank does not have transactions of the same type, the market conditions will be evaluated with respect to transactions of the same type which are performed on the market, and provided that the transaction is in the ordinary course of business, and that there is a market for transactions of this kind in which similar transactions are performed.

D. "Controlling shareholder group" - the controlling shareholder, together with the private companies which are related to him, according to the definition of the term "related party" in Proper Bank Management Directive 312, and together with his relatives and private companies related to them, including his family members who live with him, or whose livelihood is dependent on him; The definition of a "relative" in accordance with the provisions of the Banking Law (Licensing) includes a sibling, parent, child, spouse’s child and spouse of any of the above.

(B) "Extraordinary" banking transactions:

Banking transactions which meet the following criteria will be considered extraordinary transactions:

A. With respect to "liability" transactions - a liability transaction will be considered extraordinary if, following its implementation, the total liabilities of the controlling shareholder group exceed 5% of the supervised capital, as reported in the financial statements which were last published before the date of the transaction, or if the increase in the liability of a single borrower from the controlling shareholder group, following the transaction, exceeds 2% of regulatory capital on the date of the performance of the transaction. If the Bank becomes aware of liability transactions in which the controlling shareholder has a personal interest, and to which Proper Banking Management Directive 312 does not apply, since they are not performed with a "related party", as this term is defined in Proper Bank Management Directive 312, the Bank will present them for approval in accordance with the provisions of the aforementioned Directive 312. Regarding these transactions, the Bank will submit information in its annual statements, on a cumulative basis, according to the framework specified in the following tables (a separate table for these transactions, and for the aforementioned transactions to which Proper Bank Management Directive 312 applies). In this context, it should be clarified that the effective criterion regarding an extraordinary liability transaction with the controlling shareholder, or in which the controlling shareholder has a personal interest, will apply regardless of whether Directive 312 applies to the aforementioned transaction or not. Additionally, each specific provision for doubtful debts or write-off of a certain amount with respect to a liability of the controlling shareholder or of a corporation related to him will be considered a significant transaction.

B. Regarding "deposit" transactions - the depositing of funds in a deposit, of any kind whatsoever, will be considered an extraordinary transaction if as a result, the total deposits of the controlling shareholder group exceed 1% of total public deposits, as reported in the last financial statements which will be published by will be published before the transaction date. Receipt of a deposit from a company which is a "related party" of the controlling shareholder (as this term is defined in Proper Bank Management Directive 312), which is not included among the companies which are under the control of the controlling shareholder, will be considered extraordinary, if as a result, the total deposits of that "related party" exceed 1% of total public deposits, as reported in the last financial statements which will be published by the Bank before the date of the transaction.

C. Regarding a transaction with securities, or a transaction in foreign currency (which is not a debt transaction, or a deposit transaction, as specified above) - a transaction with securities or in foreign currency will be considered extraordinary if the total annual commission charged for it is equal to, or exceeds, 4% of the Bank's total operating income (less income from investment in stocks), according to the Bank's last annual financial statements.

D. Any other banking transaction, of the types of transactions which the Bank generally performs with the public, provided that it does not involve the provision of credit by the Bank, where the amount of such transaction exceeds 0.1% of the regulatory capital on the performance date of the transaction.

E. A negligible temporarily deviation from the scopes specified in sections (a) to (d) above, and for a period which does not exceed 30 days, will not suffice to change the classification of the transaction as a "non-extraordinary transaction", and disclosure will be given regarding those exceptions within the framework of the annual report. It is hereby clarified that any change to an extraordinary transaction constitutes, in itself, an extraordinary transaction, and an immediate report will be given regarding it.

(C) Non-banking transactions

The following transactions will be considered insignificant transactions

A. Transactions for the acquisition of services from the controlling shareholder or in which the controlling shareholder has a personal interest, provided that they do not constitute an engagement with the controlling shareholder or a relative of his, regarding the terms of his tenure and employment, which are performed in the ordinary course of business and under market conditions, and whose scope does not exceed a total of NIS 250 thousand, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital. The above total will not take into account individual transactions, the scope of each will be less than NIS 25,000.

B. Transactions involving the rental of areas from the controlling shareholder, or in which the controlling shareholder has a personal interest, which were approved in a single calendar year, in the ordinary course of business, and under market conditions, and whose total scope does not exceed 0.1% of supervised capital.

C. Bearing the controlling shareholder's expenses, in the ordinary course of business and under market conditions, for the purpose of participating in representative events and in customer conferences of the Bank and its subsidiaries, upon their request, or participation in consultations by request of the Chairman of the Board - expenses up to a cumulative total of NIS 100,000 per year.

D. Any other transaction which is performed in the ordinary course of business and under market condition, whose scope amounts to a maximum total of NIS 250,000, provided that the total sum of transactions of this type for a single calendar year does not exceed 0.1% of regulatory capital.

Presented below are details regarding the balances of the controlling shareholder group and of other parties regarding which the controlling shareholder has a personal interest in their dealings with the Bank (NIS Thousands):

	Balance as of December 31, 2017			Highest balance in 2017		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Credit	12.1	-	-	55.1	-	-
Unused facility	87.9	-	-	125.4	-	-
Deposits	4,269.5(1)	919.9	62.9	4,506.2(2)	1,074.9	63.2

	Balance as of December 31, 2016			Highest balance in 2016		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Credit	29.3	-	-	67.6	-	-
Unused facility	120.7	-	-	149.8	-	-
Deposits	4,538.3(1)	1,215.4	-	9,710.0(2)	1,240.1	-

(1) Of which, a total of NIS 0.3 million was held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties as of December 31, 2017 and December 31, 2016, respectively.
(2) Of which, a total of NIS 0.3 million and NIS 3.8 million were held in trust by a company from the controlling shareholder group, on behalf of unrelated third parties during 2017 and 2016, respectively.

Presented below are details regarding the income from fees with respect to transactions with securities and/or transactions in foreign currency (which are not debt transactions or deposit transactions) which were paid by the controlling shareholder group and by other parties regarding whom the controlling shareholder has a personal interest in their dealings with the Bank.

(NIS thousands):

	For 2017			For 2016		
Balance type	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.	Controlling shareholder group	Relatives of the controlling shareholder	Export Investment Co. Ltd.
Income from fees	2.4	1.1	-	16.4	3.2	0.5

For additional details regarding interested parties and related parties, see Note 34 to the financial statements.

Presented below are details regarding non-banking transactions with the controlling shareholder, or in which the controlling shareholder has a personal interest, for the year ended December 31, 2017 (in thousands of NIS), and which do not constitute insignificant transactions, as defined in the Audit Committee's decision of December 21, 2017, regarding criteria for the classification of transactions:

(1) Directors and officers (D&O) insurance policy:

Further to and in accordance with the framework decision of the general meeting of the Bank's shareholders from May 10, 2015 (see the convention report dated April 1, 2015 (reference number

2015-01-070975) and the meeting results report dated May 10, 2015 (reference number 2015-01-016284), (the "framework decision"), the Bank's Board of Directors approved, on September 29, 2016, after approval was received from the Remuneration Committee, in its meeting on September 15, 2016, the Bank's engagement with respect to insurance for directors and officers (including in subsidiaries), who hold office from time to time, in a directors and officers (D&O) insurance policy. Further to the aforementioned resolution of the Board of Directors, the Board of Directors approved, in the aforementioned meeting, that the Bank's engagement in an officers insurance policy will also apply to corporate officers who are relatives of the controlling shareholder, and who hold office in the Bank on the date of the aforementioned resolution (for details regarding the aforementioned resolution of the Board of Directors, see the description of transactions with the controlling shareholder in the Bank's annual report as of December 31, 2016, which was published on February 28, 2017, and which is presented herein by way of reference, on page 251.)

On September 19, 2017, the Bank's Board of Directors approved, after approval was received from the Remuneration Committee on September 12, 2017, the renewal of an insurance policy for directors and officers (including in the subsidiaries) who hold office from time to time, as applicable, as follows: the policy will be purchased from a consortium of insurers in London, through an international insurance broker. Liability limits and policy term: USD 30 million per event and USD 60 million for the period, with respect to the 12 month period from October 1, 2017 to September 30, 2018. The annual premium paid by the Bank with respect to the acquisition of a directors and officers insurance policy will amount to a total of approximately USD 77,000. The deductible amount in the directors and officers insurance policy will not exceed a total of USD 25,000 for the Bank.

Further to the aforementioned resolution of the Board of Directors, the Board of Directors approved, in the aforementioned meeting, that the Bank's engagement in an officers' insurance policy will also apply to corporate officers who are relatives of the controlling shareholder who serve in the Bank as of the date of this decision, and that the terms of the engagement with them are identical to the terms of engagement with the other corporate officers in the Bank, and it is not expected to materially affect the Bank's profitability, assets or liabilities.

(2) Letters of indemnity

On January 29, 2012, the general meeting of the Bank's shareholders approved the provision of letters of indemnity to corporate officers, in the wording which was attached as Annex C to the immediate report regarding the convention of a general meeting, dated December 22, 2011, as amended in the immediate report dated January 19, 2012 (hereinafter: the "Immediate Report"), (a) for corporate officers of the Bank who hold office and/or who will hold office in the Bank from time to time, and for corporate officers in other companies, as defined in the immediate report, who hold office and/or who will hold office from time to time, at the Bank's request, as corporate officers in other companies, excluding for corporate officers regarding whom the controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them. (B) For corporate officers regarding whom the controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them, who hold office and/or who will hold office in the Bank from time to time, and for such corporate officers who hold office or will hold office, from time to time, at the request of the Bank, as corporate officers in another company. For details regarding indemnification, see the Bank's immediate report dated January 19, 2012 (reference number 2012-01-020319).

On October 9, 2013, the general shareholders' meeting of the Bank approved updates to the letter of indemnity for corporate officers, in the wording which was attached as Annex C to the immediate report regarding the convention of a general meeting on September 3, 2013, for the aforementioned corporate officers. For details regarding the update to the letter of indemnification, see the Bank's immediate report dated September 3, 2013 (reference number 2013-01-136176).

On October 30, 2016, re-approval was received from the general meeting of the Bank's shareholders (following the approval of the Remuneration Committee on September 6, 2016, and of the Board of Directors on September 8, 2016) to provide an letter of indemnity to directors who are controlling shareholders and/or their relatives and/or regarding whom the controlling shareholders may have a personal interest in the provision of letters of indemnity to them, for an additional three year period, beginning on October 9, 2016 (the date when 3 years passed since the date hen the letters of indemnity were approved for the aforementioned directors, Messrs. Zalman Shoval, Mr. Gideon Shoval and Mr. Moshe Bauer), under the same conditions as those of the current liability certificates, which were approved on October 9, 2013 for all other corporate officers, including the aforementioned directors.

(3) Annual remuneration

On April 7, 2016, a decision was reached by a special general meeting of the Bank's shareholders, to approve an increase to the amount of annual remuneration which is paid to the outside directors, to the independent directors and to the other directors, excluding directors who are controlling shareholders and directors who are relatives of the controlling shareholders, and excluding the Chairman of the Board, who currently and who will serve in the future in the Bank, from time to time, in accordance with the Companies Law, for a total of NIS 62,784 per year (with respect to the index which was published for January 2016), and with the addition of linkage differentials in accordance with the Remuneration and VAT Regulations, from the date of the appointment of Dr. Ruth Arad as an outside director in the Bank; It is hereby clarified that the amount of remuneration which is paid for participation in a meeting will not be changed.

On April 19, 2016, the Bank's Board of Directors approved, in accordance with section 1B(3) of the Companies Regulations (easements in transactions with interested parties), 5760 - 2000, an update to the annual remuneration and the terms thereof, which will be paid to directors who are controlling shareholders and/or their relatives (Messrs. Zalman Shoval and Gideon Shoval), and will be identical to the annual remuneration which is paid to the outside directors, to the independent directors and to the other directors (who are not the controlling shareholders or their relatives), as approved in the aforementioned general meeting.

(4) Rental transactions

The Bank (through a wholly owned subsidiary) rents, in the ordinary course of business, and under market conditions, office and warehouse areas, as follows:

(A) The Bank rents (through a wholly owned subsidiary) from a wholly owned subsidiary of a relative of the controlling shareholder warehouses with an area of 565 square meters, in Jerusalem, which are used as the Bank's archive. In 2016, the lease agreement was renewed for an additional two years, until June 30, 2018, for a total consideration of approximately NIS 1,017 thousand, for the entire lease period (including maintenance fees, which include electricity, water, parking and security expenses), plus VAT. These amounts are immaterial to the Bank.

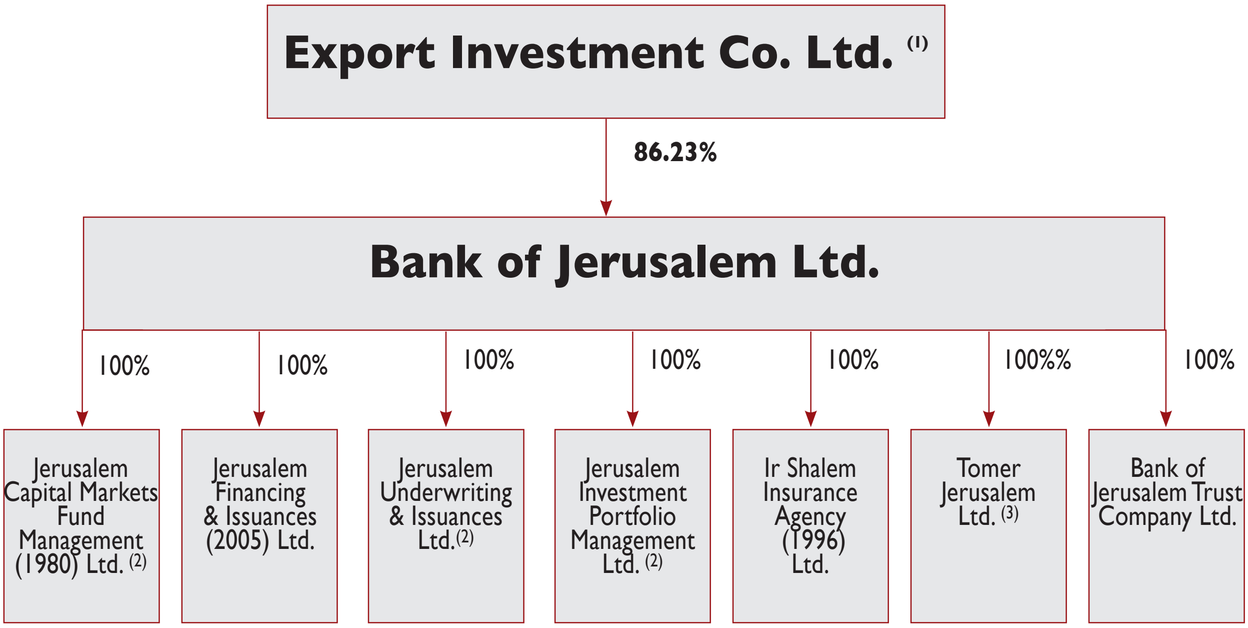
(B) The Bank rents (through a wholly owned subsidiary) offices in Shalom Tower from a wholly owned subsidiary of a relative of the controlling shareholder, which are used, inter alia, as a meeting room with an area of approximately 100 square meters. The lease period was determined as three years, and the total consideration which will be paid (including maintenance fees) is approximately NIS 371 thousand, plus VAT. These amounts are immaterial to the Bank.

Part B - Additional Details Regarding the Banking Corporation's Business Affairs and the Management Thereof

Diagram of the Bank's Holding Structure

Presented below is a diagram of the Bank's holding structure in subsidiaries and associate companies as of December 31, 2017.

For details regarding the areas of engagement of the subsidiaries and associate companies, see Note 15 to the financial statements.



(1) For details regarding the Bank's controlling shareholders, see below.
(2) Inactive.
(3) Mr. Zalman Shoval has immaterial holdings in the Company, as specified in regulations 11-13 in the periodic report.

Controlling shareholders of the Bank

Mrs. Kena Shoval is the controlling shareholder of the Bank, and holds 74.94% of the issued and paid-up share capital of Exports Investment Co. Ltd., which is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. (hereinafter: "Export"). Export holds 86.23% of the Bank's issued and paid-up share capital. Additionally, Mrs. Shoval holds 0.34% of the Bank's issued and paid-up share capital, through the companies K. Shoval Holdings Ltd.; ICC Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd. and Foreign Trust Ltd., which are private companies owned and controlled by Mrs. Kena Shoval.

In accordance with a legal opinion which was presented to the Bank, Mr. Zalman Shoval (the husband of Mrs. Kena Shoval, and a director in the Bank) is considered a controlling shareholder in accordance with the provisions of the Securities Law, 5728-1968, and in accordance with the provisions of the Banking Law (Licensing).

Fixed assets and facilities

The amortized cost of buildings and equipment amounted, as of December 31, 2017, to NIS 150.6 million, as compared with NIS 157.8 million as of December 31, 2016.

Most of the areas in which the Bank's business operations are managed are rented areas. As of December 31, 2017, the Bank has available to it areas in the total scope of approximately 13,000 square meters, as compared with total areas in the scope of approximately 13,500 square meters which were available to the Bank as of December 31, 2016.

As of the end of 2017, the area of the headquarters in Airport City amounted to a total area of approximately 5,000 square meters. The remaining area was used for the Bank's branches and various departments.

As of the end of 2017, the Bank owns real estate with a total area of approximately 500 square meters, similarly to the total as of December 31, 2016.

The rental agreement with respect to the Bank's headquarters in Airport City was signed on December 19, 2010. The rental agreement is for a period of 7 years (until 2018), with an option to extend for an additional 7 years (until 2025), and an additional option to extend for an additional 7 years (until 2032).

The remaining fixed assets mostly include software costs (see below in the IT chapter), equipment and furniture, which are used by the Bank for its operating activities.

For additional details, see also Note 16 to the financial statements.

The Bank's policy is to hold only the real estate properties which it actually requires for its activity, or which it is expected to require for its activity in the future. The Bank evaluates, on an ongoing basis, the characteristics and locations of the areas which it requires, based on its business plan and the plan regarding the national distribution of branches, and performs adjustments as required.

Intangible assets

Trademarks and domain names - The Bank holds the intellectual property rights to the following trademarks, which are registered under the Bank's name in the Registrar of Trademarks: "Bank of Jerusalem", "Bank of Jerusalem - For the Important Decisions in Life" and "Mehadrin Banking". The Bank is also the registered owner of various domain names.

Databases - The Bank and member companies in the group are the owners of registered databases, which contain data in connection with the Bank's business operations and customers.

Customer relations - As part of the acquisition of Clal Batucha, part of the acquisition cost was attributed to an asset representing "customer relations" (in other words, the estimated fair value of the Company's existing contracts, which represents the part of the acquisition cost which is attributed to the Company's ability to generate future cash flows from the renewal of its existing contracts as of the acquisition date). As of December 31, 2017, this asset is recorded in the books in the amount of approximately NIS 0.4 million, in addition to the Bank's customers prior to the acquisition transaction.

On October 16, 2017, the Bank engaged with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. in agreements for the sale of the Bank's independent customer portfolios and the institutional customers portfolios, in the brokerage operating segment.

Upon the completion of the transaction, the Bank is expected to write off the balance of the amortized cost of customer relations.

IT and information systems

The Bank's IT department works to develop advanced technological systems and to continuously improve the Bank's IT systems and infrastructures. This activity is managed by Tomer Jerusalem Ltd.

IT centers

The Bank's main IT center is located in the management building, at Airport City in Lod.

The Bank's backup site is located in the IBM building in Netanya.

Information systems

Support for the Bank's business operations is provided through 3 core systems:

Commercial system (BankWare) - used to manage the commercial activities, mortgages in foreign currency and the main ledger. Mortgage system - Used to manage the mortgage operation in NIS. Central capital market system - used to manage activities on the capital market. The Bank also has various additional systems and applications which are used for business, operational, and managerial data purposes.

Integration and connectivity

The Bank operates according to a SOA architecture. The Bank has a software tool (ESB - Enterprise service bus) which allows integration between the channel systems and the core systems. The integration method used to integrate between the systems is performed by developing web services securely.

Backup and disaster recovery

The Bank's business continuity plan is derived from the Bank's goals in case of emergency, critical business processes and services which were defined in the business impact analysis (BIA) process.

In 2017, the BIA process was refreshed, and its results will be presented in the first quarter of 2018, and a work plan will be established to close gaps, if any are found. For the purpose of meeting the defined disaster recovery targets, a backup DR site exists, which contains critical process-supporting systems.

Cyber protection and information security

In 2017, the trend of improvement and expansion of the Bank's cybersecurity and information security segment continued.

Surveys and penetration tests were conducted on the Bank's systems, after which various improvements were introduced to the Bank's processes, to the technological systems, and to the protection systems, all in order to enhance information security. Furthermore, additional protection tools were installed in order to strengthen the cybersecurity defense and information security as part of the cycles of defense against vulnerabilities and attacks.

IT infrastructure

The Bank's IT infrastructure fully supports the various systems. In 2017, a number different improvements were made to the IT infrastructure and IT rooms, components were upgraded and replaced in accordance with the plan, and various new IT infrastructures were installed in response to business and technological needs.

In 2017, dozens of the Bank's ATM's were installed, which are not adjacent to the Bank's branches.

Management of suppliers

The Bank relies on various systems, including the core systems which were developed and are maintained by various companies. The Bank ensures to maintain appropriate engagements with all external IT suppliers, in order to ensure the proper functionality, continuous operation and technological and functional upgrades of the systems. The Bank's relationships are set forth in detailed agreements vis-à-vis each and every supplier, which define the supplier's duties towards the Bank (including service level agreements), as well as the Bank's duties towards the supplier.

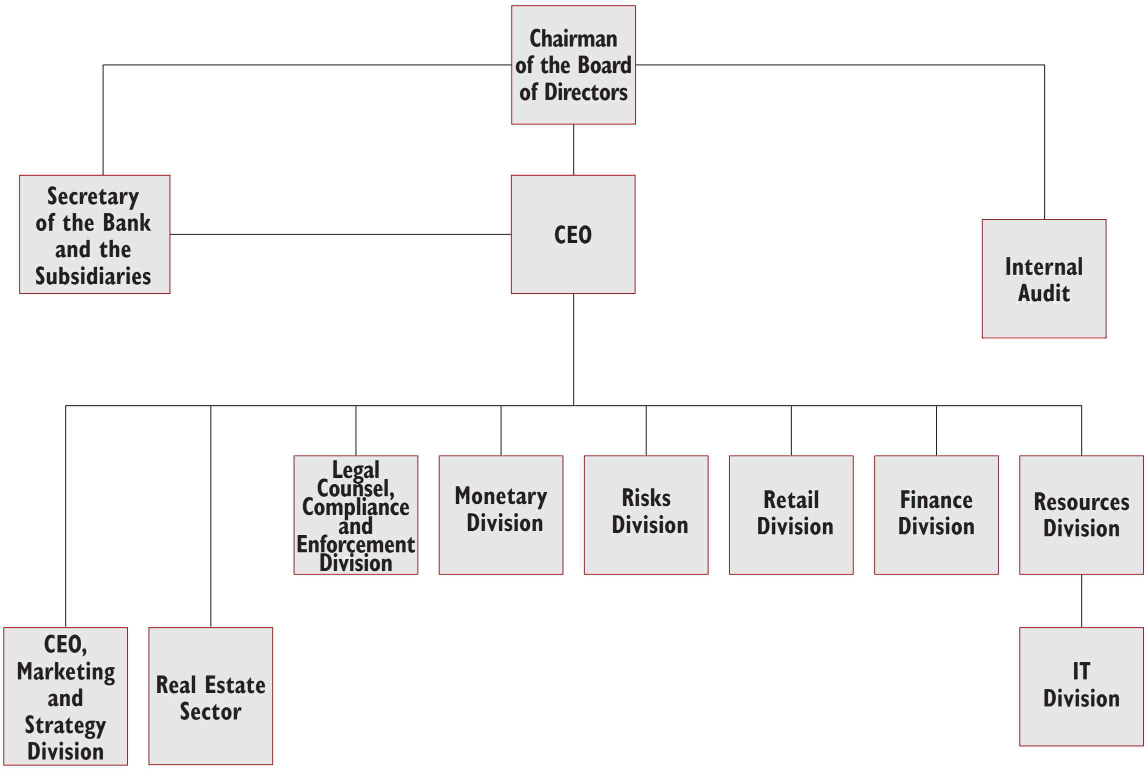
The Bank is dependent on software suppliers of the Bank's commercial system and mortgage system. The banks receives full scale service regarding capital market issues from FMR Ltd., and is dependent on it in this regard. Source codes and documentation for these software programs are deposited in trust, in accordance with the directives of the Banking Supervision Department. The Bank relies on the technological infrastructures of VMWARE, IBM, EMC, Oracle and Microsoft.

Scope of investment

For details regarding the scope of the investment, see the chapter regarding developments in income, expenses and other comprehensive income, in the Report of the Board of Directors and Management.

Human capital

Presented below is a diagram of the Bank's organizational structure:



Workforce outline (1)(2)

Presented below are details regarding the number of employees employed in the Bank and its subsidiaries:

	As of the end of		Annual average	
	2017	2016	2017	2016
Number of employees:	607	623	613	623
Of which, through outsourcing (2)	63	81	72	83
Number of positions:				
Ordinary work hours	596	613	603	613
Overtime	20	14	22	22

(1) The report does not include the Bank's call center, which is operated through an external provider, cleaning and security employees, and employees who are employed through service providers as temporarily substitutes for bank employees, or on a project basis.

(2) The outsourcing section includes employees who are employed through software houses and other companies which provide services to the Bank, from which certain employees are hired for specific positions.

For details regarding the positions in the different operating segments, see the chapter regarding operating segments in this report.

Rotation and vacations

The Bank operates in accordance with the Proper Banking Management Directive regarding rotation, and regards the rotation of senior sensitive position holders as an important component of the internal control processes in the organization. In case it is not possible to rotate senior position holders, the Bank implements compensating controls. During 2017, 71 employees were rotated, of which 10 held sensitive positions. During 2016, 43 employees were rotated, of which 5 held sensitive positions.

The Bank established a specific vacation usage target for the Bank's employees, and performs specific monthly followup of the target's fulfillment.

Remuneration policy

For details regarding the remuneration policy for corporate officers, remuneration policy for employees and key employees who are not corporate officers, the entities which oversee remuneration in the Bank, planning and structure of the remuneration processes, description of the methods used to take into account current and future risks in the remuneration process, and the connection between performance during the performance measurement period and remuneration levels, see Note 23 to the financial statements.

In 2017, the Remuneration Committee convened 8 times, and the remuneration which was paid to its members during the year amounted to approximately NIS 100 thousand.

Presented below are details regarding the amounts of remuneration to corporate officers with respect to the reporting year (in thousands of NIS):

	Corporate officers		Other key employees	
Total value of remuneration with respect to the reporting year	**Non-deferred**	**Deferred**	**Non-deferred**	**Deferred**
Fixed remuneration - cash-based	13,439	-	976	-
Variable remuneration - cash-based	150	-	10	-

	Corporate officers		Other key employees	
Description	**Number of**	**Amount**	**Number of**	**Amount**
1 Remuneration paid				
A. Number of employees who received variable remuneration during the reporting year	-	-	-	-
B. Number and total of guaranteed bonuses granted during the reporting year	6	150	1	10
C. Number and total sum of severance payments which were paid during the reporting year	1	142	-	-
2 Deferred remuneration				
A. Total balance of unpaid deferred remuneration (in cash)	1	140	-	-
B. Total deferred remuneration paid during the reporting year	-	-	-	-
C. Total unpaid sum of the balance of deferred remuneration and held remuneration which is exposed to retrospective adjustments, either explicit and/or implicit.	1	140	-	-

No bonuses were given upon signing during the reporting year.
For details regarding the remuneration plan for the CEO and Chairman, see Note 34 to the financial statements.

Description of employment agreements

In December 2015, several collective arrangements were signed between bank management and the Bank's employees' committee, which formalized most of the employment terms for all of the Bank's employees, excluding corporate officers and key employees. The collective arrangements were signed for a period of four years, until December 31, 2019.

Approximately 60% of the Bank's employees are employed through personal employment agreements which define the terms of their employment in the Bank, in addition to the arrangements set forth in the collective arrangements. Once per year, an update to their employment terms is evaluated, in accordance with the employee's differential contribution to the Bank, and in accordance with managers' recommendations. The personal employment agreements are signed separately with each employee, in accordance with the salary and the social benefits arrangement which were specifically agreed with them.

The employment terms of approximately 40% of the Bank's employees are set forth in an agreement which was signed with the employees' committee in the Bank, which defines their employment terms and their salary promotions (ranked employee agreement). In addition to the terms set forth in the collective arrangements, the agreement is updated once every two years, with the consent of the employees' committee, as set forth in a written addendum which is signed between management and the employees' committee. This update includes salary additions over the base salary and associated benefits, and takes into account the rate of increase of the consumer price index for the period relevant to the update. Additionally, the Bank holds, once per year, personal ranking discussions for the aforementioned employees, in accordance with each employee's differential contribution to the Bank, and according to the managers' recommendations.

Additionally, the Bank and its subsidiary acquire the services of manpower companies, software houses and other specialized companies (see details regarding employees through "outsourcing", in the table presented above).

For additional details, see Note 23 to the financial statements.

Development of human resources

The Bank focuses on value-based investment in its employees, along with the development of employees and human capital.

Aside from structured internal training sessions, which focus on the Bank's core business areas and the risk management segment, the Bank also encourages its employees to attend academic studies in areas which are associated with their specializations. The Bank also sends it employees to attend continuing education programs, one-day seminars and professional conferences which are associated with the fields of banking.

The Bank conducts management training courses as needed and in accordance with the available promotion courses. In 2016, the branch managers underwent a comprehensive manager development course. Additionally, managers in various ranks of management in headquarters and in the branches received personalized training sessions in order to improve management skills and to help them face the managerial challenges which they face management their routine work.

The Bank is currently accepting primarily academic employees, and as of the end of 2017, the Bank employees 65% academic employees, of which 28% hold a Master's degree, and 2.5% are studying towards a Master's degree. The rate of employees with a post-secondary education, out of the Bank's total employees, amounts to 11%, while the rate of employees studying for a Bachelor's degree amounts to 0.5%.

The Bank encourages mutual responsibility among its employees, and has established a joint fund between the Bank and its employees, to support employees who are in financial distress situations.

Corporate officers and authorized signatories

As of December 31, 2017, 11 corporate officers are serving in the Bank (who are not directors), through personal contracts. The Bank has 195 authorized signatories: 87 in the branches, and 108 in headquarters. For additional details regarding the retirement of corporate officers during the reporting period, see the chapter regarding corporate officers above.

Significant agreements

presented below is a summary description of the main terms of agreements which may be considered material, hand which are not in the ordinary course of business, to which the Bank is party, or where, to the best of its knowledge, it is entitled under such agreements, including agreements which were in effect during the period described in this annual report, or which affected the Bank's activities during that period.

1. The Bank has a framework agreement with the Government of Israel for the provision of loans for which the Government is responsible (including arrangement, execution and collection) to entitled individuals through the Ministry of Construction & Housing. For additional details regarding agreements with the Government of Israel, see the chapter regarding the household segment below.
2. The Bank is party to agreements from 1992 (as updated, from time to time) with several insurance companies, Ir Shalem, and additional insurance agencies. According to the agreements, the insurance companies undertake to provide life insurance to the borrowers, subject to the terms set forth in the agreements and in the insurance policies. For additional details regarding the agreement with respect to life insurance for borrowers, see the description in the household segment chapter below.
3. The Bank is party to an insurance agreement regarding borrowers' assets with Ir Shalem Insurance Agency (1996) Ltd., and several insurance companies, dated April 1, 2007, in which the insurance companies undertook to insure assets which had been pledged in favor of the Bank, subject to the terms set forth in the agreements and in the insurance policies, and to pay a commission to Ir Shalem. See the description in the chapter regarding the household segment below.
4. In accordance with an agreement dated April 10, 2006, which is in effect as of January 1, 2006, between Ir Shalem and an insurance company, the insurer will issue life insurance policies and structural insurance policies (including water damage) as an addition to housing loans which will be given by the Bank to the Bank's customers, and which will be marketed by Ir Shalem through a subsidiary of an insurance corporation. See the description in the chapter regarding the household segment below.
5. The Bank is party to an agreement with Bank Leumi le-Israel Ltd. ("Bank Leumi") dated December 10, 2017, which replaced the previous agreement dated November 15, 1998, according to which the Bank receives from Bank Leumi clearing services for relays presented in the Bank and relays drawn on the Bank through the Bank Leumi clearing house, in consideration of fees as specified in the agreement. See the description in the chapter regarding the household segment below.
6. The Bank has an agreement with Israel Credit Cards Ltd. ("C.A.L.") dated August 8, 2002, which reflects the relationship within the framework of the collaboration between the Bank and C.A.L., including as regards the division of responsibilities between the credit card company and the Bank, as well as the commercial terms between the parties. For additional details regarding the engagement with CAL, see the description in the chapter regarding the household segment below.
7. The Bank engaged with Meitav DS Trade Ltd. and Meitav DS Brokerage Ltd. in agreements for the sale of the Bank's independent customer portfolios and the institutional customers portfolios, in the brokerage operating segment. For additional details, see the chapter regarding events after the balance sheet date in the report of the Board of Directors and management, and the Bank's immediate reports dated September 17, 2017 (reference number 2017-01-082066), October 16, 2017 (reference number 2017-01-089767), November 16, 2017 (reference number 2017-01-100654), January 9, 2018 (reference number 2018-01-003700) and February 15, 2018 (reference number 2018-01-015811).
8. On February 1, 2018, an agreement was signed between the Bank and institutional entities of Clal Insurance Group, according to which the Bank sold, in an irrevocable, final and absolute bill of sale transaction, 50% of its rights in connection with the portfolio of housing loans in the total amount of approximately NIS 600 million, which is comprised of housing loans that were provided by the Bank during a defined period which was agreed upon between the parties. For additional details regarding this engagement, see the chapter regarding events after the balance sheet date in the report of the Board of Directors and management, and the Bank's immediate report dated February 1, 2018 (reference number 2018-01-011239).

9. On January 29, 2012, the general shareholders' meeting of the Bank approved a decision, according to which the Bank will provide, to anyone who serves, from time to time, as corporate officers in the Bank and in its subsidiaries, an undertaking to indemnify with respect to financial debt which will be imposed on any of the above, and with respect to reasonable litigation expenses which are associated with the list of events which was attached as an annex to the letter of undertaking (hereinafter: the "Letter of Undertaking to Indemnify"). The provision of indemnification is contingent upon the fulfillment of the conditions specified in the letter of undertaking and the maximum indemnification amount for corporate officers in the Bank and in its subsidiaries, which will cumulatively not exceed 25% of the Bank's equity. For additional details regarding the terms specified in the letter of indemnity, see the chapter regarding the salaries of corporate officers in this report, and the Bank's immediate reports dated January 19, 2012 and January 29, 2012 (reference numbers 2012-01-020319 and 2012-01-027834, respectively).

   On October 9, 2013, the general shareholders' meeting of the Bank approved updates to the letter of indemnity for corporate officers in the Bank and in its subsidiaries, and accordingly, a reference was added in the letter of indemnity to additional laws, in order to allow indemnification in cases which are permitted by law, also by virtue of those laws. Additionally, a generally applicable section was added which may allow indemnification (with respect to trial expenses and payments to parties injured by the breach), insofar as such indemnification will be permitted in accordance with additional laws.

   On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letters of indemnity to directors who are controlling shareholders and/or their relatives and/or anyone in whom the controlling shareholders may have a personal interest in the provision of the letters of indemnity, for an additional three year period, beginning on October 9, 2016 (the date when 3 years passed since the date when the letters of indemnity were approved for Mr. Zalman Shoval, Mr. Gideon Shoval and Mr. Moshe Bauer), under the same conditions as the current letters of indemnity which were approved in October 2013, as stated above, to all other corporate officers, including to the other directors and to the aforementioned directors. For additional details regarding approval for the provision of the letter of indemnity, as stated above, see the chapter regarding the salaries of corporate officers in this report, and the Bank's immediate reports dated September 19, 2016 and October 30, 2016 (reference numbers 2016-01-125356 and -2016-01-069234, respectively).

Legislative restrictions and oversight of the banking corporation

The Bank has a banking license in accordance with section 10 of the Banking Law (Licensing), 5741-1981. In accordance with the Bank's license, it is subject to the following restrictions: the Bank will not control and will not be an interested party in corporations of any kind whatsoever, in Israel or abroad, excluding auxiliary corporations, without the Commissioner's approval, for a certain corporation or for a certain type of corporation. The above will not apply to corporations which the Bank lawfully held prior to the provision of the license, and where the holding is in accordance with the determined conditions.

Additionally, in accordance with the Bank's license, the appointment of the Chairman of the Board of Directors and the CEO require advance written approval from the Commissioner of Banks.

It is hereby clarified that the requirements of the license regarding the control of auxiliary corporations and the approval for the tenure of the Chairman and CEO are requirements which are currently included in the banking legislation, and which refer to all banking corporations.

According to the directive issued by the Bank of Israel to the Bank, the Bank is entitled to perform option and forward transactions between currencies or interest rates only for hedging purposes. Transactions which are not for hedging purposes will require advance approval from the Bank of Israel.

Licenses for the activities of subsidiaries

Ir Shalem, a wholly owned and controlled subsidiary of the Bank, has an insurance agent corporation license in accordance with the Control of Financial Services Law (Insurance), 5741-1981. In accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, Ir Shalem is entitled to engage only in the marketing of life insurance policies and structural insurance policies, as part of housing loans which are given by the Bank (this restriction does not apply with respect to insurance which was prepared before January 1, 2006).

Restrictions on legislation, standardization, directives and special constraints

The Bank is a commercial bank, whose securities are traded on the Tel Aviv Stock Exchange Ltd., and which is a member company of the Tel Aviv Stock Exchange Ltd., a member of the Stock Exchange Clearing House and the Maof Clearing House, and is therefore subject to all of the relevant laws.

The Bank's activities are subject to laws, regulations and directives, some of which are unique to the banking system, while others, which, even if they are not unique, as stated above, do affect significant segments of its operations. The Banking Ordinance, various banking laws and Proper Banking Management Directives which are published by the Commissioner of Banks from time to time constitute the primary and legal basis for the Bank's activities. These define, inter alia, the limits of the Bank's permitted activities, the relationship between the Bank and its customers, the use of the Bank's assets, the method for reporting regarding its aforementioned activities to the Commissioner of Banks and to the public, and the activities which are permitted for the Bank's subsidiaries, and the terms of their control and ownership.

Along with the above, the Bank is subject to extensive legislation which regulates its activities in the capital market, both for its customers and for itself (for example, in the field of investment consulting and customer portfolio management, securities laws and restrictions on activities in the insurance segment), and to the guidelines issued by the Ministry of Finance which regulate the Bank's activities as a market maker with government bonds.

The fees charged by banks, including the Bank of Jerusalem, are overseen by the Bank of Israel. Additionally, the Bank of Israel has determined tariff schedules, in which are specified the services for which banks will be entitled to collect fees, as well as the method used to calculate such fees.

Additional laws, on unique subjects, impose on the banks, including on the Bank, specific obligations and rules. The above includes, for example, legislation regarding the prohibition against money laundering and terrorism financing; The Credit Data Law, legislation regarding housing loans, laws regarding guarantees, etc.

In addition to the above, there is also legislation which, due to its connection to the Bank's activities, has a significant impact on the Bank's conduct. On this matter, it should be noted that enforcement laws, liquidation and receivership laws, and various tax laws are relevant.

The Bank's activities are subject to supervision and control by the Banking Supervision Department, and by additional supervisory entities in specific operating segments, such as the Israel Securities Authority, the Commissioner of Capital Markets, Insurance and Savings in the Ministry of Finance and the Antitrust Commissioner.

The Bank and its subsidiaries operate in compliance with the duties which apply to them by virtue of provisions of the law.

As part of the legislation, some of the laws which apply to the banks activities include the option to impose on it financial sanctions with respect to breaches of provisions of the law and of the provisions of secondary legislation (including circulars and directives), which have been issued, or which may be issued, by virtue thereof.

Presented below is a summary description of legislative amendments (including directives issued by the Commissioner of Banks) which are relevant to the reporting period, and which significantly affect, or may significantly affect, the Bank's activities.

American legislation

In 2011, The Foreign Account Tax Compliance Act (FATCA) was enacted in the United States, according to which financial institutions from around the world are required to identify all of their American customers, and to submit reports regarding the data of these customers to the IRS. In January 2013, the final version of regulations on the subject was published, which entered into effect on July 1, 2014.

The Bank is adopting the provisions of the law and the directives issued by the Commissioner of Banks, including registering the Bank on the IRS website. On July 1, 2014, an agreement was signed between the State of Israel and the U.S. Department of the Treasury regarding the implementation of the provisions of FATCA, which regulates the transfer of information regarding accounts which are held in Israel by citizens or residents of the United States to tax authorities in the United States, through the Israel Tax Authority (hereinafter: the "FATCA Agreement").

The Bank submitted the information to the tax authorities in Israel in accordance with the provisions of the law and the regulations, and is applying the provisions of the FATCA.

In accordance with the Bank's policy, the Bank refrains from providing any advice or assistance on the subject of taxation, including any advice related to the manner in which the account is identified as American, or in connection with American taxation, including any advice whatsoever regarding FATCA.

Additionally, in light of the existing legislation in the United States, financial institutions which do not hold an appropriate American license are restricted against providing the entire array of services involving securities to customers who are residents of the United States. Therefore, Bank of Jerusalem is required to provide services involving securities to its customers who are residents of the United States, only in accordance with the directives set forth in American legislation on the matter.

Automatic exchange of financial account information

Standards For Automatic Exchange of Financial Account Information - OECD

The OECD published Standards For Automatic Exchange of Financial Account Information (hereinafter: the "Standard"). This standard was created in the spirit of the American FATCA, and is intended to increase transparency and oversight on the tax reports of residents of OECD countries. The aforementioned standard is comprised of the CRS model, which imposes reporting and identification obligations on financial institutions with respect to accounts which are maintained by them, and of the CAA model, which constitutes the basis for the legal agreements which will be signed between the countries for this purpose. On July 21, 2014, the OECD published a guide for the implementation of the standard.

On November 24, 2015, Israel joined the multilateral treat regarding mutual administrative assistance on tax matters. On May 13, 2016, the General Director of the Tax Authority signed on Israel's addition to the agreement of competent authorities for the implementation of the multilateral treaty regarding automatic exchange of financial information, and for the implementation of the multilateral treaty regarding inter-country reporting.

The aforementioned agreement and standard formalize, inter alia, the types of information which the countries will transfer, the information transfer date, and the financial entities which will be subject to the obligation to transfer information to the tax authorities. The effective date of the agreement and the standard are in January 2017, and the first report by the State of Israel is expected to be in September 2018.

For the purpose of implementing the standard, on November 26, 2015, the Law in Amendment of the Income Tax Ordinance (No. 207) was enacted, which authorized the Ministry of Finance to sign the agreements with the other countries, to require the financial entities to transfer the information to the Tax Authority, and for itself to transfer the information to the relevant countries.

In January 2017, the Draft Income Tax Regulations (Implementation of Uniform Standard Regarding Reporting and Due Diligence With Respect to Information Regarding Financial Accounts), 5767-2017, was passed, which formalized the obligations which apply to the financial institution with respect to the implementation of the provisions of the standard.

Bank of Jerusalem is preparing to comply with the requirements of the standard regarding automatic exchange of information, and is studying the draft regulations on the matter.

Amendment No. 2016-13 to the FASB codification regarding financial instruments - credit losses (CECL - Current Expected Credit Loss)

According to the CECL model, a provision for credit loss should be recognized, in a manner whereby the amortized cost of the financial instrument reflects the amount which the Bank expects to collect. The provision will be based on the expected credit loss throughout the entire lifetime of the asset, and on credit quality by the vintage of the loans. Such data may include, for example, the characteristics of each loan, its creation date, and details regarding the dates and amounts in case of changes in classification, restructuring, accounting write-offs, and collection of amounts which were written off. In addition to the estimated credit loss, it is also necessary to include forecasts regarding future economic events. With respect to future periods for which forecasts cannot be prepared.

The amendments in this update will apply in the United States from annual periods which begin after December 15, 2019. the Banking Supervision Department has not yet determined the manner and date for the implementation of the aforementioned rules; however, the banks were requested, at this stage, to collect certain data for the future adoption of the standard.

Legislative updates and directives issued by the Bank of Israel

The legislative updates and/or directives issued by the Bank of Israel, which are specific to the various operating segments, were described in the relevant chapters of this report. Additionally, provisions of the law and regulation which were received until the publication date of the Bank's annual report for 2016 were described in the Bank's financial reports for 2016.

The Law to Increase Competition and Reduce Concentration in the Banking Industry in Israel (Legislative Amendments), 5767-2017.

On January 31, 2017, the Law to Increase Competition and Reduce Concentration in the Banking Industry in Israel (Legislative Amendments), 5767- 2017, was published.

The law sets forth in legislation the recommendations of the committee for increased competition in common banking and financial services, which was established on June 3, 2015 (the "Strum Committee"), with the aim of removing barriers which currently exist in the banking system, to create new and independent players who can compete in the current banking system, and to encourage competition in the market of banking and financial services for the retail segment.

In parallel, the Banking Supervision Department published a new policy for removing barriers to entry to banking, while defining an outline for the creation of a new bank in Israel. This policy, along with the recommendations of the Strum Committee, apply together the Credit Data Law, which was approved by the Knesset in April 2016. The Credit Data Law determines that a central credit database will be created, under the responsibility of the Bank of Israel, which will contain data regarding households and small businesses. This database will assist in increasing competition in the retail credit market, expand accessibility to credit, and allow the expansion of information which is available to credit providers in their assessment of the customer's credit risk level.

The Bank is evaluating the implications of the law on its activities. Some of the provisions of the law are expected to increase competition in the banking market, and may constitute an opportunity for the Bank. For additional details, see the chapter regarding legislative updates in the report regarding corporate governance and additional details for 2016.

Proper Banking Management Directive 411 - Prohibition on money laundering and terrorism financing

On March 9, 2017, an updated version of Proper Banking Management Directive 411 was published, on the subject of the prohibition on money laundering and the prohibition on terrorism financing, which is intended to adjust the Israeli regulation according to international standards regarding the prohibition on money laundering and the prohibition on terrorism financing of the FATF organization. Presented below are the main additional obligations which apply to the Bank in accordance with the provisions of the amendment:

- In the determination of the bank's policies and procedures, it is necessary to take into account many additional risk factors, as specified in the directive.
- Parameters were established according to which the Bank is required to perform a "risk assessment" with respect to its customers, and additionally, the database which the Bank is required to collect from internal and external entities was specified, in order to formulate the aforementioned risk assessment.
- Automation of the "know your customer" questionnaire is required, and it is to be used as a tool to assess the risk level associated with the activity vis-à-vis the customer, based on the risk variables which were specified in the directive.
- The definition of "publicly exposed customers" was expanded, such that it also includes local public figures, and senior position holders in international organizations. The Bank is required to acquire a personal database of local public figures in order to meet this requirement.
- It is required to develop various controls for the purpose of monitoring suspicious activities in the accounts of the Bank's customers.

Application of the directive: The Bank adopted the directive on January 1, 2018.

Letter from the Commissioner of Banks, on the subject of the management of "small charity funds" in the Bank.

On July 3, 2017, the Commissioner of Banks published a letter to the banks regarding the management of bank accounts for small charity funds. The main provisions of the law are as follows:

1. In the letter, it was defined that a small charity fund will be considered any fund that meets the following cumulative conditions - 1. Financial institution. 2. Manages, on behalf of its customers, financial accounts in which the amount held in each does not exceed USD 50,000. 3. Scope of assets does not exceed USD 50 million.
2. It was determined that the Bank will not prevent opening an account for a small charity fund, which will present approval from the Tax Authority certifying that it has submitted a declaration form (in the wording which was determined by them), with respect to its activities and income.
3. The Bank is required to adjust its policies and procedures, within 90 days, in accordance with the aforementioned directive, and to allow small charity funds to operate their accounts in the Bank. However, the Commissioner instructed that the foregoing will not derogate from the Bank's obligation to manage the risks which are associated with the management of small charity fund accounts.

The Bank adjusted its policies and procedures according to the provisions of the letter.

Amendment to the Provisions of Proper Bank Management Directive 301 - Board of Directors

On July 5, 2017, an amendment was published to Proper Banking Management Directive 301, regarding the "Board of Directors" (the "Amendment").

The amendment includes various updates in connection with the composition of the Board of Directors of a banking corporation, and the professional qualifications which are required in the Board of Directors, as a whole. The amendment includes the following provisions, inter alia:

The Board of Directors of a banking corporation will include, in general, no more than ten directors;

The Board of Directors will determine a policy regarding the maximum tenure period of the Chairman of the Board;

The definition of "bank experience" was expanded, and a higher rate was set of directors in the Board of Directors who are required to have such bank experience (one third of the Board members);

A requirement was established stipulating that at least half of the Board members must have "professional qualifications", and that at least one Board member must have proven experience in the field of information technology.

The amendment also includes updates which are intended to improve the effectiveness of the Board of Directors' work, and to allow it to allocate more time, in its discussions, to issues which are material to the banking corporation.

The amendment entered into effect on the date its publication, excluding provisions which require changes to the composition of the boards of directors of the banking corporations, as stated above (including as regards the reduction of the number of Board members), which will enter into effect on July 1, 2020.

The Bank is preparing to implement the provisions of the amended Proper Banking Management Directive.

The Regulation of Extra-Banking Loans Law (Amendment No. 5), 5777- 2017 (Fair Credit Law)

On August 9, 2017 the Regulation of Extra-Banking Loans Law (Amendment No. 5), 5777- 2017, was published, according to which, inter alia, the name of the law was changed to the "Fair Credit Law". Presented below are the main terms of the amendment to the law:

1. Until the amendment to the law, banks and auxiliary corporations were entirely excluded from its application. Upon the entry into effect of the amendment to the law, anyone providing a loan (including banks and auxiliary corporations) will be included under the definition of "lender". Additionally, a definition was added for the term "loan", as addressed in the law, such that it includes any credit transaction, including bill discounting.
2. The law establishes new standards regarding the maximum cost rate of credit, and regarding the maximum rate of interest in arrears.

   Additionally, the amendment to the law determines "criminal interest", which is the Bank of Israel interest rate (or the LIBOR interest rate, in case of a loan given in foreign currency, plus 30%). Anyone lending above the criminal interest rate will be subject to a prison sentence of up to three years.
3. A similar provision was established to that which is prescribed in the Banking Law (Customer Service), regarding the obligation to send warning before demanding immediate repayment, 21 days before the date of requiring immediate repayment, as stated above.
4. Obligations were expanded with respect to the disclosure and details required in the loan agreement, relative to the previous requirements which applied to extra-banking loans.
5. The amendment to the law establishes, for the first time, penal sanctions, and sanctions were also determined regarding various breaches of the provisions of the Fair Credit Law, including financial sanctions, fines and even prison sentences.

The amendment to the law will enter into effect within 15 months after the date of its publication, and will apply only to loans which were entered into on or after the application date.

The Bank will implement the required adjustments to its documents and policies, in order to implement the provisions of the law.

Amendment to the Securities Law regarding structural changes in the stock exchange

On September 7, 2017, the District Court of Tel Aviv approved an arrangement for the implementation of a structural change in the Tel Aviv Stock Exchange Ltd. (hereinafter: the "Stock Exchange"), following Amendment No. 63 to the Securities Law, regarding changes to the Bank's structure, which was published in the Official Gazette on April 6, 2017. Presented below is a summary of the provisions of the amendment which are relevant to the bank:

The stock exchange underwent a structural change, with Court approval, and was converted from a company limited by guarantee to a company limited by shares, which was divided between the stock exchange member companies.

Due to the fact that the legal amendment determines that the Bank may not hold more than 5% of the shares of the stock exchange, beginning on the date when the Court approved the aforementioned structural change, the holdings of the current stock exchange member company (including the Bank's holdings), beyond a rate of 5%, will be made dormant, and will not confer any rights upon them.

In accordance with the aforementioned directive, the current stock exchange member companies are required to sell any holdings beyond a rate of 5%, by five years after the approval date of the arrangement, or by the date of the IPO and listing for trade of the stock exchange's shares. In accordance with the arrangement for the distribution of the stock exchange's share capital between the stock exchange member companies, 5,390,416 ordinary shares with no par value were allocated in the Bank's name. The Bank was given a share certificate with respect to its holding of those shares. The Bank holds, after the aforementioned structural change, 5.39% of the shares of the stock exchange, and therefore, it will be required to sell 0.39% of the share capital.

As of December 31, 2017, the Bank is presenting these shares in the balance sheet at a cost of 0.

Converting the stock exchange into a for-profit company - According to the amendment, the condition currently prescribed in section 45(b)(2) of the Securities Law, regarding the prohibition against the distribution of profits by the stock exchange, will be erased and canceled. Thus, the stock exchange will become a for-profit company, and may distribute dividends to its shareholders.

On January 18, 2018, the Bank's Board of Directors resolved to to approve the submission of a proposal to the stock exchange, for the sale of all of the Bank's shares on the stock exchange, in accordance with the principles which were specified in the message of the stock exchange dated December 28, 2017, which was addressed to all shareholders on the stock exchange, to sell and transfer their shares in the stock exchange member company (hereinafter: the "Bank's Offer" or the "Offer" and the "Bank's Inquiry", respectively).

Insofar as the Bank's proposal will be accepted, in its entirety, the Bank is expected to receive, in exchange, upon the closing of the transaction, a total of approximately NIS 26,952 thousand, and to record profit in its financial statements in a similar amount (the consideration with respect to the aforementioned shares reflects a price of NIS 500 million on the stock exchange).

At present, there is no certainty that the sale of all or some of the Bank's shares on the stock exchange will be completed, in light of the terms which are included in the Bank's offer, in accordance with the principles which were specified in the message of the stock exchange.

Provisions of Proper Bank Management Directive 329A

On September 13, 2017, Directive 329A was published, on the subject of mortgage advisors.

The directive imposes on the Bank various obligations regarding the manner of conduct vis-à-vis mortgage advisors, including drafting a policy which will address, inter alia, the criteria under which work vis-à-vis certain advisors will be permitted, and work processes of the Bank regarding the provision of housing loans through mortgage advisors. The directive also includes a prohibition on the Bank refusing to act vis-à-vis the customer's representative, in any stage during the process of taking out a housing loan, unless the Bank has information which raises reasonable concerns of harm to the customer or to the Bank.

The directive entered into effect on October 31, 2017. The Bank is implementing this directive.

The Protection of Privacy Regulations (information security), 2017

On May 8, 2017, the Protection of Privacy Regulations (Information Security), 5777-2017, were published, which specify the manner of implementation of the information security obligation under the Protection of Privacy Law, with respect to any entity which manages or processes a database containing personal information. Additionally, the regulations establish organizational mechanisms and material requirements, which are intended to make information security a part of the management routine in the organization.

A draft directive issued by the Privacy Protection Authority (formerly the Israeli Law, Information and Technology Authority), and which is expected to become a binding directive in the coming days, excluded supervised entities, including banks, from the obligation to comply with parts of the regulations.

However, obligations such as the documentation and reporting of security events to the "Registrar of the Privacy Protection Authority", and provisions regarding engagements for outsourcing for the purpose of receiving service which involves access to the database, remain in effect, and will be binding to the banks as well.

The regulations will enter into effect one year after the date of their publication, on May 8, 2018.

Most of the provisions of the regulations are currently being applied in the Bank, by virtue of directives issued by the Banking Supervision Department on the subject. The Bank is preparing for full compliance with the provisions of the applicable regulations.

General Data Protection Regulation (GDPR)

A new law of the European Union, which establishes restrictions and rules regarding the protection of privacy and information security for residents of the European Union. The law will enter into effect on May 25, 2018 (in parallel with the Protection of Privacy Regulations (Information Security), 5777-2017).

The new law will apply to any entity that provides digital services, and collects, as part of the process, behavioral and financial information regarding European Union residents.

The obligations imposed by the GDPR primarily include the obligation to give resident the European Union the right to be forgotten, the obligation to appoint a local representative (which can be fulfilled through a power of attorney, even if the organization has no presence in EU countries), a requirement to appoint the data protection officer separately from the information security officer, a requirement to update contracts and processes vis-à-vis providers which are involved in processing the information, the obligation to update procedures for the processing of data which are collected, in order to adjust them to the new requirements, reporting to the European Union authorities regarding hacks and information leaks within 72 hours, preparation for compliance with audits by the authorities, when required, including full cooperation, and more.

It is noted that the Israeli regulation which currently applies to the Bank on the subject of privacy protection (the Protection of Privacy Law, 5771-1981, and regulations enacted pursuant thereof, as well as some of the directives of the Bank of Israel), already cover a significant part of the GDPR requirements. However, the European directives add additional layers with which the Bank will be required to comply. The Bank is preparing to meet the applicable provisions of the GDPR.

Description of the Bank’s Business Operations by Supervised Operating Segments - Additional Details

The Bank operates through the Bank’s headquarters, branches and subsidiaries, and provides a variety of banking services through five main operating segments. The Bank's operating segments have been classified in accordance with the directives issued by the Commissioner of Banks, according to the types of customers which are included in each of the segments, and do not necessarily correspond to the Bank's organizational structure. The approach of management to the segmentation of the Bank's activities is not significantly different than the approach to the segmentation of supervised segments.

For details regarding the results of operations of the various operating segments, and an analysis of the business activities therein, see the chapter regarding operating segments in the Report of the Board of Directors and Management, and Note 29 to the financial statements.

Presented below is the average number of direct positions attributed to the operating segments:

	2017	2016
Segments	**NIS millions**	
Households	249	236
Private banking	16	16
Small and micro businesses	27	28
Medium and large businesses *	8	9
Institutional entities	33	33
Financial management	8	5
Total	341	327

- This segment includes activities with large businesses of an immaterial scope.

Households segment

In the household segment, the Bank offers a variety of financial services and products for private individuals (excluding those attributed to the private banking segment). The main products which are currently available to the Bank's customers within the framework of this operating segment include: loans for residential apartments and commercial properties, general purpose loans to secure residential apartments, consumer loans and credit cards, checking accounts, deposits and savings, checking facilities, loans for the acquisition of vehicles, capital market activities involving securities and investment advice.

Most of the Bank's customers who belong to this operating segment receive banking services from the Bank by means of the Bank's branches, through digital means, and by means of the Bank's call center, including Interactive Voice Response services.

This segment is divided into two subsegments: housing loans and other.

Presented below is a description of the main products and services offered within the framework of the housing loan subsegment:

- Provision of housing loans and all purpose loans against the pledging of residential homes for individuals and purchasing groups for long periods, with various linkage bases and in accordance with various interest tracks which are determined in accordance with the loan type, customer preferences, the borrower's repayment ability and in accordance with the Bank of Israel's restrictions on housing loans.
- The provision of associated services involving life insurance for borrowers and property insurance along with a mortgage, which are provided in accordance with the directives issued by the Commissioner of Insurance and the Commissioner of Banks, through Ir Shalem Insurance Agency (1996) Ltd., a subsidiary wholly owned and controlled by the Bank (hereinafter: "Ir Shalem").

Presented below is a description of the main products and services offered within the framework of the activity in another subsegment:

- Provision of solo consumer loans for defined time periods to households.
- Issuance of credit cards and debit cards to the Bank's customers.
- Credit facilities and activities in checking accounts which are determined in accordance with the customer's needs and income level.
- Provision of credit for defined periods, against collateral.
- Raising of deposits and savings from households.
- Provision of services involving securities - buying, selling and operating transactions with securities and derivatives in Israel and abroad, in the Bank's branches.
- Investment consulting - provision of consulting services regarding securities to customers in all of the Bank's branches, through licensed consultants.

One of the fundamental goals of the Bank's strategic plan (as described in the Report of the Board of Directors and Management) is the development and expansion of the household segment, through the sale of financial products to the customers of all banks, regardless of the Bank in which the customer's maintains their main checking account.

Presented below are the primary components of the Bank's strategic plan in this operating segment:

- Provision of mortgages which meet the personal needs and preferences of each customer, while focusing on high profitability channels.
- The provision of consumer credit, in various sale channels, with an emphasis on the internet channel, and with no requirement to arrive at the Bank's branches. The Bank is also continuing to improve its credit underwriting system as a decision-supporting tool.
- Raising of deposits from households, through the Bank's branches and/or through the internet.
- Provision of agency and consulting services regarding securities, as a supplementary product to the provision of deposits.

Activities in the household segment are characterized by significant distribution among customers. From the credit provision perspective, the emphasis on households should be noted, where the credit given to each of them is in a relatively low scope, and therefore, the Bank has no significant dependence on any individual customer or on a limited number of customers, the loss of which could significantly affect the operating segment. This segment also has significant weight in raising the Bank's sources through the various channels. The competitor in this segment include all of the banks which operate in the market, as well as extra-banking financial entities and credit card companies.

Presented below are details regarding the significant agreements and collaboration agreements to which the Bank is party, which are relevant to the household segment:

Agreements with the Government of Israel for the provision of loans

The Bank has a framework agreement with the Government of Israel for the provision of loans for which the Government is responsible (including arrangement, execution and collection) to entitled individuals through the Ministry of Construction & Housing. According to the agreements, the Bank is entitled to receive fees at various rates, as set forth in the aforementioned agreements, as well as participation in collection expenses. The last framework agreement was signed in July 2004, is in effect for two years, and is automatically renewed each time for an additional period of one year, save in the event that either of the parties has announced the termination of the agreement 4 months before the end of its period.

Additionally, the Bank signed, in May 2008, an agreement with the Government of Israel regarding loans which will be provided to entitled individuals through the Ministry of Construction & Housing, beginning on the signing date of the agreement. The loans which will be provided to entitled individuals under the agreement are mostly out of the Bank's funds, and under the Bank's responsibility, and to a lesser degree, out of the State's funds, and under the State's responsibility. The Bank is entitled to receive subsidization from the government with respect to loans which it has given out of the Bank's funds, as well as fees at various rates with respect to the loans which it has provided out of State funds. The agreement is in effect for one year, and is automatically renewed each time for a period of one additional year, unless either of the parties has given notice regarding the termination of the agreement 3 months before the end of the agreement period.

The Bank has undertaken towards the Government of Israel that in its provision of services under the aforementioned agreements, it will operate in accordance with government circulars, and that it will indemnify the State of Israel if it has not done so. The Bank works in accordance with the provisions of the government's circulars regarding the loans to entitled individuals, and therefore estimates that the letter of indemnity does not create any significant exposure for the Bank.

Agreement regarding life insurance for borrowers

The Bank is party to agreements from 1992 (as updated, from time to time) with several insurance companies, Ir Shalem, and additional insurance agencies. According to the agreements, the insurance companies undertake to provide life insurance to the borrowers, subject to the terms set forth in the agreements and in the insurance policies. The insurance companies are entitled to a premium, and the Bank and the aforementioned insurance agencies are entitled to receive payment from the insurance companies, in consideration of their services. The Bank is the policyholder and beneficiary. The aforementioned agreements apply only to life insurance policies for borrowers which were prepared until December 31, 2005.

Agreement regarding property insurance for borrowers

On April 1, 2007, agreements were signed between the Bank, Ir Shalem Insurance Agency (1996) Ltd., and several insurance companies, according to which the insurance companies undertook to insure assets which had been pledged in favor of the Bank, subject to the terms set forth in the agreements and in the insurance policies, and to pay a commission to Ir Shalem. The agreements were renewed at the end of March 2015, and were extended until March 31, 2017, and will be renewed on an annual basis. The agreements apply only to structural insurance policies which were prepared with respect to loans which were given until December 31, 2005.

Framework agreement - life insurance and structural insurance as an addition to housing loans

An agreement dated April 10, 2006, which is in effect as of January 1, 2006, between Ir Shalem and an insurance company, according to which the insurer will issue life insurance policies and structural insurance policies (including water damage) as an addition to housing loans which will be given by the Bank to the Bank's customers, and which will be marketed by Ir Shalem through a subsidiary of an insurance corporation.

Agreement with Bank Leumi Le-Israel Ltd.

The Bank is party to an agreement with Bank Leumi le-Israel Ltd. ("Bank Leumi") dated December 1, 2017, which replaced the current agreement dated November 15, 1998, according to which the Bank receives from Bank Leumi clearing services for relays presented in the Bank and relays drawn on the Bank through the Bank Leumi clearing house, in consideration of fees as specified in the agreement.

Agreement with a credit card company

The Bank has an agreement with Israel Credit Cards Ltd. ("C.A.L.") dated August 8, 2002, which reflects the relationship within the framework of the collaboration between the Bank and C.A.L., including as regards the division of responsibilities between the credit card company and the Bank, as well as the commercial terms between the parties.

Private banking segment

The banking activity in the private banking segment provides services and products which are given to private individuals who have a portfolio of financial assets exceeding NIS 3 million.

This segment is divided into two subsegments: housing loan and other. Similarly to the household and products and services segment, they are also similar to those in the household segment, including adjustment to the characteristics of customers.

The Bank views this operating segment as an important component of its business operations, and accordingly, acts with the aim of, inter alia:

- Preserving the status and reputation which the Bank has created among Jewish communities abroad.
- Ensuring the implementation of all regulatory provisions, including the evaluation and identification of customers' sources of income, and signing them on the relevant documents and declarations which are required.

The Bank invests resources in unique professional training for the bankers who work vis-à-vis the customers in the segment. The Bank also has an advantage which is reflected on the level of the service and availability of these bankers, who are highly familiar with the culture of this segment's customers, and accordingly, have the ability to create a personal connection with them.

The significant agreements and collaboration agreements to which the Bank is party, which are relevant to the private banking segment, are as specified in the section regarding the household segment above.

Business segment

The business segment is divided into two subsegments, as follows:

Small and micro businesses segment - businesses with a turnover of less than NIS 50 million.

Medium and large business segment - businesses whose turnover is greater than or equal to NIS 50 million (the scope of activities with large businesses is immaterial).

These subsegments provide banking services to business customers in various sectors:

Construction and real estate - The Bank's real estate sector mostly involves the accompaniment of residential construction projects, for the most part according to the closed accompaniment method, including, inter alia, the financing of urban renewal projects, initiated projects, removal-construction transactions, and financing of purchasing groups. The vast majority of the real estate portfolio is implemented in collaboration with insurance companies which issue securities in accordance with the Sales Law for accompanied projects, and sometimes also through collaboration involving financial credit.

Other - Through the retail division, credit is managed to finance projects in the solar energy segment (management of existing credit only), whether by the Bank independently, or through joint financing with financial entities, as well as commercial loans. According to the Bank's credit policy, this credit has been in an ongoing downtrend in recent years, and the balances thereof, as of December 31 2017, are immaterial.

Activities in the construction and real estate segment primarily include the acquisition of land and the construction of residential projects. Projects in the field of urban renewal and the provision of guarantees of various types, according to the requirements of the transaction. Financing for the construction of residential projects is for the most part given through the closed accompaniment method, according to the specific needs of each project, and in accordance with its characteristics. In the closed accompaniment method, the project is separated from the customer's other activities. A designated account is opened for the project, which is used for the purpose of that project only, to which are deposited the funds which are received from the buyers of residential units, as well as equity and the Bank's credit. These funds are used to perform the project and are released in accordance with the rate of progress on construction, in accordance with reports issued by an expert supervisor. As part of the financing of the construction project, the Bank provides performance guarantees, monetary guarantees, and guarantees in accordance with the Sale Law to individuals who buy units in the project. The land and receipts are pledged in favor of the Bank. In most transactions, collateral in accordance with the Sale Law is issued by insurance companies with whom the Bank has a collaboration agreement.

The Bank collaborates with financial entities for the purpose of optimal usage of capital and achieving profitable returns, while distributing credit risks and fulfilling the required regulatory restrictions.

The difference between the various types of collaboration with financial entities is reflected in the type of credit or collateral which is provided by the financial entity: provision of collateral in accordance with the Sale Law; Provision of collateral to land owners in a combination transaction; and the provision of financial credit, in accordance with the operator model.

The operator model in the real estate and construction segment is implemented in accordance with the following principles:

The project is evaluated and approved by the institutions of the financial partner; The collateral in the project is provided pari-passu, where the distribution ratio in case of realization of the collateral was predetermined between the Bank and the financial partner; The ratio of credit provision amounts is maintained throughout the lifetime of the project. The release of surpluses which are received with respect to the project to the entrepreneur is performed in the Bank's discretion, in accordance with the surplus release formula which is approved by the Bank, and included in the collaboration agreement.

Management of the project according to this model is performed by the Bank in its independent judgment, and in accordance with conventional banking standards; Monitoring reports regarding the project are submitted by the supervisor to the Bank and to the additional entity, whereby the Bank reports to the additional entity regarding extraordinary events in the project.

As part of the strategic plan (as described in the report of the Board of Directors and management), the Bank works to implement a selective segmental policy in the segment involving the provision of credit to construction companies and residential real estate, with an emphasis on moderately increasing the volume of the managed portfolio, while reducing the Bank's relative share in the portfolio, and without increasing the current risk level. For this purpose, the Bank is working to create collaborations between the Bank and insurance companies and other institutional entities, in order to provide credit for the accompaniment of projects (the operator model) and issuing collateral in accordance with the Sale Law (Apartments) and other guarantees. This strategy allows the Bank to increase the scope of projects which it is handling, in accordance with the Bank's policy, use of accumulated expertise, engagement in large and complex transactions and distribution of risk, while accordingly increasing return on equity resulting from this activity, and reducing risk.

The Bank also works to direct risk and inputs towards the financing of projects (accompaniment of residential construction), while reducing the scope of commercial credit to finance the operating activities of small companies and businesses, as much as possible, and reducing the scope of credit given to projects in the solar energy segment.

The Bank's credit portfolio is distributed, and the Bank is not dependent on any individual customer or on a limited group of customers. The credit balance of the Bank's customers does not overlap with the restriction of any single borrower. The distribution of the portfolio is also made possible through the Bank's strategic collaboration with insurance companies, regarding the provision of monetary credit (operator model), and the issuance of policies in accordance with the Sales (Apartments) Law, as stated above.

The competition between the banks over high-quality customers in the real estate segment is reflected in the rates of equity invested in the project, the transaction structure, fee rates, interests on credit and the level of customer service. In recent years, some of the insurance companies created an independent unit to accompany construction, thereby increasing competition in the industry.

The Bank's primary methods for dealing with competition are based on the relationships which it has built over the years and the Bank's existing customer base, which constitute a source of leverage for the Bank's ongoing activities. Additionally, the Bank sometimes uses the surplus of sources in existing projects to leverage future activities in new projects initiated by its customers. The Bank applies a mechanism to determine the scope of equity which is required in projects, which is derived from the rate of performance and sales in the project. The aforementioned mechanism incentivizes early sales in the projects, thereby reducing the risk level in these projects.

Collaboration agreements

The Bank has collaborations with several insurance companies for the provision of monetary credit and/or for the issuance of insurance policies by them to the buyers of apartments in residential projects, in which financing was provided by the Bank, through the closed accompaniment method (the issuance of policies is performed by the insurance companies, as required under the Sales (Apartments) Law). The engagements with insurance companies include arranging the collaboration between the Bank and the insurance companies on the following subjects: responsibility for the ongoing management of the project and submission of reports, receipt and release of collateral and initiating measures for the realization of pledges and credit relationships between the entities.

Institutional segment

The institutional entities segment in the deposits segment serves a wide variety of customers as part of the activities to recruit and retain sources. These customers include insurance companies, stock exchange member companies, financial institutions and mutual funds. Most of the Bank's institutional customers have a strong link to the capital market, and are managed directly by the institutional desk in the financial management department.

Most of the activities of these entities with the Bank involve investment in deposits. The deposits are managed in all periods in Israeli currency and in foreign currency. The deposit amounts are generally significant, over NIS 5 million. The activity primarily involves deposits for periods shorter than one year; however, there are cases in which the deposit is for longer term deposits.

Most of the competition in the institutional entities segment is vs. the various banks in Israel. Most of the institutional investors work vis-à-vis the foreign currency trading rooms in Israel, and receive competitive prices on deposits in NIS and in foreign currency. Additionally, the main alternative vis-à-vis the banks and the deposit area is investment in the capital market, which allows most of them to receive high quotes on their liquidity surpluses.

Financial management segment

Summary description of the segment's characteristics

The activities in this segment include the Bank's financial management, and do not include activities vis-à-vis the Bank's customers. The main operating areas in this segment are:

- Management of the Bank's available financial capital.
- Management of assets and liabilities.
- Management of the Bank's nostro portfolio.
- Management of the exposures to market risks, including base, interest and liquidity exposures.
- Banking activities in Israel and abroad.

The activities in this segment are focused on the financial division. The main financial exposures in the Bank are managed are created in the banking portfolio as an inseparable part of the Bank's business operations. In general, the Bank aims to minimize its financial exposures, except in cases where, according to our estimate, there is a clear advantage to maintaining the exposure to one or more market factors. The Bank manages, on an ongoing basis, the positions in the various linkage segments through the various financial tools which are available to it, in accordance with the risk management policy which was determined by the Bank's Board of Directors, in consideration of economic developments and of the Bank's business environment. The Bank maintains a unit responsible for the measurement and estimation of the development of exposures on a continuous basis, and the various exposures are reported to the Bank's Board of Directors as part of the ordinary course of business.

Additionally, the Bank initiates actions involving investment in and hedging of nostro portfolios, which are used for the following activity types:

- Activity intended to hedge against deposits which are deposited in the Bank for short, medium and long periods, as well as investments against the Bank's equity.
- Activity involving investments in bonds, primarily with the aim of achieving surplus returns on the Bank's liquid balances.
- Trading activity which is characterized by short-term investments, primarily in governmental securities, both in the primary market and in the secondary market.
- Investing activities with respect to non-governmental securities is limited and specific, in accordance with the Bank's credit policy.
- As part of liquidity management, and in consideration of the restrictions were which determined by the Board of Directors, liquidity surpluses are deposited in the Bank of Israel and in banks in Israel and around the world. For this purpose, and as part of the Bank's activities in foreign currency, the Bank has credit facilities Board of Directors in Israel, which it uses, from time to time, in accordance with its current needs. These facilities are monitored on an ongoing basis as part of the Bank's management of counterparty risk. For details regarding the liquidity model, counterparty risk and restrictions of management and Board of Directors, see the chapter regarding risks and risk management methods.

The investment portfolios and financial products are evaluated on an ongoing basis, in consideration of the macro-economic forecasts regarding exchange rates, short and long term interest rates, inflation, growth and yield curves, and in accordance with the Bank's risk appetite at a given moment.

Since the end of 2014, the Bank has significantly reduced its exposure to the various market risks, based on the assessment that the risk in the markets is inappropriately priced. Accordingly, the increase in market volatility and the decrease in the value of financial assets in recent months had a minimal impact on the Bank,

The Bank's business plan includes continued maintenance of a conservative position and low exposures to the various market factors, based on the assessment that the volatility in capital markets will continue in the coming months, and in light of the economic uncertainty.

Ratings provided for the Bank's liabilities by Standard & Poor's Maalot

On May 9, 2017, the rating company Standard & Poor's Maalot announced that it was leaving the Bank's rating as ilA+, and changed the rating outlook from "stable" to "positive".

The rating of the deferred liability notes which were issued by the subsidiary Jerusalem Finance & Issuance Ltd is a rating of ilA-.

These deferred liability notes are recognizable as Tier 2 capital in accordance with the transitional provisions of Basel III.

The rating of the contingent convertible bonds (CoCo) which are recognizable as Tier 2 capital in accordance with the provisions of Basel III is ilBBB+.

Annexes

Annex 1 - Rates of Interest Income and Expenses on a Consolidated Basis and Analysis of Changes in Interest Income And Expenses

Annex 2 - Quarterly Consolidated Statement of Income - Multi-Quarterly Information and Consolidated Balance Sheet at Quarter End - Multi-Quarterly Information

Annex 3 - Consolidated Statement of Income for the Last Five Years

Annex 4 - Consolidated Balance Sheet for the Last Five Years

Gil Topaz
CEO

Zeev Nahari
Chairman of the Board of Directors

February 28, 2017

Annexes

Annex I - Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses

Part A - Average Balances and Interest Rates - Assets

Reported amounts

	For the year ended December 31, 2017			For the year ended December 31, 2016			For the year ended December 31, 2015		
	Average balance(2)	Interest income	Income rates Percent	Average balance(2)	Interest income	Income rates Percent	Average balance(2)	Interest income	Income rates Percent
Interest bearing assets									
Credit to the public (3)	9,617.5	469.0	4.88	9,962.7	432.3	4.34	9,683.8	393.6	4.06
Deposits in banks	179.4	-	-	172.0	0.1	0.06	297.7	0.2	0.07
Deposits in central banks	1,340.5	1.3	0.10	1,005.6	0.9	0.09	1,588.2	1.9	0.12
Available for sale bonds (4)	657.0	2.7	0.41	809.3	3.1	0.38	917.5	9.1	0.99
Held for trading bonds(4)	494.9	0.5	0.10	787.5	1.0	0.13	446.0	1.0	0.22
Other assets	3.4	-	-	3.4	0.9	26.47	6.4	0.5	7.81
Total interest bearing assets	12,292.7	473.5	3.85	12,740.5	438.3	3.44	12,939.6	406.3	3.14
Receivables with respect to non-interest bearing credit cards	31.5	-	-	34.4	-	-	35.4	-	-
Other non-interest bearing assets (5)	1,126.3	-	-	1,415.4	-	-	1,004.7	-	-
Total assets	13,450.5	473.5	3.52	14,190.3	438.3	3.09	13,979.7	406.3	2.91

Notes at the end of this annex.

Annex 1 - Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Part B - Average balances and interest rates - liabilities and capital

Reported amounts in millions of NIS

	For the year ended December 31, 2017			For the year ended December 31, 2016			For the year ended December 31, 2015		
	Average balance(2)	Interest expenses	Income rates Percent	Average balance(2)	Interest expenses	Income rates Percent	Average balance(2)	Interest expenses	Income rates Percent
Interest bearing liabilities									
On demand	1,489.5	0.7	0.05	1,543.5	1.2	0.08	1,439.2	2.4	0.17
For fixed periods	7,590.2	73.7	0.97	7,924.6	63.0	0.80	8,117.0	45.9	0.57
Total public deposits	9,079.7	74.4	0.82	9,468.1	64.2	0.68	9,556.2	48.3	0.51
Deposits from banks	41.6	1.9	4.57	41.5	1.7	4.10	45.3	1.6	3.53
Government deposits	0.4	-	-	-	-	-	-	-	-
Securities which were lent or sold within the framework of a repurchasing agreement	368.7	0.3	0.08	637.4	0.4	0.06	364.3	0.4	0.11
Bonds	1,478.4	33.5	2.27	1,575.1	29.0	1.84	1,533.0	21.9	1.43
Total interest bearing liabilities	**10,968.8**	**110.1**	**1.00**	**11,722.1**	**95.3**	**0.81**	**11,498.8**	**72.2**	**0.63**
Non-interest bearing public deposits	1,498.2	-	-	1,472.1	-	-	1,537.3	-	-
Other non-interest bearing liabilities (7)	164.4	-	-	196.5	-	-	170.1	-	-
Total liabilities	**12,631.4**	**110.1**	**0.87**	**13,390.7**	**95.3**	**0.71**	**13,206.2**	**72.2**	**0.55**
Total capital resources	**819.1**			**799.6**			**773.5**		
Total liabilities and capital resources	**13,450.5**		**-**	**14,190.3**		**-**	**13,979.7**		**-**
Interest margin			**2.85**			**2.63**			**2.51**
Net returns (8) on interest bearing assets	**12,292.7**	**363.4**	**2.96**	**12,740.5**	**343.0**	**2.69**	**12,939.6**	**334.1**	**2.58**

Notes at the end of this annex.

Annex 1 - Rates of interest income and expenses - of the Bank and its consolidated companies [1] and analysis of changes in interest income and expenses (Cont.)

Part C - Average balances and interest rates - additional information regarding interest bearing assets and liabilities which are attributed to the activity in Israel

Reported amounts in millions of NIS

	For the year ended December 31, 2017			For the year ended December 31, 2016			For the year ended December 31, 2015		
	Average balance[2]	Interest income / (expenses)	Income / expense rates	Average balance[2]	Interest income / (expenses)	Income / expense rates	Average balance[2]	Interest income / (expenses)	Income / expense rates
			Percent			Percent			Percent
Unlinked Israeli currency									
Total interest bearing assets	7,695.3	289.7	3.76	7,632.8	275.5	3.61	7,765.4	255.7	3.29
Total interest bearing liabilities	7,145.1	(49.7)	(0.70)	7,087.8	(41.2)	(0.58)	6,898.9	(37.9)	(0.55)
Interest margin			**3.06**			**3.03**			**2.74**
CPI-linked Israeli currency									
Total interest bearing assets	3,281.2	146.8	4.47	3,477.2	125.0	3.59	3,466.3	110.8	3.20
Total interest bearing liabilities	2,912.7	(52.7)	(1.81)	3,424.9	(45.9)	(1.34)	3,467.7	(29.5)	(0.85)
Interest margin			**2.66**			**2.25**			**2.35**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest bearing assets	1,316.2	37.0	2.81	1,630.5	37.8	2.32	1,707.9	39.8	2.33
Total interest bearing liabilities	911.0	(7.7)	(0.85)	1,209.4	(8.2)	(0.68)	1,132.2	(4.8)	(0.42)
Interest margin			**1.96**			**1.64**			**1.91**
Total activities in Israel									
Total interest bearing assets	12,292.7	473.5	3.85	12,740.5	438.3	3.44	12,939.6	406.3	3.14
Total interest bearing liabilities	10,968.8	(110.1)	(1.00)	11,722.1	(95.3)	(0.81)	11,498.8	(72.2)	(0.63)
			2.85			**2.63**			**2.51**

Notes at the end of this annex.

Annex 1 - Rates of interest income and expenses - of the Bank and its consolidated companies (1) and analysis of changes in interest income and expenses (Cont.)

Part D - Analysis of Changes in Interest Income and Expenses

Reported amounts in millions of NIS

	For the year ended December 31, 2017, as compared with the year ended December 31, 2016			For the year ended December 31, 2016, as compared with the year ended December 31, 2015		
	Increase (decrease) due to change		Net change	Increase (decrease) due to change		Net change
	Amount	Price		Amount	Price	
	NIS millions			NIS millions		
Interest bearing assets						
Credit to the public in Israel	(16.8)	53.5	36.7	12.1	26.6	38.7
Other interest bearing assets in Israel	(0.6)	(0.9)	(1.5)	(1.4)	(5.3)	(6.7)
Total interest income	**(17.4)**	**52.6**	**35.2**	**10.7**	**21.3**	**32.0**
Interest bearing liabilities						
Public deposits in Israel	(3.2)	13.4	10.2	(0.4)	16.3	15.9
Other interest bearing liabilities	(2.4)	7.0	4.6	0.8	6.4	7.2
Total interest expenses	**(5.6)**	**20.4**	**14.8**	**0.4**	**22.7**	**23.1**

(1) The figures are presented after taking into account the effects of hedging derivative instruments.
(2) Based on balances as of the start of the month (in the unlinked Israeli currency segment - based on daily balances).
(3) Before deducting the average balance-sheet balance of provisions for credit losses. Including impaired debts which do not accrue interest income.
(4) The average balance of bonds held for trading and of bonds available for sale includes the deduction of the average balance of unrealized profits/losses from adjustments to fair value of bonds held for trading and profits/losses with respect to bonds available for sale, which are included in equity under other comprehensive income, in the item for "adjustments with respect to the presentation of available for sale securities at fair value", for the years 2017, 2016 and 2015, in the amount of 1.3, (17.5) and 2.6, respectively.
(5) Including derivative instruments and other non-interest bearing assets, less the provision for credit losses.
(6) Fees in the amount of NIS 1.5, 4.5 and 13.9 million were included under interest income in the years 2017, 2016 and 2015, respectively.
(7) Including derivative instruments.
(8) Net returns - interest income, net, divided by total interest bearing assets.
(9) The change attributed to the change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to the change in price was calculated by multiplying the old quantity by the change in price.
(10) The rate of income is due to income which was received on a cash basis, and which was recognized during the reporting period.
(11) Reclassified.

Annex 2 - Quarterly Consolidated Statement of Income - Multi-Quarterly Information

Reported amounts in millions of NIS

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	122.3	101.8	142.7	106.7	102.2	126.7	127.4	82.0
Interest expenses (income)	27.6	14.1	48.4	20.0	18.0	39.4	37.5	0.4
Interest income, net	**94.7**	**87.7**	**94.3**	**86.7**	**84.2**	**87.3**	**89.9**	**81.6**
Expenses with respect to credit losses	4.8	7.2	13.9	11.0	7.9	7.1	3.1	12.3
Interest income, net, after expenses with respect to credit losses	**89.9**	**80.5**	**80.4**	**75.7**	**76.3**	**80.2**	**86.8**	**69.3**
Non-interest income								
Non-interest financing income (expenses)	(1.1)	2.4	(1.9)	-	4.9	(1.9)	0.3	32.1
Fees	27.2	28.2	27.2	32.0	29.4	29.8	31.0	30.7
Other income	2.9	2.9	2.8	2.9	0.7	2.8	2.9	5.1
Total non-interest income	**29.0**	**33.5**	**28.1**	**34.9**	**35.0**	**30.7**	**34.2**	**67.9**
Operating and other expenses								
Payroll and associated expenses	45.4	43.3	44.5	43.2	42.1	42.8	43.8	44.7
Maintenance and depreciation of buildings and equipment	24.9	23.7	23.6	23.4	22.6	22.9	22.6	21.8
Other expenses	33.7	28.5	32.5	33.1	32.4	30.1	31.0	29.7
Total operating and other expenses	**104.0**	**95.5**	**100.6**	**99.7**	**97.1**	**95.8**	**97.4**	**96.2**
Profit before taxes	**14.9**	**18.5**	**7.9**	**10.9**	**14.2**	**15.1**	**23.6**	**41.0**
Provision for taxes	4.0	6.0	1.9	3.3	8.1	5.2	6.4	18.6
Net profit	**10.9**	**12.5**	**6.0**	**7.6**	**6.1**	**9.9**	**17.2**	**22.4**
Earnings per share (in NIS)								
Basic and diluted net earnings per share (NIS)	**0.15**	**0.18**	**0.09**	**0.11**	**0.09**	**0.14**	**0.24**	**0.32**

* Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F.
The notes to the financial statements constitute an inseparable part thereof.

Annex 2 - Quarterly Consolidated Statement of Income - Multi-Quarterly Information

Reported amounts in millions of NIS

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Assets								
Cash and deposits in banks	2,659.0	1,916.3	2,307.9	2,723.1	2,522.0	2,335.9	2,487.7	2,341.8
Securities	858.3	1,020.9	1,387.0	1,108.7	1,434.5	1,754.2	1,574.0	1,099.9
Credit to the public, net	9,670.7	9,749.5	9,668.8	9,590.3	9,790.1	10,131.2	10,156.9	10,009.9
Buildings and equipment	150.6	148.2	153.0	158.4	157.8	153.5	155.2	154.7
Intangible assets	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1
Assets with respect to derivative instruments	64.0	54.8	77.3	89.9	151.1	141.5	129.9	61.7
Other assets	150.6	150.4	145.2	145.9	145.7	137.7	125.2	125.7
Total assets	**13,553.6**	**13,040.6**	**13,739.8**	**13,817.0**	**14,202.0**	**14,654.9**	**14,629.9**	**13,794.8**
Liabilities and capital								
Public deposits	10,560.1	10,462.4	10,669.3	10,797.9	10,868.3	11,048.2	11,165.1	10,832.6
Deposits from banks	33.6	37.8	37.5	36.8	36.5	40.7	40.1	39.5
Government deposits	0.5	-	0.1	0.2	1.1	-	-	-
Lent securities	34.4	147.0	546.0	410.8	590.4	892.7	687.1	347.1
Bonds and deferred liability notes	1,872.2	1,366.2	1,445.6	1,501.1	1,582.1	1,568.6	1,634.1	1,566.7
Liabilities in respect of derivative instruments	66.2	58.0	77.1	87.7	146.7	154.6	143.8	64.4
Other liabilities	149.3	140.1	148.1	169.0	168.6	141.4	151.7	154.2
Total liabilities	**12,716.3**	**12,211.5**	**12,923.7**	**13,003.5**	**13,393.7**	**13,846.2**	**13,821.9**	**13,004.5**
Equity	**837.3**	**829.1**	**816.1**	**813.5**	**808.3**	**808.7**	**808.0**	**790.3**
Total liabilities and capital	**13,553.6**	**13,040.6**	**13,739.8**	**13,817.0**	**14,202.0**	**14,654.9**	**14,629.9**	**13,794.8**

* Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Notes 1.D.1. and 1.D.2.

Annex 3 - Consolidated Statements of Income - Multi-Annual Data

Reported amounts in millions of NIS

	December 31					
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
Interest income	473.5	438.3	406.3	458.4	543.2	555.7
Interest expenses	110.1	95.3	72.2	141.4	286.0	324.8
Interest income, net	**363.4**	**343.0**	**334.1**	**317.0**	**257.2**	**230.9**
Expenses with respect to credit losses	36.9	30.4	40.4	18.4	54.7	36.0
Interest income, net, after expenses with respect to credit losses	**326.5**	**312.6**	**293.7**	**298.6**	**202.5**	**194.9**
Non-interest income						
Non-interest financing income	(0.6)	35.4	0.9	18.1	14.2	22.6
Fees	114.6	120.9	124.5	118.3	91.4	90.2
Other income	11.5	11.5	17.3	11.5	0.9	0.6
Total non-interest income	125.5	167.8	142.7	147.9	106.5	113.4
Operating and other expenses						
Payroll and associated expenses	176.4	173.4	166.3	171.2	152.9	141.6
Maintenance and depreciation of buildings and equipment	95.6	89.9	81.8	71.2	57.6	47.0
Other expenses	127.8	123.2	117.7	110.0	82.1	69.8
Total operating and other expenses	**399.8**	**386.5**	**365.8**	**352.4**	**292.6**	**258.4**
Profit before taxes	52.2	93.9	70.6	94.1	16.4	49.9
Provision for taxes	15.2	38.3	22.0	29.1	3.7	16.7
Net profit	**37.0**	**55.6**	**48.6**	**65.0**	**12.7**	**33.2**
Basic and diluted net earnings per share (NIS)	0.52	0.79	0.69	0.92	0.18	0.47
Other comprehensive income (loss) (after tax impact)	**(0.9)**	**(17.5)**	**2.1**	**12.6**	**0.9**	**12.8**
Total comprehensive income	**36.1**	**38.1**	**50.7**	**77.6**	**13.6**	**46.0**

(1) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.G. to the financial statements.

(2) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.

Annex 4 - Consolidated Balance Sheet for the Last Five Years

Reported amounts in millions of NIS

	December 31				
	2017	2016	2015	2014	2013
Assets					
Cash and deposits in banks	2,659.0	2,522.0	2,071.9	3,278.0	2,833.4
Securities	858.3	1,434.5	1,779.5	902.4	676.6
Credit to the public	9,772.4	9,892.6	10,000.9	9,674.4	9,735.5
Provision for credit losses	(101.7)	(102.5)	(111.6)	(107.9)	(108.9)
Credit to the public, net	9,670.7	9,790.1	9,889.3	9,566.5	9,626.6
Buildings and equipment	150.6	157.8	156.9	149.7	139.5
Intangible assets and goodwill	0.4	0.8	1.2	1.6	2.0
Assets with respect to derivative instruments	64.0	151.1	195.1	40.4	21.7
Other assets	150.6	145.7	125.6	146.2	160.0
Total assets	13,553.6	14,202.0	14,219.5	14,084.8	13,459.8
Liabilities and capital					
Public deposits	10,560.1	10,868.3	11,019.0	10,977.2	11,071.1
Deposits from banks	33.6	36.5	39.4	42.5	51.5
Government deposits	0.5	1.1	0.8	5.0	0.7
Securities which were lent or sold within the framework of a repurchasing agreement	34.4	590.4	387.3	582.7	27.5
Bonds and liability notes	1,872.2	1,582.1	1,634.8	1,503.1	1,406.0
Liabilities in respect of derivative instruments	66.2	146.7	195.2	39.0	12.3
Other liabilities	149.3	168.6	159.0	184.9	200.2
Total liabilities	12,716.3	13,393.7	13,435.5	13,334.4	12,769.3
Equity	837.3	808.3	784.0	750.4	690.5
Total liabilities and capital	13,553.6	14,202.0	14,219.5	14,084.8	13,459.8

(1) Restated due to the adjustment of the asset value of assets which were acquired by the Bank, and the creation of a margin from an acquisition at an opportune price in the amount of NIS 57.1 million. In accordance with a directive issued by the Banking Supervision Department, this profit was recorded as deferred income which will be amortized over a period of 5 years, using the straight line method (NIS 11.4 million per year) from the acquisition date on December 15, 2013, and is included in the statement of income, under the item for other income.

(2) Restated in light of the retrospective adoption of generally accepted accounting principles in the United States regarding employee rights, and the retrospective adoption due to directives issued by the Banking Supervision Department regarding the discounting of software costs. For details, see Note 1.D.1. and 1.D.2. to the financial statements.

(3) Restated in order to retrospectively reflect the required correction to the classification of held to maturity bonds as available for sale bonds. For details, see Note 1.F. to the financial statements.

Periodic Report

2017 Report for

Bank of Jerusalem Ltd. and its Consolidated Companies

Bank name: Bank of Jerusalem Ltd.
Company No. at the Registrar of Companies: 520025636
Address: 2 Herbert Samuel St., Jerusalem 91022.
Telephone: 076-8096010; Fax: 076-8096019; Email: carmelf@bankjerusalem.co.il

Periodic Report for 2017

In accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970, the Bank's periodic report for 2017 is hereby submitted.

Date of the financial statements **December 31, 2017**

Date of the report **February 27, 2018**

Regulation 9 - Financial statements

Attached to this periodic report, as an inseparable part thereof, are the Bank's financial reports, and the opinion of the Bank's auditor, dated February 27, 2018.

Regulation 10C - Use of consideration from issuance of securities

During the reporting period, no securities were issued by the Bank in accordance with a prospectus.

Regulation 11, 12, 13 - Investments in subsidiaries investments and related companies as of December 31, 2017, changes in investments in investee companies during the reporting period, revenue of subsidiaries and related companies, and the Bank's revenue therefrom

Name of company	Tomer Jerusalem Ltd.	Ir Shalem Insurance Agency (1996) Ltd.	Jerusalem Investment Portfolio Management Ltd. (1)	Bank of Jerusalem Trust Company Ltd.	Jerusalem Capital Markets Capital Markets Fund Management (1980) Ltd. (2)	Jerusalem Underwriting and Issuances Ltd. (3)	Jerusalem Finance & Issuance (2005) Ltd.;
Number of shares	970,000	10,000	5,726,000	31,300	1,050,000	2,350,000	100
Share class and par value	Ordinary share, NIS 0.001	Ordinary share, NIS 1	Ordinary share, NIS 1	Ordinary share, NIS 1	Ordinary share, NIS 1	Ordinary share, NIS 1	Ordinary share, NIS 1
Total par value in NIS	970	10,000	5,726,000	31,300	1,050,000	2,350,000	100
Book value (NIS thousands)	164,450	174,256	35,307	514	1,552	6,547	26,036
Investment in liability certificates	-	-	-	-	-	-	-
Changes in investment in liability certificates during the reporting year (NIS thousands)	-	-	-	-	-	-	-
Balance of loans (NIS thousands)	-	-	-	-	-	-	-
Changes in loans during the reporting year (NIS thousands)	-	-	-	-	-	-	-

The shares of subsidiaries are not listed on the stock exchange. The Bank holds, in the subsidiaries, 100% of equity, voting rights and the authority to appoint directors, excluding 27 shares with a par value of NIS 0.001 each, of Tomer Jerusalem Ltd., which are held by Zalman Shoval (a director of the Bank and a relative of the controlling shareholder). During 2017, no changes were made to investment in stocks.

Notes:

(1) The Company sold its portfolio management activity, and discontinued its portfolio management activity.

(2) The Company discontinued its engagement in the management of joint investment trust funds.

(3) The Company discontinued its engagement in issuance underwriting and consulting.

Regulation 13 - Revenues of subsidiaries and related companies, and the Bank's revenue therefrom in 2016:

Name of company	Tomer Jerusalem Ltd.	Ir Shalem International Insurance Agency (1996) Ltd.;	Jerusalem Investment Portfolio Management Ltd.	Bank of Jerusalem Trust Company Ltd.	Jerusalem Capital Markets Fund Management (1980) Ltd.	Jerusalem Underwriting and Issuances Ltd.	Jerusalem Finance & Issuance (2005) Ltd.
Profit (loss) from operating activities before taxes on income	8,674	5,780	87	(11)	(3)	7	40
Provision (benefit) for taxes	1,989	1,381	28	-	-	-	14
Operating profit after taxes	6,685	4,399	52	(11)	(3)	7	26
Non-operating profit	70	-	-	-	-	-	-
Net profit (loss)	6,755	4,399	52	(11)	(3)	7	26
Additional data:							
Management fees received by the Bank with respect to 2017	-	94	-	18	-	7	75
Interest which the Bank received / is entitled to receive with respect to 2017	-	-	-	-	-	-	-

Regulation 14 - List of loans

Composition of balance of loans - See Note 30 to the financial statements.

List of loans under the Bank's responsibility - See Note 30 to the financial statements.

Regulation 20 - Trading on the stock exchange - Securities listed for trading, dates and reasons for suspension of trading

During the reporting period, no securities of the Bank were listed for trading; During the reporting period, suspensions of trading on the stock exchange occurred with respect to the Bank's securities, on the publication dates of financial statements (February 28, 2017, May 15, 2017, November 14, 2017 and August 10, 2017).

Regulation 21 - Remuneration to interested parties and corporate officers

A. For details regarding remuneration to interested parties and corporate officers for 2017, see Part A, corporate governance.

B. Payments which were paid to all of the Bank's Board members (excluding the Chairman of the Bank's Board of Directors), and which did not deviate from the conventional practice, amounted, in 2017, to a total of NIS 1.4 million. For details regarding the salary of the Chairman of the Board, see Part A of the Board of Directors' report.

Regulation 21A - Control of the Corporation

Mrs. Kena Shoval is the controlling shareholder of the Bank, and holds 74.94% of the issued and paid-up share capital of Exports Investment Co. Ltd., which is a public company whose shares are traded on the Tel Aviv Stock Exchange Ltd. (hereinafter: "Export"). Export holds 86.23% of the Bank's issued and paid-up share capital. Additionally, Mrs. Shoval holds 0.34% of the Bank's issued and paid-up share capital, through the companies K. Shoval Holdings Ltd.; ICC Israel Capital Corporation Ltd.; Financial Trust Corporation Ltd. and Foreign Trust Ltd., which are private companies owned and controlled by Mrs. Kena Shoval.

In accordance with a legal opinion which was presented to the Bank, Mr. Zalman Shoval (the husband of Mrs. Kena Shoval, and a director in the Bank) is considered a controlling shareholder in accordance with the provisions of the Securities Law, 5728-1968, and in accordance with the provisions of the Banking Law (Licensing), 5741-1981.

Regulation 22 - Transactions with controlling shareholders

For details regarding payments and transactions with interested parties and related parties, see Note 34 to the financial statements.

For details regarding transactions with controlling shareholders, see the chapter "transactions with controlling shareholders" in the Board of Directors' report.

Regulation 24 - Holdings of interested parties and corporate officers

See **Annex A,** attached.

Regulation 24A - Registered capital, issued capital and convertible securities

Registered capital: The Bank's registered capital is NIS 100,250,000 par value.

Issued capital: The Bank's issued capital is NIS 70,517,741 par value.

Shares: All of the Bank's shares are ordinary shares, registered by name, with a par value of NIS 1 each.

Regulation 24B - Register of shareholders

See **Annex B**, attached.

Regulation 25A - Registered address

The registered address, email address, telephone and fax details are as specified in the first page of this periodic report above.

Regulation 26 - List of directors as of the reporting date

See **Annex C**, attached.

Regulation 26A - List of corporate officers as of the reporting date

See **Annex D**, attached.

Regulation 26B - Independent authorized signatories

None.

Regulation 27 - The Bank's Auditor

Kost Forer Gabbay & Kasierer.

Address: 3 Aminadav St., Tel Aviv.

Regulation 28 - Amendment to the memorandum and bylaws

None.

Regulation 29 - Recommendations of the Board of Directors and resolutions of the general meeting

(A) Recommendations of the Board of Directors to the general meeting, and resolutions which do not require approval from the general meeting:

(1) On January 31, 2017, the Bank's Board of Directors resolved to approve an interim dividend distribution in cash in the amount of NIS 3 million (gross) with respect to the net profit for the third quarter of 2016, based on the Bank's surplus balance, in accordance with the Bank's financial statements as of September 30, 2016. The aforementioned dividend was paid on February 21, 2017, to shareholders who held the Bank's shares on February 8, 2017.

The general meeting approved, on November 29, 2017, the aforementioned interim dividend distribution as a final dividend.

(2) On April 27, 2017, the Bank's Board of Directors resolved to approve an interim dividend distribution in cash in the amount of NIS 1.8 million (gross) with respect to the net profit for the fourth quarter of 2016, based on the Bank's surplus balance, in accordance with the Bank's financial statements as of December 31, 2016. The aforementioned dividend was paid on May 21, 2017, to shareholders who held the Bank's shares on May 8, 2017.

The general meeting approved, on November 29, 2017, the aforementioned interim dividend distribution as a final dividend.

(3) On June 15, 2017, the Bank's Board of Directors resolved to approve an interim dividend distribution in cash in the amount of NIS 2.3 million (gross) with respect to the net profit for the first quarter of 2017, based on the Bank's surplus balance, in accordance with the Bank's financial statements as of March 31, 2017. The aforementioned dividend was paid on July 9, 2017, to shareholders who held the Bank's shares on June 25, 2017.

The general meeting approved, on November 29, 2017, the aforementioned interim dividend distribution as a final dividend.

(B) Resolutions of the general meeting which were passed against the recommendation of managers, on matters specified in subregulation (A)

None.

(C) Resolutions of special general meeting:

None.

Regulation 29A - Details regarding the Company's resolutions

below, the Bank's decisions regarding the issues specified in this regulation, as follows:

(1) Letter of indemnity:

- On January 29, 2012, the general meeting of the Bank's shareholders approved the provision of letters of indemnity to corporate officers, in the wording which was attached as Annex C to the immediate report regarding the convention of a general meeting, dated December 22, 2011, as amended in the immediate report dated January 19, 2012 (hereinafter: the "Immediate Report"), (a) For corporate officers of the Bank who hold office and/or who will hold office in the Bank from time to time, and for corporate officers in other companies, as defined in the immediate report, who hold office and/or who will hold office from time to time, at the Bank's request, as corporate officers in other companies, excluding for corporate officers regarding whom the controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them. (B) For corporate officers regarding whom the controlling shareholders may be considered as having a personal interest in the provision of letters of indemnity to them, who hold office and/or who will hold office in the Bank from time to time, and for such corporate officers who hold office or will hold office, from time to time, at the request of the Bank, as corporate officers in another company. For details regarding indemnification, see the Bank's immediate report dated January 19, 2012 (reference number 2012-01-020319).

- On October 9, 2013, the general shareholders' meeting of the Bank approved updates to the letter of indemnity for the Bank's corporate officers, in the wording which was attached as Annex C to the immediate report regarding the convention of a general meeting on September 3, 2013, for the aforementioned corporate officers. For details regarding the update to the letter of indemnification, see the Bank's immediate report dated September 3, 2013 (reference number 2013-01-136176).
- On October 30, 2016, the general shareholders' meeting of the Bank approved the provision of a letter of indemnity to directors who are controlling shareholders and/or their relatives and/or in whom the controlling shareholders may have a personal interest in the provision of letters of indemnity to them, for an additional period of three years, beginning on October 9, 2016 (the date when 3 years passed since the date of approval of the letters of indemnity to Mr. Zalman Shoval, Gideon Shoval and Moshe Bauer), under the same conditions as those of the current letters of indemnity, which were approved in October 2013, as stated above, and to all other corporate officers, including to the other directors and to the aforementioned directors. (See the immediate report regarding the convention of a general meeting dated September 19, 2016 (reference number 2016-01-125356)).

(2) Insurance;

- On May 10, 2015, the general meeting of the Bank's shareholders approved an expansion of the coverage limits of the directors and officers (D&O) insurance policy in the Bank (and in the subsidiaries) who hold office from time to time, as follows: The insurance coverage will have a liability limit of USD 30 million per event and USD 60 million for the period (see the convention report dated April 1, 2015 (reference number 2015-01-070975), and the meeting results report dated May 10, 2015 (reference number 2015-01-016284) (the "Framework Decision").

  The Bank's directors and officers insurance policy may be renewed or replaced from time to time (i.e., whether by extending the current insurance policy, or by engaging in another policy, including with another insurer), with the approval of the Remuneration Committee and the Board of Directors, provided that the following conditions are met: A. The liability limits in the insurance will not exceed the aforementioned amount; B. The Bank's Remuneration Committee and Board of Directors will determine that the annual premium will be in market conditions; C. The last renewal by virtue of this resolution will be made with respect to an insurance period which will conclude no later than 6 years after the date of the general meeting's resolution.
- On September 19, 2017, the Bank's Board of Directors approved, after approval was received from the Remuneration Committee, in its meeting on September 12, 2017, and further to and in accordance with the framework decision regarding the Bank's engagement with its directors and corporate officers (including the CEO) (including in the subsidiaries), who hold office from time to time, as applicable, with respect to a directors and officers (D&O) insurance policy, as follows: the policy will be purchased from a consortium of insurers in London, through an international insurance broker. Liability limits and policy term: USD 30 million per event and USD 60 million for the period, with respect to the 12 month period from October 1, 2017 to September 30, 2018. The annual premium paid by the Bank with respect to the acquisition of a directors and officers insurance policy will amount to a total of approximately USD 77,000. The deductible amount in the directors and officers insurance policy will not exceed a total of USD 25,000 for the Bank.

- Further to the aforementioned resolution of the Board of Directors, the Board of Directors approved, in the aforementioned meeting, that the Bank's engagement in an officers' insurance policy will also apply to corporate officers who are relatives of the controlling shareholder who serve in the Bank as of the date of this decision, and that the terms of the engagement with them are identical to the terms of engagement with the other corporate officers in the Bank, and it is not expected to materially affect the Bank's profitability, assets or liabilities.

Alexander Saltzman	**Gil Topaz**
C.P.A., Chief Accountant	CEO

February 27, 2018

Annex A to the Periodic Report for 2017

Shares and other securities held by interested parties and corporate officers

To the best of the Bank's knowledge, and in accordance with the reports which it received, presented below are details regarding securities which are held by interested parties and corporate officers in the Bank and in investee companies whose operations are material to the Bank, proximate to the date of this periodic report:

Name	ID number	Type of security	Number of security on the stock exchange	Number of Shares	Holding rate in %
Export Investment Co. Ltd. (1)	520025156	Ordinary share with NIS 1 par value	726018	60,804,120	86.2253
K. Shoval, through K. Shoval Holdings Ltd., and I.S.S. Capital Israel Co. Ltd.	8187841	Ordinary share with NIS 1 par value	726018	81,218	0.1151
Zalman Shoval	31077605	Ordinary share with NIS 1 par value	726018	1	0.0000
Trust Finance Co. Ltd (2)	510192785	Ordinary share with NIS 1 par value	726018	155,481	0.2205
Foreign Trust Ltd.(2)	510141989	Ordinary share with NIS 1 par value	726018	1	0.0000
Moshe Bauer	007560915	Ordinary share with NIS 1 par value	726018	5,000	0.0071
Haim Baizer	3629599	Ordinary share with NIS 1 par value	726018	1	0.0000

(1) Public company. For a description of the control of this company, see Regulation 21A above.
(2) Company under the control of Mrs. Kena Shoval.

Annex B to the Periodic Report for 2017

Register of the Bank's shareholders

Presented below is the register of holders of the Bank's ordinary shares (with a par value of NIS 1 each):

	Name	ID number	Address	Total ordinary shares (with a par value of NIS 1 each)
1	Export Investment Co. Ltd.	52-002515-6	9 Achad Ha'am St., Shalom Tower, Tel Aviv	32,486,430
2	Registration Company of Bank Hapoalim Ltd.	51-035660-3	62 Yehuda Halevi St., Tel Aviv	38,031,295
3	Trust Finance Co. Ltd	51-019287-5	9 Achad Ha'am St., Shalom Tower, Tel Aviv	1
4	Foreign Trust Ltd.	51-014198-9	9 Achad Ha'am St., Shalom Tower, Tel Aviv	1
5	Zalman Shoval	31077605	78 Sharet St., Tel Aviv	1
6	Haim Baizer	3629599	2 Tzofar St., Ramat Efal, 52960	1
7	Ovad Ben-Ozer OBM	049370919	1 Gloskin St., Tel Aviv	1
8	Yehuda Bar-Lev	064837123	3A Tolkobski St., Tel Aviv	10
9	Moshe Kramer	059761759	5 Damesek Eliezer St., Bnei Brak	1
	Total ordinary shares (with a par value of NIS 1 each)			70,517,741

Annex C to the periodic report for 2017

Names and positions of Board members

	Name and details of director	Name and details of director	Name and details of director
Name:	**Zeev Nahari – Chairman**	**Zalman Shoval**	**Yehuda Orbach**
ID number:	10063733	031077605	051264752
Date of birth:	16.05.1944	28.04.1930	27.11.1952
Address for service of process:	3 Aharon Becker St., Tel Aviv	78 Moshe Sharet St., Tel Aviv	28 Meir Ya'ari St., Tel Aviv
Citizenship:	Israeli	Israeli	Israeli
Membership on committees of the Board of Directors:	Risk Management Committee Chairman, Capital Planning and Strategy Committee Chairman.	Not a member of Board of Directors committees	Resources Committee Chairman, Audit Committee member and Risk Management Committee member
Outside director or independent director, as defined in the Law, and has accounting and financial expertise or professional qualification or expert outside director:	Not an outside director or independent director	Not an outside director or independent director.	Outside director Has accounting and financial expertise.
Employee of the Corporation, or of its subsidiary, related company or interested party:	Yes; Chairman of the Bank's Board of Directors.	No	No
Education:	Certified Public Accountant, University of Haifa.	B.A. in International Relations from UC Berkeley, California; M.A. in Internal Relations, Economics and Political Science from University of Geneva	Certified Public Accountant; B.A. in Accounting and Economics, The Hebrew University of Jerusalem
Start date of tenure as a director in the Corporation:	11.10.2015	23.3.1964	13.9.2015

	Name and details of director	Name and details of director	Name and details of director
Main occupation in the last five years:	Current - Chairman of the Bank's Board of Directors; Served as a financial advisor to the Israel Electric Corporation (until December 31, 2016). Fulfilled various roles in Bank Leumi Le-Israel Ltd. (during the years 1965-2011); In his last position, served as an executive member of the management board with respect to funds, accounting and the capital market. Served as Chairman of the Board of Arab Israel Bank Ltd., Leumi Partners Ltd., Leumi Real Holdings, Leumi International Investment N.V., and Luxinvest S.A. Holdings; Also served as a director in Bank Leumi USA, Bank Leumi le-Israel Corporation and Israel Corporation Ltd.	Chairman of the Board of Export Investment Co. Ltd.; Joint Chairman of the Faire Fund.	C.P.A., Chairman of the Audit Committee of the Company for the Holocaust Restitution Company of Israel (liquidated, in accordance with the law, upon the conclusion of its period of activity, on December 31, 2017), and of the Association of Friends of Tel Aviv University; Lecturer on auditing of information systems in institutions of higher education; Member of the IT committee of the Institute of Certified Public Accountants in Israel; Consultant and examiner, reviewer in the Peer Review Institution. Served as VP, chief Internal Auditor in Union Bank of Israel Ltd. and its subsidiaries from 2000 to 2014.
Directors in the following corporations:	Does not serve as a director in other corporations.	Chairman of the following Boards: Export Investment Co. Ltd., and Joint Chairman of Faire Fund; C. F. C. Comprehensive Financing Co. Ltd., ICC - Israel Capital Co. Ltd. Co-Chairman of the Board of Shoval Grofman Real Estate Ltd., and of Shoval Grofman Real Estate Holdings Ltd. 2007; Member of the following boards of directors: Terra Firma Ltd., Kena Shoval Holdings Ltd., Interdisciplinary Center Herzliya. Member of the board of trustees: Ben Gurion University, Ariel University, Herzliya Conference. Served as Chairman of the Bank's Board of Directors from December 1989 to September 1990, and from March 1993 to June 1998. During the period from October 1990 to March 1993, and from June 1998 to January 2000, while serving as the Ambassador of Israel to the United States, his membership on the Board of Directors was suspended.	Does not serve as a director in other corporations.

	Name and details of director	Name and details of director	Name and details of director
To the best of the Corporation's knowledge, family member of another interested party of the Corporation:	No	Spouse of Mrs. Kena Shoval, the holder of the Bank's control permit (see details in Regulation 21A above); Father of Mr. Gideon Shoval, a director in the Bank.	No
Has accounting and financial expertise for the purpose of complying with the minimum number determined by the Board of Directors:	Yes	Yes	Yes

	Name and details of director	Name and details of director	Name and details of director
Name:	**Dr. Ruth Arad**	**Shmuel Eshel**	**Moshe Bauer**
ID number:	030332563	52352424	007560915
Date of birth:	15.09.1949	10.04.1954	23.10.1933
Address for service of process:	5 HaRechesh St., Tel Aviv	3 Avshalom Haviv St., Tel Aviv	33 Shalom Aleichem St., Tel Aviv
Citizenship:	Israeli	Israeli	Israeli
Membership on committees of the Board of Directors:	Member of the Audit Committee and Risk Management Committee,	Audit Committee Chairman, member of the Capital Planning and Strategy Committee and of the Resources Committee.	Not a member of Board of Directors committees
Outside director or independent director, as defined in the Companies Law, and has accounting and financial expertise or professional qualification or expert outside director:	Outside director. Has accounting and financial expertise.	Outside director. Has accounting and financial expertise.	Not an outside director or independent director.
Employee of the Corporation, or of its subsidiary, related company or interested party:	No	No	No
Education:	B.A. in Mathematics and Economics, Tel Aviv University; M.S. in Statistics, Princeton University, New Jersey; Ph.D. in Finance and Statistics (specialization in Finance), Princeton University, New Jersey.	B.A. in Political Science and Labor Studies, Tel Aviv University.	High school
Start date of tenure as a director in the Corporation:	10.04.2016	December 4, 2009 (on December 3, 2012, the general meeting approved his appointment for a second term, and on December 2, 2015, the general meeting approved his appointment for a third term);	1.10.1972
Main occupation in the last five years:	CEO and owner of Fentchell Ltd. (from March 2015); Member of the solo credit principal committee (2014 to April 2016); Outside director in Isracard Ltd. (during the years 2011-2014); Outside director in Aminit Ltd. (during the years 2011-2013). Lecturer, University of Haifa (2013); VP, Chief Risks Controller, Bank Leumi Le-Israel Group Ltd. (during the years 1999-2011);	Consulting and business accompaniment; Investment Committee Chairman of Cogito Capital Fund.	CEO and Director of C.F.C. Comprehensive Financing Co. Ltd.

Directors in the following corporations:	Does not serve as a director in other corporations.	No	Member of the following boards of directors: Export Investment Co. Ltd., C.F.C. Comprehensive Financing Co. Ltd., Terra Firma Ltd., ICC Israel Capital Corporation Ltd., Foreign Trust Ltd., Trust Finance Co. Ltd and Eitanim Insurance Ltd. (inactive company).
To the best of the Corporation's knowledge, family member of another interested party of the Corporation -	No	No	No
Has accounting and financial expertise for the purpose of complying with the minimum number determined by the Board of Directors	Yes	Yes	Yes

	Name and details of director	Name and details of director	Name and details of director
Name:	**Lior Ben Ami**	**Ram Harmelech**	**Ira Sobel**
ID number:	022629083	55734107	027811546
Date of birth:	31.08.1966	17.03.1959	15.07.1970
Address for service of process:	15 HaReut St., Tel Mond	14 Tavas St., Hod HaSharon	6 Bat Iftach St., Tel Aviv
Citizenship:	Israeli	Israeli	Israeli
Membership on committees of the Board of Directors:	Member of the Capital Planning and Strategy Committee and Resources Committee.	Member of the Audit Committee and Risk Management Committee.	Member of the Audit Committee, Resources Committee and Capital Planning and Strategy Committee.
Outside director or independent director, as defined in the Companies Law, and has accounting and financial expertise or professional qualification or expert outside director:	Not an outside director or independent director.	Not an outside director or independent director.	Outside director in accordance with Proper Banking Management Directive 301, and independent director; Has accounting and financial expertise.
Employee of the Corporation, or of its subsidiary, related company or interested party:	No	No	No
Education:	B.A. in Economics and Political Science, The Hebrew University; M.A. in Business Economics, Bar Ilan University.	B.A. in Statistics and Geography from Tel Aviv University; M.B.A. from Tel Aviv University.	Certified Public Accountant, B.A. in Business Management / Accounting, The College of Management Academic Studies, Rishon Letzion; M.B.A. Executive MBA, Tel Aviv University and Northwestern University, Chicago, USA; M.A. in Gender Studies from Tel Aviv University.
Start date of tenure as a director in the Corporation:	10.04.2016	13.09.2012	February 18, 2013 (on February 11, 2016, the general meeting approved her appointment for a second term).
Main occupation in the last five years:	CEO of Spike IT Information Technology Ltd. (March 2013 - present); Help P.C. The Center for Support of Home Computing Ltd. (2006 to October 2013).	CEO of Manof Marang Ltd. (from May 2012) and member of boards of directors. Executive VP, Business Division Manager and Credit Risk Manager in Mercantile Discount Bank (from 1998 to 5/2012);	Advisor to companies and director in companies. Studies towards a Ph.D. in the Department of Sociology and Anthropology at Tel Aviv University; Member of the managing committee of the association Open Door.
Directors in the following corporations:	Spike IT Information Technology Ltd.	Member of the following boards of directors: H.I. Korean Technologies Ltd.; Director and controlling shareholder of Manof Marang Ltd.	Served as a director in the following corporations: Lodzia Rotex Investment Ltd. until 2015); Medipower (Overseas) Public Co. Ltd. (until 2014); Ilex Medical Ltd. (until 2014); Nisko Projects & Electronics (1999) Ltd. (until 2012).

To the best of the Corporation's knowledge, family member of another interested party of the Corporation -	No	No	No
Has accounting and financial expertise for the purpose of complying with the minimum number determined by the Board of Directors	Yes	Yes	Yes

	Name and details of director	Name and details of director
Name:	**Dr. Nurit Kraus (concluded her tenure on January 28, 2018)**	**Gideon Shoval**
ID number:	023691751	058239864
Date of birth:	10.05.1968	31.08.1963
Address for service of process:	8 Gloskin St., Tel Aviv	10 Sharet St., Tel Aviv
Citizenship:	Israeli	Israeli
Membership on committees of the Board of Directors:	Until the end of her tenure period (January 28, 2018), served as a member of the Capital Planning and Strategy Committee and Risk Management Committee.	Member of the Capital Planning and Strategy Committee and Resources Committee.
Outside director or independent director, as defined in the Companies Law, and has accounting and financial expertise or professional qualification or expert outside director:	Outside director in accordance with Proper Banking Management Directive 301, and independent director; Has accounting and financial expertise.	Not an outside director or independent director.
Employee of the Corporation, or of its subsidiary, related company or interested party:	No	No
Education:	Education: B.Sc. in Aerospace Engineering, Haifa Technion; M.Sc. in Physics, Haifa Technion; D.Sc. in Physics, Haifa Technion.	Education: L.L.B., Buckingham University; L.L.M., Columbia University; M.B.A., IMD Business Administration School.
Start date of tenure as a director in the Corporation:	January 29, 2012 (on December 10, 2014, the general meeting approved her appointment for a second term)	26.10.2000
Main occupation in the last five years:	Manager and founder of Redstart Modeling Services and Consulting Ltd.	CEO and Director of Export Investment Co. Ltd.
Directors in the following corporations:	Redstart Modeling Services and Consulting Ltd.	Export Investment Co. Ltd.

To the best of the Corporation's knowledge, family member of another interested party of the Corporation -	No	Son of Mrs. Kena Shoval, the holder of the Bank's control permit, and Mr. Zalman Shoval, a director in the Bank, who, in accordance with a legal opinion which was furnished to the Bank, is considered as a controlling shareholder of the Bank (see details in Regulation 21A above).
Has accounting and financial expertise for the purpose of complying with the minimum number determined by the Board of Directors	Yes	Yes

Annex C to the periodic report for 2017

the Bank's corporate officers as of December 31, 2017 include Messrs.:

	Name and details of corporate officer:	Name and details of corporate officer:	Name and details of corporate officer:
Name:	**Gil Topaz**	**Michael Tayer** (1)	**David Levy** (2)
ID number:	024464869	051705234	022148530
Date of birth:	12.12.1969	10.01.1953	22.11.1965
Tenure start date:	1.11.2015	15.09.2011	01.11.2016
Position performed in a corporation which is a subsidiary, related company or interested party of the Corporation:	CEO Chairman of the Board of the subsidiaries: Ir Shalem International Insurance Agency (1996) Ltd.; Tomer Jerusalem Ltd.; Bank of Jerusalem Trust Company Ltd.	Executive VP, member of the management board, Resources Division Manager (also serves as Information Technology Manager). CEO of Tomer Jerusalem Ltd. (subsidiary)	Executive VP, member of the management board, Retail Division Manager Director in Ir Shalem International Insurance Agency (1996) Ltd.
Interested party in the Corporation, or family member of another corporate officer or interested party of the Corporation:	No	No	No
Education:	M.B.A. Business Administration (major in Finance and Marketing), Tel Aviv University; LLB from Tel Aviv University. Holds law license; B.A. in Economics and Accounting; Tel Aviv University. Holds a C.P.A. license;	B.A. in Computer Science, Merci College.	B.A. in Economics and Management, The Open University; EMBA from The Hebrew University of Jerusalem.
Business experience in the last five years:	VP, Private Customers Division Manager and member of the management board of Israel Credit Cards Ltd. - C.A.L. (2013-2015); VP, CRO, Risks and Credit Division Manager of Israel Credit Cards Ltd. - C.A.L. (2010-2013);	Executive VP, member of the management board, Resources Division Manager (also serves as Information Technology Manager).	Private Customers Division Manager in the Banking Division of Bank Discount (2016-2013); Passive Division Manager in the Banking Division of Bank Discount (2011)

1. On December 31, 2017, Mr. Michael Tayer announced his retirement, and he will conclude his tenure as a corporate officer of the Bank on March 31, 2018.
2. On June 15, 2017, the Board of Directors approved the appointment of Mr. David Levy as Executive VP (prior to the appointment, served as VP in the aforementioned position).

	Name and details of corporate officer:	Name and details of corporate officer:	Name and details of corporate officer:
Name:	**Michael Ben Yishai (tenure discontinued on February 28, 2017)**	**Sarit Weisstuch ***	**Alexander Saltzman**
ID number:	067374793	023069115	310062120
Date of birth:	13.09.1950	14.10.1967	18.04.1973
Tenure start date:	1.03.2007 (In the position since August 1, 2011).	01.07.2005	16.01.2014
Position performed in a corporation which is a subsidiary, related company or interested party of the Corporation:	Until the conclusion of his tenure, served as VP, member of the management board, Risk Division Manager (CRO);	VP, member of the management board, Legal Counsel and Manager of the Legal Counsel, Compliance and Enforcement Department.	VP, member of the management board, Monetary Division Manager and Chief Accountant. Director in the subsidiaries: Jerusalem Investment Portfolio Management Ltd.; Jerusalem Capital Markets Fund Management (1980) Ltd.; Tomer Jerusalem Ltd.; Bank of Jerusalem Trust Company Ltd.; Jerusalem Finance & Issuance (2005) Ltd.; Jerusalem Underwriting and Issuances Ltd.
Interested party in the Corporation, or family member of another corporate officer or interested party of the Corporation:	No	No	No
Education:	B.A. in Economics and Business Administration, Bar Ilan University; M.B.A. from Bar Ilan University.	LLB, Bar Ilan University	B.A. in Economics and Accounting, The Hebrew University, Jerusalem; Holds C.P.A. license; M.B.A., The Hebrew University of Jerusalem.
Business experience in the last five years:	VP, member of the management board, Risk Division Manager (CRO);	VP, member of the management board, Legal Counsel.	Managerial Information and Budget Department Manager (2010-2013);

* On February 9, 2017, the Bank's Board of Directors approved the appointment of Ms. Sarit Weisstuch as the Manager of the Legal Counsel, Compliance and Enforcement Department (previously served as the Legal Department Manager).

	Name and details of corporate officer:	Name and details of corporate officer:	Name and details of corporate officer:
Name:	**Daphna Landau (tenure discontinued on March 1, 2017)**	**Moshe Omer**	**Ron Sagi**
ID number:	029002508	027312719	052189859
Date of birth:	23.12.1971	03.05.1974	30.10.1953
Tenure start date:	1.3.2017	15.12.2013	24.02.2005 (in his current position since March 20, 2012)
Position performed in a corporation which is a subsidiary, related company or interested party of the Corporation:	VP, member of the management board, Risk Division Manager (CRO)	VP, member of the management board, Financial Division Manager Chairman or director in the subsidiaries: Jerusalem Finance & Issuance (2005) Ltd.; Jerusalem Investment Portfolio Management Ltd.; Jerusalem Capital Markets Fund Management (1980) Ltd.; Jerusalem Underwriting and Issuances Ltd.; Ir Shalem International Insurance Agency (1996) Ltd.; Tomer Jerusalem Ltd.; Bank of Jerusalem Trust Company Ltd.	VP, Internal Auditor
Interested party in the Corporation, or family member of another corporate officer or interested party of the Corporation:	No	No	No
Education:	B.A. in Economics and Management, Tel Aviv University; M.B.A. with a major in Finance and a minor in Marketing, Tel Aviv University	B.A. in Economics, Tel Aviv University; M.Sc. in Finance and Accounting, Tel Aviv University	B.A. in Economics, The Hebrew University
Business experience in the last five years:	Real Estate Sector Manager and member of the management board of Leumi Partners (2015-2016); Chief Risk Officer and member of the management board of Arab Israel Bank Ltd. (2011-2015)	Various positions in The First International Bank of Israel: Manager of Financial Management Unit (2012-2013); Nostro Trading Unit Manager (2010-2012).	VP, Internal Auditor

	Name and details of corporate officer:	Name and details of corporate officer:
Name:	**Liran Ovadya (tenure discontinued on November 1, 2017)**	**Carmel Florenz**
ID number:	034437707	013230628
Date of birth:	10.12.1978	25.12.1965
Tenure start date:	01.11.2017	15.07.2010
Position performed in a corporation which is a subsidiary, related company or interested party of the Corporation:	Real Estate Sector Department Manager	Secretary of the Bank and its Subsidiaries
Interested party in the Corporation, or family member of another corporate officer or interested party of the Corporation:	No	No
Education:	B.A. in Management, The Open University.	L.L.B., Tel Aviv University
Business experience in the last five years:	Manager of Credit and Branch Operation Unit, (2013–2017); Retail and Commercial Credit Department Manager (2011-2013);	Secretary of the Bank and its Subsidiaries

	Name and details of corporate officer:	Name and details of corporate officer:
Name:	**Hagar Peretz Dayan**	**Ayelet Rusk (tenure discontinued on November 1, 2017)**
ID number:	031579329	027808757
Date of birth:	7.10.1978	04.07.1970
Tenure start date:	29.09.2016	30.05.2012
Position performed in a corporation which is a subsidiary, related company or interested party of the Corporation:	Manager of the Bank's CEO, Marketing and Strategy Division	Real Estate Sector Manager
Interested party in the Corporation, or family member of another corporate officer or interested party of the Corporation:	No	No
Education:	B.A. in Economics and Business Administration with a major in Accounting, The Hebrew University; M.B.A., The Hebrew University.	B.A. in Economics and Business Administration from Bar Ilan University. M.B.A. from Bar Ilan University.
Business experience in the last five years:	Business Processes Department Manager (2016-2015); CRM Project Manager, Retail Division, Bank Leumi (2013-2014); Executive VP, Marketing Division Manager, G-STAT Ltd. (2009-2013).	Real Estate Sector Manager

Corporate Governance Questionnaire[1]

Independence of the Board of Directors			
		Correct	Incorrect
1.	Throughout the entire reporting year, two or more outside directors served in the Corporation. This question may be marked "Correct" if the time period during which two outside directors did not serve does not exceed 90 days, as specified in section 363A.(b)(10) of the Companies Law; however, in any response whatsoever (Correct / Incorrect), the time period (in days) must be specified during which two or more outside directors did not serve in the Corporation during the reporting year (including also a tenure period which was approved retroactively, including separating between the different outside directors): Director A: ___________. Director B: ___________. Number of outside directors serving in the Corporation as of the publication date of this questionnaire: **3 outside directors in accordance with the provisions of the Companies Law, 5759-1999 (hereinafter: the "Companies Law"); 1 outside director in accordance with Proper Banking Management Directive 301, and independent directors in accordance with the Companies Law.**	√	
2.	Rate [2] of independent directors [3] serving in the Corporation as of the publication date of this questionnaire: 4/10. Rate of independent directors as determined in the Corporation's bylaws [4] [5]: **One third of all directors (including outside directors in accordance with the Companies Law, 5759-1999).** ❑ N/A (a provision has not been established in the bylaws).	√	_____
3.	During the reporting year, an evaluation was conducted with the outside directors (and the independent directors), and it was found that they fulfilled, during the reporting year, the provisions of section 240(b) and (c) of the Companies Law, regarding the absence of affinity of the outside (and independent) directors holding office in the Corporation, and also fulfill the conditions which is required for service as an outside (or independent) director. **The outside and independent directors have submitted to the Bank declarations affirming the absence of affinity proximate to the publication of this report.**	√	
4.	All of the directors who served in the Corporation during the reporting year are not subordinate to the CEO, directly or indirectly (excluding a director who is a employees representative, if the Corporation has an employees representation). If your answer is "Incorrect" (i.e., the director is subordinate to the CEO, as stated above) - specify the rate of directors who did not meet the aforementioned restriction: ___________.	√	

1 Published within the framework of draft legislation to improve the reports, on March 16, 2014.
2 In this questionnaire, "Rate" – a certain proportion out of the total number of directors, for example, 3/8.
3 Including "outside directors", as defined in the Companies Law.
4 On this matter, "Bylaws" includes pursuant to a specific provision of the law which applies to the Corporation (for example, regarding a banking corporation - directives issued by the Commissioner of Banks).
5 A bond company is not required to respond to this section.
6 With respect to this question - the fact of a director's service in an investee corporation which is under the Corporation's control will not be considered "subordination"; however, the service of a director in a corporation who is serving as a corporate officer (excluding a director) and/or employee in an investee corporation which is controlled by the Corporation will be considered "subordination" for the purpose of this question.

Independence of the Board of Directors		
	Correct	**Incorrect**
5. All of the directors who announced the existence of their personal interest in the approval of a transaction on the meeting's agenda did not attend the discussion, and did not participate in the aforementioned vote (except for a discussion and/or vote in the circumstances specified in section 278(b) of the Companies Law): If your answer is "Incorrect" - Was it for the purpose of the presentation of a certain subject by them in accordance with the provisions at the end of section 278(a): ❑ Yes ❑ No (Mark x in the appropriate box). Specify the rate of meetings wherein the aforementioned directors attended the discussion and/or participated in the vote, excluding in the circumstances specified in subsection A: ___________.	√	
6. The controlling shareholder (including any relative of his and/or any other party on his behalf), who is not a director nor another corporate officer in the Corporation, was not present during the Board of Directors' meetings that took place during the reporting year. If your answer is "Incorrect" (i.e., the controlling shareholder and/or his relative and/or his agent who is not a member of the Board of Directors and/or a corporate officer in the Corporation was present during said Board of Directors meetings) – specify the following details concerning the presence of another individual during said Board of Directors meetings: Identity: ___________. Position in the Corporation (if any): ___________. Details of connection to the controlling shareholder (if the person in attendance is not the controlling shareholder himself): ___________. Was it for the purpose of the presentation of a certain subject by them: ❑ Yes ❑ No (Mark x in the appropriate box). Attendance rate [7] in the meetings of the Board of Directors which were held during the reporting year for the sake of presenting a certain issue:, other attendance: ___________. ❑ N/A (the Corporation has no controlling shareholder).	√	

Expertise and qualifications of directors		
	Correct	**Incorrect**
7. The Corporation's Bylaws do not include a provision limiting the option of immediate termination of the terms of all directors in the Corporation, who are not outside directors (for this purpose – a decision by a simple majority is not considered a restriction) [8]. If your answer is "Incorrect" (i.e., a restriction of this kind exists), specify -	√	
A. Time period set forth in the regulations for term of director: ___________.		

7 While separating the controlling shareholder and his relative and/or agents.
8 A bond company is not required to respond to this section.

Expertise and qualifications of directors			Correct	Incorrect
	B.	The required majority established in the Bylaws for the termination of the tenure of directors: ___________.		
	C.	The legal quorum established in the Bylaws in the general assembly regarding termination of the directors' tenure: ___________.		
	D.	Majority required to amend these provisions in the Bylaws: ___________.		
8.		The Corporation has created a training program for new directors regarding the Corporation's business operations and the laws which are applicable to the Corporation and to the directors, and has also created an extension program for training incumbent directors that is adapted, inter alia, to the director's role in the Corporation. If your answer is "Correct" – note whether the program was operated during the reporting year: ❑ Yes ❑ No (Mark x in the appropriate box).	√	
9.	A.	The minimum required number of Board members who are required to have accounting and financial expertise has been determined in the Corporation. If your answer is "Correct" - specify the minimum number which was determined: **"At least one fifth of all Board members must have accounting and financial expertise, as this term is defined in section 240 of the Companies Law, provided that at least two Board members have accounting and financial expertise, and at least two of the outside directors have accounting and financial expertise"**.	√	_____
	B.	Number of directors who served in the Corporation during the reporting year - With accounting and financial expertise [9]: **All of the Board members are considered by the Board of Directors as having accounting and financial expertise**. With professional qualifications [10]: **All of the outside directors, as defined in Proper Banking Management Directive 301 (including also outside directors in accordance with the Companies Law) are considered by the Board of Directors as having professional qualifications**. **If changes were made in the number of said directors in the reporting year, the figure including the lowest number will be given (excluding within the time period of 60 days from the occurrence of the change) of directors of any type who served during the reporting year.**	√	

9 Following the assessment of the Board of Directors, in accordance with the provisions of the Companies Regulations (Conditions and Tests for Director with Accounting and Financial Expertise and for Director with Professional Qualifications), 5765-2005.

10 See footnote 9.

11 See footnote 2.

Expertise and qualifications of directors				
			Correct	Incorrect
10.	A.	Throughout the entire reporting year, the composition of the Board of Directors included members of both genders. If your answer is "Incorrect" - specify the time period (in days) during which the aforementioned requirement was not fulfilled: ___________. This question may be marked "Correct" if the time period during which directors of both genders did not serve does not exceed 60 days; however, in any response whatsoever (Correct / Incorrect), the time period (in days) must be specified during which directors of both genders did not serve: ___________.	√	
	B.	Number of directors of each gender serving on the Corporation's Board of Directors as of the publication date of this questionnaire: Men: 8, Women: 2.		_____

Board of Directors meetings (and convening of the general meeting)				
			Correct	Incorrect
11.	A.	Number of Board of Directors meetings held during each quarter of the reporting year: Q1 (2017): 5 Q2: 3 Q3: 5 Q4: 5	√	_____
	B.	Alongside the name of each director who served in the Corporation during the reporting year, specify their rate of participation in Board of Directors meetings (in this sub-section – including meetings of Board of Directors committees in which the director was a member, as noted below) that convened during the reporting year (and with respect to the director's term): (Add additional lines based on the number of directors).	_____	_____

Board of Directors meetings (and convening of the general meeting)									
								Correct	Incorrect
11.	B.	Name of director	Participation rate in meetings of the **Board of Directors**	Participation rate in meetings of the **Audit Committee** [12]	Participation rate in meetings of the **Financial Statements Review Committee**[13]	Participation rate in meetings of the **Remuneration Committee**[14]	Participation rate in meetings of additional Board of Directors committees of which he is a member (including specification of the committee name)		
		Zeev Nahari (Chairman)	100%	Non-member	Non-member	Non-member	100% of the meetings of the Risk Management Committee (committee Chairman); 100% of the meetings of the Capital Planning and Strategy Committee (committee Chairman); 60% of the meetings of the Remuneration Committee, in the extended composition, in accordance with the provisions of Proper Banking Management Directive 301		
		Zalman Shoval	94%	Non-member	Non-member	Non-member	Non-member		
		Shmuel Eshel	94%	100% (Committee Chairman).	100%	100%	100% of the meetings of the Capital Planning and Strategy Committee;		
		Moshe Bauer	72%	Non-member	Non-member	Non-member	Non-member		

12 Regarding a director who is a member of this committee.
13 Regarding a director who is a member of this committee.
14 Regarding a director who is a member of this committee.

Board of Directors meetings (and convening of the general meeting)									
								Correct	Incorrect
11.	B.	Yehuda Orbach	100%	94%	100%	100% (Committee Chairman)	100% of the meetings of the Risk Management Committee; 100% of the Resources Committee (committee chairman).		
		Ruth Arad	94%	100%	100%	88%	100% of the meetings of the Risk Management Committee		
		Ram Harmelech	100%	100%	100%	100%	100% of the meetings of the Capital Planning and Strategy Committee;		
		Ira Sobel	94%	94%	100%	Non-member	100% of the meetings of the Risk Management Committee; 80% of the meetings of the Resources Committee.		
		Nurit Krauss	94%	Non-member	Non-member	Non-member	100% of the meetings of the Risk Management Committee; 87% of the meetings of the Capital Planning and Strategy Committee; 100% of the meetings of the Resources Committee.		
		Gideon Shoval	94%	Non-member	Non-member	Non-member	94% of the meetings of the Capital Planning and Strategy Committee;		
		Lior Ben Ami	100%	Non-member	Non-member	88%	100% of the meetings of the Resources Committee;		

Board of Directors meetings (and convening of the general meeting)				
			Correct	Incorrect
12.	1.	During the reporting year, the Board of Directors convened at least one discussion on the management of the Corporation's business affairs by the CEO and his subordinate corporate officers, in their absence, after they were given the opportunity to express their position.	√	

Separation of roles between the CEO and of the Chairman of the Board of Directors					
				Correct	Incorrect
13.		A Chairman of the Board of Directors served throughout the entire reporting year. This question may be marked "Correct" if the time period during which a Chairman of the Board did not serve does not exceed 60 days, as specified in section 363a.(2) of the Companies Law; however, in any response whatsoever (Correct / Incorrect), the time period (in days) must be specified during which a Chairman of the Board did not serve		√	
14.		A Chief Executive Officer served throughout the entire reporting year. This question may be marked "Correct" if the time period during which a CEO did not serve does not exceed 90 days, as specified in section 363A.(6) of the Companies Law; however, in any response whatsoever (Correct / Incorrect), the time period (in days) must be specified during which a CEO did not serve: ___________.		√	
15.		In a corporation in which a Chairman of the Board of Directors also serves as CEO of the Corporation, and/or wields his authorities, said dual capacity is approved according to the provisions of section 121(c) of the Companies Law. X Not relevant (as long as no dual capacity exists in the Corporation).		X	
16.	1.	The CEO **is not** a relative of the Chairman of the Board of Directors.		√	
	2.	If your answer is "Incorrect" (i.e., the CEO is a relative of the Chairman of the Board) -			
		A.	Specify the family relationship between the parties: ___________.	_______	_______
		B.	The term was approved according to section 121(c) of the Companies Law[15]: ❑ Yes ❑ No (Mark x in the appropriate box)	_______	_______
17.		A controlling shareholder or his relative **does not** serve as CEO or as corporate officer in the Corporation, except as a director. ❑ N/A (the Corporation has no controlling shareholder).		√	

15 In a bond company - approval in accordance with section 121(d) of the Companies Law.
16 In a bond company - approval in accordance with section 121(d) of the Companies Law.

Audit Committee			
		Correct	Incorrect
18.	In the Audit Committee, the following **did not serve** in the reporting year –	_____	_____
	A. The controlling shareholder or his relative. ❑ N/A (the Corporation has no controlling shareholder).	√	
	B. Chairman of the Board of Directors.	√	
	C. Director who is employed by the Corporation or by the Corporation's controlling shareholder, or by a corporation under his control.	√	
	D. Director who provides to the Corporation or to the Corporation's controlling shareholder services on a permanent basis.	√	
	E. Director whose livelihood primarily depends on the controlling shareholder. ❑ N/A (the Corporation has no controlling shareholder).	√	
19.	Anyone who is not entitled to be a member of the Audit Committee, including the controlling shareholder or his relative, was not present during the reporting year at Audit Committee meetings, except in accordance with the provisions of section 115(e) of the Companies Law.	√	
20.	A legal quorum required to discuss and make decisions in each Audit Committee meeting that took place during the reporting year was a majority of Committee members, with the majority of those present being independent directors, at least one of whom was an outside director. If your answer is "Incorrect" - specify the rate of meetings in which the aforementioned requirement was not fulfilled: ___________.	√	
21.	The Audit Committee convened during the reporting year at least one meeting in the presence of the Internal Auditor and Auditor, and without the presence of officers in the Corporation who are not Committee members, with respect to deficiencies in the Corporation's business management.	√	
22.	All Audit Committee meetings attended by a party who is not entitled to be a Committee member were convened with the approval of the Committee Chair and/or at the request of the Committee (concerning the legal counsel and Corporation secretary who is not a controlling shareholder or their relative).	√	
23.	In the reporting year, arrangements were in effect which were set forth by the Audit Committee with respect to the handling of complaints by employees of the Corporation, in connection with deficiencies in the management of its business affairs, and regarding the protection which will be given to employees who have complained, as stated above.	√	
24.	The Audit Committee (and/or the Financial Statements Review Committee) is satisfactorily convinced that the Auditor's scope of work and professional fees with respect to the Financial Statements during the reporting year are adequate to perform satisfactory audit and review work.	√	

Responsibilities of the Financial Statements Review Committee (hereinafter: the "Committee") in its work prior to the approval of the financial statements				
			Correct	**Incorrect**
25.	A.	Specify the period of time (in days) established by the Board of Directors as a reasonable period for submitting the committee's recommendations in advance of the Board of Directors' discussions regarding the approval of the Financial Statements: **3 days for the annual reports and 2 days for the quarterly reports.**	_____	_____
	B.	Actual number of days that passed from the date when the recommendations were passed to the Board of Directors until the date of the Board of Directors' discussion regarding the approval of the financial statements: Q1 report (2017): 6 days Q2 report: 7 days Q3 report: 7 days Annual Report: 7 days	_____	_____
25.	C.	Number of days that passed from the date when the draft financial statements were submitted to the directors until the date of the Board of Directors' discussion regarding the approval of the Financial Statements: Q1 report (2017): 8 days Q2 report: 10 days Q3 report: 9 days Annual Report: 9 days		
26.		The Corporation's auditor participated in all meetings of the committee and the Board of Directors which involved a discussion of the Corporation's financial statements, which refer to the periods which are included in the reporting year. If your answer is "Incorrect, note his participation rate: ___________.	√	
27.		During the entire reporting year until the publication of the annual report, the Committee met all of the conditions listed below:	_____	_____
	A.	The number of members will not be less than three (on the said date of the Committee discussion and approval of statements).	√	
	B.	All of the conditions set forth in section 115(b) and (c) of the Companies Law (concerning the tenure of Audit Committee members) were fulfilled.	√	
	C.	The Chairman of the Committee is an outside director.	√	
	D.	All of its members are directors and the majority of its members are independent directors.	√	
	E.	All of its members have the ability to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise.	√	
	F.	The Committee members submitted a declaration prior to their appointment.	√	
	G.	The legal quorum required for discussion and for the passing of resolutions in the Committee is a majority of its members, provided that the majority of those present are independent directors, including at least one outside director.	√	

Responsibilities of the Financial Statements Review Committee (hereinafter: the "Committee") in its work prior to the approval of the financial statements		
	Correct	Incorrect
If your answer is "Incorrect" concerning one or more of the subsections of this question, specify with respect to which (periodic/quarterly) report the aforementioned condition was not fulfilled, and the unfulfilled condition: ____________.	_____	_____

Remuneration committee				
			Correct	Incorrect
28.		The committee appointed, during the reporting year, at least three members, of which the outside directors constituted a majority (on the date of the committee's discussion). ❑ N/A (a discussion has not been held).	√	
29.		The terms of tenure and employment of all Remuneration Committee members are in accordance with the Companies Regulations (Rules Regarding Remuneration and Expenses of outside director), 5760-2000.	√	
30.		The following persons did not serve on the Remuneration Committee during the reporting year –	_____	_____
	A.	The controlling shareholder or his relative. ❑ N/A (the Corporation has no controlling shareholder).	√	
	B.	Chairman of the Board of Directors. *Note: Not a member of the Remuneration Committee as defined in the Companies Law; for the sake of order, it is noted that he is a member of the Remuneration Committee, in its extended composition, in accordance with the Proper Banking Management Directive (policy issues and remuneration agreements of all employees, excluding corporate officers only).	√*	
	C.	Director who is employed by the Corporation or by the Corporation's controlling shareholder, or by a corporation under his control.	√	
	D.	Director who provides to the Corporation or to the Corporation's controlling shareholder services on a permanent basis.	√	
	E.	Director whose livelihood primarily depends on the controlling shareholder. ❑ N/A (the Corporation has no controlling shareholder).	√	
31.		The controlling shareholder or his relative did not attend, during the reporting year, meetings of the Remuneration Committee, save if the committee chairman has determined that the attendance of any of them is required, for the purpose of presenting a certain issue.	√	
32.		The Remuneration Committee and the Board of Directors have not exercised their authority under sections 267a(c), 272(c)(3) and 272(c1)(1)(c) for the approval of a transaction or remuneration policy, despite the objection of the general meeting. If your answer is "Incorrect", specify: Type of transaction which was approved, as stated above: Number of times when their authority was exercised in the reporting year:	√	

Internal Auditor			
		Correct	Incorrect
33.	The Chairman of the Board or the CEO of the Corporation is the organizational supervisor of the Internal Auditor in the Corporation.	√	
34.	The Chairman of the Board or the Audit Committee have approved the work plan in the reporting year. Also specify the audit issues which the Internal Auditor addressed during the reporting year: **Various audits in all of the the Bank's operating segments, in accordance with an annual work plan which is based on a multi-year plan which was approved by the Audit Committee and Board of Directors.**	√	
35.	Scope of employment of the Corporation's Internal Auditor in the reporting year (in hours[17]): **full time position**	_____	_____
	In the reporting year, a discussion was held (by the Audit Committee or the Board of Directors) regarding the Internal Auditor's findings.	√	
36.	The Internal Auditor is not an interested party in the Corporation, nor are any of his relatives, auditors, or any other party on his behalf, and there are no material business relations with the Corporation, its controlling shareholder, any of his relatives, or any corporations under their control.	√	

17 Including work hours which were invested in investee corporations and in auditing outside of Israel, as applicable.

Transactions with interested parties			
		Correct	Incorrect
37.	The controlling shareholder or his relative (including a company under his control) is not employed by the Corporation nor provides it with management services. If your answer is "Incorrect" (i.e., the controlling shareholder or his relative is employed by the Corporation or provides it with management services), note – - Number of relatives (including the controlling shareholder) who are employed by the Corporation (including companies under their control and/or through management companies): ____________. - Whether the aforementioned employment and/or management service agreements were approved by the organs prescribed by law: ❑ Yes ❑ No (Mark x in the appropriate box). ❑ N/A (the Corporation has no controlling shareholder). ____________.	√	
38.	To the best of the Corporation's knowledge, the controlling shareholder does not have other businesses in the Corporation's area of activity (in one or more areas). If your answer is "Incorrect" – Note whether an arrangement to delimit the activities between the Corporation and its controlling shareholder was established: ❑ Yes ❑ No (Mark x in the appropriate box). ❑ N/A (the Corporation has no controlling shareholder). ____________.	√	

Shmuel Eshel

Audit Committee Chairman

(Also serves as the Financial Statements Review Committee)

Zeev Nahari

Chairman of the Board of Directors

February 28, 2017

Signing date

Glossary of Terms

Term	Short description
Obligo	Represents the total debt which has been provided to the customer, and constitutes the total debt to the Bank.
Inflation	An economic term describing the general and ongoing increase of price levels in a certain state or market.
Cybernetic (cybersecurity) event	An event involving an attack on IT systems and/or computer-integrated infrastructures and systems, by or on behalf of enemies (external or internal to the banking corporation) which may result in the materialization of a cybersecurity risk, including an attempt to perform such an attack, even if no actual damage was caused.
Means of control	In accordance with the Banking (Licensing) Law, 5741-1981, each of the following: (1) Voting rights in the general meeting of a company or corresponding entity of another corporation; (2) The right to appoint a director in the corporation, and for this purpose: (A) Anyone who has appointed a director in the corporation will be considered as having the right to appoint him; (B) It is presumed that a corporation whose corporate officer has been appointed as director of another corporation, and the controlling shareholder of the same corporation, have the right to appoint him; (3) The right to take part in the corporation's profits; (4) The right to the balance of the corporation's assets upon its dissolution, after its debts have been settled.
Restructuring of troubled debt	A debt which has formally undergone troubled debt restructuring is defined as debt regarding which, for economic or legal reasons associated with the debtor's financial difficulties, the Bank has granted a concession by changing the terms of the debt, in order to facilitate, for the debtor, the burden of cash payments in the near term, or by accepting other assets as repayment of the debt.
Credit under special supervision	Credit under special balance sheet supervision is credit regarding which potential weaknesses exist which are worthy of special attention from the Corporation’s management. Off-balance sheet credit is classified as credit under special supervision if the realization of contingent liabilities with respect to the item is defined as "possible", and if the debts which may be recognized as a result of the contingent realization would be appropriately classified under this category.
Subordinated credit	Credit which is insufficiently secured by the present established value and the debtor’s repayment ability, or of the pledged collateral, if any. Balance sheet credit risk which has been classified as above has a well defined weakness or weaknesses, which endanger the realization of the debt. Credit regarding which a provision for credit losses is recognized, on a collective basis, will be classified as subordinated when it becomes debt in arrears of 90 days or more.
Impaired credit	Credit regarding which, based on current information and events, it is expected that the banking corporation will not be able to collect all of the amounts which it is due (principal and interest payments), according to the contractual terms of the debt agreement. Debt is classified as impaired in case a principal or interest payment is in arrears of 90 days or more, except if the debt is well secured, and is in collection proceedings. Additionally, impaired debt is also considered debt whose terms have been changed due to restructuring of troubled debt, unless, both before and after the restructuring, a minimum provision for credit losses, according to the extent of arrears method, has been performed regarding it.

Term	Short description
Basel II / Basel III	The risk management directives for banks, which were determined by the Basel Committee on Banking Supervision (BCBS), which is engaged in the supervision and setting of standards for the supervision of banks around the world. The directives of the Basel committee serve as a benchmark for leading standards which are intended to ensure the stability of financial institutions.
Hedge	A financial transaction which is intended to protect the investor against changes in the investment's value.
Tier I capital	Going concern capital. Tier I capital includes capital attributable to the shareholders of the banking corporation, plus a part of the non-controlling interests which do not confer control over the equity of consolidated subsidiaries (minority interests), and less goodwill, other intangible assets, and additional supervisory adjustments and deductions, as specified in Proper Banking Management Directive 202, "measurement and capital adequacy - supervisory capital", and subject to the transitional provisions in Proper Banking Management Directive 299, "measurement and capital adequacy - supervisory capital - transitional provisions".
Tier 2 capital	A capital tier which is included in the calculation of qualifying regulatory capital. Tier 2 capital is subordinate capital (gone concern capital), and primarily includes qualifying instruments which were issued by the Bank in the past, which are included under this capital in accordance with transitional provisions for the adoption of the Basel III directives, as well as the new qualifying capital instruments which constitute the contingent convertible bonds (CoCo) which were issued by the Bank, and which will be converted to bank shares in case of a point of non viability has been reached. This capital also includes additional items, such as the balance of the collective provision for credit losses before tax effect, which applies up to a maximum of 1.25% of total credit risk assets.
Regulatory capital	Capital which is used to calculate the Bank's capital adequacy ratio and additional regulatory ratios (e.g., leverage ratio, credit concentration ratio, and more). Components of accounting capital and other qualifying supervised capital instruments (such as deferred liability notes, which qualify for inclusion as regulatory capital).
Housing loan	A loan which fulfills one of the following conditions, provided that it was not given for business purposes: 1) The loan is intended for the purchase or lease of a residential apartment, or for the construction, expansion or renovation thereof; 2) The loan is intended for the acquisition of a lot for construction of a residential apartment, or for the acquisition of rights to a residential apartment, in consideration of key money; 3) The loan was given in a pledge on a residential apartment; 4) The loan is intended to finance the early repayment of a loan, in whole or in part, as specified in sections 1 and 2.
Leveraged loan	1) Credit which has been given to finance a capital transaction The ratio between the borrower's total debt and the borrower's EBITDA exceeds the rates which were determined by the Bank, inter alia, in consideration of the conventional levels in the branch or in a specific segment 3) A borrower with a high ratio of debt to net value 4) The leverage ratio, after the financing, as measured through the leverage ratios, is significantly higher than the conventional norms in the branch, or than historical levels
CSA agreements	Offsetting agreements which are intended to segment and minimize the credit risks in this activity, through daily settling of accounts, which is mostly performed between the Bank and the counterparty, in accordance with the agreement.

Term	Short description
Specific provision	A provision which was determined according to a specific evaluation of each debt, and is determined according to according to the forecasted cash flows, discounted by the original interest rate of the debt, or, when the debt is defined as contingent collateral debt, according to the fair value of the collateral. For the purpose of determining the appropriate provision, the Bank routinely evaluates the credit portfolio in accordance with its policies, in order to identify, as soon as possible, borrowers whose risk level and exposure has increased, and who require special managerial attention and close accompaniment and classification of the debt as impaired, in light of the risk characteristics, or as a result of economic / market conditions which may affect the borrowers' position, with the aim of improving their position. The extent of the problem is assessed in the discretion of the business entities who are handling the borrower, by the credit risk management units in the risk management division, and by an objective assessment of the difficulties which were identified, in order to determine their risk rating. Regardless of the classification in accordance with the qualitative criteria which the Bank determined, as stated above, the specific provision is performed with respect to each debt exceeding NIS 1 million, which is over 90 days in arrears.
Collective provision	The collective provision for credit losses is applied with respect to large groups of relatively small and homogeneous debts, and with respect to debts which were specifically evaluated and found to be non-impaired. The collective provision with respect to off-balance sheet credit instruments is based on the provision rates which were determined for balance sheet credit, in consideration of the expected rate of credit realization of off-balance sheet credit risk.
Rating company	A company which determines credit ratings for governments, companies and debts issued by them. Two rating companies operate in Israel - "Maalot" and "Midroog".
Revolving debitory account	A business checking account with a credit facility.
Off-balance sheet exposure	These exposures are due to commitments which the Bank has taken upon itself towards its borrowers; however, as of the reporting date, they have not yet been realized / used by the borrowers, and therefore, these exposures are not yet reflected in the recording of an asset or liability on the balance sheet. Examples of exposures of this kind include, inter alia: • Unused commitments to provide credit; • Unused credit facilities; • Commitments in accordance with guarantee agreements; • Commitments in accordance with approval in principle which requires the Bank to maintain interest for a certain period. • And more. In the financial statements, disclosure regarding the Bank's off-balance sheet liabilities is given in Note 31.
Capital adequacy ratio	The ratio between between the Bank's qualifying regulatory capital and risk weighted assets with respect to credit risk, market risk and operational risk, calculated in accordance with the directives of the Bank of Israel, and which reflect the risk associated with the exposures adopted by the Bank in its activities.
Liquidity coverage ratio	The liquidity coverage ratio is a ratio which evaluates a horizon of 30 days in an extreme scenario, and is intended to ensure that the banking corporation has an inventory of high quality liquid assets in order to provide a response to the Corporation's liquidity requirements in this time horizon, according to the scenario specified in the directive.
Leverage ratio	Defined as the measurement of capital (the numerator), divided by the measurement of exposure (the denominator), with the ratio being expressed as a percent.
Deferred liability notes	Liability notes, the rights in which are subordinate to the claims of all of the banking corporation's other creditors, except for other liability notes of the same type.

Term	Short description
Borrower	The holder of a balance sheet debt or off-balance sheet debt in the Bank. A borrower may be an entity which has accepted a liability to provide credit, guarantee, or credit at the Bank, or the issuer of securities in which the Bank has invested. For the purpose of evaluating the Bank's exposure, the borrower is defined as a "person with debt, including his spouse, as well as several borrowers, where the expected repayment of the debt is primarily based on the same repayment source, and none of them has an additional significant repayment source for the debt".
MAGNA - Electronic due disclosure system	An information system for the intake and distribution of, over the internet, of the entire set of reports which are required from entities subordinate to the Authority's supervision: corporations, mutual fund managers, trustees, investment consulting companies, portfolio management companies and underwriters.
The Bank Clearing Center	A company owned by the five largest banks, which manages an automatic system for the net clearing of electronic credits and charges.
Short term bill	A government security issued by the Bank of Israel, which serves as the one of the monetary tools operated by the Bank of Israel. Short term bills are issued for periods of up to one year, are unlinked, and do not bear interest.
Average lifetime	Average lifetime is measured in years, and weighs the periodic interest payments of the interest payment throughout its lifetime, until final repayment. The longer the average lifetime, the more the instrument's fair value is affected by changes in interest rates and other economic factors, and therefore, the greater the risk.
Derivative	A derivative is a financial instrument or another contract which fulfills 3 characteristics: 1. Its value changes in accordance with changes in the interest rate, in a defined financial price, in a defined price of goods, in credit rating, or on a similar basis. 2. It does not require a net initial investment, or requires a net initial investment which is lower than the investment which would have been required for other types of contracts, when they are expected to respond similarly to changes in market factors. 3. It is settled on a future date.
Credit derivative	A contract in which a credit risk is transfered from the buyer to the seller. Credit derivatives can take different forms, such as options to hedge against credit default, deeds to partially cover the credit risk, swaps to fully cover the risk, etc.
Pillar 1	The allocation of minimum capital against credit risks, market risks and operational risks, by a method that links the scope of exposure to the various risks, to the regulatory capital requirement. The provisions of Pillar 1, which were determined by the Basel committee, were adopted within the framework of the provisions of Proper Banking Management Directives 201 to 209, which set forth a supervisory method for the calculation of risk weighted assets, and the method for calculation of the capital requirements with respect to such risk assets.
Pillar 2	Outlines the internal capital adequacy assessment process (ICAAP) in the Bank which is used to assess the required capital with respect to the entire set of risks, including those which are not included in Pillar 1 (such as credit concentration, interest rate risk in the banking portfolio, liquidity risk, settlement risks and strategic risks), and in parallel, a review process which will be performed by the Banking Supervision Department.
Pillar 3	Market discipline. This pillar determines the method and scope of information which will be presented in the public report regarding the risks to which the Bank is exposed. In this pillar, the provision of quantitative and qualitative information is required in order to allow market entities to assess the extent of the Bank's exposure to risk factors.

Term	Short description
Risk weighted assets or risk assets	Risk assets reflects balance sheet and off-balance sheet exposure which is created with respect to the Bank's activities, weighted by the risk attributed to it in accordance with the provisions of Proper Banking Management Directives 203 to 209, on all matters associated with credit risk, market risk and operational risk. These risk assets are intended to reflect the weighted risk for which the Bank is required to maintain the regulatory capital requirement, within the framework of the capital adequacy requirements.
Credit risk	Credit risk is the risk which is due to the possibility that the borrower or debtor will not fulfill its liabilities to the Bank in accordance with the credit agreement.
Liquidity risk	The level of exposure which is due to the fact that some of the income, expenses, assets or liabilities, of the Bank or its subsidiaries, are denominated in currencies other than their functional currency, to increase or decrease of the exchange rates of the currencies to which they are exposed. The above may cause significant harm, and create losses, and in certain cases may even result in heavy losses.
Currency risk	The level of exposure which is due to the fact that some of the income, expenses, assets or liabilities, of the Bank or its subsidiaries, are denominated in currencies other than their functional currency, to increase or decrease of the exchange rates of the currencies to which they are exposed. The above may cause significant harm, and create losses, and in certain cases may even result in heavy losses.
Interest rate risk	Risk of loss or impairment as a result of changes in the interest rates in different currencies.
Market risk	Risk of loss or impairment due to changes in the economic value of a financial instrument or a certain portfolio or a group of portfolios, and on the overall level, includes changes to the Bank's economic value, due to changes in prices, rates, margins and other market parameters.
Loan syndication	A transaction in which several lenders share the provision of a loan to an individual borrower, though each lender provides a loan in a certain amount to the borrower, and has the right to be repaid by it. Transactions of this kind are executed frequently when groups of lenders jointly finance the same loans, such that the amount provided to the lender is greater than the amount which any one lender is willing to lend.
Clearing	Financial process of charging and crediting customers and settling balances.
Group of borrowers	The borrower, its controller, and anyone under their control, excluding banks; When a corporation is controlled by more than one person, a single group of borrowers should include the entities holding control for whom the controlled corporation is material (e.g., in capital terms), including the controlled corporation, and any entity under their control. Additionally, when a corporation is held by more than one person, a holder without control, for whom the investee corporation is material (e.g., in capital terms), together with the investee corporation, as well as any entity under their control, in a single group of borrowers.
Lines of defense	The risk management regime is based on three lines of defense: First line: Managements of the business lines; Second line: Risk management, accounting and legal advice; Third line: Internal audit.
Fair value	A value which reflects the price at which the financial asset can be realized, or the financial liability transfered, in a transaction between a willing buyer and a willing seller. This value is determined according to the fair value hierarchy set forth in accounting standards: - Level 1 - Value which is determined according to observable market inputs; - Level 2 - Value which is estimated using observable inputs; - Level 3 - Value which is estimated using valuation techniques, which also include unobservable inputs.

Term	Short description
Finance rate (LTV)	The finance rate is the Bank's financing for the purchase transaction, relative to the value of the purchased property. The finance rate reflects the degree of risk associated with the loan: with finance rates, housing prices decline, and borrowers may find themselves in a negative capital position, where they owe more than the value of their home.
ALM - Asset liability management	Management of the Bank's assets and liabilities, with the aim of creating an appropriate correspondence between them, and increasing the Bank's capital over the long term, for the benefit of its shareholders.
CCR - Counterparty Credit Risk	Counterparty credit risk - Constitutes a sub-risk of the overall credit risk to which the Bank is exposed, and reflects the risk that a counterparty to the transaction in a financial contract transaction will default before the final settlement of the transaction, and will not pay the payments which are required under the terms of the transaction. Counterparty credit risk creates a two-sided risk of loss, and changes throughout the lifetime of the transaction. The market value of the transaction changes continuously, in accordance with fluctuations in the underlying market factors, and may be positive or negative, for each of the parties in the transaction.
CRM - Credit Risk Mitigation	Credit risk mitigation - risk offsetters which may be offset in accordance with the provisions of Basel II, (mostly including adequately pledged liquid securities). In accordance with these directives, the Bank may, when calculating the capital requirements, reduce its credit exposure to the counterparty, thereby taking into account the impact of mitigating the risk of the collateral.
CVA - Credit Valuation Adjustment	The calculation of credit risk in derivatives reflects the Bank's loss expectancy in case the counterparty to the transaction defaults on credit.
EDTF - Enhanced Disclosure Task Force	The Enhanced Disclosure Task Force, established by the FSB. The purpose of the entity is to enhance the quality of disclosure regarding risks, and to improve comparison ability and transparency.
FATCA - Foreign Accounts Tax Compliance Act	An American law which is intended to improve tax quality, and which determines that financial entities outside of the United States must report to the American tax authorities regarding accounts which are managed by them and which belong to entities with reporting obligations, even if they are not US residents.
FSB - Financial Stability Board	An international entity which monitors the international financial system. Its purpose is to promote the stability of the financial system.
ICAAP - Internal Capital Adequacy Assessment Process	The internal capital adequacy assessment process is used to evaluate the scope of capital which is required in order to support the various risks to which the Group is exposed, in order to verify that the group's effective capital exceeds the aforementioned capital requirements at all times.
KPI - Key Performance Indicator	A desirable business target, defined in quantitative or qualitative terms, and derived from the restrictions of the risk appetite.
RTGS - Real Time Gross Settlement	A payment system for immediate and final settlement of monetary transactions between banks and other business entities.

Term	Short description
SREP - Supervisory Review Process	The process is intended to ensure that banking corporations allocate adequate capital to support all of the risks which are associated with their business affairs, and also to encourage banking corporations to develop and use improved risk management techniques to monitor and manage their risks. As part of the process, the Banking Supervision Department evaluates the banking corporation's risk profile, and the internal process which is adopted by the Bank to perform a comprehensive assessment of the regulatory capital adequacy which is held by the Bank against the exposures. This process is intended to give the regulator tools for the self-assessment of the Bank's risk profile and risk management, and to determine early intervention measured with the aim of preventing harm to the Bank's stability and financial soundness.
VaR - Value at Risk	A model for measuring the maximum probable loss in case of the realization of market risks during a given time period, and according to a predetermined confidence level; The use of this method requires additional revaluation of all of the Corporation's positions, based on the fair value of the assets and liabilities. The purpose of the model is to assess the risks to which the financial institutions are exposed, and to return adequate capital to cover losses which are due to the materialization of market risks associated with different operations.

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Branches of the Bank and its Subsidiaries

Central management
2 HaNegev St., Airport City
Mailing address: 2 Herbert Samuel St., Jerusalem 91022

Real Estate Sector
2 HaNegev St., Airport City

Private banking branch
18 Keren HaYesod St., Jerusalem 92149

Jerusalem branch
2 Herbert Samuel St., Jerusalem 91022

Geula branch - Romema
21 Shamgar St., Jerusalem

Tel Aviv branch
21 Achad Ha'am St., Tel Aviv 65251

Beer Sheva branch
90 Hadassah St., Beer Sheva 84221

Haifa branch
9 Pa-Yam St. (Tzim House), Haifa 33095

Bnei Brak branch
2 Chazon Ish St., Bnei Brak 51512

Ashdod branch
118 Shavei Tzion St., Ashdod 77273

Rishon Letzion branch
63 Herzl St., Rishon Letzion 75267

Petach Tikva branch
10 HaHagana St., Petach Tikva 49591

Netanya branch
45 Herzl St., Netanya 42401

Modi'in Illit branch
18 Avnei Nezer St., Modi'in Illit

Kirion branch
192 Acre Rd., Kiryat Bialik 27000

Nazareth branch
Al Riad Center 6092/50, Nazareth 16000

Sakhnin branch
Sakhnin Mall, Main road Sakhnin

Carmiel branch
5 Maaleh Camon St., Hutzot Carmiel shopping mall, Carmiel

Umm al-Fahm branch
Alharam Mall, main road, Umm al-Fahm

Elad branch
94 Rabbi Yehuda HaNasi St., Elad

Beit Shemesh branch
2 Rabin St., Naimi shopping mall, Beit Shemesh

Beitar Illit branch
2 Ismach Israel St., Haim Zaken Center - Tmarim, Beitar Illit

Jerusalem Finance & Issuance (2005) Ltd.
2 Herbert Samuel St., Jerusalem 91022

Bank of Jerusalem

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