Bank Hapoalim

Condensed Quarterly Financial Statements
as at September 30, 2019

Q3

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Bank Hapoalim

Report of the Board of Directors
and Board of Management
as at September 30, 2019

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1. General review, objectives, and strategy

At the meeting of the Board of Directors held on November 19, 2019, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries as at September 30, 2019, and for the period of January-September 2019.

1.1. Forward-looking information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or to changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "stress scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intends," "plans," "aims," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or even that actual developments may be the opposite of expectations.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

1.2. Condensed financial information

Further to the statements in Section 2.6.1 of the Report of the Board of Directors and Board of Management of the Bank for 2018 concerning the Bank's preparations for separation from the Isracard Group, pursuant to the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering on April 8, 2019. After the sale, the Bank retains a holding of approximately 33% of the shares of Isracard, which is accounted for using the equity method.

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group has been classified as a "discontinued operation." Accordingly, until the first quarter of 2019, the Bank presented all of the assets and liabilities attributed to the activity of the Isracard Group in separate lines in the balance sheet. Similarly, in the statement of profit and loss, the Bank presented profit attributed to the discontinued operation separately, for each reported period.

Beginning in the second quarter of 2019, in which, as noted, the Bank sold 65.2% of the capital of Isracard, the Bank retains significant influence over Isracard. The remaining balance of the investment and the results of activity attributed to it, including the net profit from the sale of the investment, are therefore presented in one line, as a discontinued operation, in the Bank's financial statements.

Accordingly, the data of the Isracard Group are not presented in most of the detailed information below. For further details, see Note 1E to the Financial Statements.

Table 1-1: Condensed financial information and principal performance indicators over time

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
Main performance indicators					
Return of net profit on equity attributed to shareholders of the Bank[(1)]	**7.63%**	10.67%	**8.43%**	9.23%	7.06%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(2)]	**8.30%**	11.02%	**8.40%**	9.56%	9.74%
Return of net profit from continued operations on equity attributed to shareholders of the Bank[(1)(7)]	**7.46%**	9.41%	**7.52%**	8.18%	6.07%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(3)(7)]	**8.13%**	9.76%	**7.97%**	8.52%	8.75%
Return on average assets[(1)]	**0.65%**	0.84%	**0.71%**	0.74%	0.57%
Ratio of income to average assets			**1.61%**	1.68%	2.29%
Efficiency ratio – cost-income ratio from continued operations	**62.20%**	*57.19%	**59.58%**	*58.87%	65.05%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations[(3)]	**61.01%**	*56.33%	**58.49%**	*57.98%	57.70%
Financing margin from regular activity[(1)(4)]	**2.23%**	2.29%	**2.28%**	2.27%	2.31%
Liquidity coverage ratio[(5)]	**124%**	122%	**124%**	122%	120%

	As at September 30		December 31
	2019	2018	2018
Ratio of common equity Tier 1 capital to risk components[(6)]	**11.87%**	11.32%	11.16%
Ratio of total capital to risk components[(6)]	**15.16%**	14.77%	14.39%
Leverage ratio[(6)]	**7.92%**	7.63%	7.51%

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.
(1) Calculated on an annualized basis.
(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, the effect of the closure of the private-banking activity overseas, net profit from the sale of Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(4) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, in the section "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(5) For additional information, see the section "Liquidity and refinancing risk," below.
(6) For additional information, see the section "Capital, capital adequacy, and leverage," below.
(7) The return of net profit from continued operations is mainly influenced by the capital surplus arising, among other matters, from the sale of approximately 65% of the shares of Isracard. In September 2019, the Bank declared the distribution of part of the aforesaid capital surplus as a dividend, in the amount of NIS 1 billion.

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
Main credit quality indicators					
Allowance for credit losses as a percentage of credit to the public	**1.35%**	1.33%	**1.35%**	1.33%	1.31%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	**1.29%**	1.30%	**1.29%**	1.30%	1.23%
Net charge-offs as a percentage of average credit to the public(1)	**0.01%**	0.15%	**0.10%**	0.17%	0.20%
Provision for credit losses as a percentage of average credit to the public(1)	**(0.05%)**	0.17%	**0.18%**	0.21%	0.22%
	NIS millions				
Main profit and loss data					
Net profit attributed to shareholders of the Bank	**736**	950	**2,428**	2,498	2,595
Net profit attributed to shareholders of the Bank excluding extraordinary items(2)	**798**	980	**2,419**	2,588	3,579
Net profit from continued operations attributed to shareholders of the Bank	**720**	841	**2,170**	2,219	2,231
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items(3)	**782**	871	**2,298**	2,309	3,215
Net interest income	**2,283**	2,228	**7,026**	6,616	8,906
Provision (income) for credit losses	**(40)**	118	**400**	424	613
Net financing profit**	**2,341**	2,634	**7,339**	7,611	10,351
Non-interest income	**884**	*1,241	**2,775**	*3,547	4,868
Of which: fees	**815**	*822	**2,404**	*2,492	3,318
Operating and other expenses	**1,970**	*1,984	**5,839**	*5,983	8,960
Of which: salaries and related expenses	**1,010**	1,020	**3,071**	3,126	4,097
Total income	**3,167**	*3,469	**9,801**	*10,163	13,774
Net earnings per ordinary share (in NIS)					
Net profit attributed to shareholders of the Bank	**0.55**	0.71	**1.82**	1.87	1.95

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

** Net financing profit includes net interest income and non-interest financing income (expenses).

(1) Calculated on an annualized basis.

(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, the effect of the closure of the private-banking activity overseas, net profit from the sale of Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.

(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.

Table 1-1: Condensed financial information and principal performance indicators over time (continued)

	September 30		December 31
	2019	2018	2018
	NIS millions		
Main balance sheet data			
Total assets	**453,347**	447,921	460,926
Of which: Cash and deposits with banks	**72,517**	77,622	84,459
Securities	**65,592**	57,943	56,116
Net credit to the public	**291,007**	275,806	282,507
Net problematic credit risk	**7,761**	7,026	6,944
Net impaired balance sheet debts	**2,295**	2,238	2,158
Credit to the public not accruing interest income (NPL)	**2,401**	2,218	2,178
Total liabilities	**414,086**	410,203	423,270
Of which: Deposits from the public	**348,027**	341,775	352,260
Deposits from banks	**3,178**	4,357	4,528
Bonds and subordinated notes	**28,337**	28,647	30,024
Shareholders' equity	**39,218**	37,613	37,544
Additional data			
Share price at end of period (in NIS)	**26.7**	26.6	23.7

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
Total dividend per share (in agorot)**	**74.90**	-	**74.90**	37.17	37.17
Ratio of fees to average assets	**0.18%**	*0.19%	**0.53%**	*0.55%	0.73%

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.
** According to the date of declaration.

1.3. Condensed description of the principal risks to which the Bank is exposed

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to estimate the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk. For additional information regarding risks, see the section "Review of risks," below; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018; and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2019.

1.4. Objectives and business strategy

In late 2018, the Board of Management and the Board of Directors of the Bank approved a three-year strategic plan (for the years 2019-2021), which is updated each year based on changes in the global economy, changes in the business environment in Israel, regulatory processes, and changes in the competitive environment in which the Bank operates, in all areas of its activity.

In addition to these changes, the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. In its Annual Review of the Banking System in Israel for 2017, published in May 2018, the Banking Supervision Department described the Basel scenarios. The Bank adopted the Basel scenarios as a methodology for the analysis of the future competitive environment and for the selection of the most probable reference scenario for the banking industry in Israel. Note that in view of the differences between the competitive environments of the private customer segment and the business customer segment, we estimate that different scenarios will materialize in the different segments of activity.

The global and Israeli banking systems are influenced by a matrix of factors, primarily changes in customers' habits, tightened regulation, and the growing impact of technology. These shifts have led to more intense competition, from traditional players as well as a varied multitude of new players. We estimate that the "distributed bank" scenario has a high probability of realization, gradually, over a period of years, in the retail-banking sector (private customers and small businesses). In this scenario, financial services are distributed among banks and technological players. This scenario may involve collaborations forming between players through various activity models.

According to the estimates of the Bank, in corporate and commercial banking, the value added that large technology companies can offer business clients in the short to medium term is relatively limited, and the threat posed by tech giants in these customer segments is therefore remote. Thus, in our view, there is a high probability that the "better bank" scenario will materialize in the corporate-banking sector. In this scenario, existing banks will undergo comprehensive modernization and digitization; they will use new technologies to improve their systems, renew customer interfaces, create added value, and offer advanced services. Some business models will change, but customer relationships and core activity will be maintained.

The Bank's three-year strategic plan takes the caution necessitated by the risks in the global economy and the Israeli market into account, and balances risk and return considerations. The goal of the strategic plan is to enable the Bank to continue to pursue a trajectory of stable growth, while continuing to solidify its leadership in the Israeli banking system; providing an advanced, excellent service experience through all channels; and maximizing value for its shareholders and all of its stakeholders, despite the array of challenges confronting it, which include challenges arising from the development of the competitive map, as illustrated by the Basel scenarios.

The Bank implements the directives of the Bank of Israel concerning compliance with capital targets; these directives were taken into consideration in the Bank's strategic planning. The strategic plan is focused on five key themes:

1. **Value-creating leadership in target customer segments and activities in Israel –** Deeper connections and activities with the Bank's customers based on innovation in services and optimization of channels of activity, enhanced added value, creation of solutions adapted to different customers' needs, and strengthening of the focus of the business on high-potential activities.

2. **Enhancement of value for customers through a combination of personal, human, and technological connections –** Adapted, accessible, intuitive banking service, integrating advanced digital services with human service and advice in complex activities and at decision points.
3. **Building tomorrow: construction of infrastructures, innovation, and focused international growth –** Strengthening infrastructures for future growth and developing advanced technological capabilities, in collaboration with the business environment, while developing the commercial banking business in the United States.
4. **Sustainable shared value with stakeholders –** Promoting business processes that generate shared value for the public and for the Bank, while increasing transparency and cultivating dialogue with all stakeholders.
5. **Ongoing operational simplification and excellence –** Optimizing all resources, while simplifying and redesigning processes from end to end in order to enhance value for customers, and implementing a multi-year efficiency plan.

In addition to the five key strategic themes described above, the Bank operates in accordance with three themes in the area of resources and infrastructures:

- The Bank will continue to emphasize the nurturance and management of human resources and the creation of a supportive, agile organizational infrastructure.
- The Bank will work to promote excellence in financial management and dynamic, advanced capital management.
- These activities will be conducted while applying rigorous risk management congruent with the trajectory for the operations of the Bank.

The Bank will continue to act on the basis of its fundamental values and in congruence with the principles of sustainability, as defined in its vision. In this context, the Bank will work to continue to lead the financial industry in the areas of corporate social responsibility and contribution to the community, as it has in recent years.

For more extensive information regarding the strategy of the Bank and its expression in the various areas of the Bank's activity, see the section "Objectives and business strategy" in the Report of the Board of Directors and Board of Management for 2018.

The Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the above information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

The strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during a period of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Notable such factors are the business environment in Israel and globally, as well as macro conditions. Special importance should be accorded to the condition of the global economy; to the economic, political, and security situation in Israel and in the region; and to regulatory changes.

2. Explanation and analysis of results and business position

2.1. Trends, events, developments, and material changes

2.1.1. Economic and financial review

Developments in the global economy

The trade war and the uncertainty through Britain's withdrawal from the European Union slowed global growth. The expansion of global trade halted, hurting the industrial sector. The increase in uncertainty also led to deceleration of non-financial investments. In geographical terms, the slowdown was most notable in the European countries and in China. Growth in China fell to a low level of 5.5% in the third quarter. Growth in the American economy also slowed in the third quarter of 2019, to 1.9%, although this level still allowed a tight labor market; the unemployment rate decreased to a fifty-year low of 3.5%. Trade agreement talks between the United States and China progressed in October 2019. The British withdrawal from the European Union was postponed, to allow Britain to approve a draft agreement with the European Union. Inflation in the developed countries remained low, and a series of central banks around the world lowered their interest rates. In the United States, the central bank lowered the interest rate by 0.5 percentage points in two increments during the third quarter of 2019, to 2.0%. The Federal Reserve lowered the interest rate again at the end of October, to 1.75%. The European Central Bank lowered the interest rate on banks' deposits with the central bank from negative 0.4% to negative 0.5% in September 2019. Concurrently, it announced the resumption of its bond purchasing program, beginning November 1, 2019, at EUR 20 billion per month.

Economic activity in Israel

Economic indicators released to date point to some deceleration in growth during the third quarter. This trend may have been influenced by the declining global growth, as well as by the political uncertainty in Israel. Similar to the situation worldwide, the slowdown is more notable in the industrial sector, and less so in the service sectors. Industrial exports decreased by 0.6% in the third quarter, in dollar terms, relative to the preceding quarter, despite a sharp increase in exports of electronic components. Imports of raw materials and imports of investment products also decreased. By contrast, indicators of private consumption continued to point to expansion. The labor market remained tight, as the unemployment rate fell to 3.8% in August, and wages rose by 3.4% in the year through July.

Residential real estate

Sales of new homes, according to reports by the Central Bureau of Statistics, rose again, following the decline in the first few months of the year, with a 12% increase in June-August compared with the preceding three months. Construction starts stood at 11,500 units in the second quarter of 2019, compared with 12,500 units in the first quarter and an average of 12,700 units per quarter in 2018. The increase in prices of homes resumed: the survey of prices of homes issued by the Central Bureau of Statistics indicates a 1.3% increase in prices over the twelve months through September.

Fiscal and monetary policy

The Bank of Israel interest rate remained unchanged at 0.25% in the third quarter and in October. During the third quarter, a sharp shift occurred in the interest-rate guidance of the Bank of Israel, following a steep decrease in the pace of inflation and the continued appreciation of the shekel. In July, the monetary committee estimated that it would be necessary to raise the interest rate in the third quarter this year; however, in its October decision, the monetary committee estimated that the interest rate would remain at its present level for a long period, or decrease. The short-term note (Makam) market reflects expectations of a decrease in the interest rate in the coming months.

The budget deficit continued to rise, reaching 3.9% of GDP in the twelve months ended in June. Government expenditures grew by 6.8% in January-September, while tax revenues grew by approximately 2.0%. A second round of Knesset elections was held on September 17, 2019; coalition negotiations between the parties are currently underway. In the absence of a regular government, 2020 is expected to begin without an approved national budget; treatment of the deviation of the budget deficit from the target range will also be postponed.

Inflation and exchange rates

The "known" consumer price index fell by 0.7% in the third quarter. The annualized rate of inflation decreased to 0.6% at the end of the third quarter. The consumer price index for September fell by 0.2%, while annual inflation decreased to 0.3%. The decrease in the rate of inflation over the last year is attributed to the appreciation of the shekel against the currency basket and to the decrease in energy prices. Heightened competition from online shopping also continued to temper the prices of commercial goods. In contrast to previous years, the direct impact of economic policy on prices was low.

The shekel appreciated by 2.4% against the US dollar and by 6.3% against the euro in the third quarter. The shekel appreciated by 4.4% against the effective currency basket. The Bank of Israel purchased almost no foreign currency during the third quarter (a minute amount of USD 2 million).

Financial and capital markets

The financial markets were influenced in the third quarter by the global political uncertainty and by the policies of the central banks, which were mainly aimed at coping with the consequences of this uncertainty. The impact of the expansionary monetary policies was prominent in the global bond markets, but stock indices also continued to rise, despite the increase in risks and the lowered global growth forecasts. The S&P 500 index rose by 1.2% in the third quarter, completing a 19% increase year-to-date. The STOXX Europe 600 index rose by 2.2% in the third quarter, and the TA-125 index rose by 3.2% (all in local currencies). Daily turnovers in shares and convertibles in Tel Aviv rose slightly in the third quarter of 2019, to NIS 1,375 million, but remained lower than the daily average in 2018. Bond turnovers rose slightly relative to the preceding quarters, to a daily average of NIS 3,727 million, similar to the average in 2018.

Long-term bond yields continued to fall, as noted, against a background of increasing expectations of continued interest-rate cuts by the central banks. The decrease in bond yields was notable in the United States, as yields of ten-year bonds fell to 1.66% at the end of September, from 2.68% at the end of 2018. The decrease in yields in Europe and in Israel was similar. Ten-year yields in Israel reached 0.97% at the end of September. Overall in the third quarter, the unlinked and linked government bond indices rose by 3.5%. The Tel Bond 60 index of corporate bonds rose by 1.5% in the third quarter of 2019, while yield spreads against government bonds remained at a low level of approximately 1.0%.
In the non-financial corporate market, issues totaled approximately NIS 8.2 billion in the third quarter, similar to the levels of the preceding three quarters.

Table 2-1: Changes in the CPI and in exchange rates

	For the three months ended September 30		For the nine months ended September 30		For the year 2018
	2019	2018	**2019**	2018	
Rate of increase (decrease) in "known" CPI	**(0.7%)**	0.2%	**0.8%**	1.1%	1.2%
Rate of increase (decrease) in USD exchange rate	**(2.4%)**	(0.6%)	**(7.1%)**	4.6%	8.1%
Rate of increase (decrease) in GBP exchange rate	**(5.3%)**	(1.4%)	**(10.7%)**	1.2%	2.4%
Rate of increase (decrease) in CHF exchange rate	**(4.2%)**	1.1%	**(7.9%)**	4.6%	7.1%
Rate of increase (decrease) in EUR exchange rate	**(6.3%)**	(0.9%)	**(11.3%)**	1.5%	3.3%
Rate of increase (decrease) in TRY exchange rate	**(0.4%)**	(24.4%)	**(13.0%)**	(34.1%)	(23.1%)

Data regarding the Bank of Israel interest rate

	September 30, 2019	June 30, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Interest rate at end of period	**0.25%**	0.25%	0.25%	0.10%	0.10%

2.1.2. Disclosure regarding emphasis of matters by the external auditors

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.
The external auditors have emphasized the section in Note 10B(b) concerning exposure to class-action suits filed against the Bank Group, Note 10D concerning the investigation of the Bank Group's business with American customers, and Note 10E concerning the investigation regarding FIFA.

2.1.3. Top and emerging risks

Based on the recommendations of the FSB (Financial Stability Board), a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

The Board of Management and Board of Directors of the Bank have discussed the effect of the top and emerging risks described below on the Bank; from time to time, they examine the need to adjust business strategy to such developments.

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA are under investigation by the authorities in the United States. The Bank estimates that the aggregate total to be paid by the Bank Group in connection with the investigation of the Bank Group's business with American customers is likely to be significantly higher than the amount of the existing provision in the financial statements. Very significant fines may adversely affect the results of the Bank. At this time, it appears that a resolution or resolutions with the United States Department of Justice regarding this matter may be in the form of a deferred prosecution agreement or a plea agreement. The type of resolution, if attained, may also affect the Bank, in that a severe resolution may cause damage to the Bank's business. For details regarding the investigations of the United States authorities, see Note 10D and 10E to the Condensed Financial Statements as at September 30, 2019.
- **Macro-economic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy; significant changes in monetary policies and interest-rate curves; market volatility; changes in prices of financial assets in Israel and worldwide, and in real-estate prices; and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macro-economic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.

- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, and specifically the mandatory separation of the Bank from its credit-card companies and the significant changes in this area of activity, as well as the mobility of bank accounts and open API, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate and assess the effect thereof on the Bank. For details regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, 2017, see Note 16 to the Condensed Financial Statements as at September 30, 2019.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect on April 12, 2019, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2019-2021, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.

For details regarding legal proceedings, see Note 10 to the Condensed Financial Statements as at September 30, 2019.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements as at September 30, 2019.

2.2. Material developments in income, expenses, and other comprehensive income

Net profit attributed to shareholders of the Bank totaled NIS 2,428 million in the first nine months of 2019, compared with profit in the amount of NIS 2,498 million in the same period last year.

Net return on equity attributed to shareholders of the Bank was approximately 8.4% in the first nine months of 2019, compared with approximately 9.2% in the same period last year.

Table 2-2: Condensed statement of profit and loss

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2019	2018		**2019**	2018	
	NIS millions			NIS millions		
Interest income	**2,593**	2,895	(10.4%)	**9,148**	8,697	5.2%
Interest expenses	**(310)**	(667)	(53.5%)	**(2,122)**	(2,081)	2.0%
Net interest income	**2,283**	2,228	2.5%	**7,026**	6,616	6.2%
Non-interest financing income	**58**	406	(85.7%)	**313**	995	(68.5%)
Net financing profit*	**2,341**	2,634	(11.1%)	**7,339**	7,611	(3.6%)
Provision (income) for credit losses	**(40)**	118	(133.9%)	**400**	424	(5.7%)
Net financing profit after provision for credit losses	**2,381**	2,516	(5.4%)	**6,939**	7,187	(3.5%)
Fees and other income	**826**	**835	(1.1%)	**2,462**	**2,552	(3.5%)
Operating and other expenses	**1,970**	**1,984	(0.7%)	**5,839**	**5,983	(2.4%)
Profit from continued operations before taxes	**1,237**	1,367	(9.5%)	**3,562**	3,756	(5.2%)
Provision for taxes on profit from continued operations	**523**	548	(4.6%)	**1,413**	1,585	(10.9%)
Profit from continued operations after taxes	**714**	819	(12.8%)	**2,149**	2,171	(1.0%)
The Bank's share in profits of equity-basis investees, after taxes	**3**	-		**7**	8	(12.5%)
Net profit from continued operations	**717**	819	(12.5%)	**2,156**	2,179	(1.1%)
Net profit from a discontinued operation	**16**	109	(85.3%)	**258**	279	(7.5%)
Net profit						
Before attribution to non-controlling interests	**733**	928	(21.0%)	**2,414**	2,458	(1.8%)
Loss (profit) attributed to non-controlling interests	**3**	22	(86.4%)	**14**	40	(65.0%)
Attributed to shareholders of the Bank	**736**	950	(22.5%)	**2,428**	2,498	(2.8%)
Return of net profit	**7.6%**	10.7%	(28.4%)	**8.4%**	9.2%	(8.6%)

* The profit and loss items above are presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of "non-interest income (expenses)" to the item of "net financing profit."

** Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

2.2.1. Developments in income and expenses

Net financing profit

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments – exchange-rate differences and profit from the sale of securities, among other things – which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of change in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

Table 2-3: Composition of net financing profit

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2019	2018		**2019**	2018	
	NIS millions			NIS millions		
Interest income	**2,593**	2,895	(10.43%)	**9,148**	8,697	5.19%
Interest expenses	**(310)**	(667)	(53.52%)	**(2,122)**	(2,081)	1.97%
Net interest income	**2,283**	2,228	2.47%	**7,026**	6,616	6.20%
Non-interest financing income*	**58**	406	(85.71%)	**313**	995	(68.54%)
Total reported financing profit	**2,341**	2,634	(11.12%)	**7,339**	7,611	(3.57%)
Excluding effects not from regular activity:						
Income from realization and adjustments to fair value of bonds	**169**	9		**222**	107	107.48%
Profit from investments in shares	**12**	167	(92.81%)	**262**	243	7.82%
Loss from impairment of shares of affiliates	**(63)**	-		**(63)**	-	
Gains in respect of loans sold	**-**	-		**1**	58	
Adjustments to fair value of derivative instruments(1)	**(136)**	96	(241.67%)	**(310)**	99	
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items(2)	**(28)**	6		**(128)**	56	
Total effects not from regular activity	**(46)**	278	(116.55%)	**(16)**	563	(102.84%)
Total income from regular financing activity(3)	**2,387**	2,356	1.32%	**7,355**	7,048	4.36%

* Includes a provision for impairment in respect of the Bank's investments in Bank Pozitif.

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) This item includes the effects of hedging of currency exposures of non-monetary items and the effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which in respect of the effects of changes in the CPI: an expense of NIS 76 million in the third quarter of 2019, compared with income of NIS 19 million in the third quarter of 2018; income in the amount of NIS 49 million in the first nine months of 2019, compared with income in the amount of NIS 123 million in the first nine months of 2018.

Income from regular financing activity totaled NIS 7,355 million in the first nine months of 2019, compared with a total of NIS 7,048 million in the same period last year. The increase resulted from an increase in financial spreads of deposits, due to an increase in the dollar and shekel interest rates. In addition, the volumes of business activity and of housing credit increased. By contrast, the volume of consumer retail credit decreased, and income from linkage differentials decreased, due to changes in the rate of increase of the known CPI between the periods.

Total reported financing income amounted to NIS 7,339 million in the first nine months of 2019, compared with a total of NIS 7,611 million in the same period last year. The decrease mainly resulted from a loss in the amount of NIS 310 million, compared with profit in the amount of NIS 99 million in the same period last year, due to a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, mainly as a result of a decrease in the long-term NIS interest rate. The decrease was also influenced by impairment in the amount of approximately NIS 63 million in respect of the Bank's investment in Bank Pozitif (for further details, see the section "Principal companies," below). In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items; and profit from the sale of loans decreased. By contrast, profit from regular activity increased, as noted above, and profit from investment in securities increased.

Table 2-4: Principal data regarding interest income and expenses

	For the three months ended September 30				For the nine months ended September 30			
	2019		2018		**2019**		2018	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS millions / percent							
Interest income	**2,593**	**2.57%**	2,895	2.96%	**9,148**	**3.02%**	8,697	2.96%
Interest expenses	**(310)**	**0.52%**	(667)	1.09%	**(2,122)**	**1.16%**	(2,081)	1.13%
Net interest income	**2,283**	**2.05%**	2,228	1.87%	**7,026**	**1.86%**	6,616	1.83%
Net interest income as a percentage of the balance of interest-bearing assets		**2.26%**		2.28%		**2.32%**		2.25%

Interest income and expenses increased in the first nine months of 2019, compared with the same period last year, as a result of an increase in the dollar and shekel interest rates. By contrast, the rate of increase in the known CPI decreased between the periods. In addition, interest income increased due to an increase in business credit and housing credit volumes. However, the volume of consumer retail credit decreased.

An analysis of the changes in interest income and expenses, in a comparison of the first nine months of 2019 to the same period last year, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 460 million, and changes in interest rates caused a decrease in the amount of approximately NIS 50 million in net interest income.

The provision for credit losses totaled NIS 400 million in the first nine months of 2019, compared with a total of NIS 424 million in the same period last year.

Income in the amount of NIS 107 million was recorded in respect of the net individual provision in the first nine months of 2019, compared with income in the amount of NIS 231 million in the same period last year. The decrease in this item mainly resulted from an increase in the gross individual provision.

The net provision in respect of the collective allowance totaled NIS 507 million in the first nine months of 2019, compared with a provision in the amount of NIS 655 million in the same period last year. The decrease in the collective allowance resulted both from a decrease in automatic charge-offs and from the effect of changes in credit balances compared with the same period last year. This decrease was offset by a collective allowance recorded due to the sale of control of the Isracard Group in April 2019, and the first-time inclusion of the balance sheet and off-balance sheet credit balances of the group as at June 30, 2019.

For further information regarding the development of balances of credit to the public, see the section "Structure and development of assets, liabilities, capital, and capital adequacy" in the Report of the Board of Directors and Board of Management.

For further information regarding the change in the allowance for credit losses, see Note 6 to the Condensed Financial Statements.

Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
	NIS millions			
Individual provision for credit losses	**155**	167	**653**	542
Decrease in individual allowance for credit losses and recovery of charged off debts	**(306)**	(289)	**(760)**	(773)
Net individual income in respect of credit losses	**(151)**	(122)	**(107)**	(231)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**111**	240	**507**	655
Total provision (income) for credit losses*	**(40)**	118	**400**	424
* Of which:				
Net provision (income) for credit losses in respect of commercial credit risk	**(103)**	(37)	**204**	33
Net provision for credit losses in respect of housing credit risk	**7**	20	**18**	31
Net provision for credit losses in respect of other private credit risk	**59**	135	**178**	362
Net income in respect of credit losses in respect of risk of credit to banks and governments	**(3)**	-	**-**	(2)
Total provision (income) for credit losses	**(40)**	118	**400**	424
	%			
Provision (income) as a percentage of total credit to the public:				
Percentage of individual provision for credit losses	**0.21%**	0.24%	**0.30%**	0.26%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public***	**0.36%**	0.59%	**0.53%**	0.58%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.05%)**	0.17%	**0.18%**	0.21%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.01%**	0.15%	**0.10%**	0.17%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**0.50%**	10.94%	**7.48%**	12.44%

** Including in respect of housing loans examined according to the extent of arrears.
*** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged-off debts.

Fees and other income totaled NIS 2,462 million in the first nine months of 2019, compared with NIS 2,552 million in the same period last year. The decrease mainly resulted from capital-market fees, account-management fees, and credit-handling fees, and was offset by an increase in income from credit cards.

Table 2-6: Details of fees and other income

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2019	2018		**2019**	2018	
	NIS millions			NIS millions		
Fees						
Account management fees	**222**	230	(3.5%)	**652**	689	(5.4%)
Securities activity	**173**	174	(0.6%)	**521**	545	(4.4%)
Credit cards, net	**85**	81	4.9%	**236**	218	8.3%
Credit handling	**46**	47	(2.1%)	**146**	178	(18.0%)
Financing transaction fees	**122**	*115	6.1%	**357**	*336	6.3%
Other fees	**167**	175	(4.6%)	**492**	526	(6.5%)
Total operating fees	**815**	*822	(0.9%)	**2,404**	*2,492	(3.5%)
Total others	**11**	13	(15.4%)	**58**	60	(3.3%)
Total operating income and other income	**826**	*835	(1.1%)	**2,462**	*2,552	(3.5%)

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

Operating and other expenses totaled NIS 5,839 million in the first nine months of 2019, compared with NIS 5,983 million in the same period last year, a decrease of approximately 2.4%.

Table 2-7: Details of operating and other expenses

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2019	2018		**2019**	2018	
	NIS millions			NIS millions		
Salary expenses						
Wages	**880**	890	(1.1%)	**2,710**	2,802	(3.3%)
Bonuses and share-based compensation	**130**	130	0.0%	**361**	324	11.4%
Total wages	**1,010**	1,020	(1.0%)	**3,071**	3,126	(1.8%)
Maintenance and depreciation of buildings and equipment	**351**	341	2.9%	**989**	1,027	(3.7%)
Other expenses	**609**	(1)623	(2.2%)	**1,779**	(1)1,830	(2.8%)
Total operating and other expenses	**1,970**	(1)1,984	(0.7%)	**5,839**	(1)5,983	(2.4%)

(1) Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

Salary expenses totaled NIS 3,071 million in the first nine months of 2019, compared with NIS 3,126 million in the same period last year, a decrease of 1.8%. The decrease in salary expenses resulted from continued cost savings due to efficiency processes, and was offset by the effect of the increase in the share price of the Bank on equity remuneration.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 989 million in the first nine months of 2019, compared with NIS 1,027 million in the same period last year, a decrease of 3.7%.

Other expenses totaled NIS 1,779 million in the first nine months of 2019, compared with NIS 1,830 million in the same period last year. The decrease mainly resulted from income from exchange-rate differences due to the revaluation of the provision for the investigation of the Bank Group's business with American customers, compared with an expense in the same period last year, offset by an increase in IT expenses and in fees, due to an increase in the volume of activity, and in expenses recorded in respect of a transaction for the sale of the customer portfolio in Switzerland.

The provision for taxes on profit from continued operations totaled NIS 1,413 million in the first nine months of 2019, compared with a total of NIS 1,585 million in the same period last year.

The effective tax rate for the Bank reached 39.7% in the first nine months of 2019, compared with a statutory tax rate of 34.2%, due to unrecognized expenses; losses for which no deferred taxes were included; taxes in respect of previous years, as a result of the recovery of charged-off debts; and deferred taxes in respect of affiliates.

Net profit from a discontinued operation totaled NIS 258 million in the first nine months of 2019, compared with a total of NIS 279 million in the same period last year. Profit from a discontinued operation in the first nine months of 2019 includes net profit in the amount of approximately NIS 137 million (after the effect of related tax), which includes capital gains in the amount of approximately NIS 210 million in respect of the part of the investment that has been sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date, net of reduction to market price as at June 30, 2019, in the amount of approximately NIS 73 million. In addition, the results of the discontinued operation include the Bank's share in the profits of Isracard (33%) in the second and third quarters of 2019. Until the end of the first quarter of 2019, profit from a discontinued operation included the share of the Bank (98.2%) in the profits of the Isracard Group.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 14 million in the first nine months of 2019, compared with a share in loss in the amount of NIS 40 million in the same period last year.

Net profit attributed to shareholders of the Bank totaled NIS 2,428 million in the first nine months of 2019, compared with a total of NIS 2,498 million in the same period last year.

Basic net profit per share of par value NIS 1 amounted to NIS 1.82 in the first nine months of 2019, compared with NIS 1.87 in the same period last year.

2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
	NIS millions			
Net profit before attribution to non-controlling interests	**733**	928	**2,414**	2,458
Net loss (profit) attributed to non-controlling interests	**3**	22	**14**	40
Net profit attributed to shareholders of the Bank	**736**	950	**2,428**	2,498
Other comprehensive income (loss) before taxes:				
Net adjustments in respect of bonds available for sale at fair value(1)	**128**	24	**581**	(577)
Net adjustments from translation of financial statements,* after hedge effects**	**-**	3	**-**	(1)
Adjustments of liabilities in respect of employee benefits***	**(183)**	(59)	**(267)**	194
Other comprehensive income (loss) before taxes	**(55)**	(32)	**314**	(384)
Effect of related tax	**32**	39	**(78)**	147
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**(23)**	7	**236**	(237)
Comprehensive income (loss) before attribution to non-controlling interests	**710**	935	**2,650**	2,221
Comprehensive loss (income) attributed to non-controlling interests	**3**	22	**14**	40
Comprehensive income attributed to shareholders of the Bank	**713**	957	**2,664**	2,261

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.
*** Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.
(1) Until December 31, 2018, securities available for sale.

Comprehensive income totaled NIS 2,664 million in the first nine months of 2019, compared with a total of NIS 2,261 million in the same period last year. Comprehensive income was mainly influenced, beyond the change in net profit, by an increase in adjustments of bonds available for sale, as a result of an increase in prices of bonds in Israel and overseas (primarily government bonds), in contrast to decreases in prices of securities available for sale in the same period last year. This increase was partly offset by changes in adjustments of employee benefit liabilities, due to a decrease in interest-rate curves in the current period.

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

The consolidated balance sheet as at September 30, 2019 totaled NIS 453.3 billion, compared with NIS 460.9 billion at the end of 2018. The decrease mainly resulted from discontinuation of the consolidation of the Isracard Group, and the subtraction of previously included assets in the second quarter of 2019.

Table 2-9: Developments in principal balance sheet items

	Balance as at			Change vs.	
	September 30, 2019	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
	NIS millions				
Total assets	**453,347**	454,247	460,926	(0.2%)	(1.6%)
Net credit to the public	**291,007**	288,623	282,507	0.8%	3.0%
Cash and deposits with banks	**72,517**	72,913	84,459	(0.5%)	(14.1%)
Securities	**65,592**	71,116	56,116	(7.8%)	16.9%
Assets attributed to a discontinued operation*	**829**	803	15,110	3.2%	
Deposits from the public	**348,027**	352,112	352,260	(1.2%)	(1.2%)
Bonds and subordinated notes	**28,337**	30,080	30,024	(5.8%)	(5.6%)
Liabilities attributed to a discontinued operation*	**-**	-	14,733	-	
Shareholders' equity	**39,218**	39,503	37,544	(0.7%)	4.5%

* Beginning in the second quarter of 2019, the balance of the investment in the Isracard Group, which is accounted for using the equity method, is stated in one line within assets attributed to a discontinued operation. For further details, see Note 1E to the Condensed Financial Statements.

2.3.1. Structure and development of assets and liabilities

Credit to the public

Table 2-10: Development of net balance sheet credit to the public, by principal economic sector

	As at		Change
	September 30, 2019	December 31, 2018	
	NIS millions		
Private individuals – housing loans	**75,009**	70,042	7.1%
Private individuals – other	**39,416**	42,269	(6.7%)
Construction and real estate	**53,043**	52,350	1.3%
Commerce	**27,863**	27,909	(0.2%)
Industry	**16,718**	17,037	(1.9%)
Financial services*	**23,480**	18,993	23.6%
Other	**55,478**	53,907	2.9%
Total	**291,007**	282,507	3.0%

* Due to the discontinuation of the consolidation of Isracard, the balance includes loans granted to the Isracard Group, which totaled approximately NIS 3,593 million in the statements for the second quarter of 2019.

For further information regarding the development of credit and credit risks by economic sector, see the chapter "Credit risk" in Section 3.2.2, "Classification and analysis of credit risk by economic sector," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

Problematic debts

Table 2-11: Problematic credit risk(1)

	September 30, 2019			December 31, 2018		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**2,965**	**505**	**3,470**	2,729	582	3,311
Substandard credit risk(2)	**1,615**	**372**	**1,987**	1,451	220	1,671
Credit risk under special supervision	**2,738**	**879**	**3,617**	2,432	770	3,202
Total problematic credit risk*	**7,318**	**1,756**	**9,074**	6,612	1,572	8,184
Net problematic credit risk	**6,086**	**1,675**	**7,761**	5,492	1,452	6,944
* Of which, unimpaired debts in arrears of 90 days or more(2)	**841**	**-**	**841**	808	-	808

(1) Credit risk – impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

Total problematic debts increased by 11% in the first nine months of 2019.

For further information regarding the analysis of the credit portfolio and problematic credit risk, see the chapter "Credit risk" in Section 3.2.1, "Analysis of credit quality and problematic credit risk," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

Off-balance sheet credit

Table 2-12: Developments in principal off-balance sheet items

	Balance as at		Change
	September 30, 2019	December 31, 2018	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	**772**	1,397	(44.7%)
Guarantees and other commitments*,**	**51,630**	52,490	(1.6%)
Unutilized credit-card credit facilities under the Bank's responsibility	**14,956**	14,689	1.8%
Unutilized revolving overdraft and other credit facilities in on-demand accounts*(1)	**44,378**	41,403	7.2%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**56,971**	50,755	12.2%
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	**-**	24,845	

* Includes off-balance sheet credit risk in the amount of approximately NIS 15,931 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2018: NIS 22,617 million).

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 146 million (December 31, 2018: NIS 174 million).

(1) Balances of revolving overdraft and other credit facilities in the amount of approximately NIS 4.5 billion were included in the statements for the second quarter of 2019, due to the discontinuation of consolidation of the Isracard Group, which were netted as mutual balances prior to the deconsolidation.

Securities

The Bank has investments in government and corporate bonds, as well as investments in tradable and non-tradable shares, broadly diversified.

Securities totaled approximately NIS 65.6 billion as at September 30, 2019, compared with approximately NIS 56.1 billion at the end of 2018, an increase of approximately 16.9%, which mainly resulted from net purchases of tradable Israeli government bonds and US government bonds in the portfolio available for sale.

Details of the Bank Group's activity in securities are set out below.

Table 2-13: Securities balances

	Trading book		Available for sale		Held to maturity		Total	
	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities
	NIS millions/percent							
September 30, 2019								
Israeli government bonds	**7,402**	**11.3%**	**35,370**	**54.0%**	**-**	**-**	**42,772**	**65.3%**
US government bonds	**-**	**-**	**10,882**	**16.6%**	**-**	**-**	**10,882**	**16.6%**
Government bonds – other foreign countries	**3**	**0.0%**	**442**	**0.7%**	**-**	**-**	**445**	**0.7%**
Total government bonds	**7,405**	**11.3%**	**46,694**	**72.3%**	**-**	**-**	**54,099**	**82.5%**
Corporate bonds – Israel	**-**	**-**	**-**	**-**	**306**	**0.5%**	**306**	**0.5%**
Corporate bonds – foreign countries	**-**	**-**	**9,502**	**14.5%**	**-**	**-**	**9,502**	**14.5%**
Total corporate bonds	**-**	**-**	**9,502**	**14.5%**	**306**	**0.5%**	**9,808**	**15.0%**
Shares	**5**	**0.0%**	**1,680**	**2.6%**	**-**	**-**	**1,685**	**2.6%**
Total securities	**7,410**	**11.3%**	**57,876**	**89.3%**	**306**	**0.5%**	**65,592**	**100.0%**
December 31, 2018								
Israeli government bonds	6,266	11.2%	26,373	47.0%	-	-	32,639	58.2%
US government bonds	64	0.1%	9,419	16.8%	-	-	9,483	16.9%
Government bonds – other foreign countries	5	0.0%	1,001	1.8%	-	-	1,006	1.8%
Total government bonds	6,335	11.3%	36,793	65.6%	-	-	43,128	76.9%
Corporate bonds – Israel	-	-	255	0.4%	398	0.7%	653	1.2%
Corporate bonds – foreign countries	2	0.0%	10,812	19.3%	-	-	10,814	19.3%
Total corporate bonds	2	0.0%	11,067	19.7%	398	0.7%	11,467	20.4%
Shares	41	0.1%	1,480	2.6%	-	-	1,521	2.7%
Total securities	6,378	11.4%	49,340	87.9%	398	0.7%	56,116	100.0%

For further details regarding amounts measured at fair value, see Note 15B to the Condensed Financial Statements.

Table 2-14: Details of corporate bonds by economic sector

	September 30, 2019		December 31, 2018	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	**462**	**4.7%**	544	4.7%
Industry	**519**	**5.3%**	578	5.0%
Electricity and water	**392**	**4.0%**	418	3.7%
Information and communications	**461**	**4.7%**	447	3.9%
Banks and financial institutions	**7,340**	**74.8%**	8,785	76.7%
Others	**634**	**6.5%**	695	6.0%
Total corporate bonds	**9,808**	**100.0%**	11,467	100.0%

For details regarding unrealized loss from adjustments to fair value in respect of bonds available for sale (2018 – securities in the portfolio available for sale), see Note 5 to the Condensed Financial Statements.

Deposits

Table 2-15: Developments in balances of deposits

	Balance as at		Change
	September 30, 2019	December 31, 2018	
	NIS millions		
Deposits from the public	**348,027**	352,260	(1.20%)
Deposits from banks	**3,178**	4,528	(29.81%)
Deposits from the government	**485**	208	133.17%
Total	**351,690**	356,996	(1.49%)

The balance of deposits totaled approximately NIS 352 billion as at September 30, 2019, compared with a total of approximately NIS 357 billion at the end of 2018. The decrease mainly resulted from a decrease in deposits of the public.

Off-balance sheet activity in securities held by the public

Table 2-16: Developments in balances of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides custody, management, operational, and advisory services

	Balance as at		Change
	September 30, 2019	December 31, 2018	
	NIS millions		
Securities[(1)(2)]	**714,946**	828,350	(13.69%)
Assets of provident funds receiving operational services[(2)]	**-**	85,305	(100.00%)
Mutual fund assets[(3)]	**87,651**	76,213	15.01%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services. Most of the decrease in the volume of customer assets resulted from the transfer of assets in the amount of approximately NIS 150 billion of a substantial customer of a wholly-owned subsidiary of the Bank (Poalim Sahar).
(2) Further to the decision of the Bank to discontinue the activity of providing operational services for provident and study funds to management companies, as noted in Section 7.5.7 of the Corporate Governance Report for 2018, the discontinuation of this activity was completed in July 2019.
(3) Value of assets of mutual funds receiving services related to account management at various volumes.

Bonds and subordinated notes totaled NIS 28.3 billion as at September 30, 2019, compared with NIS 30.0 billion at the end of 2018, a decrease of approximately 5.6%, which resulted from maturities of bonds and subordinated notes with principal in a total amount of approximately NIS 5 billion, partly offset by the issuance of bonds and subordinated notes.

Bonds in the amount of approximately NIS 2.5 billion of a wholly-owned subsidiary of the Bank (Hapoalim Hanpakot) and subordinated notes in the amount of approximately NIS 1 billion were issued during the first nine months of 2019. This increase was offset by bond maturities and by the early redemption of subordinated notes, as described in Note 9K to the Condensed Financial Statements.

Table 2-17: Details of bonds and subordinated notes

	September 30, 2019		December 31, 2018	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	**13,856**	**11,861**	15,371	12,108
Bonds	**14,481**	**14,295**	14,653	14,392
Total bonds and subordinated notes	**28,337**	**26,156**	30,024	26,500

During the second quarter of 2019, Hapoalim Hanpakot completed a public offering of subordinated notes with a loss-absorption mechanism, in consideration for approximately NIS 1 billion (gross). The aforesaid subordinated notes will constitute part of the Tier 2 capital of the Bank; they are linked to the consumer price index and bear annual interest at a rate of 2.02%, maturing in 2030, with an option for early redemption at the initiative of the Bank (and with the approval of the Banking Supervision Department) in 2025.

The Bank carried out full early redemption of the subordinated notes in Series B and of the subordinated notes in Series D in February 2019 and September 2019, respectively, in consideration for a total of NIS 582 million and NIS 349 million, respectively.

Table 2-18: Derivative instruments

	September 30, 2019			December 31, 2018		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**7,402**	**8,150**	**573,184**	4,809	4,811	793,078
Currency contracts	**4,424**	**4,758**	**295,370**	4,285	3,423	264,123
Share-related contracts	**831**	**819**	**47,494**	1,377	1,380	51,423
Commodity and service contracts (including credit derivatives)	**35**	**35**	**985**	63	64	1,280
Total	**12,692**	**13,762**	**917,033**	10,534	9,678	1,109,904

2.3.2. Capital, capital adequacy, and leverage

(1) Capital

Investments in the capital of the Bank and transactions in its shares

The issued and paid-up share capital of the Bank, as at September 30, 2019, is NIS 1,335,168,159 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 2,208,952 ordinary shares purchased by the Bank ("Treasury Shares").

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years. For additional details regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see the section "Other matters" in the Corporate Governance Report in the Annual Financial Statements for 2018.

Dividends

As of the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. Notwithstanding the above, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved. For details regarding the capital-adequacy target of the Bank, see the section "Capital adequacy," below.

Pursuant to the terms of the subordinated notes, if interest payments in respect of these notes are suspended, the Bank shall not pay dividends to its shareholders until all of the suspended interest payments are paid in full, whether such dividends are declared prior to the Bank's announcement regarding the formation of circumstances for suspension, or whether the dividends are declared after such an announcement.

Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends from ongoing earnings should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See also Note 24 to the Annual Financial Statements for 2018.

As a result of the sale of approximately 65% of the shares of Isracard in the second quarter of 2019 (see Note 17 to the Condensed Financial Statements), the Bank accumulated additional capital surplus in the amount of approximately NIS 1.3 billion (of which approximately NIS 0.3 billion is in respect of a decrease in the operational risk of Isracard, which will be recognized gradually, over a period of three years). With respect to this capital surplus, in September 2019 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 1 billion, paid in October 2019. The dividend distribution replaced the possible buyback plan that had been considered, which was reported by the Bank in previous statements. There is no change in the dividend distribution policy of the Bank.

Details regarding dividend distribution declared in respect of the third quarter of 2019:
On September 24, 2019, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately NIS 1,000 million. The dividend constitutes 74.897 agorot per share of par value NIS 1.
The record date was October 7, 2019, and the dividend was paid on October 23, 2019.

Table 2-19: Details of dividends paid

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
May 23, 2018	June 12, 2018	18.825	251
March 25, 2018	April 11, 2018	18.345	245

(2) Capital adequacy

The Bank's approach to capital-adequacy assessment

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The capital measurement and adequacy directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Banking Supervision Department.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 40% in 2018, and stands at 30% in 2019.

Capital-adequacy target

Pursuant to the circular of the Banking Supervision Department concerning minimum capital ratios, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to the minimum capital ratios.
Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, based on data as at September 30, 2019, stand at 10.26% and 13.76%, respectively.

Capital planning and capital-adequacy objectives established by the Bank

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank also examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of a such a stress event.
Further to the foregoing, and pursuant to a resolution of the Board of Directors of the Bank, the target common equity Tier 1 capital ratio is 10.75% as of December 31, 2017.
For additional information regarding the ICAAP and the capital-adequacy targets, see the Report on Risks as at December 31, 2018.

Improving operational efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, “Improving the operational efficiency of the banking system in Israel” (the “Efficiency Directive”). Pursuant to the Efficiency Directive, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the directive will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio. In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, estimated at approximately 0.12% as at September 30, 2019, is being allocated in equal parts over five years, beginning in 2017.

Further to the Efficiency Directive, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units (hereinafter: "Real-Estate Efficiency").

In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

The Banking Supervision Department has extended the period for implementation of the efficiency plan until December 31, 2019.

Issuance of subordinated notes with a loss-absorption mechanism

During the second quarter of 2019, the Bank issued a series of subordinated notes, in the amount of approximately NIS 1 billion, which constitute part of the Tier 2 capital of the Bank. For details regarding issues of subordinated notes by Hapoalim Hanpakot, see Note 9J to the Condensed Financial Statements.

Early redemption of capital notes in **Tier 1 capital**

The Bank carried out full early redemption of the subordinated notes in Series B and of the subordinated notes in Series D in February 2019 and September 2019, respectively, in consideration for a total of NIS 582 million and NIS 349 million, respectively.

The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of this activity, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, the risk-adjusted assets will be weighted at a rate of at least 600%.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at September 30, 2019, is a decrease of approximately 0.04%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.11%, under the assumption of weighting of the risk-adjusted assets at 600%.

Within the strategic plan, a decision was made to gradually reduce the credit portfolio.

The Bank has commenced activities towards selling its full holdings in Bank Pozitif (for further details, see the section "Principal companies," below).

Table 2-20: Calculation of the capital-adequacy ratio

	September 30, 2019	September 30, 2018	December 31, 2018
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital(1)	**39,528**	38,112	38,004
Additional Tier 1 capital	**733**	977	977
Total Tier 1 capital(1)	**40,261**	39,089	38,981
Tier 2 capital	**10,197**	10,634	10,042
Total overall capital(1)	**50,458**	49,723	49,023
2. Weighted balances of risk-adjusted assets			
Credit risk(2)	**306,194**	308,582	312,900
Market risks	**3,044**	3,913	3,429
Operational risk	**23,684**	24,183	24,268
Total weighted balances of risk-adjusted assets(2)	**332,922**	336,678	340,597
	%		
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	**11.87%**	11.32%	11.16%
Ratio of Tier 1 capital to risk components	**12.09%**	11.61%	11.44%
Ratio of total capital to risk components	**15.16%**	14.77%	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**10.26%**	10.24%	10.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**13.76%**	13.74%	13.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plan, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel" (hereinafter: Efficiency Plan Adjustments), allocated in equal parts over five years, beginning in 2017. For additional details regarding the effect of the Efficiency Plan Adjustments, see Note 9 to the Condensed Financial Statements.

(2) A total of NIS 480 million as at September 30, 2019, NIS 640 million as at December 31, 2018, and NIS 693 million as at September 30, 2018, was deducted from the total weighted balances of risk-adjusted assets, due to Efficiency Plan Adjustments, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning in 2017.

(3) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 10% and 13.5%, respectively. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to these ratios.

Table 2-21: Composition of capital for the purpose of calculating the ratio of capital to risk components

	September 30, 2019	September 30, 2018	December 31, 2018
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	**8,167**	8,134	8,135
Retained earnings	**31,975**	30,468	30,565
Non-controlling interests in equity of consolidated subsidiaries	**17**	40	40
Unrealized gains (losses) from adjustments of bonds available for sale to fair value*	**259**	135	(163)
Other capital instruments	**(840)**	(629)	(536)
Amounts deducted from Tier 1 capital	**(50)**	(36)	(37)
Total common equity Tier 1 capital	**39,528**	38,112	38,004
Innovative hybrid instruments	**733**	977	977
Total Tier 1 capital	**40,261**	39,089	38,981
Tier 2 capital			
Hybrid capital instruments and subordinated notes	**35**	84	57
Collective allowances for credit losses before the effect of related tax	**3,780**	3,857	3,911
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,382**	6,693	6,074
Total Tier 2 capital	**10,197**	10,634	10,042
Total qualifying capital	**50,458**	49,723	49,023

* 2018 – Securities available for sale.

For further details, see Note 9 to the Condensed Financial Statements.

Table 2-22: Risk components and regulatory capital requirements in respect of credit risk, market risk, and operational risk

	September 30, 2019		September 30, 2018		December 31, 2018	
	Risk-adjusted assets	Capital requirements[1]	Risk-adjusted assets	Capital requirements[1]	Risk-adjusted assets	Capital requirements[1]
	NIS millions					
Credit risk						
Sovereign debts	**1,285**	**177**	1,368	188	1,474	203
Debts of public-sector entities	**2,767**	**381**	3,038	417	2,923	402
Debts of banking corporations	**5,924**	**815**	5,906	811	5,986	822
Debts of corporations	**113,953**	**15,679**	117,902	16,200	122,423	16,820
Debts secured by commercial real estate	**62,070**	**8,541**	55,838	7,672	55,817	7,669
Retail exposures to individuals	**41,929**	**5,769**	48,977	6,729	49,009	6,734
Loans to small businesses	**7,172**	**987**	7,800	1,072	7,360	1,011
Housing loans	**48,588**	**6,686**	44,233	6,078	45,304	6,225
Securitization	**33**	**5**	91	13	143	20
Other assets	**19,670**	**2,707**	19,487	2,678	19,134	2,629
CVA risk	**2,803**	**386**	3,942	542	3,327	457
Total in respect of credit risk	**306,194**	**42,133**	308,582	42,400	312,900	42,992
Market risks	**3,044**	**419**	3,913	538	3,429	471
Operational risk	**23,684**	**3,259**	24,183	3,323	24,268	3,334
Total risk-adjusted assets in respect of the various risks	**332,922**	**45,811**	336,678	46,261	340,597	46,797
Common equity Tier 1 capital	**39,528**		38,112		38,004	
Tier 1 capital	**40,261**		39,089		38,981	
Total capital	**50,458**		49,723		49,023	

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.76% as at September 30, 2019; 13.74% as at December 31, 2018; and 13.74% as at September 30, 2018. The following approaches are used at the Bank to calculate supervisory capital, with respect to the main risk categories: standardized approach (used for credit risks, market risks, operational risk, and securitization risk); present exposure approach (for counterparty credit risk); and calculation based on risk weights established in the Proper Conduct of Banking Business Directives (used in the calculation of other assets).

(3) Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.

Table 2-23: Leverage ratio

	September 30, 2019	September 30, 2018	December 31, 2018
		NIS millions	
Consolidated data			
Tier 1 capital*	**40,261**	39,089	38,981
Total exposures*	**508,609**	512,146	518,980
		%	
Leverage ratio	**7.92%**	7.63%	7.51%
Minimum leverage ratio required by the Banking Supervision Department	**6.00%**	6.00%	6.00%

* These data also include Efficiency Plan Adjustments, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel." The effect of the costs of the efficiency plan on the leverage ratio as at September 30, 2019, estimated at approximately 0.07%, is allocated in equal parts over five years, beginning in 2017.

2.4. Description of the Bank Group's business by supervisory activity segments

Segments of activity are reported on in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department. This reporting is fundamentally different from the activity segments used at the Bank according to the approach of its management, which are described in Section 2.5 and in Note 12A to the Condensed Financial Statements. Supervisory activity segments are reported in the uniform format established by the Banking Supervision Department for the entire banking system. The segments are based on customer characteristics, such as asset portfolio volume with respect to private customers, or annual revenue of a business with respect to business customers.

For the definitions of the supervisory segments and for details regarding the main points of the guidelines, estimates, and reporting principles, see Note 28 to the Annual Financial Statements for 2018.

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group is classified as a "discontinued operation" and presented under the "Other" segment.

Table 2-24: Results of operations and principal data of the supervisory activity segments

	For the three months ended September 30, 2019										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Total net financing profit	**813**	**42**	**603**	**198**	**285**	**25**	**242**	**-**	**2,208**	**133**	**2,341**
Fees and other income	**337**	**35**	**210**	**70**	**97**	**19**	**19**	**20**	**807**	**19**	**826**
Total income	**1,150**	**77**	**813**	**268**	**382**	**44**	**261**	**20**	**3,015**	**152**	**3,167**
Provision (income) for credit losses	**77**	**-**	**59**	**(33)**	**(154)**	**(2)**	**(3)**	**-**	**(56)**	**16**	**(40)**
Operating and other expenses	**930**	**49**	**443**	**85**	**82**	**42**	**111**	**70**	**1,812**	**158**	**1,970**
Profit (loss) from continued operations before taxes	**143**	**28**	**311**	**216**	**454**	**4**	**153**	**(50)**	**1,259**	**(22)**	**1,237**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**52**	**13**	**118**	**83**	**163**	**3**	**75**	**(18)**	**489**	**34**	**523**
Net profit (loss) from continued operations	**91**	**15**	**193**	**133**	**291**	**1**	**81**	**(32)**	**773**	**(56)**	**717**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**	**-**	**16**
Net profit (loss) attributed to shareholders of the Bank	**91**	**15**	**193**	**133**	**291**	**1**	**81**	**(16)**	**789**	**(53)**	**736**
Balance of gross credit to the public at the end of the reported period	**114,923**	**718**	**65,886**	**30,163**	**66,380**	**1,605**	**-**	**-**	**279,675**	**15,305**	**294,980**
Balance of deposits from the public at the end of the reported period	**136,052**	**31,355**	**61,719**	**20,229**	**38,218**	**44,455**	**-**	**-**	**332,028**	**15,999**	**348,027**

Table 2-24: Results of operations and principal data of the supervisory activity segments (continued)

	For the three months ended September 30, 2018*										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Total net financing profit	785	41	576	180	282	43	627	-	2,534	100	2,634
Fees and other income	341	38	189	68	88	30	28	30	812	23	835
Total income	1,126	79	765	248	370	73	655	30	3,346	123	3,469
Provision (income) for credit losses	148	-	148	(20)	(187)	(4)	-	-	85	33	118
Operating and other expenses	851	44	422	79	96	39	108	58	1,697	287	1,984
Profit (loss) from continued operations before taxes	127	35	195	189	461	38	547	(28)	1,564	(197)	1,367
Provision for taxes (tax benefit) on profit (loss) from continued operations	58	13	89	81	203	16	181	(89)	552	(4)	548
Net profit (loss) from continued operations	69	22	106	108	258	22	366	61	1,012	(193)	819
Net profit from a discontinued operation	-	-	-	-	-	-	-	109	109	-	109
Net profit (loss) attributed to shareholders of the Bank	69	22	106	108	258	22	372	170	1,127	(177)	950
Balance of gross credit to the public at the end of the reported period	110,842	1,249	62,224	25,840	61,476	1,448	-	(1)14,142	277,221	16,457	293,678
Balance of deposits from the public at the end of the reported period	127,622	32,830	58,965	19,282	33,576	47,248	-	(1)91	319,614	22,252	341,866

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) The data include balances attributed to a discontinued operation.

Table 2-24: Results of operations and principal data of the supervisory activity segments (continued)

	For the nine months ended September 30, 2019										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	**2,449**	**136**	**1,804**	**575**	**837**	**76**	**1,064**	**3**	**6,944**	**395**	**7,339**
Fees and other income	**985**	**104**	**617**	**206**	**284**	**71**	**61**	**89**	**2,417**	**45**	**2,462**
Total income	**3,434**	**240**	**2,421**	**781**	**1,121**	**147**	**1,125**	**92**	**9,361**	**440**	**9,801**
Provision (income) for credit losses	**208**	**-**	**192**	**(47)**	**12**	**1**	**-**	**-**	**366**	**34**	**400**
Operating and other expenses	**2,698**	**140**	**1,296**	**242**	**237**	**120**	**333**	**190**	**5,256**	**583**	**5,839**
Profit (loss) from continued operations before taxes	**528**	**100**	**933**	**586**	**872**	**26**	**792**	**(98)**	**3,739**	**(177)**	**3,562**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**185**	**36**	**337**	**214**	**309**	**10**	**296**	**(28)**	**1,359**	**54**	**1,413**
Net profit (loss) from continued operations	**343**	**64**	**596**	**372**	**563**	**16**	**503**	**(70)**	**2,387**	**(231)**	**2,156**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**258**	**258**	**-**	**258**
Net profit (loss) attributed to shareholders of the Bank	**343**	**64**	**596**	**372**	**563**	**16**	**507**	**188**	**2,649**	**(221)**	**2,428**
Balance of gross credit to the public at the end of the reported period	**114,923**	**718**	**65,886**	**30,163**	**66,380**	**1,605**	**-**	**-**	**279,675**	**15,305**	**294,980**
Balance of deposits from the public at the end of the reported period	**136,052**	**31,355**	**61,719**	**20,229**	**38,218**	**44,455**	**-**	**-**	**332,028**	**15,999**	**348,027**

Table 2-24: Results of operations and principal data of the supervisory activity segments (continued)

	For the nine months ended September 30, 2018*										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	2,327	114	1,728	510	797	104	1,675	-	7,255	356	7,611
Fees and other income	1,007	117	592	200	254	97	116	96	2,479	73	2,552
Total income	3,334	231	2,320	710	1,051	201	1,791	96	9,734	429	10,163
Provision (income) for credit losses	394	-	310	(25)	(300)	(6)	(2)	-	371	53	424
Operating and other expenses	2,600	135	1,269	236	252	118	355	222	5,187	796	5,983
Profit (loss) from continued operations before taxes	340	96	741	499	1,099	89	1,438	(126)	4,176	(420)	3,756
Provision for taxes (tax benefit) on profit (loss) from continued operations	145	37	294	198	436	36	489	(54)	1,581	4	1,585
Net profit (loss) from continued operations	195	59	447	301	663	53	957	(72)	2,603	(424)	2,179
Net profit from a discontinued operation	-	-	-	-	-	-	-	279	279	-	279
Net profit (loss) attributed to shareholders of the Bank	195	59	447	301	663	53	963	207	2,888	(390)	2,498
Balance of gross credit to the public at the end of the reported period	110,842	1,249	62,224	25,840	61,476	1,448	-	(1)14,142	277,221	16,457	293,678
Balance of deposits from the public at the end of the reported period	127,622	32,830	58,965	19,282	33,576	47,248	-	(1)91	319,614	22,252	341,866

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) The data include balances attributed to a discontinued operation.

Principal changes in net profit and balance sheet balances

Household Segment

Net profit attributed to shareholders of the Bank in the Household Segment totaled NIS 343 million in the first nine months of 2019, compared with net profit in the amount of NIS 195 million in the same period last year. The increase mainly resulted from a decrease in the provision for credit losses, and from an increase in net financing profit.

Net financing profit totaled NIS 2,449 million in the first nine months of 2019, compared with NIS 2,327 million in the same period last year. The increase resulted from an increase in housing credit balances and in financial spreads of housing credit, alongside an increase in deposits from the public and in the spreads of such deposits, due to increases in the dollar and shekel interest rates.

Fees and other income totaled NIS 985 million in the first nine months of 2019, compared with NIS 1,007 million in the same period last year. The decrease mainly resulted from a decrease in financial product distribution fees and in account-management fees.

The provision for credit losses totaled NIS 208 million in the first nine months of 2019, compared with NIS 394 million in the same period last year. The decrease resulted from a decrease in the collective allowance, due to a decrease in automatic charge-offs and in the volume of problematic debts.

Operating and other expenses of the segment totaled NIS 2,698 million in the first nine months of 2019, compared with NIS 2,600 million in the same period last year. The increase resulted from an increase in IT expenses and in fee expenses, due to an increase in volumes of activity.

Credit to the public totaled approximately NIS 115 billion as at September 30, 2019 (of which: housing credit in the amount of approximately NIS 75 billion, credit cards in the amount of approximately NIS 6 billion, and consumer credit in the amount of approximately NIS 34 billion), compared with approximately NIS 113 billion as at December 31, 2018 (of which: housing credit in the amount of approximately NIS 70 billion, credit cards in the amount of approximately NIS 5 billion, and consumer credit in the amount of approximately NIS 37 billion).

Deposits from the public totaled approximately NIS 136.1 billion as at September 30, 2019, compared with approximately NIS 134.7 billion as at December 31, 2018.

Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 64 million in the first nine months of 2019, compared with net profit in the amount of NIS 59 million in the same period last year. The increase mainly resulted from an increase in net financing profit, partly offset by a decrease in income from fees.

Net financing profit totaled NIS 136 million in the first nine months of 2019, compared with NIS 114 million in the same period last year. The increase mainly resulted from an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 104 million in the first nine months of 2019, compared with NIS 117 million in the same period last year. The decrease mainly resulted from a decrease in financial product distribution fees and in conversion difference fees.

Credit to the public totaled approximately NIS 0.7 billion as at September 30, 2019, compared with approximately NIS 0.9 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 31.4 billion as at September 30, 2019, compared with approximately NIS 34.3 billion as at December 31, 2018.

Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 596 million in the first nine months of 2019, compared with NIS 447 million in the same period last year. The increase mainly resulted from a decrease in the provision for credit losses, and from an increase in net financing profit.

Net financing profit totaled NIS 1,804 million in the first nine months of 2019, compared with NIS 1,728 million in the same period last year. The increase mainly resulted from an increase in average balances of credit and deposits and from an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 617 million in the first nine months of 2019, compared with NIS 592 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions.

The provision for credit losses totaled NIS 192 million in the first nine months of 2019, compared with NIS 310 million in the same period last year. The decrease mainly resulted from a decrease in the collective allowance, mainly in respect of problematic debts, and from a decrease in provisions recorded on an individual basis.

Credit to the public totaled approximately NIS 65.9 billion as at September 30, 2019, compared with approximately NIS 64.7 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 61.7 billion as at September 30, 2019, compared with approximately NIS 60.8 billion as at December 31, 2018.

Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-Sized Business Segment totaled NIS 372 million in the first nine months of 2019, compared with NIS 301 million in the same period last year. The increase mainly resulted from an increase in net financing profit and from a decrease in the provision for credit losses.

Net financing profit totaled NIS 575 million in the first nine months of 2019, compared with NIS 510 million in the same period last year. The increase resulted from an increase in average balances of credit and deposits, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Income in respect of credit losses totaled NIS 47 million in the first nine months of 2019, compared with income in the amount of NIS 25 million in the same period last year. The change mainly resulted from an increase in recovery of charged-off debts, offset by an increase in the provision recorded on an individual basis.

Credit to the public totaled approximately NIS 30.2 billion as at September 30, 2019, compared with approximately NIS 26.1 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 20.2 billion as at September 30, 2019, compared with approximately NIS 21.0 billion as at December 31, 2018.

Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 563 million in the first nine months of 2019, compared with NIS 663 million in the same period last year. The decrease resulted from an increase in the provision for credit losses, offset by an increase in net financing profit and in income from fees.

Net financing profit totaled NIS 837 million in the first nine months of 2019, compared with NIS 797 million in the same period last year. The increase resulted from an increase in average balances of credit and deposits between the periods, and in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 284 million in the first nine months of 2019, compared with NIS 254 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions and in securities activity fees.

The provision for credit losses totaled NIS 12 million in the first nine months of 2019, compared with income in the amount of NIS 300 million in the same period last year. The increase mainly resulted from an increase in the provision recorded on an individual basis, and from an increase in the collective allowance for credit losses, due to an increase in problematic debts.

Credit to the public totaled approximately NIS 66.4 billion as at September 30, 2019, compared with approximately NIS 62.8 billion as at December 31, 2018. The increase mainly resulted from balances of credit in the amount of approximately NIS 3.6 billion to the Isracard Group, included for the first time in the second quarter of 2019 due to the discontinuation of consolidation.

Deposits from the public totaled approximately NIS 38.2 billion as at September 30, 2019, compared with approximately NIS 39.0 billion as at December 31, 2018.

Institutional Entity Segment

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 16 million in the first nine months of 2019, compared with NIS 53 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit and in income from fees.

Net financing profit totaled NIS 76 million in the first nine months of 2019, compared with NIS 104 million in the same period last year. The decrease resulted from a decrease in average balances of credit and deposits.

Fees and other income totaled NIS 71 million in the first nine months of 2019, compared with NIS 97 million in the same period last year. The decrease resulted from a decrease in fees from securities activity and from a decrease in operations and trust fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies, in July 2019.

Credit to the public totaled approximately NIS 1.6 billion as at September 30, 2019, similar to the balance as at December 31, 2018.

Deposits from the public totaled approximately NIS 44.5 billion as at September 30, 2019, compared with approximately NIS 43.4 billion as at December 31, 2018.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 507 million in the first nine months of 2019, compared with NIS 963 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 1,064 million in the first nine months of 2019, compared with NIS 1,675 million in the same period last year. The decrease mainly resulted from a loss in the amount of NIS 310 million, compared with profit in the amount of NIS 99 million in the same period last year, due to a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, mainly as a result of a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items, a decrease in profit from the sale of loans, and a decrease in income from linkage differentials, as a result of changes in the rate of increase of the known CPI between the periods. By contrast, profit from investment in securities increased.
Fees and other income totaled NIS 61 million in the first nine months of 2019, compared with NIS 116 million in the same period last year. The decrease resulted from a decrease in syndication fees.

Other Segment (activity in Israel)

Net profit attributed to shareholders of the Bank in the Other Segment totaled NIS 188 million in the first nine months of 2019, compared with profit in the amount of NIS 207 million in the same period last year.
The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 70 million in the first nine months of 2019, compared with a loss in the amount of NIS 72 million in the same period last year. Legal expenses in connection with the investigation of the Bank Group's business with American customers increased during 2019, offset by an increase in income from exchange-rate differences, due to revaluation of the provision for the investigation.
In addition, the Other Segment includes net profit attributed to a discontinued operation, which totaled NIS 258 million in the first nine months of 2019, compared with NIS 279 million in the same period last year. The profit from a discontinued operation in the first nine months of 2019 includes net profit in the amount of approximately NIS 137 million in respect of the sale of the investment in Isracard. In addition, the results of the discontinued operation include the Bank's share in the profits of Isracard (33%) in the second and third quarters of 2019; until the end of the first quarter of 2019, profit from a discontinued operation included the share of the Bank (98.2%) in the profits of the Isracard Group.
The balances of credit to the public included in this segment in the comparative periods include the activity of the Isracard Group, which constitutes a discontinued operation.

International Activity Segment

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 221 million in the first nine months of 2019, compared with a loss in the amount of NIS 390 million in the same period last year. The decrease in loss mainly resulted from a provision in connection with the investigation of the Bank Group's business with American customers at Hapoalim Switzerland and expenses for exchange-rate differences due to revaluation of the aforesaid provision recorded in the same period last year, versus income from exchange-rate differences due to revaluation of the aforesaid provision recorded this year. In addition, profits of business activity in the United States increased. The decrease in loss was partly offset by impairment in the amount of approximately NIS 63 million recorded in respect of the Bank's investment in Pozitif.

The principal changes in the results of international activity are set out below:

- Net profit of the New York branch totaled approximately NIS 105 million in the first nine months of 2019, compared with net profit in the amount of NIS 84 million in the same period last year. The increase mainly resulted from middle-market activity, due to an increase in net interest income, as a result of an increase in financial spreads, partly offset by an increase in the provision for credit losses.
- The loss of Hapoalim Switzerland totaled approximately NIS 222 million in the first nine months of 2019, compared with a loss in the amount of approximately NIS 396 million in the same period last year. The decrease in loss mainly resulted from a provision in connection with the investigation of the Bank Group’s business with American customers recorded in the same period last year, and from income recorded from exchange-rate differences due to revaluation of the aforesaid provision in the nine months ended September 30, 2019. This decrease was partly offset by a loss recorded from the sale of the customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg in the second quarter of 2019.
- The loss attributed to shareholders of the Bank in respect of the Bank Pozitif Group totaled approximately NIS 84 million in the first nine months of 2019, compared with approximately NIS 75 million in the same period last year. The increase in loss mainly resulted from impairment in the amount of approximately NIS 63 million recorded in respect of the Bank's investment in Bank Pozitif, in view of the Bank’s expectation of selling the investment in the coming year, at a price lower than its value in the Bank’s books. The increase in loss was partly offset by a significant allowance for credit losses recorded in the same period last year.

Total credit to the public in international activity amounted to approximately NIS 15.3 billion as at September 30, 2019, compared with approximately NIS 17.5 billion as at December 31, 2018.

- Credit to the public at the New York branch totaled approximately NIS 13.3 billion as at September 30, 2019, compared with approximately NIS 14.6 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 10.8 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.7 billion as at December 31, 2018, of which a total of approximately NIS 5.0 billion in respect of syndication transactions.
- Credit to the public at Hapoalim Switzerland totaled approximately NIS 0.1 billion as at September 30, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018. The decrease resulted from the continued reduction of activity of Hapoalim Switzerland. In this context, note that the first phase of the agreement to transfer the remaining global private banking customer asset portfolio of Hapoalim Switzerland to Hyposwiss Private Bank Geneva SA was completed on September 20, 2019.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at September 30, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018.

Total deposits from the public in international activity amounted to approximately NIS 16.0 billion as at September 30, 2019, compared with approximately NIS 19.1 billion as at December 31, 2018.

- The balance of deposits from the public at the New York branch totaled approximately NIS 15.8 billion as at September 30, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 7.4 billion, compared with approximately NIS 6.8 billion as at December 31, 2018. The balance of brokered CD deposits from the public totaled approximately NIS 8.4 billion, compared with approximately NIS 11.3 billion as at December 31, 2018.
- The balance of deposits from the public at Hapoalim Switzerland totaled approximately NIS 0.1 billion as at September 30, 2019, compared with approximately NIS 1.0 billion as at December 31, 2018. The decrease mainly resulted from the continued reduction of activity of Hapoalim Switzerland, as noted above.

2.5. Description of the Bank Group's business by segment of activity based on the management approach

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision maker of the Bank uses this division to make decisions and to analyze the Group's business results.

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units by which they are served, which is performed in accordance with various criteria established by the Board of Management of the Bank. For details regarding the criteria used in this classification and the rules for the distribution of the results of operations among the segments, see Note 28A to the Annual Financial Statements for 2018.

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group is classified as a "discontinued operation" and presented under the "Adjustments" segment.

Table 2-25: Results of operations and principal data of the segments of activity based on management approach

	For the three months ended September 30, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[(1)]	Adjustments[(2)]	Total
	NIS millions								
Total net financing profit	**706**	**401**	**214**	**282**	**377**	**118**	**241**	**2**	**2,341**
Fees and other income	**384**	**144**	**16**	**97**	**116**	**23**	**31**	**15**	**826**
Total income	**1,090**	**545**	**230**	**379**	**493**	**141**	**272**	**17**	**3,167**
Provision (income) for credit losses	**58**	**68**	**6**	**15**	**(201)**	**16**	**(2)**	**-**	**(40)**
Operating and other expenses	**982**	**303**	**67**	**127**	**154**	**161**	**109**	**67**	**1,970**
Profit (loss) from continued operations before taxes	**50**	**174**	**157**	**237**	**540**	**(36)**	**165**	**(50)**	**1,237**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**17**	**62**	**53**	**85**	**194**	**29**	**91**	**(8)**	**523**
Net profit (loss) from continued operations	**33**	**112**	**104**	**152**	**346**	**(65)**	**77**	**(42)**	**717**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Net profit (loss) attributed to shareholders of the Bank	**33**	**112**	**104**	**152**	**346**	**(62)**	**77**	**(26)**	**736**
Net credit to the public at the end of the reported period	**42,313**	**31,132**	**87,316**	**39,997**	**75,515**	**12,690**	**2,044**	**-**	**291,007**
Deposits from the public at the end of the reported period	**187,013**	**43,826**	**-**	**23,493**	**48,719**	**15,910**	**29,066**	**-**	**348,027**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Table 2-25: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the three months ended September 30, 2018*								
	Retail activity			Business activity					
	Private customers[1]	Small businesses[2]	Housing loans	Commercial	Corporate	International activity	Financial management[3]	Adjustments[4]	Total
	NIS millions								
Total net financing profit	687	411	178	256	364	90	627	21	2,634
Fees and other income	386	146	14	89	109	27	30	34	835
Total income	1,073	557	192	345	473	117	657	55	3,469
Provision (income) for credit losses	122	139	18	18	(212)	33	-	-	118
Operating and other expenses	899	284	61	124	154	287	123	52	1,984
Profit (loss) from continued operations before taxes	52	134	113	203	531	(203)	534	3	1,367
Provision for taxes (tax benefit) on profit (loss) from continued operations	25	57	48	88	228	(3)	173	(68)	548
Net profit (loss) from continued operations	27	77	65	115	303	(200)	361	71	819
Net profit from a discontinued operation	-	-	-	-	-	-	-	109	109
Net profit (loss) attributed to shareholders of the Bank	27	77	65	115	303	(185)	367	181	950
Net credit to the public at the end of the reported period	44,067	32,343	79,011	36,454	69,580	13,837	514	13,927	289,733
Deposits from the public at the end of the reported period	176,684	40,765	-	24,235	39,013	22,149	38,929	91	341,866

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect changes.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,070 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,476 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(4) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation.

Table 2-25: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the nine months ended September 30, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
	NIS millions								
Net financing profit	**2,156**	**1,223**	**612**	**821**	**1,103**	**353**	**1,038**	**33**	**7,339**
Fees and other income	**1,121**	**432**	**46**	**277**	**349**	**57**	**104**	**76**	**2,462**
Total income	**3,277**	**1,655**	**658**	**1,098**	**1,452**	**410**	**1,142**	**109**	**9,801**
Provision (income) for credit losses	**180**	**235**	**25**	**29**	**(105)**	**34**	**2**	**-**	**400**
Operating and other expenses	**2,823**	**881**	**196**	**382**	**456**	**587**	**314**	**200**	**5,839**
Profit (loss) from continued operations before taxes	**274**	**539**	**437**	**687**	**1,101**	**(211)**	**826**	**(91)**	**3,562**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**98**	**194**	**154**	**249**	**397**	**44**	**299**	**(22)**	**1,413**
Net profit (loss) from continued operations	**176**	**345**	**283**	**438**	**704**	**(255)**	**534**	**(69)**	**2,156**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**258**	**258**
Net profit (loss) attributed to shareholders of the Bank	**176**	**345**	**283**	**438**	**704**	**(245)**	**538**	**189**	**2,428**
Net credit to the public at the end of the reported period	**42,313**	**31,132**	**87,316**	**39,997**	**75,515**	**12,690**	**2,044**	**-**	**291,007**
Deposits from the public at the end of the reported period	**187,013**	**43,826**	**-**	**23,493**	**48,719**	**15,910**	**29,066**	**-**	**348,027**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Table 2-25: Results of operations and principal data of the segments of activity based on management approach (continued)

	For the nine months ended September 30, 2018*								
	Retail activity			Business activity					
	Private customers[(1)]	Small businesses[(2)]	Housing loans	Commercial	Corporate	International activity	Financial management[(3)]	Adjustments[(4)]	Total
	NIS millions								
Net financing profit	2,059	1,211	507	749	1,117	322	1,603	43	7,611
Fees and other income	1,148	434	46	262	365	85	117	95	2,552
Total income	3,207	1,645	553	1,011	1,482	407	1,720	138	10,163
Provision (income) for credit losses	365	307	24	(6)	(317)	53	(2)	-	424
Operating and other expenses	2,723	840	181	384	457	802	365	231	5,983
Profit (loss) from continued operations before taxes	119	498	348	633	1,342	(448)	1,357	(93)	3,756
Provision for taxes (tax benefit) on profit (loss) from continued operations	47	197	137	255	531	5	454	(41)	1,585
Net profit (loss) from continued operations	72	301	211	378	811	(453)	911	(52)	2,179
Net profit from a discontinued operation	-	-	-	-	-	-	-	279	279
Net profit (loss) attributed to shareholders of the Bank	72	301	211	378	811	(420)	918	227	2,498
Net credit to the public at the end of the reported period	44,067	32,343	79,011	36,454	69,580	13,837	514	13,927	289,733
Deposits from the public at the end of the reported period	176,684	40,765	-	24,235	39,013	22,149	38,929	91	341,866

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect changes.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,070 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,476 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(4) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. The data also include balances attributed to a discontinued operation.

For additional information regarding the segments of activity and analysis of the segments' results, see the section "Activity segments based on management approach" in the Corporate Governance Report.

2.6. Principal companies

2.6.1. Isracard Group

Further to the statements in Section 2.6.1 of the Report of the Board of Directors and Board of Management of the Bank for 2018 concerning the Bank's preparations for separation from the Isracard Group, pursuant to the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank sold approximately 65% of the capital of Isracard in a public sale offering in April 2019, for a total (gross) consideration of approximately NIS 1.76 billion, reflecting a value of NIS 2.7 billion for the company. Immediately prior to the sale, the remaining investment of the Bank in the Isracard Group totaled approximately NIS 2.2 billion (following a reduction due to the distribution of a dividend in the amount of approximately NIS 850 million and the sale of the activity of American Express to Isracard in the amount of NIS 456 million).

In accordance with the accounting principles applicable to the Bank, due to the decrease in the holding rate to less than 50%, the Bank discontinued the consolidation of the Isracard Group, beginning in the second quarter of 2019. The following are the main effects of the discontinuation of consolidation:

- Recognition of profit in the amount of approximately NIS 210 million (after tax and expenses related to the sale offering), in respect of the part of the investment that was sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date. This profit was offset, according to the market price as at June 30, 2019, by a total of approximately NIS 73 million.
- First-time recognition of balance sheet and off-balance sheet credit balances in the amount of approximately NIS 3,593 million and approximately NIS 4,466 million, respectively, which were netted as mutual balances prior to the discontinuation of consolidation. In addition, a collective allowance in the amount of approximately NIS 47 million was recognized in respect of these balances.
- A decrease in the balance sheet in the amount of approximately NIS 14 billion in respect of the subtraction of assets and liabilities attributed to a discontinued operation.
- Recording of the investment in the Isracard Group on an equity basis, with the attribution of the surplus cost of the investment over the book value of the assets, identified intangible assets, and goodwill.

As of the date of the sale of the shares, the Bank's share in the profit of the Isracard Group is 33%. Until the end of the first quarter of 2019, the Bank included its 98.2% share of the profits of Isracard.

The investment in the Isracard Group totaled approximately NIS 829 million as at September 30, 2019. The contribution of the Isracard Group to the net profit of the Bank amounted to NIS 257 million in the first nine months of 2019, of which NIS 137 million from the sale of 65.2% of the shares of Isracard, and the remainder from the Bank's share, in the amount of NIS 121 million, of the profits of the Isracard Group, compared with NIS 279 million in the same period last year.

Pursuant to the directives of the Law for Increasing Competition, the Bank is permitted to hold its remaining holdings in Isracard until January 31, 2021. The Bank is preparing to complete its separation from the Isracard Group, as required by the law, through several possible alternatives. These include a sale of shares constituting a controlling core of Isracard; a private sale without a controlling core or a public offering of Isracard shares, to foreign or Israeli investors; distribution of Isracard shares or share purchase options in the form of a dividend in kind; sale on the stock exchange (subject to the blockage rules of the stock exchange); or a combination of any of these alternatives. There is no certainty with regard to the manner and timing in which the Bank will choose to complete the separation.

For details regarding the notification of Arison Holdings (1998) Ltd. ("Arison") of January 2019, in connection with a possible trajectory for distribution of Isracard shares as a dividend in kind to shareholders of the Bank, see section 2.6.1 of the Annual Financial Statements for 2018.

On April 11, 2019, in response to a request of the Bank, the Bank of Israel updated the permit for control of Isracard, such that the controlling core which the Bank must hold in Isracard shall not fall below 30% of any type of means of control, instead of 50% in the previous permit.

Members of the Board of Management, officers of the Bank, and employees of the Bank involved in strategy or in the management of business activity at the Bank do not serve on the boards of directors of the companies in the Isracard Group; employees of the Bank cannot constitute a majority on the boards of directors of the companies in the Isracard Group; and restrictions apply to directors on the board of directors of Isracard who are employees of the Bank with regard to the transfer of information from the board of directors of Isracard to the management of the Bank.

The aforesaid changes were performed in accordance with the request of the Banking Supervision Department, in connection with the Law for Increasing Competition and the process of separation from the Isracard Group mandated by this law, and in order to reduce potential conflicts of interest. As at the date of this report, only one of the eight members of the board of directors of Isracard is an employee of the Bank.

For further details regarding the presentation of the Isracard Group as a discontinued operation, see Note 1E to the Condensed Financial Statements.

For details regarding legal claims in connection with the Isracard Group, see Note 25B to the Annual Financial Statements for 2018 and Note 10B to the Condensed Financial Statements.

For details regarding contractual engagements in issuance and operation agreements with credit-card companies, see Note 25G to the Annual Financial Statements for 2018.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see Note 8C(3) to the Annual Financial Statements for 2018.

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see Note 8C(2) to the Annual Financial Statements for 2018.

2.6.2. Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland")

A subsidiary (wholly owned by the Bank) incorporated in Switzerland, which was mainly engaged in the provision of private-banking services through branches in Zurich and Luxembourg; it also operated through an investment consulting firm in Israel, and through a representative office in Israel. In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland.

In accordance with the trajectory of the process required in order for the company to be removed from the supervisory authority of FINMA, the incorporation documents of the limited liability company were amended such that, among other matters, as of April 2019, the word "bank" has been removed from the company names of Hapoalim Switzerland and its Luxembourg branch.

As part of the realization of the decision to discontinue the private-banking activity of Hapoalim Switzerland, a transaction was completed in the fourth quarter of 2018 for the sale of most of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin").

In addition, in June 2019, the Bank signed an agreement with Hyposwiss Private Bank Geneva SA for the transfer of the remaining global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. The transfer is planned to take place in several increments over the coming eighteen months. In accordance with the trajectory in the transaction, the Bank will pay the buyer approximately CHF 11.5 million for this transfer. During the course of September and October 2019, in the first increment of the transfer, a substantial part of the remaining accounts at the Zurich and Luxembourg branches were transferred to Hyposwiss Private Bank Geneva SA.

The loss of Hapoalim Switzerland totaled CHF 86 million in the first nine months of 2019, compared with a loss in the amount of CHF 102 million in the same period last year. The loss in 2019 mainly resulted from legal expenses; a loss from the sale of the private-banking asset portfolio, as noted above; and a loss in operating activity, whereas the loss in 2018 mainly resulted from the provision recorded for the American investigation and from legal expenses recorded in connection with the investigation.

Following the loss that resulted from the provision for the investigation of the Bank Group's business with American customers, recognized in the annual financial statements for 2018, which the authorized organs of Hapoalim Switzerland resolved upon in March 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested CHF 250 million in the capital of Hapoalim Switzerland in the first quarter of 2019, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment. The Bank invested an additional amount of CHF 50 million in July 2019.

For details regarding the investigation of the Bank Group's business with American customers, see Note 10D to the Condensed Financial Statements.

For details regarding the investigation of the Fédération Internationale de Football Association (FIFA), see Note 10E to the Condensed Financial Statements.

2.6.3. Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

The Bank Group currently operates in Turkey through Bank Pozitif, which specializes in corporate banking. Deposit taking is subject to local regulation, and is permitted up to the amount of credit of each borrower. The Turkish economy, which had grown very rapidly since the beginning of this decade, while the deficit in its current account and its budget deficit grew, experienced an economic and financial crisis in 2018. Several factors, such as political tensions between Turkey and the United States and negative investor sentiment towards emerging markets during this period, combined to cause a loss of confidence in economic policy among investors and sharp depreciation of the Turkish lira. In response to the deterioration in economic activity, the unstable political situation, and concerns over the independence of the central bank, the rating agencies downgraded Turkey's debt rating. For example, Moody's has downgraded its credit rating for Turkey by four notches since the beginning of 2018, from Ba1 to B1. Turkey took several steps to restore investors' confidence in the Turkish lira, including a sharp increase of the interest rate of the Turkish lira, to 24%. The sharp depreciation of the Turkish lira, the increase in the interest rate, and the measures applied by the government brought the Turkish economy into recession in the second half of 2018.

Fiscal stimulus measures applied by the Turkish government since then have restored foreign investors' confidence, leading to 6.4% and 5.1% growth in the first and second quarters of 2019, respectively (quarter-on-quarter, annualized). Current indicators signal more moderate growth in the third quarter of 2019. The depreciation of the Turkish lira resumed in 2019; the lira depreciated by approximately 9.7% against the US dollar during the first half of the year. The Turkish lira fluctuated during the third quarter, but ended the quarter with relative stability. The Turkish central bank lowered the interest rate in two steps during the quarter, by approximately a cumulative 7.5 percentage points, to 16.50%. Due to the effects of the recession and the decrease in oil prices, Turkey moved to a surplus in the current account of its balance of payments in the last quarter. In addition, inflation cooled to an annualized 9.3% in September 2019, from 25% a year ago.

In view of the economic and political situation in Turkey, a decision was made within the strategic plan of the Bank to act to gradually reduce the credit portfolio of Bank Pozitif. The minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. In this context, note that in January 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see the section "Capital and capital adequacy," above.

The Bank has stepped up its activities towards selling its full holdings in Bank Pozitif, and, as part of this process, in October 2019, engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. Taking all of the foregoing into consideration, the Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year, at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 63 million.

The balance of credit to the public totaled TRY 631 million (approximately NIS 389 million) as at September 30, 2019, compared with a balance of TRY 723 million (approximately NIS 512 million) at the end of 2018.

The business results of the Bank Pozitif Group amounted to profit of approximately TRY 2 million in the first nine months of 2019, compared with a loss of approximately TRY 73 million in the same period last year, which mainly resulted from an allowance for credit losses.

The Bank's total investment in the Bank Pozitif Group as at September 30, 2019, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 138 million (NIS 33 million in capital and NIS 105 million in credit lines granted to Bank Pozitif), compared with approximately NIS 320 million (NIS 132 million in capital and NIS 188 million in loans, as noted) at the end of 2018.

For details regarding additional companies and further information concerning the international operations of the Bank, see the International Activity Segment in the section "Segments of activity based on management approach" in the Corporate Governance Report, below.

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.

Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2019. This review should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018, and with the Annual Financial Statements for 2018.

3.1. General description of risks and risk management

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to estimate the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the risk strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Bank Group, according to policy formulated by each company's board of directors. The Bank manages the various risks while using hedges for some risks. The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Supervisor for the management of the various risks to which a banking corporation is exposed, and stipulate fundamental principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Supervisor of Banks.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Area is Dr. A. Bachar.

Financial risks are managed by designated members of the Board of Management and under their responsibility.

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Mr. R. Stein until November 12, 2019, and Ms. D. Raviv as of that date.

The member of the Board of Management responsible for managing market, investment, and liquidity risks and the Head of Financial Markets and International Banking is Mr. Y. Antebi.

Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.

Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.

Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

For details regarding changes of members of the Board of Management of the Bank, see the "Other matters" section of the Corporate Governance Report, in the Condensed Financial Statements.

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

3.2. Credit risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- **Balance sheet exposures –** Present liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (positive fair value) of derivatives and financial instruments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivative financial instruments.

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2019.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

3.2.1. Analysis of credit quality and problematic credit risk

Table 3-1: Problematic credit risk[(1)]

	September 30, 2019			December 31, 2018		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**2,965**	**505**	**3,470**	2,729	582	3,311
Substandard credit risk[(2)]	**1,615**	**372**	**1,987**	1,451	220	1,671
Credit risk under special supervision	**2,738**	**879**	**3,617**	2,432	770	3,202
Total problematic credit risk*	**7,318**	**1,756**	**9,074**	6,612	1,572	8,184
Net problematic credit risk	**6,086**	**1,675**	**7,761**	5,492	1,452	6,944
* Of which, unimpaired debts in arrears of 90 days or more[(2)]	**841**	**-**	**841**	808	-	808

(1) Credit risk – impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

Note:
Balance sheet and off-balance sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

Table 3-2: Nonperforming assets*

	Balance as at	
	September 30, 2019	December 31, 2018
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**2,401**	2,178
Assets received upon settlement of debts	**36**	81
Total nonperforming assets	**2,437**	2,259
NPL as a percentage of total credit to the public	**0.81%**	0.76%

* Nonperforming assets include assets of the Bank that do not accrue interest income. This information is similar to the balance of nonperforming assets presented in the financial statements of banking corporations in the United States. This figure is presented in order to provide disclosure of the part of the Bank's assets included in the financial statements that does not accrue interest income.

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance

	For the nine months ended September 30, 2019		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	**2,015**	**706**	**2,721**
Debts classified as impaired during the period	**931**	**322**	**1,253**
Debts returned to unimpaired classification*	**(52)**	**(8)**	**(60)**
Impaired debts charged off	**(287)**	**(135)**	**(422)**
Impaired debts repaid	**(387)**	**(140)**	**(527)**
Balance of impaired debts at end of period	**2,220**	**745**	**2,965**
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	**676**	**624**	**1,300**
Restructured during the period	**233**	**303**	**536**
Debts in restructuring charged off	**(81)**	**(111)**	**(192)**
Debts in restructuring restored to unimpaired classification or repaid*	**(165)**	**(131)**	**(296)**
Balance in troubled debt restructuring at end of period	**663**	**685**	**1,348**
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	**408**	**163**	**571**
Provision for credit losses – increase in allowance	**486**	**167**	**653**
Provision for credit losses – reduction of allowance	**(67)**	**(62)**	**(129)**
Recoveries of debts charged off in previous years	**(505)**	**(99)**	**(604)**
Allocated to profit and loss – allowance for credit losses	**(86)**	**6**	**(80)**
Charge-offs during the period	**(287)**	**(135)**	**(422)**
Recovery of charged-off debts	**505**	**99**	**604**
Other	**(1)**	**(2)**	**(3)**
Allowance for credit losses in respect of impaired debts at end of period	**539**	**131**	**670**
* Of which: debts returned to unimpaired classification due to subsequent restructuring	**(36)**	**-**	**(36)**

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance (continued)

	For the nine months ended September 30, 2018		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	1,878	749	2,627
Debts classified as impaired during the period	682	220	902
Debts returned to unimpaired classification	(146)	(12)	(158)
Impaired debts charged off	(286)	(145)	(431)
Impaired debts repaid	(70)	(118)	(188)
Balance of impaired debts at end of period	2,058	694	2,752
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	672	636	1,308
Restructured during the period	224	232	456
Debts in restructuring charged off	(70)	(120)	(190)
Debts in restructuring repaid	(197)	(151)	(348)
Balance in troubled debt restructuring at end of period	629	597	1,226
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	306	226	532
Provision for credit losses – increase in allowance	369	184	553
Provision for credit losses – reduction of allowance	(55)	(84)	(139)
Recoveries of debts charged off in previous years	(548)	(86)	(634)
Allocated to the statement of profit and loss – allowance for credit losses	(234)	14	(220)
Charge-offs during the period	(286)	(145)	(431)
Recovery of charged-off debts	549	85	634
Other	-	1	1
Allowance for credit losses in respect of impaired debts at end of period	335	181	516

Table 3-4: Credit risk indicators

	As at	
	September 30, 2019	December 31, 2018
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.01%**	0.95%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.29%**	0.28%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.35%**	1.31%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.13%**	1.14%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**134.00%**	138.11%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**104.39%**	106.49%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.03%**	1.89%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(1)0.18%**	0.22%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**(1)0.10%**	0.20%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**(1)7.48%**	14.58%

* Before deduction of the allowance for credit losses.
(1) Calculated on an annualized basis.

Portfolio quality analysis

The following indicators increased (worsened) in the first nine months of 2019:

- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.
- The NPL rate.
- The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public.
- Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public.

The following indicators showed improvement:

- The provision (income) for credit losses as a percentage of the average recorded balance of credit to the public.
- Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public.

Several indicators were relatively stable:

- The balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.

Despite the rise in a number of portfolio quality indicators, these indicators do not demonstrate a significant change; they are at low levels from a long-term perspective, and have shown mild volatility with no regular trend over the last two years. The measures applied by the Bank to improve the quality of underwriting in the portfolio of credit to private individuals have continued to exert an impact, again this quarter, in the form of a decrease in net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public.

With regard to other indicators that refer to only to the risk in the portfolio of credit for private individuals, see Table 3-18, below.

3.2.2. Classification and analysis of credit risk by economic sector

Table 3-5: Credit risk by economic sector

	September 30, 2019						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	**31,768**	**30,560**	**1,187**	**359**	**21**	**18**	**348**
Construction and real estate – construction	**64,925**	**63,254**	**936**	**536**	**(192)**	**(116)**	**474**
Construction and real estate – real-estate activities	**25,384**	**24,935**	**1,078**	**222**	**7**	**(110)**	**396**
Commerce	**36,882**	**35,137**	**963**	**414**	**117**	**89**	**808**
Financial services*	**40,998**	**40,709**	**39**	**15**	**60**	**(8)**	**212**
Other business services	**17,338**	**16,721**	**166**	**110**	**60**	**38**	**172**
Public and community services	**8,385**	**8,205**	**46**	**22**	**18**	**12**	**60**
Other sectors	**44,617**	**42,730**	**1,947**	**545**	**123**	**41**	**614**
Total commercial	**270,297**	**262,251**	**6,362**	**2,223**	**214**	**(36)**	**3,084**
Private individuals – housing loans	**80,444**	**79,234**	**550**	**-**	**18**	**4**	**379**
Private individuals – other	**61,174**	**58,267**	**871**	**744**	**180**	**249**	**820**
Total public – activity in Israel	**411,915**	**399,752**	**7,783**	**2,967**	**412**	**217**	**4,283**
Total banks in Israel	**3,242**	**3,242**	**-**	**-**	**-**	**-**	**-**
Israeli government	**44,431**	**44,431**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**459,588**	**447,425**	**7,783**	**2,967**	**412**	**217**	**4,283**
Total public – activity overseas	**34,293**	**32,151**	**1,291**	**500**	**(12)**	**6**	**212**
Banks and governments overseas	**44,172**	**44,172**	**-**	**-**	**-**	**-**	**9**
Total activity overseas	**78,465**	**76,323**	**1,291**	**500**	**(12)**	**6**	**221**
Total activity in Israel and overseas	**538,053**	**523,748**	**9,074**	**3,467**	**400**	**223**	**4,504**

* Credit balances of Isracard were included, beginning in the second quarter of 2019, due to the discontinuation of consolidation (June 30, 2019: balance in the amount of NIS 7,511 million).

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 312,933, 63,907, 529, 12,692, and 147,992 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

Table 3-5: Credit risk by economic sector (continued)

	September 30, 2018						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	32,130	31,033	1,074	392	(12)	(7)	315
Construction and real estate – construction	64,564	62,945	1,224	617	(62)	(141)	593
Construction and real estate – real-estate activities	22,918	22,446	665	299	(100)	(88)	296
Commerce	36,408	34,928	801	237	(14)	76	788
Financial services	31,890	31,773	93	32	1	-	163
Other business services	15,110	14,626	126	68	49	42	140
Public and community services	8,229	7,828	50	22	(6)	(7)	56
Other sectors	42,988	41,399	1,806	608	138	103	519
Total commercial	254,237	246,978	5,839	2,275	(6)	(22)	2,870
Private individuals – housing loans	71,234	70,293	518	-	31	3	359
Private individuals – other	64,069	61,543	861	661	363	373	897
Total public – activity in Israel	389,540	378,814	7,218	2,936	388	354	4,126
Total banks in Israel	3,520	3,520	-	-	-	-	-
Israeli government	35,834	35,834	-	-	-	-	-
Total activity in Israel	428,894	418,168	7,218	2,936	388	354	4,126
Total public – activity overseas	35,860	34,257	1,046	417	38	(6)	212
Banks and governments overseas	41,667	41,667	-	-	(2)	-	5
Total activity overseas	77,527	75,924	1,046	417	36	(6)	217
Total activity in Israel and overseas	506,421	494,092	8,264	3,353	424	348	4,343

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 296,918, 55,877, 887, 9,926, and 142,813 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

Table 3-5: Credit risk by economic sector (continued)

	December 31, 2018						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	33,662	32,352	1,159	377	5	(15)	343
Construction and real estate – construction	58,197	56,509	1,127	589	(99)	(134)	547
Construction and real estate – real-estate activities	24,568	24,065	603	313	(150)	(129)	287
Commerce	37,113	35,736	805	215	4	103	774
Financial services	34,113	33,688	89	29	(20)	(1)	146
Other business services	15,839	15,272	148	94	72	57	153
Public and community services	8,247	7,790	53	22	(6)	(4)	52
Other sectors	44,463	43,098	1,708	547	207	156	532
Total commercial	256,202	248,510	5,692	2,186	13	33	2,834
Private individuals – housing loans	74,636	73,635	526	-	40	5	366
Private individuals – other	63,331	60,746	873	694	458	473	892
Total public – activity in Israel	394,169	382,891	7,091	2,880	511	511	4,092
Banks in Israel	3,852	3,852	-	-	-	-	-
Israeli government	34,485	34,485	-	-	-	-	-
Total activity in Israel	432,506	421,228	7,091	2,880	511	511	4,092
Total public – activity overseas	38,031	35,575	1,093	420	100	37	233
Banks and governments overseas	40,000	40,000	-	-	2	-	9
Total activity overseas	78,031	75,575	1,093	420	102	37	242
Total activity in Israel and overseas	510,537	496,803	8,184	3,300	613	548	4,334

(1) Balance sheet credit risk and off-balance sheet credit risk[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 302,791, 54,595, 708, 10,534, and 141,909 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 99 billion as at September 30, 2019.

Table 3-6: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity

	Balance as at September 30, 2019			Balance as at December 31, 2018		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions					
Construction for commerce and services	**2,668**	**1,636**	**4,304**	2,074	831	2,905
Construction for industry	**368**	**106**	**474**	388	112	500
Housing construction	**17,707**	***28,091**	**45,798**	16,675	*24,760	41,435
Yield-generating properties	**22,720**	**6,654**	**29,374**	23,508	6,206	29,714
Other	**10,421**	**8,965**	**19,386**	10,497	8,070	18,567
Total construction and real-estate sectors	**53,884**	**45,452**	**99,336**	53,142	39,979	93,121

* Includes off-balance sheet credit risk in the amount of approximately NIS 4,091 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2018: NIS 6,026 million).

3.2.4. Credit exposure to foreign countries

Information regarding total exposures to foreign countries and exposures to countries total exposure to each of which constitutes more than 1% of total balance sheet assets, or 20% of capital, whichever is lower, is set out below.

Table 3-7: Principal exposures to foreign countries[1]

	September 30, 2019			December 31, 2018		
	Exposure					
	Balance sheet	Off-balance sheet[2][3]	Total	Balance sheet	Off-balance sheet[2][3]	Total
	NIS millions					
Country						
United States	**23,944**	**7,115**	**31,059**	21,445	7,177	28,622
Switzerland	**3,085**	**1,245**	**4,330**	2,973	1,774	4,747
England	**8,181**	**3,425**	**11,606**	7,273	4,358	11,631
Germany	**1,362**	**1,578**	**2,940**	795	1,894	2,689
France	**2,199**	**1,882**	**4,081**	1,896	2,205	4,101
Others	**12,605**	**2,591**	**15,196**	13,567	2,921	16,488
Total exposures to foreign countries	**51,376**	**17,836**	**69,212**	47,949	20,329	68,278
Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain)	**164**	**601**	**765**	329	612	941
Of which: total exposure to LDCs	**1,804**	**183**	**1,987**	1,794	259	2,053
Of which: total exposure to countries with liquidity problems	**54**	**-**	**54**	10	-	10

The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."
Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.
Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).
(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.
(3) Governments, official institutions, and central banks.

3.2.5. Credit exposure to foreign financial institutions

Table 3-8: Exposure of the Bank Group to foreign financial institutions[1]

	September 30, 2019			December 31, 2018		
	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk
	NIS millions					
External credit rating[5]						
AAA to AA-	**4,159**	**3,381**	**7,540**	4,071	4,868	8,939
A+ to A-	**15,301**	**2,198**	**17,499**	11,237	2,517	13,754
BBB+ to BBB-	**1,029**	**269**	**1,298**	1,012	298	1,310
BB+ to B-	**16**	**22**	**38**	24	55	79
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated**	**169**	**202**	**371**	252	143	395
Total present credit exposures to foreign financial institutions*	**20,674**	**6,072**	**26,746**	16,596	7,881	24,477
Of which: problematic credit risk[4]	**-**	**-**	**-**	-	-	-
Of which: balance of impaired debts	**-**	**-**	**-**	-	-	-
Individual allowance for credit losses	**-**	**-**	**-**	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**20,674**	**6,072**	**26,746**	16,596	7,881	24,477
Collective allowance for credit losses	**7**	**1**	**8**	8	2	10

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 169 million, of which a total of NIS 159 million rated A- and a total of NIS 10 million rated BBB- (total exposure at the end of 2018 was approximately NIS 132 million, of which a total of NIS 122 million rated A- and a total of NIS 9 million rated BBB-).
Ireland – No exposure to financial institutions (total exposure at the end of 2018 was approximately NIS 15 million, unrated).
Italy – Total exposure of approximately NIS 143 million, of which a total of NIS 136 million rated BBB and the remaining amount of NIS 7 million rated BBB- (total exposure at the end of 2018 was approximately NIS 149 million, of which a total of NIS 143 million rated BBB and the remaining amount of NIS 6 million rated BBB-).
There is no exposure to financial institutions in Greece or Portugal.

** Of which, clearing houses overseas constitute 1% of the balance; the remaining amount is distributed among a long list of banks and financial institutions (December 31, 2018: 6% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.

(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.

(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.

(4) Credit risk that is impaired, substandard, or under special supervision.

(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 26.7 billion on September 30, 2019, an increase of approximately NIS 2.2 billion, compared with approximately NIS 24.5 billion at the end of 2018. This increase resulted from an increase in balance sheet exposure in the amount of approximately NIS 4 billion, and a decrease in off-balance sheet exposure in the amount of approximately NIS 1.8 billion. Approximately 93.62% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 82.14% in banks and bank holding companies, 17.36% in insurance companies, and 0.50% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (64.65%) and in the United States (21%).

The sector "banks overseas" in the disclosure of credit risk by economic sector in the section "Review of risks" includes only exposures in respect of banks abroad, including central banks. Financial institutions are mainly presented in the "financial services" sector. "Total credit risk" also includes balance sheet and off-balance sheet balances in respect of derivatives. The table above does not include exposure in respect of central banks, or off-balance sheet balances in respect of derivatives.

The total of "debts and off-balance sheet credit risk" in the disclosure of credit risk by economic sector in the section "Review of risks" includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

3.2.6. Risks in the housing loan portfolio

Table 3-9: Risks in the housing loan portfolio

	Balance as at		
	September 30, 2019	September 30, 2018	December 31, 2018
	NIS millions		
Credit balances			
Loans from Bank funds	**87,757**	79,425	81,454
Loans from Finance Ministry funds*	**1,210**	1,341	1,301
Grants from Finance Ministry funds*	**115**	81	87
Total	**89,082**	80,847	82,842

	For the nine months ended		For the year ended
	September 30, 2019	September 30, 2018	December 31, 2018
	NIS millions		
Execution of housing loans			
Loans from Finance Ministry funds			
Loans	**98**	59	88
Grants	**32**	19	30
Total from Finance Ministry funds	**130**	78	118
Total loans from Bank funds	**13,596**	11,185	15,450
Total new loans	**13,726**	11,263	15,568
Old loans refinanced from Bank funds	**787**	797	1,004
Total loans extended	**14,513**	12,060	16,572

* This amount is not included in balance sheet balances to the public.

Table 3-10: Development of amounts in arrears in housing loans and allowance for credit losses

	Recorded debt balance in NIS millions	Amount in arrears of more than 90 days	Rate of arrears	Allowance for credit losses based on extent of arrears (including collective allowance) in NIS millions	Rate of allowance for credit losses based on extent of arrears	Problematic debt in NIS millions	Rate of problematic debt
September 30, 2019	**87,757**	**109**	**0.12%**	**441**	**0.50%**	**1,232**	**1.40%**
December 31, 2018	81,454	115	0.14%	424	0.52%	1,160	1.42%

The rate of amounts in arrears, the rate of the allowance for credit losses based on the extent of arrears, and the rate of problematic debt were stable (with a slight decrease) in the first nine months of 2019.

Development of housing credit balances

Table 3-11: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate			
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Recorded debt balance in NIS millions	Rate of change during the period
September 30, 2019	**16,456**	**18.8%**	**33,743**	**38.5%**	**13,805**	**15.7%**	**23,473**	**26.7%**	**280**	**0.3%**	**87,757**	**7.7%**
December 31, 2018	14,503	17.8%	31,060	38.1%	13,539	16.6%	21,984	27.0%	368	0.5%	81,454	9.3%
December 31, 2017	12,455	16.7%	28,022	37.6%	12,988	17.4%	20,619	27.7%	437	0.6%	74,521	7.6%

Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

Risk hedging: The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Area. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, the rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks conditions and changes in macro-economic indicators in general, and in the business environment of the industry in particular. Certain events require a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in an Area-level risk forum headed by the Head of Retail Banking, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate. In addition, insurance arrangements are in place (life insurance and building insurance).

Table 3-12: Developments in housing credit balances, last five quarters

	2019			2018	
	Q3	Q2	Q1	Q4	Q3
	NIS millions				
Balances at end of period	**87,757**	85,771	83,148	81,454	79,425
Change in balances	**2.3%**	3.2%	2.1%	2.6%	2.0%
Execution of new loans	**4,843**	4,527	4,226	4,265	3,696

Housing loan data – percentage of total new loans executed

Table 3-13: Characteristics of housing credit granted by the Bank

	For the three months ended				
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Characteristics					
Financing rate over 60%	**37.7%**	37.9%	38.1%	34.5%	34.2%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.1%**	0.0%	0.0%	0.2%	0.1%
Percentage with floating interest rates varying at a frequency of less than 5 years	**32.7%**	31.7%	31.5%	30.3%	32.5%
Percentage with floating rates	**59.9%**	59.2%	59.2%	57.9%	59.5%
Percentage of all-purpose loans	**5.6%**	5.7%	6.0%	6.3%	6.2%
Loans for investment purposes as a percentage of total purchases of homes	**9.2%**	10.0%	9.7%	10.2%	9.0%
Principal planned for repayment after age 67 (excluding investments)	**7.1%**	7.4%	6.9%	7.3%	7.3%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.1**	24.5	24.7	24.6	24.6

The upward trend in balances continued in the third quarter of 2019. Data on loan execution show improvement on several indicators:

- The percentage of credit granted with a financing rate greater than 60% showed a moderate downward trend in the second and third quarters, following a steep increase in the first quarter.
- The percentage of all-purpose loan issuance decreased relatively moderately in the third quarter of 2019, further to a more significant decrease in the first and second quarters.
- The average term to maturity of loans for purchases of homes (excluding bridge loans) shortened in the third quarter, further to a decrease in the second quarter, which followed a slight increase in the first quarter.
- Loans for investment purposes as a percentage of total purchases of homes decreased slightly in the third quarter, further to a decrease in the first and second quarters.

A few indicators worsened:

- The percentage of credit granted with repayment to income greater than 40% rose slightly compared to the preceding quarter, but remained very low.
- The percentage of floating-rate loans has trended up since the beginning of this year.

Overall, housing credit indicators demonstrate that balances grew, while underwriting quality was maintained.

3.2.7. Credit to private customers (excluding housing)

Credit is granted to private customers in accordance with the credit and collateral policies and procedures, including with respect to the purpose of the credit and the appropriateness of this purpose for the customer's needs, the amount of credit requested, and the appropriateness of the amount for the customer's repayment capability. Credit applications of private customers in the Retail Banking Area, which are approved at the branches, are executed using automated systems, models, and tools that support decision-making by the authorized personnel. Credit applications of private customers are submitted and examined at the level of risk groups, as required in the directives of the Bank of Israel. Credit applications are examined with an emphasis on the matters noted above.

Private customers in the Retail Banking Area are offered, among other things, online credit in the form of Instant Credit. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts.

The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

The Retail Banking Area applies measures to manage credit risk in respect of private individuals, based on the credit risk management principles of the Bank, through measurement and control tools used to monitor the credit portfolio and the quality, risk level, and compliance with policy limits of the credit portfolio, including the following: a statistical model for rating the credit risk of private borrowers, risk-appetite indicators, credit policies and procedures, a hierarchy of authority, and credit-risk control processes.

Table 3-14: Balance of credit to private individuals in Israel*

	Balance as at		Change	
	September 30, 2019	December 31, 2018		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**3,133**	3,892	(759)	(19.50%)
Loans[1]	**28,013**	29,791	(1,778)	(5.97%)
Of which: bullet and balloon loans	**86**	114	(28)	(24.56%)
Credit for purchases of motor vehicles[2]	**3,729**	4,375	(646)	(14.77%)
Debtors in respect of credit-card activity	**5,248**	4,905	343	6.99%
Total balance sheet credit risk	**40,123**	42,963	(2,840)	(6.61%)
Off-balance sheet				
Off-balance sheet credit risk	**21,051**	20,368	683	3.35%
Total credit risk	**61,174**	63,331	(2,157)	(3.41%)

* Credit risk is stated according to the location of the activity.
(1) Excluding loans for purchases of motor vehicles.
(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

Table 3-15: Distribution of risk of balance sheet credit to private individuals at the Bank, by average income[1] and loan size*

	September 30, 2019				December 31, 2018			
	Account income			Total	Account income			Total
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions							
Credit per borrower in NIS thousands								
Up to 20	**1,668**	**965**	**973**	**3,606**	1,676	903	909	3,488
20 to 40	**1,746**	**871**	**1,061**	**3,678**	1,869	851	966	3,686
40 to 80	**3,833**	**2,400**	**2,092**	**8,325**	4,112	2,352	2,018	8,482
80 to 150	**3,800**	**4,823**	**4,229**	**12,852**	4,493	4,915	4,303	13,711
150 to 300	**893**	**2,994**	**6,196**	**10,083**	1,216	3,596	6,645	11,457
Over 300	**103**	**171**	**1,364**	**1,638**	143	236	1,825	2,204
Total	**12,043**	**12,224**	**15,915**	**40,182**	13,509	12,853	16,666	43,028

* Credit risk is stated according to the location of the branch.
(1) Account income was calculated based on the average income over a period of twelve months.

Table 3-16: Distribution of risk of balance sheet credit to private individuals at the Bank, by borrowers' financial asset portfolio balance*

	September 30, 2019	December 31, 2018
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	**22,908**	24,760
10 to 50	**7,013**	7,539
50 to 200	**5,327**	5,632
200 to 500	**2,366**	2,470
Over 500	**2,568**	2,627
Total	**40,182**	43,028

* Credit risk is stated according to the location of the branch.

Table 3-17: Distribution of risk of balance sheet credit to private individuals at the Bank, by type of interest and remaining repayment period*

	September 30, 2019			December 31, 2018		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Repayment period						
Up to one year	**5,753**	**2,982**	**8,735**	5,081	5,337	10,418
1 to 3 years	**86**	**7,502**	**7,588**	7,705	93	7,798
3 to 5 years	**117**	**14,240**	**14,357**	15,495	121	15,616
Over 5 years	**122**	**9,380**	**9,502**	9,091	105	9,196
Total	**6,078**	**34,104**	**40,182**	37,372	5,656	43,028

* Credit risk is stated according to the location of the branch.

Table 3-18: Information regarding problematic debts in respect of private individuals in Israel

	Balance as at		Change	Percentage of total balance sheet credit risk As at	
	September 30, 2019	December 31, 2018		**September 30, 2019**	December 31, 2018
	NIS millions				
Problematic credit risk	**871**	873	(0.23%)	**2.17%**	2.03%
Of which: impaired credit risk	**744**	694	7.20%	**1.85%**	1.62%
Debts in arrears of more than 90 days	**72**	107	(32.71%)	**0.18%**	0.25%
Net charge-offs for the period	**249**	473	(1)(29.81%)	**(1)0.83%**	1.10%
Allowance for credit losses	**820**	892	(8.07%)	**2.04%**	2.08%

(1) Calculated on an annualized basis.

In the first nine months of 2019, the balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by 6.9%. Total balance sheet credit risk decreased by 6.6%.

The balance of problematic credit risk remained stable as compared to the end of 2018, but the percentage rose, due to the decrease in the volume of the portfolio. The balance of impaired credit risk increased by approximately 7.2%.

The balance of debts in arrears of more than 90 days decreased by approximately 32.7% compared to December 2018; in addition, net charge-offs decreased sharply, by approximately 29.8%, and the allowance for credit losses decreased by approximately 8.1%.

The steep drop in the rate of net charge-offs demonstrates the continued impact of the measures taken by the Bank to improve underwriting quality in credit for private individuals.

3.2.8. Leveraged financing

Data regarding credit risks in respect of leveraged financing follow. The disclosure focuses on exposures of leveraged borrowers/transactions where the credit balance exceeds the amount of 0.5% of Tier 1 capital.

Table 3-19: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower

	September 30, 2019			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**1**	**251**	**-**	**251**
Construction and real estate – real-estate activities	**1**	**99**	**117**	**216**
Mining and quarrying	**2**	**1,303**	**-**	**1,303**
Electricity and water	**1**	**87**	**275**	**362**
Information and communications	**1**	**251**	**-**	**251**
Commerce	**1**	**346**	**73**	**419**
Industry	**2**	**633**	**-**	**633**
Total	**9**	**2,970**	**465**	**3,435**

	December 31, 2018			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	1	257	-	257
Construction and real estate – real-estate activities	2	658	534	1,192
Mining and quarrying	2	1,361	38	1,399
Information and communications	1	266	-	266
Commerce	3	741	170	911
Industry	1	225	-	225
Total	10	3,508	742	4,250

3.2.9. Credit risk in respect of exposure to major borrowers

Table 3-20: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	September 30, 2019			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**3**	**758**	**4,548**	**5,306**
Electricity and water supply	**1**	**1,388**	**1,367**	**2,755**
Information and communications	**1**	**1,132**	**139**	**1,271**
Hotels, hospitality, and food services	**1**	**972**	**239**	**1,211**
Financial services*	**6**	**10,048**	**7,030**	**17,078**
Total	**12**	**14,298**	**13,323**	**27,621**

	December 31, 2018			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	3	877	5,164	6,041
Construction and real estate – real-estate activities	1	756	647	1,403
Electricity and water supply	1	1,276	2,315	3,591
Financial services	3	3,077	2,571	5,648
Total	8	5,986	10,697	16,683

* Due to the discontinuation of consolidation of Isracard, balance sheet credit balances in the amount of NIS 3,481 million and off-balance sheet credit balances in the amount of NIS 4,030 million were included beginning in the second quarter of 2019.

3.2.10. Credit risk in respect of exposure to borrower groups

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. As at the reporting date, the Bank is in compliance with the limits.

Table 3-21: Credit risk balances[1] for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at September 30, 2019

	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments[2]	Gross indebtedness[3]	Deductions[4]	Net indebtedness[1]	Percentage of regulatory capital
	NIS millions						
Borrower group A	**3,854**	**2,949**	**379**	**6,816**	**10**	**6,806**	**16.77%**

(1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

3.3. Market risk

Market risk is the risk of loss or decline in value as a result of change in the economic value of a financial instrument, or of a portfolio of assets/instruments, due to changes in prices, rates, spreads, and other market parameters.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

3.3.1. Interest-rate risk

Interest-rate risk is the risk of loss or decline in value due to changes in interest rates in the various currencies. This risk, as defined above, also includes the following risk factors:

- **Repricing risk –** Risk arising from timing differences in terms to maturity (for fixed interest rates) and repricing dates (for floating interest rates).
- **Yield curve risk –** Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist);
- **Basis spread risk –** Risk of loss as a result of changes in spreads between different interest-rate curves;
- **Optionality risk –** Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines);
- **Value exposure –** The estimated expected change in economic value (financial capital) as a result of changes in the interest rate;
- **Accounting income exposure –** The expected change in accounting income in the coming year as a result of changes in the interest rate.

Quantitative information about interest-rate risk – sensitivity analysis

Table 3-22: Adjusted net fair value* of the financial instruments of the Bank and its consolidated companies

	September 30, 2019			December 31, 2018**		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value*	**35,232**	**825**	**36,057**	32,971	1,120	34,091
Of which: banking book	**34,588**	**502**	**35,090**	32,822	741	33,563

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.

** Includes balances attributed to a discontinued operation.

For further details regarding assumptions used to calculate the fair value of financial instruments, see Note 15 to the Condensed Financial Statements.

Table 3-23: Effect of scenarios of changes in interest rates on the adjusted net fair value* of the Bank and its consolidated companies

	September 30, 2019			December 31, 2018**		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Parallel changes						
1% parallel increase	**(119)**	**208**	**89**	415	211	626
Of which: banking book	**(152)**	**207**	**55**	441	227	668
1% parallel decrease	**167**	**(208)**	**(41)**	(389)	(270)	(659)
Of which: banking book	**164**	**(199)**	**(35)**	(446)	(238)	(684)
Non-parallel changes						
Steepening(1)	**(321)**	**(1)**	**(322)**	(201)	119	(82)
Flattening(2)	**334**	**62**	**396**	124	(32)	92
Increase in short-term interest rate	**205**	**117**	**322**	122	178	300
Decrease in short-term interest rate	**(230)**	**(112)**	**(342)**	(278)	(207)	(485)

* Net fair value of financial instruments, excluding non-monetary items and after the effect of employee benefit liabilities and attribution of on-demand deposits to the periods.
** Includes balances attributed to a discontinued operation.
(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.
(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

This table presents the change in the adjusted net fair value of all of the financial instruments under the assumption that the noted change occurs in all interest rates, in all linkage segments.

Table 3-24: Effect of scenarios of changes in interest rates on interest income

	September 30, 2019			December 31, 2018		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
Parallel changes						
1% parallel increase	**960**	**345**	**1,305**	838	522	1,360
Of which: banking book	**960**	**320**	**1,280**	838	552	1,390
1% parallel decrease	**(694)**	**(374)**	**(1,068)**	(596)	(563)	(1,159)
Of which: banking book	**(694)**	**(360)**	**(1,054)**	(596)	(575)	(1,171)

Income sensitivity in the table above was calculated according to the management approach, which includes assumptions regarding models of current-account balances and the change in spreads of deposits with changes in the interest rate, in some of the scenarios, and involves the use of interest-rate floors. The sensitivity of the trading book was calculated using the MTM approach.

3.4. Liquidity and refinancing risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is examined from a broader perspective, encompassing the ability to repay liabilities on schedule, including during times of stress, without damage to routine operations within the business plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk.

Table 3-25: Liquidity coverage ratio*

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the three months ended December 31, 2018
		%	
A. Consolidated data			
Liquidity coverage ratio	**124%**	122%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%
B. Bank data			
Liquidity coverage ratio	**124%**	119%	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%

* The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of the daily observations.

No material changes have occurred in liquidity risk management policy and in resource raising policy since the beginning of this year. For more extensive information regarding liquidity risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018; the Annual Financial Statements for 2018; and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2019.

3.5. Compliance risk

Compliance risk is the risk of imposition of a legal or regulatory sanction, material financial loss, or reputational damage which the banking corporation may suffer as a result of a failure to comply with the compliance directives, as defined in Proper Conduct of Banking Business Directive 308.

Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism (including with respect to tax laws), provision of advice to customers, securities enforcement, protection of privacy (excluding information-technology aspects), the US FATCA directives and the international CRS directives, and taxation aspects relevant to products or services for customers, or directives of a similar nature. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.

Imposition of monetary sanctions by the Supervisor of Banks: Over the last few months, there has been an increase in instances of monetary sanctions imposed on banks and credit-card companies (including the Bank and Isracard) by the Banking Supervision Department, in cases in which, according to the position of the Banking Supervision Department, flaws or deficiencies have been discovered in the conduct of the financial institutions. For details and more extensive information, see the "Other matters" section of the Corporate Governance Report, in the Condensed Financial Statements.

For additional information regarding compliance risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018, and the Annual Financial Statements for 2018.

3.6. Other risks

For details and more extensive information regarding operational risk, legal risk, regulatory risk, economic risk, strategic risk, environmental risk, and the severity of risk factors, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2018.

3.7. Risk factor table

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped. The risk factors and the Board of Management's estimates regarding the severity of the risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high):

- **Low severity level –** The damage to annual profit due to an extreme event would be smaller than the average annual profit before tax in the ordinary course of business; in other words, an extreme event would not cause the Bank to move to a loss.

- **Medium severity level –** The damage to annual profit due to an extreme event would be larger than the average annual profit before tax in the ordinary course of business, and would therefore cause the Bank to move to a loss in at least one of the years of occurrence of the event, and would cause a decrease in the Tier 1 capital ratio; however, the capital ratio would not fall below the risk capacity that has been established (6.5%).
- **High severity level –** The damage to profit due to an extreme event would cause the Tier 1 capital ratio to fall below the risk capacity of the Bank.

In order to quantify the effect of the risk factors on the Bank's profit and capital ratio, systemic extreme scenarios and single risk factor scenarios were examined for most of the risk factors, and the scenario with the more severe effect was used in the risk-factor table. Note that this quantification refers to the effect on the capital of the Bank. There are possible scenarios that may involve a decrease in profit, or losses, with a non-negligible effect on the profitability of the Bank; however, the effect of these scenarios on capital adequacy is low, and they are therefore classified at a low level of severity. In addition, when the team of experts estimates that the quantitative indicators do not sufficiently express the severity of the risk factor, or when it is not possible to determine the risk level of a particular risk factor using reliable quantitative methods, the opinion of the team of experts is taken into consideration.

Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for the risk factors "condition of the global economy" and "condition of the Israeli economy" in the table, systemic scenarios were tested to estimate the effect on profit and on the capital ratio of the combination of a number of risk factors. It is emphasized that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

The Bank also assesses the level of risk using another method, based on expert evaluations of the inherent risk level, the quality of risk management, the effectiveness of controls, and the residual risk. The inherent risk is the aggregate risk inherent in the activity in which the Bank engages, and is defined as the potential loss from this activity. Inherent risk is evaluated from a forward-looking perspective as well as in view of the past, but without taking management and control processes into consideration. In order to estimate the residual risk, taking into account management and control processes, evaluations by content experts from the second line of defense were added to the model, addressing the quality of risk management and the effectiveness of controls.

The combination of estimates using the two methods to obtain an overall assessment of residual risk, presented in the table below on a scale of five levels of severity, was performed as an expert evaluation, reflecting the input of the experts in the various areas, and is subject to all of the qualifications noted with respect to forward-looking information.

Table 3-26: Severity of risk factors

	Risk factor	Risk effect
Financial risks		
1.	Credit risk (including counterparty risk)	Medium
1.1.	Of which: risk in respect of the quality of borrowers and/or collateral	Medium
1.2.	Of which: risk in respect of sector concentration	Medium
1.3.	Of which: risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Of which: interest-rate risk	Low-Medium
2.2.	Of which: inflation risk/exchange-rate risk	Low
2.3.	Of which: share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk[(1)]	Medium
4.1.	Of which: cyber risk	Medium
4.2.	Of which: IT risk	Medium
5.	Legal risk	Low
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy	Medium
10.	Economic risk – condition of the global economy	Medium
11.	Compliance risk*[(2)]	Medium-High

* Compliance risk also includes risks arising from the investigations by United States authorities, as noted in Notes 10D and 10E to the Condensed Financial Statements.

(1) The level of operational risk and the level of IT risk included therein have been raised to Medium (in comparison to the Annual Report), taking into consideration the complex operational environment, in view of technological aspects as well as other non-technological aspects.

(2) The level of compliance risk has been raised to Medium-High (in comparison to the Annual Report), taking into consideration the increasing strength of regulation and of the enforcement environment, in Israel and worldwide.

4. Critical accounting policies and estimates; controls and procedures

4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2018. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

The management estimates and principal assumptions used in the implementation of the Group's accounting policies are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2018.

4.2. Controls and procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control over financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States.

The provisions of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and integrated into the Public Reporting Directives in June 2009.

The directive in Section 302 regarding the existence of controls and procedures concerning disclosure is implemented at the Bank on a quarterly basis. The directive in Section 404 regarding the Bank's internal control over financial reporting is implemented at the end of each year, as required in the directives.

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the updated Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.

The Bank is updating the documentation of the material control processes for 2019, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examining the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year. The annual examination of the effectiveness of control procedures is mainly planned for the second half of the year, and is proceeding on schedule.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at September 30, 2019. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on September 30, 2019, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Oded Eran
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, November 19, 2019

CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on September 30, 2019 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, November 19, 2019

CFO Declaration

I, Ofer Koren, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on September 30, 2019 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Koren
Senior Deputy Managing Director,
Chief Financial Officer

Tel-Aviv, November 19, 2019

Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on September 30, 2019 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel-Aviv, November 19, 2019

Bank Hapoalim

Condensed Financial Statements
as at September 30, 2019

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Contents

Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.

Introduction

We have reviewed the accompanying financial information of Bank Hapoalim B.M. and its subsidiaries (hereinafter - "the Bank") comprising of the condensed consolidated interim balance sheet as of September 30, 2019 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim reporting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Emphasis of a Matter

Without qualifying our above conclusion, we draw attention to that mentioned in Note 10B(b) regarding exposure to class actions that were filed against the Bank Group, to Note 10D regarding the investigation of the business of the Bank Group with American customers and to Note 10E regarding the investigation with respect to FIFA.

Somekh Chaikin	**Ziv Haft**
Certified Public Accountants (Isr)	Certified Public Accountants (Isr)

Tel Aviv, November 19, 2019

Condensed Consolidated Statement of Profit and Loss

for the periods ended September 30, 2019

NIS millions

	Note	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
		2019	2018	**2019**	2018	2018
		Unaudited				Audited
Interest income	2	**2,593**	2,895	**9,148**	8,697	11,672
Interest expenses	2	**(310)**	(667)	**(2,122)**	(2,081)	(2,766)
Net interest income		**2,283**	2,228	**7,026**	6,616	8,906
Provision (income) for credit losses	6(2)	**(40)**	118	**400**	424	613
Net interest income after provision for credit losses		**2,323**	2,110	**6,626**	6,192	8,293
Non-interest income						
Non-interest financing income	3	**58**	406	**313**	995	1,445
Fees		**815**	*822	**2,404**	*2,492	3,318
Other income		**11**	13	**58**	60	105
Total non-interest income		**884**	*1,241	**2,775**	*3,547	4,868
Operating and other expenses						
Salaries and related expenses		**1,010**	1,020	**3,071**	3,126	4,097
Maintenance and depreciation of buildings and equipment		**351**	341	**989**	1,027	1,376
Other expenses		**609**	*623	**1,779**	*1,830	3,487
Total operating and other expenses		**1,970**	*1,984	**5,839**	*5,983	8,960
Profit from continued operations before taxes		**1,237**	1,367	**3,562**	3,756	4,201
Provision for taxes on profit from continued operations		**523**	548	**1,413**	1,585	2,009
Profit from continued operations after taxes		**714**	819	**2,149**	2,171	2,192
The Bank's share in profits of equity-basis investees, after taxes		**3**	-	**7**	8	4
Net profit from continued operations		**717**	819	**2,156**	2,179	2,196
Net profit from a discontinued operation	1E, 17	**16**	109	**258**	279	364
Net profit						
Before attribution to non-controlling interests		**733**	928	**2,414**	2,458	2,560
Loss attributed to non-controlling interests		**3**	22	**14**	40	35
Attributed to shareholders of the Bank		**736**	950	**2,428**	2,498	2,595
Earnings per ordinary share in NIS						
Basic earnings						
Net profit attributed to shareholders of the Bank		**0.55**	0.71	**1.82**	1.87	1.95
Net profit attributed to shareholders of the Bank from continued operations		**0.54**	0.63	**1.63**	1.66	1.68
Diluted earnings						
Net profit attributed to shareholders of the Bank		**0.55**	0.71	**1.81**	1.87	1.94
Net profit attributed to shareholders of the Bank from continued operations		**0.54**	0.63	**1.62**	1.66	1.67

* Reclassified. Expenses in respect of insurance for Sale Law guarantees are stated as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item.

The accompanying notes are an integral part of the condensed financial statements.

Oded Eran
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Ofer Koren
Senior Deputy Managing Director, Chief Financial Officer

Ofer Levy
Senior Deputy Managing Director, Chief Accountant

Tel Aviv, November 19, 2019

Condensed Consolidated Statement of Comprehensive Income
for the periods ended September 30, 2019

NIS millions

		For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
		2019	2018	**2019**	2018	2018
	Note	Unaudited				Audited
Net profit before attribution to non-controlling interests		**733**	928	**2,414**	2,458	2,560
Net loss attributed to non-controlling interests		**3**	22	**14**	40	35
Net profit attributed to shareholders of the Bank		**736**	950	**2,428**	2,498	2,595
Other comprehensive income (loss) before taxes:	4					
Net adjustments in respect of bonds available for sale at fair value(1)		**128**	24	**581**	(577)	(920)
Net adjustments from translation of financial statements,* after hedge effects**		**-**	3	**-**	(1)	(2)
Adjustments of liabilities in respect of employee benefits***		**(183)**	(59)	**(267)**	194	379
Net gains in respect of cash-flow hedges		**-**	-	**-**	-	-
Other comprehensive income (loss) before taxes		**(55)**	(32)	**314**	(384)	(543)
Effect of related tax		**32**	39	**(78)**	147	135
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(23)**	7	**236**	(237)	(408)
Comprehensive income (loss) before attribution to non-controlling interests		**710**	935	**2,650**	2,221	2,152
Comprehensive loss attributed to non-controlling interests		**3**	22	**14**	40	35
Comprehensive income attributed to shareholders of the Bank		**713**	957	**2,664**	2,261	2,187

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.
*** Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.
(1) Until December 31, 2018, securities available for sale.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Consolidated Balance Sheet
as at September 30, 2019

NIS millions

	Note	September 30		December 31
		2019	2018	2018
		Unaudited		Audited
Assets				
Cash and deposits with banks		**72,517**	77,622	84,459
Securities[(1)(2)]	5	**65,592**	57,943	56,116
Securities borrowed or purchased under agreements to resell		**529**	887	708
Credit to the public		**294,980**	279,536	286,265
Allowance for credit losses		**(3,973)**	(3,730)	(3,758)
Net credit to the public	6 ,13	**291,007**	275,806	282,507
Credit to governments		**2,062**	2,309	2,428
Investments in equity-basis investees		**107**	108	103
Buildings and equipment		**3,051**	2,994	3,111
Assets in respect of derivative instruments	11	**12,692**	9,928	10,534
Other assets[(1)]		**4,961**	5,659	5,850
Assets attributed to a discontinued operation[(3)]	1E	**829**	14,665	15,110
Total assets		**453,347**	447,921	460,926
Liabilities and capital				
Deposits from the public	7	**348,027**	341,775	352,260
Deposits from banks		**3,178**	4,357	4,528
Deposits from the government		**485**	292	208
Securities lent or sold under agreements to repurchase		**10**	11	-
Bonds and subordinated notes		**28,337**	28,647	30,024
Liabilities in respect of derivative instruments	11	**13,728**	9,164	9,676
Other liabilities (of which: 523; 608; 569, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[(1)]		**20,321**	11,163	11,841
Liabilities attributed to a discontinued operation[(3)]	1E	**-**	14,794	14,733
Total liabilities		**414,086**	410,203	423,270
Shareholders' equity	9	**39,218**	37,613	37,544
Non-controlling interests		**43**	105	112
Total capital		**39,261**	37,718	37,656
Total liabilities and capital		**453,347**	447,921	460,926

(1) With regard to amounts measured at fair value, see Note 15B.
(2) For details regarding securities pledged to lenders, see Note 5.
(3) Beginning in the second quarter of 2019, the balance of the investment in the Isracard Group, which is accounted for using the equity method, is stated in one line within assets attributed to a discontinued operation.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Statement of Changes in Equity
for the periods ended September 30, 2019

Unaudited
NIS millions

	For the three months ended September 30, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at June 30, 2019	**8,167**	**14**	**8,181**	**(917)**	**32,239**	**39,503**	**46**	**39,549**
Net profit (loss) for the period	**-**	**-**	**-**	**-**	**736**	**736**	**(3)**	**733**
Dividends	**-**	**-**	**-**	**-**	**(1,000)**	**(1,000)**	**-**	**(1,000)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**2**	**2**	**-**	**-**	**2**	**-**	**2**
Net other comprehensive loss after tax effect	**-**	**-**	**-**	**(23)**	**-**	**(23)**	**-**	**(23)**
Balance as at September 30, 2019	**8,167**	**16**	**8,183**	**(940)**	**31,975**	**39,218**	**43**	**39,261**

* Excluding a balance of 2,208,952 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Statement of Changes in Equity

for the periods ended September 30, 2019 (continued)

Unaudited
NIS millions

	For the three months ended September 30, 2018							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at June 30, 2018	8,135	31	8,166	(1,030)	29,518	36,654	126	36,780
Net profit (loss) for the period	-	-	-	-	950	950	(21)	929
Buyback of shares	(1)	-	(1)	-	-	(1)	-	(1)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	3	3	-	-	3	-	3
Net other comprehensive income after tax effect	-	-	-	7	-	7	-	7
Balance as at September 30, 2018	8,134	34	8,168	(1,023)	30,468	37,613	105	37,718

* Excluding a balance of 3,673,637 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Statement of Changes in Equity
for the periods ended September 30, 2019 (continued)

Unaudited
NIS millions

	For the nine months ended September 30, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	**8,135**	**38**	**8,173**	**(1,194)**	**30,565**	**37,544**	**112**	**37,656**
Cumulative effect of initial implementation of US GAAP[(1)]	**-**	**-**	**-**	**18**	**(18)**	**-**	**-**	**-**
Adjusted balance as at January 1, 2019, after initial implementation	**8,135**	**38**	**8,173**	**(1,176)**	**30,547**	**37,544**	**112**	**37,656**
Net profit (loss) for the period	**-**	**-**	**-**	**-**	**2,428**	**2,428**	**(14)**	**2,414**
Dividends	**-**	**-**	**-**	**-**	**(1,000)**	**(1,000)**	**-**	**(1,000)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**10**	**10**	**-**	**-**	**10**	**-**	**10**
Exercise of equity compensation into shares	**32**	**(32)**	**-**	**-**	**-**	**-**	**-**	**-**
Subtraction of non-controlling interests due to loss of control of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**(39)**	**(39)**
Net other comprehensive income after tax effect	**-**	**-**	**-**	**236**	**-**	**236**	**-**	**236**
Dividend for non-controlling interests in a consolidated company	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**	**(16)**
Balance as at September 30, 2019	**8,167**	**16**	**8,183**	**(940)**	**31,975**	**39,218**	**43**	**39,261**

* Excluding a balance of 2,208,952 treasury shares.

(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates. See also Note 1C(1).

The accompanying notes are an integral part of the condensed financial statements.

Condensed Statement of Changes in Equity
for the periods ended September 30, 2019 (continued)

Unaudited
NIS millions

	For the nine months ended September 30, 2018							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2018	8,124	59	8,183	(786)	28,466	35,863	141	36,004
Net profit (loss) for the period	-	-	-	-	2,498	2,498	(36)	2,462
Dividends	-	-	-	-	(496)	(496)	-	(496)
Buyback of shares	(25)	-	(25)	-	-	(25)	-	(25)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	10	10	-	-	10	-	10
Exercise of equity compensation into shares	35	(35)	-	-	-	-	-	-
Net other comprehensive loss after tax effect	-	-	-	(237)	-	(237)	-	(237)
Balance as at September 30, 2018	8,134	34	8,168	(1,023)	30,468	37,613	105	37,718

* Excluding a balance of 3,673,637 treasury shares.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Statement of Changes in Equity
for the periods ended September 30, 2019 (continued)

Audited
NIS millions

	For the year ended December 31, 2018							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2018	8,124	59	8,183	(786)	28,466	35,863	141	36,004
Net profit (loss) for the year	-	-	-	-	2,595	2,595	(29)	2,566
Dividends	-	-	-	-	(496)	(496)	-	(496)
Buyback of shares	(24)	-	(24)	-	-	(24)	-	(24)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	14	14	-	-	14	-	14
Exercise of equity compensation into shares	35	(35)	-	-	-	-	-	-
Net other comprehensive loss after tax effect	-	-	-	(408)	-	(408)	-	(408)
Balance as at December 31, 2018	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656

* Excluding a balance of 3,673,637 treasury shares.

The accompanying notes are an integral part of the financial statements.

Condensed Consolidated Statement of Cash Flows

for the periods ended September 30, 2019

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Cash flows from (for) operating activity					
Net profit for the period	**733**	929	**2,414**	2,462	2,566
Adjustments necessary to present cash flows from operating activity					
The Bank's share in profits of equity-basis investees	**(3)**	-	**(7)**	(8)	(4)
Depreciation of buildings and equipment	**142**	125	**384**	452	590
Amortizations	**5**	5	**16**	15	19
Provision (income) for credit losses	**(40)**	160	**400**	530	765
Gain from sale of bonds available for sale and shares not held for trading*	**(162)**	(169)	**(377)**	(320)	(531)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	**(16)**	1	**(93)**	(8)	(25)
Gain from realization and impairment of affiliates	**63**	-	**(74)**	-	-
Gain from realization of buildings and equipment	**-**	-	**(4)**	(22)	(28)
Change in benefit due to share-based payment transactions	**29**	33	**(5)**	(32)	(40)
Net change in liabilities in respect of employee benefits	**(17)**	(38)	**(506)**	(92)	(98)
Deferred taxes, net	**65**	(44)	**(32)**	85	(21)
Gain from sale of credit portfolios	**-**	-	**(1)**	(58)	(56)
Dividends received from equity-basis investees	**-**	1	**-**	23	22
Adjustments in respect of exchange-rate differences	**545**	89	**1,427**	(376)	(409)
Accumulation differentials included in investing and financing activities	**114**	98	**8,108**	(1,211)	(2,247)
Net change in current assets					
Assets in respect of derivative instruments	**(3,117)**	806	**(2,158)**	2,086	1,481
Securities held for trading	**(134)**	4,462	**(1,055)**	1,304	(1,142)
Other assets	**588**	(222)	**827**	(220)	(371)
Net change in current liabilities					
Liabilities in respect of derivative instruments	**3,448**	(782)	**4,052**	(2,921)	(2,426)
Other liabilities	**133**	1,079	**(7,411)**	483	1,180
Net cash from (for) operating activity	**2,376**	6,533	**5,905**	2,172	(775)

* Until December 31, 2018, securities available for sale.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Consolidated Statement of Cash Flows
for the periods ended September 30, 2019 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Cash flows for investing activity					
Deposits with banks	**(224)**	550	**315**	1,015	1,018
Credit to the public	**(338)**	(599)	**743**	(3,935)	(7,487)
Credit to governments	**83**	20	**366**	(17)	(136)
Securities borrowed or purchased under agreements to resell	**(203)**	(259)	**179**	(203)	(24)
Acquisition of bonds held to maturity	**-**	-	**(15)**	-	-
Proceeds from redemption of bonds held to maturity	**-**	30	**119**	37	35
Acquisition of bonds available for sale and shares not held for trading*	**(17,720)**	(8,523)	**(52,729)**	(24,083)	(34,725)
Proceeds from sale of bonds available for sale and shares not held for trading*	**21,089**	4,647	**38,429**	21,854	36,622
Proceeds from redemption of bonds available for sale and shares not held for trading*	**2,225**	1,127	**6,079**	9,256	10,515
Acquisition of credit portfolios	**(2,015)**	(3,651)	**(5,721)**	(7,698)	(11,768)
Proceeds from sale of credit portfolios	**-**	-	**68**	159	382
Investment in equity-basis investees	**-**	(2)	**-**	(7)	(5)
Proceeds from realization of investment in deconsolidated subsidiary (Appendix A)	**-**	-	**1,356**	-	-
Acquisition of buildings and equipment	**(140)**	(118)	**(383)**	(389)	(683)
Proceeds from realization of buildings and equipment	**-**	6	**7**	34	47
Net cash from (for) investing activity	**2,757**	(6,772)	**(11,187)**	(3,977)	(6,209)

* Until December 31, 2018, securities available for sale.

The accompanying notes are an integral part of the condensed financial statements.

Condensed Consolidated Statement of Cash Flows
for the periods ended September 30, 2019 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Cash flows from (for) financing activity					
Deposits from banks	**144**	498	**(100)**	655	1,003
Deposits from the public	**(4,085)**	(3,993)	**(3,740)**	(5,676)	4,761
Deposits from the government	**163**	(5)	**277**	(28)	(112)
Securities lent or sold under agreements to repurchase	**(9)**	1	**10**	(369)	(380)
Issuance of bonds and subordinated notes	**-**	61	**3,540**	4,281	6,359
Redemption of bonds and subordinated notes	**(1,424)**	(1,332)	**(4,929)**	(4,523)	(5,390)
Dividend paid to shareholders of the Bank	**-**	-	**-**	(496)	(496)
Buyback of shares	**-**	(1)	**-**	(25)	(24)
Dividend paid to minority interests in consolidated companies	**-**	-	**16**	-	-
Net cash from (for) financing activity	**(5,211)**	(4,771)	**(4,926)**	(6,181)	5,721
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	**(78)**	(5,010)	**(10,208)**	(7,986)	(1,263)
Net of the increase (decrease) in cash and cash equivalents attributed to a discontinued operation	**-**	35	**(8)**	27	1
Increase (decrease) in cash	**(78)**	(5,045)	**(10,200)**	(8,013)	(1,264)
Balance of cash from continued operations at beginning of period	**71,213**	80,478	**82,217**	82,856	82,856
Effect of changes in exchange rates on cash balances	**(545)**	(56)	**(1,427)**	534	625
Balance of cash from continued operations at end of period	**70,590**	75,377	**70,590**	75,377	82,217

The accompanying notes are an integral part of the condensed financial statements.

Condensed Consolidated Statement of Cash Flows

for the periods ended September 30, 2019 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Interest and taxes paid and/or received					
Interest received	**3,166**	3,233	**9,705**	8,598	11,747
Interest paid	**(1,414)**	(741)	**(2,669)**	(2,172)	(2,466)
Dividends received	**3**	9	**14**	45	49
Income tax paid	**(456)**	(605)	**(1,536)**	(2,074)	(2,615)
Income tax received	**(1)**	27	**296**	169	232
Appendix A – Proceeds from realization of investments in formerly consolidated subsidiaries					
Cash subtracted	**-**	-	**178**	-	-
Assets	**-**	-	**23,415**	-	-
Liabilities	**-**	-	**(21,339)**	-	-
Assets and liabilities subtracted	**-**	-	**2,254**	-	-
Assets and liabilities attributed to non-controlling interests	**-**	-	**(39)**	-	-
Investment in equity-basis investee – Isracard	**-**	-	**(891)**	-	-
Total consideration received from realization of investments in formerly consolidated subsidiaries	**-**	-	**1,324**	-	-
Capital gain from realization of investments in formerly consolidated subsidiary	**-**	-	**210**	-	-
Proceeds received from realization of investment	**-**	-	**1,534**	-	-
Cash subtracted	**-**	-	**(178)**	-	-
Cash flow from realization of investment in deconsolidated subsidiary	**-**	-	**1,356**	-	-

The accompanying notes are an integral part of the condensed financial statements.

Note 1 Significant Accounting Policies

A. General information

The Condensed Financial Statements as at September 30, 2019 were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) concerning interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks. The accounting principles used in the preparation of these condensed financial statements were implemented consistently with the accounting principles used in the preparation of the audited financial statements as at December 31, 2018, with the exceptions noted in Section C below.

The Condensed Financial Statements do not include all of the information required in the aforesaid Annual Financial Statements; these reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2018, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on November 19, 2019.

B. Use of estimates

In preparing the Condensed Financial Statements, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the implementation of policies, the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

The judgment and management estimates used in the implementation of the Bank's accounting policies, and the principal assumptions used in evaluations involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2018. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

C. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department

(1) Financial instruments – presentation and measurement

A circular on the subject, "Reporting by banking corporations and credit-card companies in Israel according to US GAAP on derivative instruments and hedging, classification and measurement of financial instruments, cash-flow statements, and additional matters" was issued on August 30, 2018. The circular adopts ASU 2016-01. Main changes in the Public Reporting Directives on the classification and measurement of financial instruments: Measurement of investments in equity instruments at fair value through the statement of profit and loss, instead of the measurement used up to this point, which generally required unrealized adjustments of fair value to be recorded in other comprehensive income. However, investments in equity securities that do not have readily determinable fair values can be measured at cost minus impairment, with adjustments for observable price changes in ordinary transactions for an identical or similar investment of the same issuer. All adjustments of the investment cost are allocated to profit and loss.

Note 1 Significant Accounting Policies (continued)

The new directives have been implemented beginning January 1, 2019, through adjusted retrospective implementation, with the cumulative effect allocated to the opening balance of retained earnings at the initial implementation date. The directives concerning investments in equity instruments that do not have readily available fair value were implemented prospectively. Changes in the required disclosures in the financial statements were implemented prospectively.
The implementation of these directives had no material effect on the financial statements.

(2) Derivatives and hedging
A circular on the subject, "Reporting by banking corporations and credit-card companies in Israel according to US GAAP on derivative instruments and hedging, classification and measurement of financial instruments, cash-flow statements, and additional matters" was issued on August 30, 2018. The circular adopts ASU 2017-12. The update facilitates and simplifies the application of accounting guidelines concerning hedging, mainly in connection with the requirements for testing the effectiveness of hedges and documenting hedges. The update also expands the ability of banks to hedge certain risk components, thereby creating congruence between the manner of recording hedging instruments and hedged items in the financial statements. The new directives have been implemented beginning January 1, 2019, through adjusted retrospective implementation, with the cumulative effect allocated to the opening balance of retained earnings at the initial implementation date.
The implementation of these directives had no material effect on the financial statements.

Note 1 Significant Accounting Policies (continued)

D. New accounting standards and new directives of the Supervisor of Banks in the period prior to implementation

Subject	Main points	Inception date and transitional directives	Effect on the Bank
ASU 2016-02, "Leases" (ASC 842)	Adoption of GAAP for US Banks concerning leases. The main objective of the new rules is to fully reflect, in the financial statements, the level of leverage created by long-term lease contracts. The main changes following the application of these rules are: Banks that lease assets for a period exceeding one year shall recognize them in the balance sheet, even if the lease is classified as an operating lease. An asset shall be recorded in the balance sheet in respect of operating lease transactions reflecting the right to use the leased asset, and conversely, the liability for payment for the lease shall be recorded.	January 1, 2020.	According to the estimates of the Bank, based on the existing data as at the date of the report, the implementation of the new directives is expected to lead to an increase in the amount of approximately NIS 1.2 billion in the balance of usage right assets, and to a parallel increase in the balance of liabilities in respect of leases, at the initial implementation date. In addition, according to the estimates of the Bank, the implementation of the new directives is expected to lead to a decrease in the rate of common equity Tier 1 capital and of total capital, by approximately 0.04% and approximately 0.05%, respectively. This effect may be updated according to changes in the discount rate or in leasing agreements at the initial implementation date.
ASU 2016-13, "Financial Instruments – Credit Losses"	The main objective of this update is to provide more useful information regarding expected credit losses on financial instruments and commitments to grant credit. Towards that end, the amendments in this update replace the method of allowance for credit losses based on incurred losses with a method that reflects expected credit losses over the life of the credit and requires consideration of a broader range of forward-looking information to reflect reasonable forecasts of future economic events. The new rules for the calculation of the allowance for credit losses will apply to credit (including housing loans), bonds held to maturity, and certain off-balance sheet credit exposures. In addition, the manner in which impairments of bonds in the available-for-sale portfolio are recorded will change, and the disclosure of the effect of the date of granting of the credit on the credit quality of the credit portfolio will be expanded.	January 1, 2022. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date.	The Bank is preparing to implement this standard.

Note 1 Significant Accounting Policies (continued)

E. Discontinued operation

In light of the directives of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group has been classified as a "discontinued operation." Accordingly, until the first quarter of 2019, and in the comparative figures, the Bank presented all of the assets and liabilities attributed to the activity of the Isracard Group in separate lines in the balance sheet. Similarly, in the statement of profit and loss, the Bank presented profit attributed to the discontinued operation separately, for each reported period.

In April 2019, the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering, retaining a holding of approximately 33% of the shares of Isracard. Consequently, the Bank no longer holds control over the Isracard Group, but retains significant influence. Accordingly, in the second quarter of 2019, within the item "net profit from a discontinued operation," the Bank recognized net profit in the amount of approximately NIS 137 million (after tax and expenses related to the sale offering), which included capital gains in the amount of approximately NIS 210 million in respect of the part of the investment that was sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date, net of adjustment to the market price as at June 30, 2019, in the amount of approximately NIS 73 million. According to the accounting standards, at the date of attainment of significant influence, the value of the investment should be assessed, and the composition of identifiable assets (tangible and intangible) acquired and liabilities undertaken should be identified, separately from goodwill. The Bank therefore performed a valuation of the remaining investment and identified the composition of the investment, which includes, among other matters, identified intangible assets and goodwill.

As at June 30, 2019, the fair value of the investment, based on the share price of the company at that date, had fallen below its value in the books of the Bank. Accordingly, the Bank examined the need for impairment of the investment, and, taking into consideration the uncertainty concerning the ability of the Bank to hold the investment until such time as it recovers its value, in view of the need to complete the separation from the Isracard Group by January 31, 2021, as required by the directives of the Law for Increasing Competition, the Bank recognized impairment in respect of the aforesaid adjustment to market value.

The balance of the investment in the Isracard Group is accounted for using the equity method, and is stated in one line as a discontinued operation.

Note 1 Significant Accounting Policies (continued)

NIS millions

Detailed balances of the Isracard Group for the periods in which it was consolidated in the financial statements of the Bank are set out below:

a. Composition of assets and liabilities attributed to a discontinued operation

	September 30, 2018	December 31, 2018
	Unaudited	Audited
Net credit to the public	13,927	14,366
Buildings and equipment	323	356
Others	415	388
Total assets of the Isracard Group	14,665	15,110
Other liabilities	14,203	13,951
Deposits	591	782
Total liabilities of the Isracard Group	14,794	14,733

b. Profit and loss attributed to a discontinued operation*

	For the three months ended September 30	For the nine months ended September 30		For the year ended December 31
	2018	**2019****	2018	2018
	Unaudited			Audited
Income				
Net interest income	80	**88**	228	312
Fees	457	**407**	1,296	1,717
Others	(4)	**12**	(2)	(4)
Expenses				
Provision for credit losses	42	**26**	106	152
Salaries and related expenses	75	**85**	239	321
Other expenses	254	**257**	731	983
Maintenance and depreciation of buildings	14	**13**	65	71
Profit before taxes	148	**126**	381	498
Provision for taxes on profit	38	**33**	98	128
Net profit before attribution to non-controlling interests	110	**93**	283	370
Profit attributed to non-controlling interests	1	**2**	4	6
Net profit	109	**91**	279	364

* Without netting of intercompany transactions between the Bank and the Isracard Group.
** The data refer to the three months ended March 31, 2019.

Note 2 Interest Income and Expenses

Unaudited
NIS millions

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
A. Interest income*				
From credit to the public	**2,293**	2,610	**8,036**	7,872
From credit to governments	**15**	17	**51**	50
From deposits with banks	**93**	58	**298**	192
From deposits with the Bank of Israel and from cash	**25**	12	**80**	36
From bonds	**167**	198	**683**	547
Total interest income	**2,593**	2,895	**9,148**	8,697
B. Interest expenses*				
On deposits from the public	**(327)**	(399)	**(1,406)**	(1,174)
On deposits from the government	**(2)**	(2)	**(5)**	(5)
On deposits from banks	**(4)**	(11)	**(19)**	(27)
On securities lent or sold under agreements to repurchase	**(1)**	(1)	**(1)**	-
On bonds and subordinated notes	**23**	(251)	**(687)**	(867)
On other liabilities	**1**	(3)	**(4)**	(8)
Total interest expenses	**(310)**	(667)	**(2,122)**	(2,081)
Total net interest income	**2,283**	2,228	**7,026**	6,616
C. Details of net effect of hedging derivative instruments on interest income and expenses**				
Interest income	**(6)**	(6)	**(2)**	(33)
Interest expenses	**4**	(3)	**4**	(6)
D. Details of interest income from bonds on a cumulative basis				
Held to maturity	**2**	3	**9**	10
Available for sale	**168**	188	**645**	504
Held for trading	**(3)**	7	**29**	33
Total included in interest income	**167**	198	**683**	547

* Includes the effect of hedge relationships (2018: includes the effective component of hedge relationships).
** Details of the effect of hedging derivative instruments on subsections A and B.

Note 3 Non-Interest Financing Income

Unaudited
NIS millions

A. Non-interest financing income (expenses) in respect of non-trading activities

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
1. From activity in derivative instruments				
Total from activity in derivative instruments[1]	**(593)**	59	**(1,499)**	1,543
2. From investment in bonds				
Gains from sale of bonds available for sale	**136**	13	**256**	121
Losses from sale of bonds available for sale	**(4)**	(2)	**(11)**	(21)
Total from investment in bonds	**132**	11	**245**	100
3. Net exchange-rate differences	**530**	168	**1,384**	(966)
4. Gains (losses) from investment in shares				
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading[2][3][4]	**10**	158	**248**	220
Dividend from shares not held for trading[4]	**3**	8	**14**	22
Loss from impairment of affiliates	**(63)**	-	**(63)**	-
Total from investment in shares	**(50)**	166	**199**	242
5. Net gains (losses) in respect of securitization transactions	**-**	-	**-**	-
6. Net gains in respect of loans sold	**-**	-	**1**	58
Total non-interest financing income (expenses) in respect of non-trading activities	**19**	404	**330**	977

(1) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
(2) Including a provision for impairment in the amount of approximately NIS 7 million and approximately NIS 16 million for the three-month and nine-month periods ended September 30, 2019, respectively (approximately NIS 13 million and approximately NIS 43 million for the three-month and nine-month periods ended September 30, 2018, respectively).
(3) Including gains and losses from measurement at fair value of shares with readily available fair value, and upward or downward adjustments of shares that do not have readily available fair value.
(4) Until December 31, 2018, shares available for sale.

Note 3 Non-Interest Financing Income (continued)

Unaudited
NIS millions

B. Non-interest financing income in respect of trading activities*

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
Net income in respect of derivative instruments held for trading	**3**	3	**6**	10
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[(1)]	**37**	(2)	**(23)**	7
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading	**(1)**	1	**-**	1
Total non-interest financing income (expenses) in respect of trading activities**	**39**	2	**(17)**	18
Total non-interest financing income (expenses)	**58**	406	**313**	995
Details of non-interest financing income in respect of trading activities, by risk exposure:				
Interest rate exposure	**37**	(2)	**(23)**	7
Foreign currency exposure	**-**	1	**-**	1
Share exposure	**2**	3	**6**	10
Total	**39**	2	**(17)**	18

* Includes exchange-rate differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 2.
(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS 133 million and approximately NIS 68 million for the three-month and nine-month periods ended September 30, 2019, respectively (approximately NIS 7 million and approximately NIS 17 million for the three-month and nine-month periods ended September 30, 2018, respectively).

Note 4 Accumulated Other Comprehensive Income (Loss)

Unaudited
NIS millions

A. Changes in accumulated other comprehensive income (loss), after tax effect

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended September 30, 2019 and 2018

	Other comprehensive income before attribution to non-controlling interests					Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value***	Net adjustments from translation* after hedge effects**	Net gains (losses) in respect of cash-flow hedges	Adjustments in respect of employee benefits	Total		
Balance as at June 30, 2019	**164**	**(37)**	**(1)**	**(1,040)**	**(914)**	**3**	**(917)**
Net change during the period	**98**	**-**	**-**	**(121)**	**(23)**	**-**	**(23)**
Balance as at September 30, 2019	**262**	**(37)**	**(1)**	**(1,161)**	**(937)**	**3**	**(940)**
Balance as at June 30, 2018	96	(47)	(1)	(1,075)	(1,027)	3	(1,030)
Net change during the period	42	5	-	(40)	7	-	7
Balance as at September 30, 2018	138	(42)	(1)	(1,115)	(1,020)	3	(1,023)

2. Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2019 and 2018

	Other comprehensive income before attribution to non-controlling interests					Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value***	Net adjustments from translation* after hedge effects**	Net gains (losses) in respect of cash-flow hedges	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2019	**(160)**	**(37)**	**(1)**	**(993)**	**(1,191)**	**3**	**(1,194)**
Cumulative effect of initial implementation of US GAAP[(1)]	**18**	**-**	**-**	**-**	**18**	**-**	**18**
Adjusted balance as at January 1, 2019, after initial implementation	**(142)**	**(37)**	**(1)**	**(993)**	**(1,173)**	**3**	**(1,176)**
Net change during the period	**404**	**-**	**-**	**(168)**	**236**	**-**	**236**
Balance as at September 30, 2019	**262**	**(37)**	**(1)**	**(1,161)**	**(937)**	**3**	**(940)**
Balance as at January 1, 2018	513	(53)	(1)	(1,242)	(783)	3	(786)
Net change during the period	(375)	11	-	127	(237)	-	(237)
Balance as at September 30, 2018	138	(42)	(1)	(1,115)	(1,020)	3	(1,023)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
*** Until December 31, 2018, securities available for sale.
(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates. See also Note 1C(1).

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Audited
NIS millions

A. Changes in accumulated other comprehensive income (loss), after tax effect (continued)

3. Changes in accumulated other comprehensive income (loss) in 2018

	Other comprehensive income before attribution to non-controlling interests					Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of securities available for sale at fair value	Net adjustments from translation* after hedge effects**	Net gains (losses) in respect of cash-flow hedges	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2018	513	(53)	(1)	(1,242)	(783)	3	(786)
Net change during the year	(673)	16	-	249	(408)	-	(408)
Balance as at December 31, 2018	(160)	(37)	(1)	(993)	(1,191)	3	(1,194)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Unaudited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended September 30, 2019 and 2018

	For the three months ended					
	September 30, 2019			September 30, 2018[1]		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests						
Adjustments for presentation of bonds (2018 – securities) available for sale at fair value[4]						
Net unrealized gains (losses) from adjustments to fair value	**260**	**(77)**	**183**	102	(6)	96
(Gains) losses in respect of bonds (2018 – securities) available for sale reclassified to the statement of profit and loss[2]	**(132)**	**47**	**(85)**	(78)	24	(54)
Net change during the period	**128**	**(30)**	**98**	24	18	42
Adjustments from translation*						
Adjustments from translation of financial statements	**-**	**-**	**-**	10	-	10
Hedges**	**-**	**-**	**-**	(7)	2	(5)
Net change during the period	**-**	**-**	**-**	3	2	5
Employee benefits						
Net actuarial profit (loss) during the period	**(212)**	**72**	**(140)**	(89)	30	(59)
Net (gains) losses reclassified to the statement of profit and loss[3]	**29**	**(10)**	**19**	30	(11)	19
Net change during the period	**(183)**	**62**	**(121)**	(59)	19	(40)
Total net change during the period	**(55)**	**32**	**(23)**	(32)	39	7
Changes in components of other comprehensive income (loss) attributed to non-controlling interests						
Total net change during the period	**-**	**-**	**-**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank						
Total net change during the period	**(55)**	**32**	**(23)**	(32)	39	7

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
(1) Includes balances attributed to a discontinued operation.
(2) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.
(3) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."
(4) Until December 31, 2018, securities available for sale.

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Unaudited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect (continued)

2. Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2019 and 2018

	For the nine months ended					
	September 30, 2019			September 30, 2018[1]		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests						
Adjustments for presentation of bonds available for sale at fair value[4]						
Net unrealized gains (losses) from adjustments to fair value	**823**	**(259)**	**564**	(342)	133	(209)
(Gains) losses in respect of bonds available for sale reclassified to the statement of profit and loss[2][4]	**(242)**	**82**	**(160)**	(235)	69	(166)
Net change during the period	**581**	**(177)**	**404**	(577)	202	(375)
Adjustments from translation*						
Adjustments from translation of financial statements	**-**	**-**	**-**	35	-	35
Hedges**	**-**	**-**	**-**	(36)	12	(24)
Net change during the period	**-**	**-**	**-**	(1)	12	11
Employee benefits						
Net actuarial profit (loss) during the period	**(353)**	**128**	**(225)**	82	(32)	50
Net (gains) losses reclassified to the statement of profit and loss[3]	**86**	**(29)**	**57**	112	(35)	77
Net change during the period	**(267)**	**99**	**(168)**	194	(67)	127
Total net change during the period	**314**	**(78)**	**236**	(384)	147	(237)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests						
Total net change during the period	**-**	**-**	**-**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank						
Total net change during the period	**314**	**(78)**	**236**	(384)	147	(237)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
(1) Includes balances attributed to a discontinued operation.
(2) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.
(3) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."
(4) Until December 31, 2018, securities available for sale.

Note 4 Accumulated Other Comprehensive Income (Loss) (continued)

Audited
NIS millions

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect[1] (continued)

3. Changes in accumulated other comprehensive income (loss) in 2018

	For the year ended December 31, 2018		
	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests			
Adjustments for presentation of securities available for sale at fair value			
Net unrealized gains (losses) from adjustments to fair value	(495)	163	(332)
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss[2]	(425)	84	(341)
Net change during the year	(920)	247	(673)
Adjustments from translation*			
Adjustments from translation of financial statements	51	-	51
Hedges**	(53)	18	(35)
Net change during the year	(2)	18	16
Employee benefits			
Net actuarial profit (loss) for the year	233	(85)	148
Net (gains) losses reclassified to the statement of profit and loss[3]	146	(45)	101
Net change during the year	379	(130)	249
Total net change during the year	(543)	135	(408)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests			
Total net change during the year	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank			
Total net change during the year	(543)	135	(408)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
(1) Includes balances attributed to a discontinued operation.
(2) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.
(3) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

Note 5 Securities

Unaudited
NIS millions

	September 30, 2019				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	**306**	**306**	**5**	**-**	**311**
Total bonds held to maturity	**306**	**306**	**5**	**-**	**311**

	Balance sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	**35,370**	**35,130**	**250**	**(10)**	**35,370**
Foreign governments	**11,324**	**11,283**	**70**	**(29)**	**11,324**
Financial institutions in Israel	**-**	**-**	**-**	**-**	**-**
Foreign financial institutions	**7,034**	**6,954**	**87**	**(7)**	**7,034**
Others in Israel	**-**	**-**	**-**	**-**	**-**
Foreign others	**2,468**	**2,469**	**15**	**(16)**	**2,468**
Total bonds and debentures available for sale	**56,196**	**55,836**	**(1)422**	**(1)(62)**	**56,196**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

(1) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	September 30, 2019				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading	**1,680**	**1,592**	**(2)98**	**(2)(10)**	**1,680**
Of which: shares for which fair value is not readily available	1,073	1,073	-	-	1,073
Total securities not held for trading	**58,182**	**57,734**	**525**	**(1)(72)**	**58,187**
4) Securities held for trading					
Bonds and debentures					
Israeli government	7,402	7,329	75	(2)	7,402
Foreign governments	3	3	-	-	3
Foreign others	-	-	-	-	-
Total bonds and debentures held for trading	**7,405**	**7,332**	**75**	**(2)**	****7,405**
Shares					
Others	5	2	3	-	5
Total securities held for trading	**7,410**	**7,334**	**(2)78**	**(2)(2)**	**7,410**
Total securities[(3)]	**65,592**	**65,068**	**603**	**(74)**	**65,597**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.

** Of which, securities in the amount of NIS 1,882 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

(1) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

(2) Charged to the statement of profit and loss.

(3) Of which: securities in the amount of approximately NIS 3.3 billion were pledged to lenders.

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	September 30, 2019							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	**2,535**	**(10)**	**-**	**(10)**	**-**	**-**	**-**	**-**
Foreign governments	**1,243**	**(5)**	**-**	**(5)**	**2,184**	**(24)**	**-**	**(24)**
Financial institutions in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign financial institutions	**595**	**(5)**	**-**	**(5)**	**399**	**(2)**	**-**	**(2)**
Others in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign others	**846**	**(8)**	**-**	**(8)**	**320**	**(8)**	**-**	**(8)**
Total bonds and debentures available for sale	**5,219**	**(28)**	**-**	**(28)**	**2,903**	**(34)**	**-**	**(34)**

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	September 30, 2018				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	396	396	3	-	399
Total bonds held to maturity	396	396	3	-	399

	Balance sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures					
Israeli government	30,155	29,995	191	(31)	30,155
Foreign governments	10,787	11,052	18	(283)	10,787
Financial institutions in Israel	17	17	-	-	17
Foreign financial institutions	8,182	8,238	21	(77)	8,182
Others in Israel	172	170	3	(1)	172
Foreign others	2,297	2,290	16	(9)	2,297
Total bonds and debentures available for sale	51,610	51,762	249	(401)	51,610
Shares					
Others	2,024	1,810	222	(8)	(1)2,024
Total securities available for sale	53,634	53,572	(2)471	(2)(409)	(1)53,634

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,079 million.
(2) Included in equity under the item "adjustments for presentation of securities available for sale at fair value."

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	September 30, 2018				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures					
Israeli government	3,803	3,800	3	-	3,803
Foreign governments	66	65	1	-	66
Foreign others	2	2	-	-	2
Total bonds and debentures held for trading	3,871	3,867	4	-	3,871
Shares					
Others	42	45	-	(3)	42
Total securities held for trading	3,913	3,912	(2)4	(2)(3)	3,913
Total securities(3)	57,943	57,880	478	(412)	(1)57,946

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,079 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 3.8 billion were pledged to lenders.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Unaudited
NIS millions

	September 30, 2018							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
4) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	7,355	(31)	-	(31)	-	-	-	-
Foreign governments	2,264	(50)	-	(50)	7,853	(233)	-	(233)
Foreign financial institutions	5,505	(52)	-	(52)	984	(25)	-	(25)
Others in Israel	-	-	-	-	52	(1)	-	(1)
Foreign others	648	(4)	-	(4)	314	(5)	-	(5)
Total bonds and debentures available for sale	15,772	(137)	-	(137)	9,203	(264)	-	(264)
Shares								
Others	1,053	(8)	-	(8)	-	-	-	-
Total securities available for sale	16,825	(145)	-	(145)	9,203	(264)	-	(264)

Notes:

A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.

B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2018				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	398	398	3	-	401
Total bonds held to maturity	398	398	3	-	401

	Balance sheet value	Depreciated cost (in shares – cost)	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures					
Israeli government	26,373	26,335	98	(60)	26,373
Foreign governments	10,420	10,580	18	(178)	10,420
Financial institutions in Israel	114	117	-	(3)	114
Foreign financial institutions	8,273	8,355	11	(93)	8,273
Others in Israel	141	142	1	(2)	141
Foreign others	2,539	2,567	4	(32)	2,539
Total bonds and debentures available for sale	47,860	48,096	132	(368)	47,860
Shares					
Others	1,480	1,522	13	(55)	(1)1,480
Total securities not held for trading	49,340	49,618	(2)145	(2)(423)	(1)49,340

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million.
(2) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2018				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures					
Israeli government	6,266	6,274	2	(10)	6,266
Foreign governments	69	68	1	-	69
Foreign others	2	2	-	-	2
Total bonds and debentures held for trading	6,337	6,344	3	(10)	6,337
Shares					
Others	41	45	-	(4)	41
Total securities held for trading	6,378	6,389	(2)3	(2)(14)	6,378
Total securities(3)	56,116	56,405	151	(437)	(1)56,119

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 3.8 billion were pledged to lenders.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 5 Securities (continued)

Audited
NIS millions

	December 31, 2018							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
4) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	17,793	(60)	-	(60)	-	-	-	-
Foreign governments	304	(1)	-	(1)	8,780	(177)	-	(177)
Financial institutions in Israel	114	(3)	-	(3)	-	-	-	-
Foreign financial institutions	3,141	(42)	-	(42)	3,252	(51)	-	(51)
Others in Israel	18	(1)	-	(1)	20	(1)	-	(1)
Foreign others	1,508	(27)	-	(27)	402	(5)	-	(5)
Total bonds and debentures available for sale	22,878	(134)	-	(134)	12,454	(234)	-	(234)
Shares								
Others	1,080	(40)	(15)	(55)	-	-	-	-
Total securities available for sale	23,958	(174)	(15)	(189)	12,454	(234)	-	(234)

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses

	September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	**143,610**	**-**	**889**	**144,499**	**17,953**	**162,452**
Debts examined on a collective basis(1)	**35,781**	**75,391**	**39,309**	**150,481**	**-**	**150,481**
(1) Of which: allowance calculated based on the extent of arrears	**12,366**	**75,224**	**-**	**87,590**	**-**	**87,590**
Total(2)	**179,391**	**75,391**	**40,198**	**294,980**	**17,953**	**312,933**
(2) Of which:						
Debts in restructuring	**663**	**-**	**685**	**1,348**	**-**	**1,348**
Other impaired debts	**1,557**	**-**	**60**	**1,617**	**-**	**1,617**
Total impaired debts	**2,220**	**-**	**745**	**2,965**	**-**	**2,965**
Debts in arrears of 90 days or more	**209**	**560**	**72**	**841**	**-**	**841**
Other problematic debts	**3,412**	**-**	**55**	**3,467**	**-**	**3,467**
Total problematic debts	**5,841**	**560**	**872**	**7,273**	**-**	**7,273**
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	**2,343**	**-**	**133**	**2,476**	**8**	**2,484**
In respect of debts examined on a collective basis(3)	**466**	**382**	**649**	**1,497**	**-**	**1,497**
(3) Of which: allowance calculated based on the extent of arrears***	**59**	**382**	**-**	**441**	**-**	**441**
Total allowance for credit losses(4)	**2,809**	**382**	**782**	**3,973**	**8**	**3,981**
(4) Of which: allowance in respect of impaired debts	**539**	**-**	**131**	**670**	**-**	**670**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial loans includes a balance of housing loans in the amount of approximately NIS 12,366 million.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 307 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	127,974	-	1,230	129,204	17,382	146,586
Debts examined on a collective basis(1)	38,693	68,818	42,821	150,332	-	150,332
(1) Of which: allowance calculated based on the extent of arrears	10,607	68,629	-	79,236	-	79,236
Total(2)	166,667	68,818	44,051	279,536	17,382	296,918
(2) Of which:						
Debts in restructuring	629	-	596	1,225	-	1,225
Other impaired debts	1,429	-	98	1,527	-	1,527
Total impaired debts	2,058	-	694	2,752	-	2,752
Debts in arrears of 90 days or more	253	518	107	878	-	878
Other problematic debts	3,098	4	93	3,195	-	3,195
Total problematic debts	5,409	522	894	6,825	-	6,825
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	1,981	-	182	2,163	4	2,167
In respect of debts examined on a collective basis(3)	495	361	711	1,567	-	1,567
(3) Of which: allowance calculated based on the extent of arrears***	53	361	-	414	-	414
Total allowance for credit losses(4)	2,476	361	893	3,730	4	3,734
(4) Of which: allowance in respect of impaired debts	335	-	181	516	-	516

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial loans includes a balance of housing loans in the amount of approximately NIS 10,607 million.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 277 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

1. Debts*, credit to the public, and allowance for credit losses (continued)

	December 31, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	134,459	-	962	135,421	16,526	151,947
Debts examined on a collective basis(1)	38,258	70,410	42,176	150,844	-	150,844
(1) Of which: according to the extent of arrears	11,044	70,217	-	81,261	-	81,261
Total(2)	172,717	70,410	43,138	286,265	16,526	302,791
(2) Of which:						
Debts in restructuring	676	-	624	1,300	-	1,300
Other impaired debts	1,339	-	82	1,421	-	1,421
Total impaired debts	2,015	-	706	2,721	-	2,721
Debts in arrears of 90 days or more	172	529	107	808	-	808
Other problematic debts	2,997	-	71	3,068	-	3,068
Total problematic debts	5,184	529	884	6,597	-	6,597
Allowance for credit losses in respect of debts*						
In respect of debts examined on an individual basis	2,040	-	159	2,199	8	2,207
In respect of debts examined on a collective basis(3)	481	368	710	1,559	-	1,559
(3) Of which: allowance calculated based on the extent of arrears***	56	368	-	424	-	424
Total allowance for credit losses(4)	2,521	368	869	3,758	8	3,766
(4) Of which: allowance in respect of impaired debts	408	-	163	571	-	571

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial loans includes a balance of housing loans in the amount of approximately NIS 11,044 million.

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 284 million.

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

2. Change in allowance for credit losses

	For the three months ended September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at June 30, 2019	**3,320**	**377**	**843**	**4,540**	**12**	**4,552**
Provision (income) for credit losses[1]	**(103)**	**7**	**59**	**(37)**	**(3)**	**(40)**
Charge-offs	**(177)**	**(2)**	**(159)**	**(338)**	**-**	**(338)**
Recoveries of debts charged off in previous years	**249**	**-**	**84**	**333**	**-**	**333**
Net charge-offs	**72**	**(2)**	**(75)**	**(5)**	**-**	**(5)**
Other	**(2)**	**-**	**(1)**	**(3)**	**-**	**(3)**
Allowance for credit losses as at September 30, 2019[2]	**3,287**	**382**	**826**	**4,495**	**9**	**4,504**
(1) Of which: in respect of off-balance sheet credit instruments	**(8)**	**-**	**2**	**(6)**	**-**	**(6)**
(2) Of which: in respect of off-balance sheet credit instruments	**478**	**-**	**44**	**522**	**1**	**523**

	For the three months ended September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at June 30, 2018	3,043	341	938	4,322	5	4,327
Provision (income) for credit losses[1]	(37)	20	135	118	-	118
Charge-offs	(208)	-	(214)	(422)	-	(422)
Recoveries of debts charged off in previous years	248	-	72	320	-	320
Net charge-offs	40	-	(142)	(102)	-	(102)
Allowance for credit losses as at September 30, 2018[2]	3,046	361	931	4,338	5	4,343
(1) Of which: in respect of off-balance sheet credit instruments	(14)	-	(10)	(24)	-	(24)
(2) Of which: in respect of off-balance sheet credit instruments	570	-	38	608	1	609

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

2. Change in allowance for credit losses (continued)

	For the nine months ended September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**3,053**	**368**	**904**	**4,325**	**9**	**4,334**
Provision for credit losses[1]	**204**	**18**	**178**	**400**	**-**	**400**
Charge-offs	**(530)**	**(5)**	**(512)**	**(1,047)**	**-**	**(1,047)**
Recoveries of debts charged off in previous years	**562**	**1**	**261**	**824**	**-**	**824**
Net charge-offs	**32**	**(4)**	**(251)**	**(223)**	**-**	**(223)**
Other	**(2)**	**-**	**(5)**	**(7)**	**-**	**(7)**
Allowance for credit losses as at September 30, 2019[2] (unaudited)	**3,287**	**382**	**826**	**4,495**	**9**	**4,504**
(1) Of which: in respect of off-balance sheet credit instruments	**(54)**	**-**	**9**	**(45)**	**-**	**(45)**
(2) Of which: in respect of off-balance sheet credit instruments	**478**	**-**	**44**	**522**	**1**	**523**

	For the nine months ended September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	2,986	333	940	4,259	7	4,266
Provision (income) for credit losses[1]	33	31	362	426	(2)	424
Charge-offs	(570)	(4)	(588)	(1,162)	-	(1,162)
Recoveries of debts charged off in previous years	597	1	216	814	-	814
Net charge-offs	27	(3)	(372)	(348)	-	(348)
Adjustments from translation of financial statements	-	-	1	1	-	1
Allowance for credit losses as at September 30, 2018[2] (unaudited)	3,046	361	931	4,338	5	4,343
(1) Of which: in respect of off-balance sheet credit instruments	7	-	(25)	(18)	-	(18)
(2) Of which: in respect of off-balance sheet credit instruments	570	-	38	608	1	609

Note 7 Deposits from the Public

NIS millions

A. Types of deposits, by location of deposit taking and by type of depositor

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
In Israel			
On demand			
Non-interest bearing	**142,667**	130,469	134,527
Interest bearing	**81,421**	86,883	90,919
Total on demand	**224,088**	217,352	225,446
Fixed term	**107,940**	104,470	107,694
Total deposits from the public in Israel*	**332,028**	321,822	333,140
Outside Israel			
On demand			
Non-interest bearing	**1,210**	3,943	2,116
Interest bearing	**4,419**	3,997	3,902
Total on demand	**5,629**	7,940	6,018
Fixed term	**10,370**	12,013	13,102
Total deposits from the public outside Israel	**15,999**	19,953	19,120
Total deposits from the public	**348,027**	341,775	352,260
* Of which:			
Deposits of private individuals	**167,407**	162,844	168,932
Deposits of institutional entities	**44,455**	47,248	43,402
Deposits of corporations and others	**120,166**	111,730	120,806

B. Deposits from the public by size

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Deposit ceiling			
Up to 1	**124,319**	120,099	124,117
Over 1 up to 10	**89,773**	85,283	89,745
Over 10 up to 100	**52,346**	50,891	52,811
Over 100 up to 500	**32,327**	34,806	33,202
Over 500	**49,262**	50,696	52,385
Total	**348,027**	341,775	352,260

Note 8 Employee Benefits

NIS millions

A. Employee benefits

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Early retirement and severance pay			
Amount of liability	**7,344**	7,434	7,131
Fair value of plan assets	**(3,807)**	(3,884)	(3,722)
Surplus liability over plan assets (included in other liabilities)	**3,537**	3,550	3,409
Grant for non-utilization of sick days			
Amount of liability	**381**	358	339
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**381**	358	339
25-year service grant			
Amount of liability	**36**	38	36
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**36**	38	36
Other benefits at end of employment and post-employment			
Amount of liability	**638**	598	571
Fair value of plan assets	**-**	-	-
Surplus liability over plan assets (included in other liabilities)	**638**	598	571
Total			
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**4,592**	4,544	4,355
* Of which: in respect of benefits for employees overseas	**43**	29	54

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan

(1) Commitments and financing status

a. Net change in commitment in respect of forecast benefit*,**

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Net commitment in respect of forecast benefit at beginning of period	**4,389**	4,484	**4,319**	4,760	4,760
Service cost	**33**	35	**104**	105	135
Interest cost	**31**	35	**101**	103	136
Deposits by plan participants	**(29)**	(13)	**(29)**	(13)	(13)
Actuarial loss (profit)	**213**	89	**380**	(85)	(237)
Changes in foreign-currency exchange rates	**(1)**	-	**(4)**	3	4
Benefits paid	**(80)**	(124)	**(276)**	(367)	(466)
Subtraction of balances attributed to a discontinued operation	**-**	-	**(39)**	-	-
Net commitment in respect of forecast benefit at end of period	**4,556**	4,506	**4,556**	4,506	4,319
Net commitment in respect of cumulative benefit at end of period	**4,344**	4,303	**4,344**	4,303	4,123

b. Amounts recognized in the consolidated balance sheet

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Early retirement and severance pay			
Amounts recognized in the item "other liabilities"	**4,556**	4,506	4,319

c. Amounts recognized in accumulated other comprehensive income (loss), before tax effect

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Net actuarial loss	**1,765**	1,683	1,498
Closing balance in accumulated other comprehensive income	**1,765**	1,683	1,498

* Includes post-retirement benefits, including a sick-day grant paid at retirement.
** The amounts presented are net of plan assets. For further details, see Section D below.

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(1) Commitments and financing status (continued)

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Commitment in respect of forecast benefit	**8,363**	8,390	8,041
Commitment in respect of cumulative benefit	**8,151**	8,187	7,845
Fair value of plan assets	**(3,807)**	(3,884)	(3,722)

(2) Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Service cost	**33**	35	**104**	105	135
Interest cost	**31**	35	**101**	103	136
Subtraction of unrecognized amounts:					
Net actuarial loss	**29**	30	**86**	112	146
Net total benefit cost	**93**	100	**291**	320	417

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(2) Expense for the period (continued)

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Net actuarial loss (profit) for the period	**213**	89	**380**	(85)	(237)
Subtraction of actuarial loss	**(29)**	(30)	**(86)**	(112)	(146)
Changes in foreign-currency exchange rates	**(1)**	-	**(4)**	3	4
Subtraction of balances attributed to a discontinued operation	**-**	-	**(23)**	-	-
Total recognized in other comprehensive income (loss)	**183**	59	**267**	(194)	(379)
Net total benefit cost	**93**	100	**291**	320	417
Total recognized in net benefit cost for the period and in other comprehensive income	**276**	159	**558**	126	38

c. Estimate of amounts included in accumulated other comprehensive income and expected to be subtracted from accumulated other comprehensive income to the statement of profit and loss as an expense (as income) in 2019, before tax effect

Net actuarial loss	**113**

Note 8 Employee Benefits (continued)

B. Post-retirement benefit plan (continued)

(3) Assumptions*

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Capitalization rate	**0.69%**	1.42%	1.89%
Rate of increase in the CPI	**2.0%**	2.0%	2.0%
Rate of increase in remuneration(1)	**0.0%-7.5%**	0.0%-7.5%	0.0%-7.5%

2. Principal assumptions used to measure net benefit cost for the period

	For the three months ended September 30		For the three months ended June 30		For the three months ended March 31		For the year ended December 31
	2019	2018	2019	2018	2019	2018	2018
	Unaudited						Audited
Capitalization rate	**1.24%**	1.58%	1.25%	1.32%	1.89%	1.25%	1.42%
Rate of increase in remuneration(1)	**0.0%-7.5%**	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%

b. Effect of a one-percentage-point change on the commitment in respect of the forecast benefit, before tax effect

	Increase of one percentage point			Decrease of one percentage point		
	September 30		December 31	September 30		December 31
	2019	2018	2018	**2019**	2018	2018
	Unaudited		Audited	Unaudited		Audited
Capitalization rate	**(399)**	(360)	(332)	**475**	426	390

* The assumptions refer to the stand-alone data of the Bank.

(1) The rate of increase in remuneration is influenced by several processes leading to an increase in the cost of wages, which reflect an average growth rate of approximately 1% per annum, in real terms. These processes include promotions and changes in job descriptions, seniority, and rank.

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan (continued)

(4) Plan assets

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (enlarged severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited, due to Section 14 of the Severance Pay Law, pursuant to which in the event of an employee's departure, reaching the retirement age established by law, or taking early retirement, the Bank is not required to supplement amounts funded, and customarily does not do so, if their value has decreased or does not cover the increase that has occurred in wages. The Bank's liability for severance pay to its employees is primarily covered by amounts funded, deposited in severance-pay funds in the employees' names.

Balances of the liability for severance pay and amounts funded for severance pay:

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
Liability for severance pay	**3,638**	3,630	3,469
Amounts funded for severance pay	**(3,519)**	(3,502)	(3,359)
Net liability	**119**	128	110

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial. Thus, for example, in the case of a 10% decrease in the fair value of the amounts funded for severance pay, the net liability would increase by a total of approximately NIS 25 million. Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 37% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

Note 8 Employee Benefits (continued)

NIS millions

C. Cash flows

(1) Deposits

	Forecast	Actual deposits				
		For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019*	**2019**	2018	**2019**	2018	2018
		Unaudited				Audited
Deposits	**182**	**67**	55	**115**	144	182

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2019.

(2) Benefits that the Bank expects to pay in the future

Year	
2019	171
2020	410
2021	340
2022	312
2023	294
2024-2028	1,240
2029 forward	2,298
Total	5,065

D. The wage agreement between the Board of Management of the Bank and the Employee Union of the Bank, which was in effect in 2013-2017 and applied to employees of the Bank who are not under personal contracts, concluded at the end of 2017. The parties have begun initial negotiations in order to sign a new agreement.

Note 8 Employee Benefits (continued)

E. Further to the statements in Note 22C to the Annual Financial Statements for 2018, on May 28, 2019, the Board of Directors of the Bank approved a grant of restricted shares and restricted stock units (RSU), restricted for three years beginning January 1, 2019, to the Chairman of the Board, the CEO of the Bank, the members of the Board of Management, senior executives, and key employees of the Bank, at a total volume of approximately 0.04% of the issued capital of the Bank (572,478 shares), within the implementation of the existing remuneration plans and employment agreements, and in accordance with the trajectory published by the Bank in May 2018. The aforesaid grant included, among other matters, a grant of restricted shares to the CEO in the amount of NIS 184,716 (7,457 shares), of which the CEO is entitled to a total of NIS 100,896 each year, and a total of NIS 83,820 (3,384 shares) in respect of 2018, as additional fixed remuneration to which the CEO is entitled, according to the terms of his employment, which include the right to added remuneration, should remuneration higher than the remuneration ceiling be possible pursuant to the Financial Corporations Officer Remuneration Law (the "Remuneration Law") (section 3.11 of the report issued by the Bank on November 8, 2016, to convene a general meeting), and taking into consideration the directives of Section 2(B) of the Remuneration Law concerning the restriction of remuneration to an amount greater than the lowest remuneration at the Bank by a factor of 35. Accordingly, the total remuneration of the CEO, pursuant to Standard 21, for 2018, amounts to approximately NIS 1,884 thousand, while the total salary and related expenses pursuant to the Remuneration Law for 2018 amount to approximately NIS 2,582 thousand – amounts greater by NIS 83,820 than those included in the table of remuneration for interested parties and senior officers in the Annual Periodic Report of the Bank for 2018 (p. 395). On the same date, the Board of Directors of the Bank, in accordance with the recommendation of the Remuneration Committee, also approved an immaterial update of the salary of the CEO of the Bank, beginning January 1, 2019, pertaining to the mechanism for linkage of the monthly salary, such that the total annual remuneration pursuant to Section 2(A) of the Remuneration Law is supplemented to a total of NIS 2.5 million, linked to the consumer price index for April 2016, based on the most recent known CPI for each year (in addition to the ongoing monthly linkage of the salary prior to the update). The estimated cost of this update in 2019 (based on CPI forecasts) is lower than NIS 50,000.

F. In October 2019, the Remuneration Committee and the Board of Directors of the Bank approved terms of employment for the incoming CEO of the Bank (Mr. Dov Kotler), which are identical to the terms of employment of the outgoing CEO of the Bank (Mr. Ari Pinto), and which will be in effect from October 1, 2019 (the date on which Mr. Kotler took office), to the date of the general meeting of shareholders of the Company. Mr. Kotler gave notice that he would waive the part of his remuneration that exceeds NIS 2.5 million (linked to the CPI for April 2016), pursuant to the Remuneration Law.

G. At the date of approval of these statements, the Board of Directors of the Bank approved the extension of the existing remuneration policy of the Bank until the end of 2020, and approved the convening of a general meeting for the approval of the aforesaid extension and for the approval of the terms of service and employment of the Chairman of the Board and CEO of the Bank. A report convening the meeting will be issued shortly after the date of publication of these financial statements.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity

A. Dividends

As of the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution.

B. Dividend payments

Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends from ongoing earnings should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See also Note 24 to the Annual Financial Statements for 2018.

As a result of the sale of approximately 65% of the shares of Isracard in the second quarter of 2019 (see Note 17 to the Condensed Financial Statements), the Bank accumulated additional capital surplus in the amount of approximately NIS 1.3 billion (of which approximately NIS 0.3 billion is in respect of a decrease in the operational risk of Isracard, which will be recognized gradually, over a period of three years). With respect to this capital surplus, in September 2019 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 1 billion, paid in October 2019. The dividend distribution replaced the possible buyback plan that had been considered, which was reported by the Bank in previous statements. There is no change in the dividend distribution policy of the Bank.

For further details regarding the directives of the Bank of Israel concerning buyback plans of banking corporations, see Note 9L to the Condensed Financial Statements.

Details regarding dividend distribution declared in respect of the third quarter of 2019:

On September 24, 2019, the Board of Directors of the Bank resolved to distribute a dividend in the amount of approximately NIS 1,000 million, from a capital surplus formed at the Bank as a result of the sale of approximately 65% of the shares of Isracard in the second quarter of 2019. The dividend constitutes 74.897 agorot per share of par value NIS 1.

The Board of Directors set the record date for payment of the dividend at October 7, 2019, and the date of payment at October 23, 2019.

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
May 23, 2018	June 12, 2018	18.825	251
March 25, 2018	April 11, 2018	18.345	245

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

C. Basel 3 directives

The Bank applies the capital measurement and adequacy directives based on the Basel directives, as published by the Banking Supervision Department and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 40% in 2018, and stands at 30% in 2019.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital adequacy in consolidated data

	September 30, 2019	September 30, 2018	December 31, 2018
	Unaudited		Audited
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital(1)	**39,528**	38,112	38,004
Additional Tier 1 capital	**733**	977	977
Total Tier 1 capital(1)	**40,261**	39,089	38,981
Tier 2 capital	**10,197**	10,634	10,042
Total overall capital(1)	**50,458**	49,723	49,023
2. Weighted balances of risk-adjusted assets			
Credit risk(2)	**306,194**	308,582	312,900
Market risks	**3,044**	3,913	3,429
Operational risk	**23,684**	24,183	24,268
Total weighted balances of risk-adjusted assets(2)	**332,922**	336,678	340,597
	%		
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	**11.87%**	11.32%	11.16%
Ratio of Tier 1 capital to risk components	**12.09%**	11.61%	11.44%
Ratio of total capital to risk components	**15.16%**	14.77%	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**10.26%**	10.24%	10.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**13.76%**	13.74%	13.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plan, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel" (hereinafter: Efficiency Plan Adjustments), allocated in equal parts over five years, beginning in 2017. For additional information regarding the effect of the Efficiency Plan Adjustments, see section F below.

(2) A total of NIS 480 million as at September 30, 2019, NIS 640 million as at December 31, 2018, and NIS 693 million as at September 30, 2018, was deducted from the total weighted balances of risk-adjusted assets, due to Efficiency Plan Adjustments, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning in 2017.

(3) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 10% and 13.5%, respectively. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to these ratios.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

D. Capital adequacy in consolidated data (continued)

	September 30, 2019	September 30, 2018	December 31, 2018
	Unaudited		Audited
		%	
4. Significant subsidiaries			
Bank Hapoalim Switzerland(2)(3)			
Ratio of common equity Tier 1 capital to risk components	**82.32%**	25.25%	(24.27%)
Ratio of Tier 1 capital to risk components	**82.32%**	25.25%	(24.27%)
Ratio of total capital to risk components	**82.38%**	25.36%	(24.18%)
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%	8.00%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%	11.20%
		Basel 2(1)	
Bank Pozitif(2)			
Ratio of Tier 1 capital to risk components	**30.55%**	27.47%	31.96%
Ratio of total capital to risk components	**30.55%**	27.47%	31.96%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%	12.00%

(1) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.
(2) As reported to the local regulator.
(3) Following the loss primarily resulting from the provision for the investigation of the Bank Group's business with American customers, recorded in the statements for the fourth quarter of 2018, which the authorized organs of Hapoalim Switzerland only resolved upon in March 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested 250 million Swiss francs in the capital of Hapoalim Switzerland in the first quarter of 2019. The Bank invested an additional amount of 50 million Swiss francs in July 2019.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

NIS millions

E. Capital components for the calculation of the capital ratio

	September 30, 2019	September 30, 2018	December 31, 2018
	Unaudited		Audited
Common equity Tier 1 capital			
Total capital	**39,261**	37,718	37,656
Differences between total capital and common equity Tier 1 capital	**(26)**	(65)	(72)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**39,235**	37,653	37,584
Supervisory adjustments and deductions:			
Goodwill and intangible assets	**(7)**	-	-
Deferred tax assets	**(42)**	(34)	(34)
Other supervisory adjustments and deductions – common equity Tier 1 capital	**(1)**	(2)	(3)
Total supervisory adjustments and deductions, before Efficiency Plan Adjustments – common equity Tier 1 capital	**(50)**	(36)	(37)
Total Efficiency Plan Adjustments – common equity Tier 1 capital*	**343**	495	457
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**39,528**	38,112	38,004
Additional Tier 1 capital			
Additional Tier 1 capital – instruments, before deductions	**733**	977	977
Additional Tier 1 capital – total deductions	**-**	-	-
Total additional Tier 1 capital, after deductions	**733**	977	977
Total Tier 1 capital, after supervisory adjustments and deductions	**40,261**	39,089	38,981
Tier 2 capital			
Tier 2 capital – instruments, before deductions	**6,417**	6,777	6,131
Tier 2 capital – allowance for credit losses, before deductions	**3,780**	3,857	3,911
Total Tier 2 capital, before deductions	**10,197**	10,634	10,042
Deductions:			
Total deductions – Tier 2 capital	**-**	-	-
Total Tier 2 capital	**10,197**	10,634	10,042
Total overall capital	**50,458**	49,723	49,023

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, beginning in 2017.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Effect of Efficiency Plan Adjustments on the common equity Tier 1 capital ratio

	September 30, 2019	September 30, 2018	December 31, 2018
	Unaudited		Audited
	%		
Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components before the effect of the Efficiency Plan Adjustments	**11.75%**	11.15%	11.00%
Effect of Efficiency Plan Adjustments*	**0.12%**	0.17%	0.16%
Ratio of common equity Tier 1 capital to risk components	**11.87%**	11.32%	11.16%

* The Efficiency Plan Adjustments, established in accordance with the letter of the Banking Supervision Department of January 12, 2016, on the subject "Improving the operational efficiency of the banking system in Israel," are allocated in equal parts over five years, beginning in 2017.

G. Capital components subject to volatility

The Bank manages its capital-adequacy ratio with the aim of complying with the minimum capital requirements of the Banking Supervision Department. The capital of the Bank and the volume of risk-adjusted assets are subject to changes, due to the following factors, among others:

- Actuarial changes resulting from changes in the interest rate for the calculation of the Bank's liabilities, or other actuarial assumptions, such as mortality and departure rates.
- Effects of changes in the interest rate on capital reserves from bonds available for sale.
- Effects of changes in the CPI and in exchange rates on asset balances.

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at September 30, 2019

	Effect of decrease of NIS 100 million in common equity Tier 1 capital	**Effect of increase of NIS 1 billion in total risk-adjusted assets**
	%	
The Bank in consolidated data	**(0.03%)**	**(0.04%)**

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

H. Capital-adequacy target

Pursuant to the circular of the Banking Supervision Department concerning minimum capital ratios, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to the minimum capital ratios.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank required by the Banking Supervision Department, on a consolidated basis, based on data as at September 30, 2019, stand at 10.26% and 13.76%, respectively.

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Further to the foregoing, according to a resolution of the Board of Directors of the Bank, the target common equity Tier 1 capital ratio, beginning December 31, 2017, is 10.75%.

I. Improving operational efficiency

The effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, estimated at approximately 0.12% as at September 30, 2019, is being allocated in equal parts over five years, beginning in 2017.

In June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units (hereinafter: "Real-Estate Efficiency").

In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.

The Banking Supervision Department has extended the period for implementation of the efficiency plan until December 31, 2019.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

J. Issuance of subordinated notes with a loss-absorption mechanism

During the second quarter of 2019, Hapoalim Hanpakot issued CPI-linked subordinated notes (Series T) to the public, bearing annual interest at a rate of 2.02%, with principal in a total amount of approximately NIS 1 billion, maturing in 2030 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2025). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

K. Early redemption of capital notes in Tier 1 capital

The Bank carried out full early redemption of the subordinated notes in Series B and of the subordinated notes in Series D in February 2019 and September 2019, respectively, in consideration for a total of NIS 582 million and NIS 349 million, respectively.

L. Buybacks by banking corporations

In February 2019, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 332, "Buybacks by Banking Corporations," according to which banks will be able to perform buybacks of securities that they issue, subject to compliance with certain conditions. Until now, the existing directive prohibited banks from performing buybacks, other than in exceptional cases, whereas the Companies Law permits buybacks, subject to compliance with conditions for distribution.

The circular establishes conditions under which banking corporations can perform buybacks of securities that they issue, including the following, among other matters:

- The approval of the Banking Supervision Department for the buyback, based on a buyback plan presented by the bank, is required.
- The scope of the buyback in each plan shall not exceed 3% of the issued and paid-up share capital of the banking corporation.
- The banking corporation shall act in accordance with the safe-harbor protection mechanism published by the Israel Securities Authority, to ensure that it has legal protection against allegations of use of insider information.
- The buyback offer shall not be directed to a particular group of shareholders (except in the case of a shareholder who is a qualifying customer, as defined in the directive).
- The buyback plan shall be approved by the board of directors of the bank.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

M. The subsidiary of the Bank in Turkey

In January 2019, a letter was received from the Bank of Israel concerning the subsidiary of the Bank in Turkey, Bank Pozitif. In the letter, the Bank of Israel stated that the activity of the Bank in Turkey exposes it to significant risks, and therefore, until the realization of the full holdings of the Bank in Bank Pozitif, the Bank is required to increase the risk weighting rates of risk-adjusted assets in respect of this activity, in the calculation of the consolidated capital ratio only, as follows:

- Beginning January 1, 2020, risk-adjusted assets in respect of the activity of Bank Pozitif will be weighted at a rate of at least 300%.
- Beginning January 1, 2021, the risk-adjusted assets will be weighted at a rate of at least 600%.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at September 30, 2019, is a decrease of approximately 0.04%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.11%, under the assumption of weighting of the risk-adjusted assets at 600%.
Within the strategic plan, a decision was made to gradually reduce the credit portfolio.
The Bank has commenced activities towards selling its full holdings in Bank Pozitif (for further details, see Note 17B below).

N. Leverage ratio

The Bank applies Proper Conduct of Banking Business Directive 218, “Leverage Ratio” (hereinafter: the “Directive”). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which serves as a complementary measurement to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.
The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items.
Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.
The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, “Leverage Ratio.” The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction. Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

N. Leverage ratio (continued)

	September 30, 2019	September 30, 2018	December 31, 2018
	Unaudited		Audited
	NIS millions		
a. Consolidated data			
Tier 1 capital*	**40,261**	39,089	38,981
Total exposures*	**508,609**	512,146	518,980
	%		
Leverage ratio	**7.92%**	7.63%	7.51%
Minimum leverage ratio required by the Banking Supervision Department	**6.00%**	6.00%	6.00%
b. Significant subsidiary			
Bank Pozitif			
Leverage ratio	**29.65%**	21.80%	26.56%
Minimum required leverage ratio according to local regulation	**3.00%**	3.00%	3.00%

	Effect of decrease of NIS 100 million in Tier 1 capital	Effect of increase of NIS 1 billion in total exposures
	%	
c. Effects on the leverage ratio as at September 30, 2019		
The Bank in consolidated data	**(0.02%)**	**(0.02%)**

* These data also include Efficiency Plan Adjustments, established based on the letter of the Banking Supervision Department of January 12, 2016, "Improvement of the operational efficiency of the banking system in Israel." The effect of the costs of the efficiency plan on the leverage ratio as at September 30, 2019, estimated at approximately 0.07%, is allocated in equal parts over five years, beginning in 2017.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

O. Liquidity coverage ratio

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 64.

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the three months ended December 31, 2018
		%	
a. Consolidated data			
Liquidity coverage ratio	**124%**	122%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%
b. Bank data			
Liquidity coverage ratio	**124%**	119%	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%	100%
c. Significant subsidiary*			
Bank Hapoalim Switzerland			
Liquidity coverage ratio according to local regulation	**457%**	220%	266%
Minimum liquidity coverage ratio required by local regulation**	**100%**	90%	90%

* Bank Pozitif is not subject to a liquidity coverage ratio directive in Turkey.

** The minimum required liquidity coverage ratio according to local regulation increased by 10% annually, up to 100% in 2019.

Note 10 Contingent Liabilities and Special Commitments

NIS millions

A. Contingent liabilities and other special commitments

	September 30		December 31
	2019	2018	2018
	Unaudited		Audited
1. Commitment to purchase securities	**497**	357	460
2. Construction and acquisition of buildings and equipment	**36**	18	11
3. Long-term rent contracts – rent for buildings and equipment in commitments payable in future years:			
First year	**144**	150	139
Second year	**138**	134	134
Third year	**129**	121	124
Fourth year	**120**	111	115
Fifth year	**106**	103	107
Over five years	**785**	882	887
Total rent on buildings and equipment	**1,422**	1,501	1,506

4. Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2019	2018	**2019**	2018	2018
	Unaudited				Audited
Book value of credit sold	**-**	-	**67**	101	225
Consideration received in cash	**-**	-	**68**	159	281
Total net profit from sale of credit	**-**	-	**1**	58	56

Note 10 Contingent Liabilities and Special Commitments (continued)

5. In October 1985, Bank Hapoalim Switzerland leased, for a period of approximately 100 years, a building used for its activity, for an annual leasing fee, linked to the CPI, in the amount of 2 million Swiss francs (at this time, approximately 3 million Swiss francs). Close to the beginning of the lease period, Bank Hapoalim Switzerland divided the leased property and sold approximately half of the lease to a third party (a foreign banking corporation), which has borne half of the annual leasing fee since then. To the best of the knowledge of the Bank, the banking corporation wished to sell its share of the leased property, but is engaged in a legal proceeding with the owner of the property (the lessor) with regard to its liability for the leasing fee after the sale. During the aforesaid legal proceeding, the lessor notified the Bank that according to its position, Bank Hapoalim Switzerland is responsible for the payment of the full leasing fee in respect of the property in its entirety, and in particular if the court rules that the foreign banking corporation will not bear liability for the leasing fee after the sale of its share. Bank Hapoalim Switzerland disputes this position, and according to the position of its legal advisors, it is unlikely that it will be held responsible for the share of the banking corporation in the lease, taking into consideration, among other matters, the fact that it sold part of the rights to the lease, as noted, and taking into account the robustness of the lessee and the fact that it is a banking corporation. On March 21, 2019, the lessor filed a claim against the Bank with the District Court in Zürich, seeking a declarative remedy with regard to the liability of Bank Hapoalim Switzerland for payment of the leasing fee, in accordance with the lease agreement, until the end date thereof on March 31, 2086. Bank Hapoalim Switzerland has a provision in the amount of approximately 23 million Swiss francs in respect of the difference between the contractual leasing fee for its share of the property and the fair value of the liability in respect of its share for the remainder of the period of the lease. The additional exposure in respect of the leasing fee for the share of the foreign banking corporation stands at approximately 23 million Swiss francs, in respect of which no provision was made, based on the evaluation of the legal advisors of Hapoalim Switzerland, as noted above.

B. Legal proceedings

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties. The causes of the claims against the Bank Group are varied and wide-ranging.

The additional exposure in respect of claims filed against the Bank on various matters, as at September 30, 2019, that have a "reasonably possible" probability of materialization amounts to approximately NIS 253 million.

In the opinion of the Bank's Board of Management, based on the opinion of the management of relevant consolidated companies and based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

a. For details concerning claims and petitions to certify claims as class actions in material amounts, see Note 25C(a) to the Financial Statements as at December 31, 2018 (hereinafter: the "2018 Annual Report").

As at the date of publication of the Financial Statements, there have been no material changes with regard to claims against the Bank Group relative to the description in the 2018 Annual Note, with the exceptions noted below:

1. A petition to certify a class action against the Bank and five additional banks was filed with the District Court of Tel-Aviv-Jaffa on June 5, 2019. According to the contentions in the petition, in foreign-currency conversion transactions, in addition to the transaction fee (which is disclosed in the fee lists of the Bank and in the transaction printout), customers are charged a "conversion differences fee," which is not listed in the fee lists of the respondents, and, according to the argument, is charged unlawfully and without due disclosure. The petitioners argue that the collection of the aforesaid conversion differences fee constitutes a violation of the directives of the law, including contract law, banking law, and laws concerning unjust enrichment, and of the banks' fiduciary duty. It is further argued that in charging this fee, the respondents maintain a restrictive arrangement among themselves, in violation of the Economic Competition Law, 1988. The petitioners estimate the total amount of the claim at approximately NIS 8 billion, of which a total of approximately NIS 1.96 billion is attributed to the Bank.

2. With regard to the claim and petition to certify a class action in which it was argued that the Bank unlawfully charges fees for returning checks of customers whose accounts are restricted with respect to check drawing, as described in Note 25C(a)3 to the 2018 Annual Report: after the Tel Aviv Jaffa District Court handed down its verdict, in which the claim was dismissed, the claimant filed notice of an appeal of the aforesaid verdict with the Supreme Court on April 3, 2019.

3. With regard to the claim and petition to certify a class action filed against three credit-card companies, including Isracard Ltd., which was a subsidiary of the Bank at the time of filing of the claim (and is held at a rate of 33% by the Bank at the date of the report), alleging that the three credit-card companies are parties to a restrictive arrangement that has not received approval as required by law, and that in debit and prepaid transactions they unlawfully delay monies owed to businesses, and charge the businesses an interchange fee, as described in Note 25C(a)4 to the 2018 Annual Report: on June 18, 2019, a hearing was held of the appeal filed by the petitioner with the non-profit organization Hatzlacha regarding the ruling of the Restrictive Trade Practices Tribunal of October 16, 2018, which dismissed in limine the originating motion filed by the petitioner and Hatzlacha requesting a declaration by the tribunal that the interchange fee for debit cards had not been approved by the tribunal within the approval granted for the interchange fee for deferred-debit cards. Within the hearing, at the recommendation of the court, the appeal was denied, with the consent of the parties. In view of the denial of the appeal, the petitioner notified the District Court that he was interested in renewing the hearing of the petition to certify the claim as a class action; however, on July 22, 2019, the District Court ruled to continue the stay of the proceedings before the court until the Supreme Court rules on another petition filed by the petitioners with the High Court of Justice, demanding that the Antitrust Commissioner address a request to the tribunal to change/cancel the interchange fee arrangement as approved by the Restrictive Trade Practices Tribunal (a hearing of the petition by a panel has been scheduled for January 6, 2020).

Note 10 Contingent Liabilities and Special Commitments (continued)

B. Legal proceedings (continued)

4. With regard to the claims and petitions to certify class actions filed against Isracard and others, and the Bank and others (respectively), alleging that the manner in which the respondents perform conversions into NIS of transactions executed in foreign currency constitutes the collection of an additional fee, unlawfully and without due disclosure to customers, as described in Note 25C(a)6 and Note 25C(a)8 to the 2018 Annual Report: a verdict was given in March 2018 in which the certification petitions were denied. The petitioners filed an appeal of the verdict with the Supreme Court. In April 2019, the appellants withdrew the appeal, at the recommendation of the court; thus, the verdict denying the certification petitions remained in effect and the proceedings in this matter were concluded.

b. Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below, the probable outcome of which cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on legal opinions; accordingly, no provision has been made in respect thereof:

1. A claim statement and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on January 30, 2019. The claim does not state an amount. The petition concerns the allegation that the Bank charges its customers a fee for the service of endorsement of guarantees pursuant to the Sale Law, although the service and the associated fee do not appear in the fee lists of the Bank.

2. With regard to the claim and petition to certify a class action filed against Isracard and two additional credit-card companies, alleging that the credit-card companies turned a blind eye for many years to a policy of exploitation of elderly consumers by direct-marketing companies, as described in Note 25C(b)2 to the 2018 Annual Report: a preliminary hearing of the certification petition has been scheduled for January 2020.

C. Other proceedings and petitions to certify derivative claims

For details regarding other proceedings, see Note 25C(c) to the Financial Statements as at December 31, 2018. As at the date of publication of the financial statements, no material changes have occurred relative to the aforesaid Note 25C(c), with the following exceptions:

1. With regard to the High Court of Justice petition concerning the allegation that loan contracts of the banks in Israel are misleading contracts and contracts for the sake of appearances only, and in certain cases lead to unjust enrichment of the banks, described in Section 1 of Note 25C(c) to the 2018 Annual Report: on November 6, 2019, the court rejected the petition, stating the reason that it lacked a legal foundation and contradicted fundamental concepts of banking and contract law.

2. With regard to the derivative claim concerning allegations pertaining to the conduct of past and present officers of the Bank in connection with credit granted to companies in the group of Mr. Eliezer Fishman and the collection thereof, described in Section 3 of Note 25C(c) to the 2018 Annual Report: on June 30, 2019, the parties notified the court that the mediation proceeding was unsuccessful and requested renewal of the proceedings. Pursuant to the ruling of the court, the responses of the Bank and of the respondents to this request were submitted on July 14, 2019. Within the response, the Bank rejected the allegations of the petitioner and sought dismissal in limine of the petition. The petitioner is to respond 90 days later (the recess is not included in the number of days).

Note 10 Contingent Liabilities and Special Commitments (continued)

3. With regard to the petition for disclosure and perusal of documents prior to filing a derivative claim, in connection with the investigation underway in the United States regarding the suspicion that the Bank Group served as a conduit for holding and transferring monies paid as bribes to senior officials of the football federation FIFA, as described in Section 4 of Note 25C(c) to the 2018 Annual Report: pursuant to the ruling of the court of September 19, 2019, another update regarding the development of the investigation will be submitted by the parties by January 31, 2020.

4. With regard to the petition for disclosure and perusal of documents prior to filing a derivative claim, in connection with allegations of aid allegedly granted by the Bank and by Bank Hapoalim Switzerland to customers in Australia in the evasion of taxes in their country, as described in Section 5 of Note 25C(c) to the 2018 Annual Report: on March 20, 2019, the Bank submitted its response to the petition to certify the claim as derivative. Concurrently, further to the mediation proceedings conducted between the parties, the parties submitted a petition to the court to approve a settlement agreement, pursuant to which, without this constituting agreement or admission of any type or kind to any of the arguments specified in the certification petition, the Bank would be paid a total of USD 1.2 million (net of compensation for the petitioner and fees for the representative), against conclusion of all of the causes of the claim and the arguments in the certification petition; the certification petition would be accepted; and the claim against the officers would be fully and finally dismissed. On May 5, 2019, the State gave notice that it did not object to the petition to approve the settlement agreement. Further to the notification of the parties of June 11, 2019, according to which no objections were submitted to the approval of the settlement, the court ruled on the same day to grant the status of a verdict to the settlement agreement.

5. With regard to the derivative claim concerning allegations pertaining to the conduct of past and present officers of the Bank and of the accountants of the Bank in connection with the investigation of the United States enforcement authorities, as described in Section 7 of Note 25C(c) to the 2018 Annual Report: the most recent update notification was submitted on September 8, 2019, in which the Bank gave notice that the investigation proceedings against the Bank in the United States had not yet concluded and the results of these proceedings were not yet known, and requested a stay of the hearing of the proceedings in the unified claims until December 1, 2019. In its ruling of September 10, 2019, the court ordered that the case would be scheduled for monitoring on April 5, 2020, and that by that date the parties must give notice of their positions regarding the continued administration of the case.

6. With regard to the derivative claims concerning the conduct of past and present officers of the Bank in connection with credit granted to Tomahawk Investments, which is controlled by Mr. Nochi Dankner, and to Mr. Nochi Dankner personally, as described in Section 8 of Note 25C to the 2018 Annual Report: on May 6, 2019, the professional functions at the Ministry of Justice gave notice that they did not intend to state a position on the matter of the motion to approve the settlement agreement.

Note 10 Contingent Liabilities and Special Commitments (continued)

Accordingly, further to the hearing of the petition on July 9, 2019, and the ruling of the court of July 17, 2019, the settlement arrangement was approved, within which it was agreed that the insurer of the respondents would pay the Bank a total of NIS 15.56 million, and of that amount, compensation would be paid to the petitioner and a fee would be paid to the petitioner's representative; that both claims would be fully and finally dismissed, and the petitioner and the Bank would waive the causes and claims against the officers in connection with credit granted to Tomahawk and to Nochi Dankner; and that the settlement does not constitute admission by any of the parties of the arguments of another of the parties.

D. During 2011, following the notification of Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") by the Swiss authorities that a number of Swiss banks, including Hapoalim Switzerland, were under investigation by the United States authorities in connection with suspicions or concerns of assistance to American customers in evading taxes of the United States authorities, Hapoalim Switzerland submitted statistical information to the Swiss authorities regarding its business with American customers, in order for this information to be conveyed to the United States authorities. On August 29, 2013, it was announced that the United States and Swiss authorities had reached an agreement (the "Swiss Bank Program"), within which Category 2 Swiss banks that would choose to join the Swiss Bank Program and comply with its terms (including the payment of a fine and the submission of extensive information regarding the accounts of their American customers, funds received from other banks, and more) would not be prosecuted in the United States in connection with the matters covered by the program. The Swiss Bank Program defines "Category 2" as a category referring to banks that are not under investigation and can join the program and sign a non-prosecution agreement. On the same day, the United States Department of Justice notified the counsel for Hapoalim Switzerland, via letter, that, pursuant to the provisions of the program, Hapoalim Switzerland would not be included, as it is subject to an investigation. The aforementioned letter did not specify any claims or demands whatsoever.

From the beginning of 2015, following demands and requests received at the Bank from the United States Department of Justice (the DOJ), the New York Department of Financial Services (the NYDFS), and the Federal Reserve, the Bank Group, assisted by its legal counsels, has provided the aforesaid United States authorities with data, information, and documents from the Bank Group in relation to the activities of the Bank Group with American customers, to the extent possible and permitted by law. The investigation, and the gathering of information and documents, as well as the update and validation of the quantitative database of the American customers of the Bank and of Hapoalim Switzerland (including the branch in Luxembourg, and the branch in Singapore which was closed in 2012), are in advanced stages. As part of the investigation, quantitative data and information about American customers of the Bank and of Hapoalim Switzerland were provided to the United States authorities. In addition, at the request of the DOJ, the quantitative data, the methodology, and the investigation methods undertaken by the Bank Group are being examined and validated in parallel by third parties (Independent Examiner); this process has not yet been completed, and continued during the third quarter.

Note 10 Contingent Liabilities and Special Commitments (continued)

The investigation of the United States authorities has not yet ended. The DOJ and the Bank are holding discussions on the type of resolution that should apply to the Bank and Hapoalim Switzerland, but no agreement has been reached yet on the resolutions that may be reached (if reached) with any of the United States authorities, and no agreement has been reached regarding the amounts which the Bank will be required to pay, or regarding the type of resolutions.

There is a range of possibilities for the level of severity of the resolutions and the level of culpability for offenses under United States laws that the Bank and Hapoalim Switzerland will be required to assume within the resolution or resolutions (if reached) and there is a probability that the resolutions for the Bank and Hapoalim Switzerland will be separate, in the form of a deferred prosecution agreement or in the form of a plea agreement. At this time, an array of considerations may significantly adversely affect the resolutions (if reached) and the fine to be paid thereunder, including findings regarding certain actions of former senior employees of Hapoalim Switzerland, arguments with respect to the nature and scope of cooperation with the DOJ, and findings with respect to the severity of the acts and the scope of the activities. Accordingly, the probability that the resolution for Hapoalim Switzerland will be a plea agreement has increased.

As at September 30, 2019, the total provision for this matter is equal to an amount of approximately USD 611 million (approximately NIS 2,128 million). This amount also includes a provision in respect of the exposure to amounts for other United States authorities (other than the DOJ), at a rate of 30% of the amount of the provision in respect of the DOJ, further to the instruction given by the Banking Supervision Department to the Bank with respect to the Financial Statements of the Bank as at December 31, 2016 – see the statement on this matter in Note 26D to the Annual Financial Statements of the Bank for 2016.

The total amount of the provision in respect of the DOJ includes provision for the three components that, in the Bank's best judgment, and based on the opinion of the Bank's US legal counsel, following the progress of the discussions described above with the DOJ, are expected to be included in a resolution, if and when reached, namely – the component of tax that certain American customers of the Bank Group were liable to pay to the United States tax authorities (the "Tax Loss Component"), the component of income of the Bank Group from American customers, as noted (the "Income Recovery Component"), and a component of the penalty which the Bank Group may pay, which is determined, inter alia, as a function (factor) of the Tax Loss Component, based on various criteria specified in the US Sentencing Guidelines (the "Penalty Component"). Although these are separate and different components under United States law, to the best of the Bank's knowledge, there is certain interplay among the components, which makes it difficult to predict the method of calculation of the total amount to be paid within a resolution, if formulated.

Note 10 Contingent Liabilities and Special Commitments (continued)

The process of updating and validating the database of American customers with respect to which the Tax Loss Component and the Income Recovery Component will be calculated has not yet been completed. Discussions continue with the DOJ with regard to the criteria for determining the population of customers relevant to the calculation (e.g. minimum asset value, types of American indicia, and types of banking services provided to the customers), the periods relevant for the calculation, and the calculation method, and agreements have not yet been reached on these issues. Some of the arguments of the Bank in these contexts may not be accepted, and the final agreements with respect to these criteria may cause the relevant population of American customers to grow, which would adversely affect the total amount that the Bank is required to pay. The discussions regarding the various aspects that may be relevant to the determination of the Penalty Component (such as the rank of the employees involved in the behavior under investigation and arguments concerning the extent of cooperation of the Bank) are also still in progress, and agreements have also not been reached on this issue. The final agreements with respect to these aspects may reflect a level of severity that adversely affects the determination of the Penalty Component, and, accordingly, also the total amount that the Bank is required to pay.

Under the present circumstances, as the discussions regarding the aforesaid matters are ongoing and agreements have not yet been reached with respect thereto, and taking into consideration the interdependency and mutual influence of the various criteria and the possible significant impact of all of the issues under discussion on the amount which the Bank will be required to pay, the Bank Group and its legal counsels are unable to reasonably estimate the extent or range of the exposure, both from a financial aspect and with respect to other possible implications. Accordingly, as the Bank Group or its legal counsels are unable to reasonably estimate the expected loss due to the consequences of the investigation or the scope and range of the exposure, the provision included by the Bank is calculated based on the Bank's estimate of the minimum amount of the exposure, according to the methodology presented to the DOJ, in accordance with the accounting principles applicable to the Bank. The amounts of the payment include certain deductions and exclusions which are subject to approval by the DOJ.

Although the Bank estimates that it is likely to also pay amounts to other authorities within a resolution or resolutions with them (if and as formulated), and it is possible that these amounts will be significant, at this stage the discussions with the other authorities are focused on factual presentations and updates, and negotiations with these authorities regarding amounts which the Bank Group will be required to pay within a resolution or resolutions with them (if reached) have not yet begun. Accordingly, the Bank Group and its legal counsels are also unable to reasonably estimate the extent of the exposure with respect to other authorities. In accordance with the aforementioned instruction of the Bank of Israel, the total amount of the provision includes a provision, at a rate of 30% of the amount of the provision in respect of the DOJ, in respect of the exposure to these authorities.

Among other matters, based on the positions presented to the Bank in the course of the discussions with the DOJ, the Bank estimates that it is likely that the aggregate total to be paid by the Bank Group within resolutions with the DOJ and other authorities (if reached) will be significantly higher than the amount of the provision, although, as noted above, it is unable to estimate these amounts.

Note 10 Contingent Liabilities and Special Commitments (continued)

In the context of the internal investigation that the Bank is conducting in connection with the investigation of the United States authorities, the Bank became aware that during the operation of one of its computer systems, which was used, among other things, for secure information transfers and correspondence between different units of the Bank Group in Israel and abroad, documents and information of these units, including documents and information from branches of Hapoalim Switzerland, were transferred to or accessible from the Bank's servers in the United States, creating a substantial risk of violation of bank secrecy and privacy protection laws and regulations. The Bank, with the assistance of external advisors, has acted to map the materials in order to determine their scope and content, and has updated the relevant government authorities on this matter. In this context, and in light of the proceedings in the United States, the Bank has taken steps to maintain the aforementioned system and the documents and information retained therein in their present state, and delivered certain information and documents to the United States authorities, of the information retained on the Bank's servers in the United States, further to their demand. FINMA, the Swiss Financial Market Supervisory Authority, has completed its investigation on this matter. FINMA reprimanded Hapoalim Switzerland and imposed a payment in a negligible amount on Hapoalim Switzerland to cover FINMA's expenses in connection with this matter, but did not apply additional enforcement measures. At this stage, it is not possible to estimate the probability or extent of additional monetary or other exposures in this regard.
Before the date of approval of the financial statements for the second quarter of 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at this time, dividends from ongoing earnings should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, the Board of Directors of the Bank has not declared the distribution of dividends from quarterly earnings, beginning with the second quarter of 2018. Note that, in connection with the capital surplus formed as a result of the sale of holdings in Isracard, during the third quarter the Bank declared dividends in a total amount of NIS 1 billion. See Note 9 to the Condensed Financial Statements.
It is emphasized that the provision made up to this point or the specification of the extent of the exposure, as noted, do not constitute admission of any claim that may be directed at the Bank Group by the United States authorities or by any other party.

E. During 2015, the Department of Justice in the United States filed an indictment with the Federal Court in New York, charging high-ranking officials of the Fédération Internationale de Football Association (FIFA) and others with allegations of committing bribery, fraud, and related offenses. A superseding indictment was published in December 2015, replacing the original indictment. According to the original indictment and the superseding indictment, certain defendants held accounts at Bank Hapoalim (Switzerland) Ltd. and executed financial transactions allegedly related to the affair in these accounts.

Note 10 Contingent Liabilities and Special Commitments (continued)

According to reports, as part of this affair, the American authorities are also investigating various financial institutions. As part of this process, the DOJ is investigating whether the Bank Group violated criminal statutes in the United States relating to fraud and money laundering in connection with bank accounts held at the Bank Group by certain defendants involved in the affair. Within this framework, the Bank was served with orders for discovery of documents and other various requests for data and information. Subject to the directives of the relevant laws that apply to the various entities within the Bank Group, information and documents of a significant volume were submitted to the authorities. The United States Department of Justice also conducted interviews with some employees of the Bank. The Bank Group is making significant progress in an internal investigation that it is performing in connection with this matter, through external attorneys, and is cooperating with the authorities. In August 2019, the DOJ asked the Bank to present on whether enforcement actions should be brought against the Bank Group; subsequently, the DOJ prosecution team provided the Bank’s counsel with their preliminary views of the Bank’s possible criminal exposure. The Bank has not yet made the requested presentation on the merits of possible criminal charges. Since then, however, the Bank has engaged in several preliminary discussions with the DOJ prosecution team concerning a potential resolution, which discussions are ongoing. The DOJ has not yet made an offer as to the form of resolution or the amount of the financial component of such a resolution. Depending on the outcome of the resolution discussions, the Bank may engage further with the DOJ on the merits of possible criminal charges. According to the opinion of the legal advisors of the Bank Group, at this stage, it is not possible to assess the likely outcome of the abovedescribed resolution discussions or a reasonable range for the financial portion of any potential resolution. It is likewise not possible to estimate the extent of the Bank's Group's criminal liability in this matter, or the extent to which (if any) the Bank Group will bear any liability on the civil or regulatory plane; accordingly, no provision was included in the financial statements.

F. Contractual engagements with credit-card companies

Further to the statements in Note 25 to the Annual Financial Statements of the Bank for 2018 concerning contractual engagements with credit-card companies, on April 16, 2019, the Bank signed a joint issuance and charge card issuance operation agreement with MAX. Pursuant to the agreement, the parties will issue credit cards to customers of the Bank, operated by MAX. The aforesaid agreement establishes the distribution of income between the parties, as well as the rights and obligations of the parties and additional arrangements with respect to the described activity.

G. It has come to the attention of the Bank that during the course of the operation of the service of sending text messages to customers containing updates regarding their accounts (the “OnTime” service), some of the messages may not have been delivered to customers registered for the service. The Bank is working to map this error in order to determine its nature and extent, including identifying customers that the Bank intends to reimburse for the error.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

Unaudited
NIS millions

A. Nominal amount of derivative instruments

	September 30, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	**43,108**	**-**	**43,108**
Options written	**15,837**	**-**	**15,837**
Options bought	**17,404**		**17,404**
Swaps(1)	**496,835**	**-**	**496,835**
Total(2)	**573,184**	**-**	**573,184**
Of which: hedging derivatives	**13,041**	**-**	**13,041**
Foreign-currency contracts			
Future and forward contracts	**203,536**	**-**	**203,536**
Options written	**22,319**	**6,025**	**28,344**
Options bought	**22,508**	**6,025**	**28,533**
Swaps	**34,957**	**-**	**34,957**
Total(3)	**283,320**	**12,050**	**295,370**
Of which: hedging derivatives	**-**	**-**	**-**
Share-related contracts			
Future and forward contracts	**-**	**10,843**	**10,843**
Options written	**2,143**	**10,434**	**12,577**
Options bought(4)	**621**	**10,434**	**11,055**
Swaps	**13,019**	**-**	**13,019**
Total	**15,783**	**31,711**	**47,494**
Commodity and other contracts			
Future and forward contracts	**416**	**-**	**416**
Options written	**295**	**-**	**295**
Options bought	**274**	**-**	**274**
Swaps	**-**	**-**	**-**
Total	**985**	**-**	**985**
Credit contracts			
Bank as guarantor	**-**	**-**	**-**
Bank as beneficiary	**-**	**-**	**-**
Total	**-**	**-**	**-**
Total nominal amount	**873,272**	**43,761**	**917,033**

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 262,819 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 29,401 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 20,681 million.
(4) Of which: traded on the stock exchange in the amount of NIS 10,434 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

A. Nominal amount of derivative instruments (continued)

	September 30, 2018		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	46,698	-	46,698
Options written	67,477	-	67,477
Options bought	65,805	-	65,805
Swaps(1)	606,561	59	606,620
Total(2)	786,541	59	786,600
Of which: hedging derivatives	11,565	-	11,565
Foreign-currency contracts			
Future and forward contracts	164,386	-	164,386
Options written	17,247	2,504	19,751
Options bought	16,858	2,504	19,362
Swaps	39,262	-	39,262
Total(3)	237,753	5,008	242,761
Of which: hedging derivatives	1,325	-	1,325
Share-related contracts			
Future and forward contracts	-	10,605	10,605
Options written	2,417	9,482	11,899
Options bought(4)	754	9,534	10,288
Swaps	10,863	-	10,863
Total	14,034	29,621	43,655
Commodity and other contracts			
Future and forward contracts	150	-	150
Options written	323	-	323
Options bought	301	-	301
Swaps	-	-	-
Total	774	-	774
Credit contracts			
Bank as guarantor	-	-	-
Bank as beneficiary	50	-	50
Total	50	-	50
Total nominal amount	1,039,152	34,688	1,073,840

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 307,276 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 26,525 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 12,147 million.
(4) Of which: traded on the stock exchange in the amount of NIS 9,534 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

A. Nominal amount of derivative instruments (continued)

	December 31, 2018		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	46,461	-	46,461
Options written	24,426	-	24,426
Options bought	23,066	-	23,066
Swaps(1)	699,125	-	699,125
Total(2)	793,078	-	793,078
Of which: hedging derivatives	14,877	-	14,877
Foreign-currency contracts			
Future and forward contracts	187,857	-	187,857
Options written	15,209	2,727	17,936
Options bought	16,056	2,727	18,783
Swaps	39,547	-	39,547
Total(3)	258,669	5,454	264,123
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	11,872	11,872
Options written	2,399	13,197	15,596
Options bought(4)	761	13,197	13,958
Swaps	9,997	-	9,997
Total	13,157	38,266	51,423
Commodity and other contracts			
Future and forward contracts	325	-	325
Options written	478	-	478
Options bought	477	-	477
Swaps	-	-	-
Total	1,280	-	1,280
Credit contracts			
Bank as guarantor	-	-	-
Bank as beneficiary	-	-	-
Total	-	-	-
Total nominal amount	1,066,184	43,720	1,109,904

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 353,808 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 25,706 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 16,452 million.
(4) Of which: traded on the stock exchange in the amount of NIS 13,197 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments

	September 30, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	**7,402**	**-**	**7,402**	**8,150**	**-**	**8,150**
Of which: hedging derivatives	**75**	**-**	**75**	**652**	**-**	**652**
Foreign-currency contracts	**4,368**	**56**	**4,424**	**4,700**	**58**	**4,758**
Of which: hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Share-related contracts	**240**	**591**	**831**	**224**	**595**	**819**
Commodity and other contracts	**35**	**-**	**35**	**35**	**-**	**35**
Total gross assets (liabilities) in respect of derivatives[1]	**12,045**	**647**	**12,692**	**13,109**	**653**	**13,762**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**12,045**	**647**	**12,692**	**13,109**	**653**	**13,762**
Of which: not subject to a netting arrangement or similar arrangements	**735**	**647**	**1,382**	**1,084**	**653**	**1,737**

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 34 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

B. Gross fair value of derivative instruments (continued)

	September 30, 2018					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	5,125	-	5,125	4,932	-	4,932
Of which: hedging derivatives	185	-	185	69	-	69
Foreign-currency contracts	3,568	31	3,599	3,022	31	3,053
Of which: hedging derivatives	8	-	8	10	-	10
Share-related contracts	261	911	1,172	254	916	1,170
Commodity and other contracts	32	-	32	32	-	32
Total gross assets (liabilities) in respect of derivatives[(1)]	8,986	942	9,928	8,240	947	9,187
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	8,986	942	9,928	8,240	947	9,187
Of which: not subject to a netting arrangement or similar arrangements	990	942	1,932	1,407	947	2,354

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 23 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

B. Gross fair value of derivative instruments (continued)

	December 31, 2018					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	4,809	-	4,809	4,811	-	4,811
Of which: hedging derivatives	93	-	93	93	-	93
Foreign-currency contracts	4,250	35	4,285	3,387	36	3,423
Of which: hedging derivatives	-	-	-	-	-	-
Share-related contracts	322	1,055	1,377	316	1,064	1,380
Commodity and other contracts	63	-	63	64	-	64
Total gross assets (liabilities) in respect of derivatives[1]	9,444	1,090	10,534	8,578	1,100	9,678
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	9,444	1,090	10,534	8,578	1,100	9,678
Of which: not subject to a netting arrangement or similar arrangements	1,170	1,090	2,260	715	1,100	1,815

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 2 million.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

C. Accounting hedges

1. Effect of accounting hedges

	For the three months ended September 30 2019	For the nine months ended September 30 2019
	Interest income (expenses)	
Profit (loss) from fair-value hedges		
Hedged items	**98**	**552**
Hedging derivatives	**(103)**	**(557)**

2. Items hedged in fair-value hedges

	Balance as at September 30, 2019	
	Book value	Cumulative fair-value adjustments that increased the book value
Securities	**10,488**	**600**

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty

	September 30, 2019					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	**397**	**6,765**	**2,130**	**224**	**3,176**	**12,692**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(5,968)**	**(2,031)**	**(2)**	**(760)**	**(8,761)**
Credit risk mitigation in respect of cash collateral received	**-**	**(419)**	**(60)**	**(168)**	**(335)**	**(982)**
Net total assets in respect of derivative instruments	**397**	**378**	**39**	**54**	**2,081**	**2,949**
Off-balance sheet credit risk in respect of derivative instruments(1)	**276**	**3,546**	**1,659**	**93**	**3,875**	**9,449**
Off-balance sheet credit risk mitigation	**-**	**(1,799)**	**(749)**	**(1)**	**(852)**	**(3,401)**
Total gross credit risk in respect of derivative instruments	**673**	**10,311**	**3,789**	**317**	**7,051**	**22,141**
Balance sheet balance of liabilities in respect of derivative instruments(2)	**187**	**6,787**	**2,575**	**2**	**4,211**	**13,762**
Gross amounts not offset in the balance sheet:	**-**	**-**	**-**	**-**	**-**	**-**
Financial instruments	**-**	**(5,968)**	**(2,031)**	**(2)**	**(760)**	**(8,761)**
Net total liabilities in respect of derivative instruments	**187**	**819**	**544**	**-**	**3,451**	**5,001**

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 34 million (September 30, 2018: NIS 23 million; December 31, 2018: NIS 2 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Unaudited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	September 30, 2018					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	412	4,995	1,444	18	3,059	9,928
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(3,907)	(1,198)	-	(533)	(5,638)
Credit risk mitigation in respect of cash collateral received	-	(809)	(225)	-	(353)	(1,387)
Net total assets in respect of derivative instruments	412	279	21	18	2,173	2,903
Off-balance sheet credit risk in respect of derivative instruments(1)	204	3,861	1,670	43	4,175	9,953
Off-balance sheet credit risk mitigation	-	(1,707)	(661)	-	(841)	(3,209)
Total gross credit risk in respect of derivative instruments	616	8,856	3,114	61	7,234	19,881
Balance sheet balance of liabilities in respect of derivative instruments(2)	267	4,322	1,711	44	2,843	9,187
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(3,907)	(1,198)	-	(533)	(5,638)
Net total liabilities in respect of derivative instruments	267	415	513	44	2,310	3,549

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 34 million (September 30, 2018: NIS 23 million; December 31, 2018: NIS 2 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

Audited
NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2018					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	527	4,641	1,358	3	4,005	10,534
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,030)	(1,027)	(3)	(723)	(5,783)
Credit risk mitigation in respect of cash collateral received	-	(509)	(139)	-	(1,219)	(1,867)
Net total assets in respect of derivative instruments	527	102	192	-	2,063	2,884
Off-balance sheet credit risk in respect of derivative instruments(1)	321	4,217	1,620	43	4,059	10,260
Off-balance sheet credit risk mitigation	-	(2,231)	(603)	(26)	(696)	(3,556)
Total gross credit risk in respect of derivative instruments	848	8,858	2,978	46	8,064	20,794
Balance sheet balance of liabilities in respect of derivative instruments(2)	264	5,197	1,528	123	2,566	9,678
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,030)	(1,027)	(3)	(723)	(5,783)
Net total liabilities in respect of derivative instruments	264	1,167	501	120	1,843	3,895

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 34 million (September 30, 2018: NIS 23 million; December 31, 2018: NIS 2 million).

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

E. Details of maturity dates (nominal value amounts)

	September 30, 2019				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
	Unaudited				
Interest contracts					
NIS-CPI	**3,207**	**7,440**	**9,675**	**9,079**	**29,401**
Other	**54,942**	**192,264**	**217,203**	**79,374**	**543,783**
Foreign-currency contracts	**146,489**	**105,185**	**30,115**	**13,581**	**295,370**
Share-related contracts	**30,707**	**13,847**	**1,639**	**1,301**	**47,494**
Commodity and other contracts (including credit derivatives)	**739**	**181**	**65**	**-**	**985**
Total	**236,084**	**318,917**	**258,697**	**103,335**	**917,033**

	September 30, 2018				
	Unaudited				
Total	320,557	255,225	368,316	129,742	1,073,840

	December 31, 2018				
	Audited				
Total	343,661	207,537	439,457	119,249	1,109,904

F. Derivative financial instruments – risk control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges.

(2) The principal types of transactions in which the Bank operates are:

- Forward

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Future

A future contract traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

- Swap

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

- Option

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

- Spot

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not comply with the terms of the contract.

Market risk – Risk arising from fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions, from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues arising from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts.

In certain cases, the procedure also prescribes limiting losses by means of a stop-loss order.

Note 12 Supervisory Activity Segments

Assignment of customers to the supervisory activity segments

The reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directive of the Banking Supervision Department, as detailed in Note 28 to the Annual Financial Statements for 2018.

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group is classified as a "discontinued operation" and presented under the "Other" segment.

Information regarding supervisory activity segments

	For the three months ended September 30, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	**844**	**268**	**6**
Interest expenses for externals	**(68)**	**-**	**-**
Net interest income:			
From externals	**776**	**268**	**6**
Inter-segmental	**36**	**(82)**	**(1)**
Total net interest income	**812**	**186**	**5**
Non-interest income:			
Non-interest financing income	**1**	**-**	**-**
Fees and other income	**337**	**15**	**64**
Total non-interest income	**338**	**15**	**64**
Total income	**1,150**	**201**	**69**
Provision (income) for credit losses	**77**	**7**	**-**
Operating and other expenses:			
For externals	**933**	**59**	**46**
Inter-segmental	**(3)**	**-**	**-**
Total operating and other expenses	**930**	**59**	**46**
Profit (loss) from continued operations before taxes	**143**	**135**	**23**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**52**	**49**	**8**
Profit (loss) from continued operations after taxes	**91**	**86**	**15**
The Bank's share in profits of equity-basis investees	**-**	**-**	**-**
Net profit (loss) from continued operations	**91**	**86**	**15**
Net profit from a discontinued operation	**-**	**-**	**-**
Net profit (loss) before attribution to non-controlling interests	**91**	**86**	**15**
Loss attributed to non-controlling interests	**-**	**-**	**-**
Net profit (loss) attributed to shareholders of the Bank	**91**	**86**	**15**

Unaudited
NIS millions

For the three months ended September 30, 2019									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
4	616	217	378	5	230	-	2,294	299	2,593
(57)	(47)	(20)	(91)	(40)	114	-	(209)	(101)	(310)
(53)	569	197	287	(35)	344	-	2,085	198	2,283
95	31	(1)	(14)	52	(139)	-	60	(60)	-
42	600	196	273	17	205	-	2,145	138	2,283
-	3	2	12	8	37	-	63	(5)	58
35	210	70	97	19	19	20	807	19	826
35	213	72	109	27	56	20	870	14	884
77	813	268	382	44	261	20	3,015	152	3,167
-	59	(33)	(154)	(2)	(3)	-	(56)	16	(40)
37	413	83	74	31	164	74	1,809	161	1,970
12	30	2	8	11	(53)	(4)	3	(3)	-
49	443	85	82	42	111	70	1,812	158	1,970
28	311	216	454	4	153	(50)	1,259	(22)	1,237
13	118	83	163	3	75	(18)	489	34	523
15	193	133	291	1	78	(32)	770	(56)	714
-	-	-	-	-	3	-	3	-	3
15	193	133	291	1	81	(32)	773	(56)	717
-	-	-	-	-	-	16	16	-	16
15	193	133	291	1	81	(16)	789	(56)	733
-	-	-	-	-	-	-	-	3	3
15	193	133	291	1	81	(16)	789	(53)	736

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[(1)]	**112,361**	**73,761**	**4,534**
Of which: investments in equity-basis investees[(1)]	**-**	**-**	**-**
Average balance of gross credit to the public[(1)]	**114,539**	**74,135**	**4,534**
Balance of gross credit to the public at the end of the reported period	**114,923**	**75,090**	**5,672**
Balance of impaired debts	**739**	**-**	**-**
Balance of debts in arrears of more than 90 days	**622**	**550**	**-**
Average balance of liabilities[(1)]	**135,550**	**-**	**-**
Of which: average balance of deposits from the public[(1)]	**135,550**	**-**	**-**
Balance of deposits from the public at the end of the reported period	**136,052**	**-**	**-**
Average balance of risk-adjusted assets[(1)(2)]	**86,297**	**43,008**	**5,180**
Balance of risk-adjusted assets at the end of the reported period[(2)]	**86,577**	**43,456**	**5,397**
Average balance of assets under management[(1)(3)]	**70,171**	**-**	**-**
Segmentation of net interest income:			
Spread from credit granting activity	**688**	**186**	**5**
Spread from deposit taking activity	**124**	**-**	**-**
Other	**-**	**-**	**-**
Total net interest income	**812**	**186**	**5**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

Unaudited
NIS millions

For the three months ended September 30, 2019									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
749	**66,728**	**28,994**	**52,532**	**2,451**	**156,405**	**141**	**420,361**	**30,940**	**451,301**
-	**-**	**-**	**-**	**-**	**106**	**-**	**106**	**-**	**106**
756	**68,355**	**30,459**	**55,514**	**2,146**	**-**	**-**	**271,769**	**15,385**	**287,154**
718	**65,886**	**30,163**	**66,380**	**1,605**	**-**	**-**	**279,675**	**15,305**	**294,980**
-	**1,012**	**287**	**488**	**-**	**-**	**-**	**2,526**	**439**	**2,965**
-	**205**	**4**	**-**	**-**	**-**	**-**	**831**	**10**	**841**
31,954	**63,207**	**20,715**	**39,476**	**43,921**	**57,534**	**10**	**392,367**	**19,486**	**411,853**
31,951	**63,044**	**20,564**	**38,987**	**43,820**	**-**	**-**	**333,916**	**14,873**	**348,789**
31,355	**61,719**	**20,229**	**38,218**	**44,455**	**-**	**-**	**332,028**	**15,999**	**348,027**
1,366	**71,360**	**41,272**	**82,798**	**5,237**	**19,654**	**6,367**	**314,351**	**19,779**	**334,130**
1,351	**71,618**	**41,924**	**83,354**	**5,218**	**19,314**	**4,326**	**313,682**	**19,240**	**332,922**
48,623	**36,603**	**14,089**	**76,125**	**465,294**	**44,440**	**2,870**	**758,215**	**1,418**	**759,633**
4	**527**	**175**	**250**	**4**	**431**	**-**	**2,079**	**214**	**2,293**
38	**73**	**21**	**23**	**11**	**(468)**	**-**	**(178)**	**(149)**	**(327)**
-	**-**	**-**	**-**	**2**	**242**	**-**	**244**	**73**	**317**
42	**600**	**196**	**273**	**17**	**205**	**-**	**2,145**	**138**	**2,283**

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	1,099	486	6
Interest expenses for externals	(77)	-	-
Net interest income:			
From externals	1,022	486	6
Inter-segmental	(239)	(334)	-
Total net interest income	783	152	6
Non-interest income:			
Non-interest financing income	2	-	-
Fees and other income	341	15	60
Total non-interest income	343	15	60
Total income	1,126	167	66
Provision (income) for credit losses	148	20	-
Operating and other expenses:			
For externals	911	54	78
Inter-segmental	(60)	-	-
Total operating and other expenses	851	54	78
Profit (loss) from continued operations before taxes	127	93	(12)
Provision for taxes (tax benefit) on profit (loss) from continued operations	58	45	(4)
Profit (loss) from continued operations after taxes	69	48	(8)
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	69	48	(8)
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	69	48	(8)
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	69	48	(8)

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect improvements in the segment measurement method.

Unaudited
NIS millions

For the three months ended September 30, 2018*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
10	648	216	423	14	208	-	2,618	277	2,895
(48)	(37)	(23)	(47)	(97)	(239)	-	(568)	(99)	(667)
(38)	611	193	376	(83)	(31)	-	2,050	178	2,228
78	(38)	(19)	(107)	108	263	-	46	(46)	-
40	573	174	269	25	232	-	2,096	132	2,228
1	3	6	13	18	395	-	438	(32)	406
38	189	68	88	30	28	30	812	23	835
39	192	74	101	48	423	30	1,250	(9)	1,241
79	765	248	370	73	655	30	3,346	123	3,469
-	148	(20)	(187)	(4)	-	-	85	33	118
32	337	76	94	29	158	59	1,696	288	1,984
12	85	3	2	10	(50)	(1)	1	(1)	-
44	422	79	96	39	108	58	1,697	287	1,984
35	195	189	461	38	547	(28)	1,564	(197)	1,367
13	89	81	203	16	181	(89)	552	(4)	548
22	106	108	258	22	366	61	1,012	(193)	819
-	-	-	-	-	-	-	-	-	-
22	106	108	258	22	366	61	1,012	(193)	819
-	-	-	-	-	-	109	109	-	109
22	106	108	258	22	366	170	1,121	(193)	928
-	-	-	-	-	6	-	6	16	22
22	106	108	258	22	372	170	1,127	(177)	950

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[1]	105,000	67,268	566
Of which: investments in equity-basis investees[1]	-	-	-
Average balance of gross credit to the public[1]	106,145	67,608	566
Balance of gross credit to the public at the end of the reported period	110,842	68,365	5,371
Balance of impaired debts	658	-	-
Balance of debts in arrears of more than 90 days	620	513	-
Average balance of liabilities[1]	127,988	-	-
Of which: average balance of deposits from the public[1]	127,982	-	-
Balance of deposits from the public at the end of the reported period	127,622	-	-
Average balance of risk-adjusted assets[1][2]	81,468	39,036	2,797
Balance of risk-adjusted assets at the end of the reported period[2]	82,735	39,395	3,669
Average balance of assets under management[1][3]	72,015	-	-
Segmentation of net interest income:			
Spread from credit granting activity	697	152	6
Spread from deposit taking activity	86	-	-
Other	-	-	-
Total net interest income	783	152	6

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The data include balances attributed to a discontinued operation.

Unaudited
NIS millions

For the three months ended September 30, 2018*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other[4]	Total activity in Israel	Total activity overseas	
1,252	60,169	26,417	59,236	2,477	152,251	13,313	420,115	33,408	453,523
-	-	-	-	-	108	-	108	-	108
1,266	60,707	26,689	59,973	2,087	-	14,490	271,357	19,788	291,145
1,249	62,224	25,840	61,476	1,448	-	14,142	277,221	16,457	293,678
-	844	338	507	-	-	43	2,390	405	2,795
1	227	-	-	-	-	-	848	30	878
32,742	59,701	18,776	32,292	50,923	53,343	16,081	391,846	24,252	416,098
32,742	59,609	18,665	31,751	50,634	-	62	321,445	21,982	343,427
32,830	58,965	19,282	33,576	47,248	-	91	319,614	22,252	341,866
1,696	66,993	38,792	80,360	7,276	19,832	19,130	315,547	19,422	334,969
1,716	64,934	39,173	81,399	7,081	19,730	19,582	316,350	20,328	336,678
48,059	26,347	15,443	82,993	636,852	66,173	2,870	950,752	19,402	970,154
4	520	161	256	8	781	-	2,427	200	2,627
36	53	13	14	14	(538)	-	(322)	(118)	(440)
-	-	-	(1)	3	(11)	-	(9)	50	41
40	573	174	269	25	232	-	2,096	132	2,228

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	3,335	1,574	18
Interest expenses for externals	(250)	-	-
Net interest income:			
From externals	3,085	1,574	18
Inter-segmental	(639)	(1,046)	(2)
Total net interest income	2,446	528	16
Non-interest income:			
Non-interest financing income	3	-	-
Fees and other income	985	44	176
Total non-interest income	988	44	176
Total income	3,434	572	192
Provision (income) for credit losses	208	18	-
Operating and other expenses:			
For externals	2,717	171	136
Inter-segmental	(19)	-	-
Total operating and other expenses	2,698	171	136
Profit (loss) from continued operations before taxes	528	383	56
Provision for taxes (tax benefit) on profit (loss) from continued operations	185	135	19
Profit (loss) from continued operations after taxes	343	248	37
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	343	248	37
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	343	248	37
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	343	248	37

Unaudited
NIS millions

For the nine months ended September 30, 2019

	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	20	2,000	679	1,274	26	869	-	8,203	945	9,148
	(179)	(154)	(98)	(301)	(215)	(596)	-	(1,793)	(329)	(2,122)
	(159)	1,846	581	973	(189)	273	-	6,410	616	7,026
	295	(51)	(15)	(172)	245	555	-	218	(218)	-
	136	1,795	566	801	56	828	-	6,628	398	7,026
	-	9	9	36	20	236	3	316	(3)	313
	104	617	206	284	71	61	89	2,417	45	2,462
	104	626	215	320	91	297	92	2,733	42	2,775
	240	2,421	781	1,121	147	1,125	92	9,361	440	9,801
	-	192	(47)	12	1	-	-	366	34	400
	101	1,202	247	206	89	484	199	5,245	594	5,839
	39	94	(5)	31	31	(151)	(9)	11	(11)	-
	140	1,296	242	237	120	333	190	5,256	583	5,839
	100	933	586	872	26	792	(98)	3,739	(177)	3,562
	36	337	214	309	10	296	(28)	1,359	54	1,413
	64	596	372	563	16	496	(70)	2,380	(231)	2,149
	-	-	-	-	-	7	-	7	-	7
	64	596	372	563	16	503	(70)	2,387	(231)	2,156
	-	-	-	-	-	-	258	258	-	258
	64	596	372	563	16	503	188	2,645	(231)	2,414
	-	-	-	-	-	4	-	4	10	14
	64	596	372	563	16	507	188	2,649	(221)	2,428

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[1]	**111,431**	**71,931**	**4,450**
Of which: investments in equity-basis investees[1]	**-**	**-**	**-**
Average balance of gross credit to the public[1]	**112,887**	**72,303**	**4,450**
Balance of gross credit to the public at the end of the reported period	**114,923**	**75,090**	**5,672**
Balance of impaired debts	**739**	**-**	**-**
Balance of debts in arrears of more than 90 days	**622**	**550**	**-**
Average balance of liabilities[1]	**135,356**	**-**	**-**
Of which: average balance of deposits from the public[1]	**135,344**	**-**	**-**
Balance of deposits from the public at the end of the reported period	**136,052**	**-**	**-**
Average balance of risk-adjusted assets[1][2]	**85,773**	**42,108**	**4,742**
Balance of risk-adjusted assets at the end of the reported period[2]	**86,577**	**43,456**	**5,397**
Average balance of assets under management[1][3]	**69,131**	**-**	**-**
Segmentation of net interest income:			
Spread from credit granting activity	**2,076**	**528**	**16**
Spread from deposit taking activity	**370**	**-**	**-**
Other	**-**	**-**	**-**
Total net interest income	**2,446**	**528**	**16**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The average balances include balances attributed to a discontinued operation.

Unaudited
NIS millions

For the nine months ended September 30, 2019									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other[4]	Total activity in Israel	Total activity overseas	
801	64,388	27,500	59,124	1,685	152,605	5,175	422,709	33,162	455,871
-	-	-	-	-	105	-	105	-	105
810	65,515	28,275	61,324	1,366	-	5,036	275,213	15,737	290,950
718	65,886	30,163	66,380	1,605	-	-	279,675	15,305	294,980
-	1,012	287	488	-	-	-	2,526	439	2,965
-	205	4	-	-	-	-	831	10	841
32,586	62,711	20,717	39,138	44,747	55,090	5,746	396,091	21,018	417,109
32,585	62,544	20,570	38,613	44,592	-	192	334,440	16,689	351,129
31,355	61,719	20,229	38,218	44,455	-	-	332,028	15,999	348,027
1,394	70,840	39,956	81,676	5,281	20,338	10,445	315,703	20,847	336,550
1,351	71,618	41,924	83,354	5,218	19,314	4,326	313,682	19,240	332,922
47,327	36,465	14,093	75,279	524,822	52,064	2,870	822,051	1,182	823,233
13	1,565	504	734	14	2,446	-	7,352	684	8,036
123	230	62	67	36	(1,783)	-	(895)	(511)	(1,406)
-	-	-	-	6	165	-	171	225	396
136	1,795	566	801	56	828	-	6,628	398	7,026

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	3,387	1,558	18
Interest expenses for externals	(238)	-	-
Net interest income:			
From externals	3,149	1,558	18
Inter-segmental	(827)	(1,123)	(1)
Total net interest income	2,322	435	17
Non-interest income:			
Non-interest financing income	5	-	-
Fees and other income	1,007	45	165
Total non-interest income	1,012	45	165
Total income	3,334	480	182
Provision (income) for credit losses	394	31	-
Operating and other expenses:			
For externals	2,801	161	179
Inter-segmental	(201)	-	-
Total operating and other expenses	2,600	161	179
Profit (loss) from continued operations before taxes	340	288	3
Provision for taxes on profit from continued operations	145	126	1
Profit (loss) from continued operations after taxes	195	162	2
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	195	162	2
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	195	162	2
Loss attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	195	162	2

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

Unaudited
NIS millions

For the nine months ended September 30, 2018*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
30	1,956	630	1,243	41	650	-	7,937	760	8,697
(127)	(100)	(60)	(135)	(312)	(848)	-	(1,820)	(261)	(2,081)
(97)	1,856	570	1,108	(271)	(198)	-	6,117	499	6,616
210	(136)	(75)	(340)	343	945	-	120	(120)	-
113	1,720	495	768	72	747	-	6,237	379	6,616
1	8	15	29	32	928	-	1,018	(23)	995
117	592	200	254	97	116	96	2,479	73	2,552
118	600	215	283	129	1,044	96	3,497	50	3,547
231	2,320	710	1,051	201	1,791	96	9,734	429	10,163
-	310	(25)	(300)	(6)	(2)	-	371	53	424
97	991	229	241	85	515	222	5,181	802	5,983
38	278	7	11	33	(160)	-	6	(6)	-
135	1,269	236	252	118	355	222	5,187	796	5,983
96	741	499	1,099	89	1,438	(126)	4,176	(420)	3,756
37	294	198	436	36	489	(54)	1,581	4	1,585
59	447	301	663	53	949	(72)	2,595	(424)	2,171
-	-	-	-	-	8	-	8	-	8
59	447	301	663	53	957	(72)	2,603	(424)	2,179
-	-	-	-	-	-	279	279	-	279
59	447	301	663	53	957	207	2,882	(424)	2,458
-	-	-	-	-	6	-	6	34	40
59	447	301	663	53	963	207	2,888	(390)	2,498

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[(1)]	107,588	65,800	4,264
Of which: investments in equity-basis investees[(1)]	-	-	-
Average balance of gross credit to the public[(1)]	108,689	66,140	4,264
Balance of gross credit to the public at the end of the reported period	110,842	68,365	5,371
Balance of impaired debts	658	-	-
Balance of debts in arrears of more than 90 days	620	513	-
Average balance of liabilities[(1)]	126,286	-	-
Of which: average balance of deposits from the public[(1)]	126,282	-	-
Balance of deposits from the public at the end of the reported period	127,622	-	-
Average balance of risk-adjusted assets[(1)(2)]	81,134	38,166	3,669
Balance of risk-adjusted assets at the end of the reported period[(2)]	82,735	39,395	3,669
Average balance of assets under management[(1)(3)]	72,429	-	-
Segmentation of net interest income:			
Spread from credit granting activity	2,081	435	17
Spread from deposit taking activity	241	-	-
Other	-	-	-
Total net interest income	2,322	435	17

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The data include balances attributed to a discontinued operation.

Unaudited
NIS millions

	For the nine months ended September 30, 2018*									
	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other[(4)]	Total activity in Israel	Total activity overseas	
	1,176	60,463	24,617	57,936	2,737	150,285	13,365	418,167	33,864	452,031
	-	-	-	-	-	138	-	138	-	138
	1,188	61,231	25,041	58,563	2,343	-	13,246	270,301	16,256	286,557
	1,249	62,224	25,840	61,476	1,448	-	14,142	277,221	16,457	293,678
	-	844	338	507	-	-	43	2,390	405	2,795
	1	227	-	-	-	-	-	848	30	878
	32,254	59,557	18,744	33,660	52,427	52,827	15,697	391,452	23,906	415,358
	32,252	59,445	18,641	33,125	52,132	-	68	321,945	21,728	343,673
	32,830	58,965	19,282	33,576	47,248	-	91	319,614	22,252	341,866
	1,604	66,729	37,676	77,792	7,530	20,188	19,246	311,899	19,650	331,549
	1,716	64,934	39,173	81,399	7,081	19,730	19,582	316,350	20,328	336,678
	47,263	29,009	13,753	81,575	633,106	62,781	2,870	942,786	19,190	961,976
	16	1,576	458	728	24	2,499	-	7,382	540	7,922
	97	144	37	40	40	(1,515)	-	(916)	(318)	(1,234)
	-	-	-	-	8	(237)	-	(229)	157	(72)
	113	1,720	495	768	72	747	-	6,237	379	6,616

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	4,476	2,032	25
Interest expenses for externals	(319)	-	-
Net interest income:			
From externals	4,157	2,032	25
Inter-segmental	(1,028)	(1,435)	(2)
Total net interest income	3,129	597	23
Non-interest income:			
Non-interest financing income	7	-	-
Fees and other income	1,330	59	209
Total non-interest income	1,337	59	209
Total income	4,466	656	232
Provision (income) for credit losses	498	40	-
Operating and other expenses:			
For externals	3,755	214	199
Inter-segmental	(270)	-	-
Total operating and other expenses	3,485	214	199
Profit (loss) from continued operations before taxes	483	402	33
Provision for taxes (tax benefit) on profit (loss) from continued operations	176	146	11
Profit (loss) from continued operations after taxes	307	256	22
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	307	256	22
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	307	256	22
Loss attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	307	256	22

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

Audited
NIS millions

	For the year ended December 31, 2018*									
	Activity in Israel								Activity overseas	Total
	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	41	2,607	849	1,678	56	900	-	10,607	1,065	11,672
	(186)	(156)	(100)	(217)	(396)	(1,029)	-	(2,403)	(363)	(2,766)
	(145)	2,451	749	1,461	(340)	(129)	-	8,204	702	8,906
	305	(143)	(74)	(422)	437	1,110	-	185	(185)	-
	160	2,308	675	1,039	97	981	-	8,389	517	8,906
	1	7	10	30	36	1,264	-	1,355	90	1,445
	161	799	276	347	130	124	135	3,302	121	3,423
	162	806	286	377	166	1,388	135	4,657	211	4,868
	322	3,114	961	1,416	263	2,369	135	13,046	728	13,774
	-	379	(48)	(305)	(14)	2	-	512	101	613
	129	1,318	300	291	114	698	597	7,202	1,758	8,960
	53	367	13	16	45	(210)	(6)	8	(8)	-
	182	1,685	313	307	159	488	591	7,210	1,750	8,960
	140	1,050	696	1,414	118	1,879	(456)	5,324	(1,123)	4,201
	50	381	256	515	43	608	(65)	1,964	45	2,009
	90	669	440	899	75	1,271	(391)	3,360	(1,168)	2,192
	-	-	-	-	-	4	-	4	-	4
	90	669	440	899	75	1,275	(391)	3,364	(1,168)	2,196
	-	-	-	-	-	-	364	364	-	364
	90	669	440	899	75	1,275	(27)	3,728	(1,168)	2,560
	-	-	-	-	-	15	-	15	20	35
	90	669	440	899	75	1,290	(27)	3,743	(1,148)	2,595

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets[(1)]	108,504	66,699	4,439
Of which: investments in equity-basis investees[(1)]	-	-	-
Average balance of gross credit to the public[(1)]	109,592	67,047	4,439
Balance of gross credit to the public at the end of the reported period	112,634	70,105	5,360
Balance of impaired debts	689	-	-
Balance of debts in arrears of more than 90 days	633	526	-
Average balance of liabilities[(1)]	127,099	-	-
Of which: average balance of deposits from the public[(1)]	127,095	-	-
Balance of deposits from the public at the end of the reported period	134,655	-	-
Average balance of risk-adjusted assets[(1)(2)]	82,011	38,724	3,679
Balance of risk-adjusted assets at the end of the reported period[(2)]	84,264	40,823	3,679
Average balance of assets under management[(1)(3)]	71,989	-	-
Segmentation of net interest income:			
Spread from credit granting activity	2,788	597	23
Spread from deposit taking activity	341	-	-
Other	-	-	-
Total net interest income	3,129	597	23

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The data include balances attributed to a discontinued operation.

Audited
NIS millions

For the year ended December 31, 2018*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other[4]	Total activity in Israel	Total activity overseas	
1,047	60,540	24,161	57,900	2,583	149,577	14,003	418,315	33,547	451,862
-	-	-	-	-	120	-	120	-	120
1,057	61,396	24,585	58,432	2,192	-	13,883	271,137	17,427	288,564
921	64,672	26,118	62,823	1,568	-	14,605	283,341	17,529	300,870
-	1,019	223	437	-	-	65	2,433	353	2,786
-	107	56	9	-	-	-	805	3	808
32,371	58,312	19,153	36,110	50,107	52,332	15,696	391,180	23,766	414,946
32,369	58,202	19,049	35,577	49,814	-	65	322,171	21,580	343,751
34,277	60,823	20,993	38,990	43,402	-	82	333,222	19,120	352,342
1,385	67,200	37,704	78,567	7,296	20,258	18,362	312,783	20,575	333,358
1,280	68,580	37,900	82,012	6,341	21,980	16,078	318,435	22,162	340,597
47,462	35,128	13,553	83,171	629,141	63,990	2,870	947,304	19,021	966,325
24	2,084	616	975	34	3,204	-	9,725	799	10,524
136	224	59	64	53	(2,011)	-	(1,134)	(502)	(1,636)
-	-	-	-	10	(212)	-	(202)	220	18
160	2,308	675	1,039	97	981	-	8,389	517	8,906

Note 12A Segments of Activity Based on Management Approach

Unaudited
NIS millions

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision makers of the Bank (the Board of Management of the Bank and the Board of Directors) use this division to make decisions and to analyze the Group's business results.

For details regarding the assignment of customers to segments based on the management approach and rules for the distribution of results of operations among the segments, see Note 28A to the Annual Financial Statements for 2018.

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group is classified as a "discontinued operation" and presented under the "Adjustments" segment.

A. Information regarding activity segments

	For the three months ended September 30, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
Net interest income:									
From externals	**443**	**375**	**300**	**291**	**441**	**174**	**257**	**2**	**2,283**
Inter-segmental	**261**	**25**	**(86)**	**(12)**	**(80)**	**(51)**	**(57)**	**-**	**-**
Non-interest financing income	**2**	**1**	**-**	**3**	**16**	**(5)**	**41**	**-**	**58**
Total net financing profit	**706**	**401**	**214**	**282**	**377**	**118**	**241**	**2**	**2,341**
Fees and other income	**384**	**144**	**16**	**97**	**116**	**23**	**31**	**15**	**826**
Total income	**1,090**	**545**	**230**	**379**	**493**	**141**	**272**	**17**	**3,167**
Provision (income) for credit losses	**58**	**68**	**6**	**15**	**(201)**	**16**	**(2)**	**-**	**(40)**
Operating and other expenses:									
From externals	**915**	**247**	**105**	**128**	**157**	**159**	**175**	**84**	**1,970**
Inter-segmental	**67**	**56**	**(38)**	**(1)**	**(3)**	**2**	**(66)**	**(17)**	**-**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Note 12A Segments of Activity Based on Management Approach (continued)

Unaudited
NIS millions

A. Information regarding activity segments (continued)

	For the three months ended September 30, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[(1)]	Adjustments[(2)]	Total
Profit (loss) from continued operations before taxes	**50**	**174**	**157**	**237**	**540**	**(36)**	**165**	**(50)**	**1,237**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**17**	**62**	**53**	**85**	**194**	**29**	**91**	**(8)**	**523**
Profit (loss) from continued operations after taxes	**33**	**112**	**104**	**152**	**346**	**(65)**	**74**	**(42)**	**714**
The Bank's share in profits of equity-basis investees, after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Net profit (loss) from continued operations	**33**	**112**	**104**	**152**	**346**	**(65)**	**77**	**(42)**	**717**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Net profit (loss):									
Before attribution to non-controlling interests	**33**	**112**	**104**	**152**	**346**	**(65)**	**77**	**(26)**	**733**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Attributed to shareholders of the Bank	**33**	**112**	**104**	**152**	**346**	**(62)**	**77**	**(26)**	**736**
Net credit to the public at the end of the reported period	**42,313**	**31,132**	**87,316**	**39,997**	**75,515**	**12,690**	**2,044**	**-**	**291,007**
Deposits from the public at the end of the reported period	**187,013**	**43,826**	**-**	**23,493**	**48,719**	**15,910**	**29,066**	**-**	**348,027**

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes (tax benefit) on profit (loss) from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Net profit from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect the changes.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,070 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,476 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Unaudited
NIS millions

For the three months ended September 30, 2018*

Retail activity			Business activity					
Private customers[1]	Small businesses[2]	Housing loans	Commercial	Corporate	International activity	Financial management[3]	Adjustments[4]	Total
473	400	547	268	468	160	(94)	6	2,228
212	10	(369)	(14)	(123)	(38)	321	1	-
2	1	-	2	19	(32)	400	14	406
687	411	178	256	364	90	627	21	2,634
386	146	14	89	109	27	30	34	835
1,073	557	192	345	473	117	657	55	3,469
122	139	18	18	(212)	33	-	-	118
841	236	94	112	169	285	186	61	1,984
58	48	(33)	12	(15)	2	(63)	(9)	-
52	134	113	203	531	(203)	534	3	1,367
25	57	48	88	228	(3)	173	(68)	548
27	77	65	115	303	(200)	361	71	819
-	-	-	-	-	-	-	-	-
27	77	65	115	303	(200)	361	71	819
-	-	-	-	-	-	-	109	109
27	77	65	115	303	(200)	361	180	928
-	-	-	-	-	15	6	1	22
27	77	65	115	303	(185)	367	181	950
44,067	32,343	79,011	36,454	69,580	13,837	514	13,927	289,733
176,684	40,765	-	24,235	39,013	22,149	38,929	91	341,866

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:	
From externals	
Inter-segmental	
Non-interest financing income	
Total net financing profit	
Fees and other income	
Total income	
Provision (income) for credit losses	
Operating and other expenses:	
From externals	
Inter-segmental	
Profit (loss) from continued operations before taxes	
Provision for taxes (tax benefit) on profit (loss) from continued operations	
Profit (loss) from continued operations after taxes	
The Bank's share in profits of equity-basis investees, after taxes	
Net profit (loss) from continued operations	
Net profit from a discontinued operation	
Net profit (loss):	
Before attribution to non-controlling interests	
Attributed to non-controlling interests	
Attributed to shareholders of the Bank	
Net credit to the public at the end of the reported period	
Deposits from the public at the end of the reported period	

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Unaudited
NIS millions

For the nine months ended September 30, 2019								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
1,295	1,131	1,790	864	1,401	547	(10)	8	7,026
855	90	(1,178)	(51)	(353)	(190)	827	-	-
6	2	-	8	55	(4)	221	25	313
2,156	1,223	612	821	1,103	353	1,038	33	7,339
1,121	432	46	277	349	57	104	76	2,462
3,277	1,655	658	1,098	1,452	410	1,142	109	9,801
180	235	25	29	(105)	34	2	-	400
2,640	712	320	381	461	583	506	236	5,839
183	169	(124)	1	(5)	4	(192)	(36)	-
274	539	437	687	1,101	(211)	826	(91)	3,562
98	194	154	249	397	44	299	(22)	1,413
176	345	283	438	704	(255)	527	(69)	2,149
-	-	-	-	-	-	7	-	7
176	345	283	438	704	(255)	534	(69)	2,156
-	-	-	-	-	-	-	258	258
176	345	283	438	704	(255)	534	189	2,414
-	-	-	-	-	10	4	-	14
176	345	283	438	704	(245)	538	189	2,428
42,313	31,132	87,316	39,997	75,515	12,690	2,044	-	291,007
187,013	43,826	-	23,493	48,719	15,910	29,066	-	348,027

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes on profit from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Net profit from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect the changes.

(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,070 million.

(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,476 million.

(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Unaudited
NIS millions

For the nine months ended September 30, 2018*								
Retail activity			Business activity					
Private customers[1]	Small businesses[2]	Housing loans	Commercial	Corporate	International activity	Financial management[3]	Adjustments[4]	Total
1,440	1,180	1,781	799	1,385	442	(424)	13	6,616
610	29	(1,274)	(56)	(370)	(97)	1,156	2	-
9	2	-	6	102	(23)	871	28	995
2,059	1,211	507	749	1,117	322	1,603	43	7,611
1,148	434	46	262	365	85	117	95	2,552
3,207	1,645	553	1,011	1,482	407	1,720	138	10,163
365	307	24	(6)	(317)	53	(2)	-	424
2,539	709	281	350	502	794	540	268	5,983
184	131	(100)	34	(45)	8	(175)	(37)	-
119	498	348	633	1,342	(448)	1,357	(93)	3,756
47	197	137	255	531	5	454	(41)	1,585
72	301	211	378	811	(453)	903	(52)	2,171
-	-	-	-	-	-	8	-	8
72	301	211	378	811	(453)	911	(52)	2,179
-	-	-	-	-	-	-	279	279
72	301	211	378	811	(453)	911	227	2,458
-	-	-	-	-	33	7	-	40
72	301	211	378	811	(420)	918	227	2,498
44,067	32,343	79,011	36,454	69,580	13,837	514	13,927	289,733
176,684	40,765	-	24,235	39,013	22,149	38,929	91	341,866

Note 12A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes (tax benefit) on profit (loss) from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Net profit from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

* Some of the data were reclassified in order to properly reflect changes.
(1) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 5,035 million.
(2) The segment also includes the balances attributed to credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,527 million.
(3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(4) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

Audited
NIS millions

	For the year ended December 31, 2018*								
	Retail activity			Business activity					
	Private customers[1]	Small businesses[2]	Housing loans	Commercial	Corporate	International activity	Financial management[3]	Adjustments[4]	Total
	1,896	1,568	2,318	1,069	1,856	625	(443)	17	8,906
	860	53	(1,622)	(63)	(486)	(154)	1,410	2	-
	11	3	-	6	113	89	1,159	64	1,445
	2,767	1,624	696	1,012	1,483	560	2,126	83	10,351
	1,520	584	61	351	482	136	153	136	3,423
	4,287	2,208	757	1,363	1,965	696	2,279	219	13,774
	455	392	37	(37)	(333)	101	(2)	-	613
	3,378	946	378	478	648	1,744	709	679	8,960
	247	171	(132)	28	(33)	13	(238)	(56)	-
	207	699	474	894	1,683	(1,162)	1,810	(404)	4,201
	78	259	173	333	623	31	564	(52)	2,009
	129	440	301	561	1,060	(1,193)	1,246	(352)	2,192
	-	-	-	-	-	-	4	-	4
	129	440	301	561	1,060	(1,193)	1,250	(352)	2,196
	-	-	-	-	-	-	-	364	364
	129	440	301	561	1,060	(1,193)	1,250	12	2,560
	-	-	-	-	-	20	15	-	35
	129	440	301	561	1,060	(1,173)	1,265	12	2,595
	44,099	32,561	81,454	37,489	71,937	14,136	831	14,366	296,873
	187,136	42,415	-	25,259	44,150	19,017	34,283	82	352,342

Note 12A Segments of Activity Based on Management Approach (continued)

B. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity

The expenses allocated at Bank Hapoalim Switzerland pertaining to the investigation of the Bank Group's business with American customers, in connection with the customers of Bank Hapoalim Switzerland, were attributed, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), at a rate of 30% of the amount of the provision in respect of the DOJ (in respect of customers in Israel and overseas). These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the nine months ended September 30, 2019, and in the year ended December 31, 2018, were attributed equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 841 million and approximately NIS 731 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 208 million and approximately NIS 1,312 million, respectively; and net profit in the amount of approximately NIS 115 million and approximately NIS 290 million, respectively, would be recorded in the Adjustments Segment.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses

	For the three months ended September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at June 30, 2019	**3,320**	**377**	**843**	**4,540**	**12**	**4,552**
Provision (income) for credit losses[(1)]	**(103)**	**7**	**59**	**(37)**	**(3)**	**(40)**
Charge-offs	**(177)**	**(2)**	**(159)**	**(338)**	**-**	**(338)**
Recoveries of debts charged off in previous years	**249**	**-**	**84**	**333**	**-**	**333**
Net charge-offs	**72**	**(2)**	**(75)**	**(5)**	**-**	**(5)**
Other	**(2)**	**-**	**(1)**	**(3)**	**-**	**(3)**
Allowance for credit losses as at September 30, 2019[(2)]	**3,287**	**382**	**826**	**4,495**	**9**	**4,504**
(1) Of which: in respect of off-balance sheet credit instruments	**(8)**	**-**	**2**	**(6)**	**-**	**(6)**
(2) Of which: in respect of off-balance sheet credit instruments	**478**	**-**	**44**	**522**	**1**	**523**

	For the three months ended September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at June 30, 2018	3,043	341	938	4,322	5	4,327
Provision (income) for credit losses[(1)]	(37)	20	135	118	-	118
Charge-offs	(208)	-	(214)	(422)	-	(422)
Recoveries of debts charged off in previous years	248	-	72	320	-	320
Net charge-offs	40	-	(142)	(102)	-	(102)
Allowance for credit losses as at September 30, 2018[(2)]	3,046	361	931	4,338	5	4,343
(1) Of which: in respect of off-balance sheet credit instruments	(14)	-	(10)	(24)	-	(24)
(2) Of which: in respect of off-balance sheet credit instruments	570	-	38	608	1	609

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

1. Change in allowance for credit losses (continued)

	For the nine months ended September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	**3,053**	**368**	**904**	**4,325**	**9**	**4,334**
Provision for credit losses[1]	**204**	**18**	**178**	**400**	**-**	**400**
Charge-offs	**(530)**	**(5)**	**(512)**	**(1,047)**	**-**	**(1,047)**
Recoveries of debts charged off in previous years	**562**	**1**	**261**	**824**	**-**	**824**
Net charge-offs	**32**	**(4)**	**(251)**	**(223)**	**-**	**(223)**
Other	**(2)**	**-**	**(5)**	**(7)**	**-**	**(7)**
Allowance for credit losses as at September 30, 2019[2] (unaudited)	**3,287**	**382**	**826**	**4,495**	**9**	**4,504**
(1) Of which: in respect of off-balance sheet credit instruments	**(54)**	**-**	**9**	**(45)**	**-**	**(45)**
(2) Of which: in respect of off-balance sheet credit instruments	**478**	**-**	**44**	**522**	**1**	**523**

	For the nine months ended September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	2,986	333	940	4,259	7	4,266
Provision (income) for credit losses[1]	33	31	362	426	(2)	424
Charge-offs	(570)	(4)	(588)	(1,162)	-	(1,162)
Recoveries of debts charged off in previous years	597	1	216	814	-	814
Net charge-offs	27	(3)	(372)	(348)	-	(348)
Adjustments from translation of financial statements	-	-	1	1	-	1
Allowance for credit losses as at September 30, 2018[2] (unaudited)	3,046	361	931	4,338	5	4,343
(1) Of which: in respect of off-balance sheet credit instruments	7	-	(25)	(18)	-	(18)
(2) Of which: in respect of off-balance sheet credit instruments	570	-	38	608	1	609

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*

	September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	**143,610**	**-**	**889**	**144,499**	**17,953**	**162,452**
Examined on a collective basis(1)	**35,781**	**75,391**	**39,309**	**150,481**	**-**	**150,481**
Total debts*	**179,391**	**75,391**	**40,198**	**294,980**	**17,953**	**312,933**
(1) Of which: allowance for which was calculated according to the extent of arrears	**12,366**	**75,224**	**-**	**87,590**	**-**	**87,590**
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	**2,343**	**-**	**133**	**2,476**	**8**	**2,484**
Examined on a collective basis(2)	**466**	**382**	**649**	**1,497**	**-**	**1,497**
Total allowance for credit losses	**2,809**	**382**	**782**	**3,973**	**8**	**3,981**
(2) Of which: allowance for which was calculated according to the extent of arrears***	**59**	**382**	**-**	**441**	**-**	**441**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 12,366 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2018: NIS 10,607 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 307 million (September 30, 2018: NIS 277 million; December 31, 2018: NIS 284 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	September 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	127,974	-	1,230	129,204	17,382	146,586
Examined on a collective basis(1)	38,693	68,818	42,821	150,332	-	150,332
Total debts*	166,667	68,818	44,051	279,536	17,382	296,918
(1) Of which: allowance for which was calculated according to the extent of arrears	10,607	68,629	-	79,236	-	79,236
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	1,981	-	182	2,163	4	2,167
Examined on a collective basis(2)	495	361	711	1,567	-	1,567
Total allowance for credit losses	2,476	361	893	3,730	4	3,734
(2) Of which: allowance for which was calculated according to the extent of arrears***	53	361	-	414	-	414

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 12,366 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2018: NIS 10,607 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 307 million (September 30, 2018: NIS 277 million; December 31, 2018: NIS 284 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts* (continued)

	December 31, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	134,459	-	962	135,421	16,526	151,947
Examined on a collective basis(1)	38,258	70,410	42,176	150,844	-	150,844
Total debts*	172,717	70,410	43,138	286,265	16,526	302,791
(1) Of which: allowance for which was calculated according to the extent of arrears	11,044	70,217	-	81,261	-	81,261
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,040	-	159	2,199	8	2,207
Examined on a collective basis(2)	481	368	710	1,559	-	1,559
Total allowance for credit losses	2,521	368	869	3,758	8	3,766
(2) Of which: allowance for which was calculated according to the extent of arrears***	56	368	-	424	-	424

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 12,366 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2018: NIS 10,607 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 307 million (September 30, 2018: NIS 277 million; December 31, 2018: NIS 284 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts*

1. Credit quality and arrears

	September 30, 2019					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	27,129	208	259	27,596	30	54
Construction and real estate – real-estate activities	18,468	850	197	19,515	13	25
Financial services***	20,850	24	14	20,888	3	2
Commercial – other	89,193	2,005	1,318	92,516	163	205
Total commercial	155,640	3,087	1,788	160,515	209	286
Private individuals – housing loans[5]	74,413	550	-	74,963	550	554
Private individuals – other	39,258	127	738	40,123	72	167
Total public – activity in Israel	269,311	3,764	2,526	275,601	831	1,007
Banks in Israel	223	-	-	223	-	-
Israeli government	813	-	-	813	-	-
Total activity in Israel	270,347	3,764	2,526	276,637	831	1,007

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

*** Credit balances of Isracard were included for the first time due to the discontinuation of consolidation.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 56 million (September 30, 2018: NIS 66 million; December 31, 2018: NIS 66 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	September 30, 2019					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	6,299	251	106	6,656	-	21
Commercial – other	11,611	283	326	12,220	-	68
Total commercial	17,910	534	432	18,876	-	89
Private individuals	486	10	7	503	10	6
Total public – activity overseas	18,396	544	439	19,379	10	95
Banks overseas	15,662	-	-	15,662	-	-
Governments overseas	1,255	-	-	1,255	-	-
Total activity overseas	35,313	544	439	36,296	10	95
Total public	287,707	4,308	2,965	294,980	841	1,102
Total banks	15,885	-	-	15,885	-	-
Total governments	2,068	-	-	2,068	-	-
Total	305,660	4,308	2,965	312,933	841	1,102

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	September 30, 2018					
	Non-problematic	Problematic[(1)]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[(2)]		In arrears of 90 days or more[(3)]	In arrears of 30 to 89 days[(4)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	25,241	365	248	25,854	33	61
Construction and real estate – real-estate activities	18,130	361	266	18,757	19	24
Financial services	14,217	61	31	14,309	3	11
Commercial – other	85,339	2,176	1,140	88,655	171	292
Total commercial	142,927	2,963	1,685	147,575	226	388
Private individuals – housing loans[(5)]	67,843	518	-	68,361	514	540
Private individuals – other	42,826	200	657	43,683	107	254
Total public – activity in Israel	253,596	3,681	2,342	259,619	847	1,182
Banks in Israel	19	-	-	19	-	-
Israeli government	928	-	-	928	-	-
Total activity in Israel	254,543	3,681	2,342	260,566	847	1,182

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 56 million (September 30, 2018: NIS 66 million; December 31, 2018: NIS 66 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	September 30, 2018					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	6,046	124	69	6,239	26	40
Commercial – other	12,285	264	304	12,853	1	172
Total commercial	18,331	388	373	19,092	27	212
Private individuals	784	4	37	825	4	16
Total public – activity overseas	19,115	392	410	19,917	31	228
Banks overseas	15,051	-	-	15,051	-	-
Governments overseas	1,384	-	-	1,384	-	-
Total activity overseas	35,550	392	410	36,352	31	228
Total public	272,711	4,073	2,752	279,536	878	1,410
Total banks	15,070	-	-	15,070	-	-
Total governments	2,312	-	-	2,312	-	-
Total	290,093	4,073	2,752	296,918	878	1,410

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2018					
	Non-problematic	Problematic[(1)]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[(2)]		In arrears of 90 days or more[(3)]	In arrears of 30 to 89 days[(4)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	25,351	372	259	25,982	25	53
Construction and real estate – real-estate activities	19,068	277	284	19,629	9	25
Financial services	15,518	60	28	15,606	2	2
Commercial – other	87,023	2,051	1,085	90,159	133	200
Total commercial	146,960	2,760	1,656	151,376	169	280
Private individuals – housing loans[(5)]	69,429	526	-	69,955	526	531
Private individuals – other	42,097	178	688	42,963	107	176
Total public – activity in Israel	258,486	3,464	2,344	264,294	802	987
Banks in Israel	111	-	-	111	-	-
Israeli government	1,092	-	-	1,092	-	-
Total activity in Israel	259,689	3,464	2,344	265,497	802	987

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 56 million (September 30, 2018: NIS 66 million; December 31, 2018: NIS 66 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2018					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	7,151	133	87	7,371	3	54
Commercial – other	13,422	276	272	13,970	–	84
Total commercial	20,573	409	359	21,341	3	138
Private individuals	609	3	18	630	3	13
Total public – activity overseas	21,182	412	377	21,971	6	151
Banks overseas	13,980	–	–	13,980	–	–
Governments overseas	1,343	–	–	1,343	–	–
Total activity overseas	36,505	412	377	37,294	6	151
Total public	279,668	3,876	2,721	286,265	808	1,138
Total banks	14,091	–	–	14,091	–	–
Total governments	2,435	–	–	2,435	–	–
Total	296,194	3,876	2,721	302,791	808	1,138

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 13B(2)(c) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 162 million (September 30, 2018: NIS 331 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – the status of debts in arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Concessions and troubled debt restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted only in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	September 30, 2019				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	**114**	**34**	**145**	**259**	**1,801**
Construction and real estate – real-estate activities	**115**	**6**	**82**	**197**	**1,130**
Financial services	**12**	**2**	**2**	**14**	**300**
Commercial – other	**939**	**437**	**379**	**1,318**	**4,728**
Total commercial	**1,180**	**479**	**608**	**1,788**	**7,959**
Private individuals – other	**473**	**125**	**265**	**738**	**1,538**
Total public – activity in Israel	**1,653**	**604**	**873**	**2,526**	**9,497**
Borrower activity overseas					
Public – commercial					
Construction and real estate	**16**	**2**	**90**	**106**	**153**
Commercial – other	**111**	**58**	**215**	**326**	**582**
Total commercial	**127**	**60**	**305**	**432**	**735**
Private individuals	**7**	**6**	**-**	**7**	**9**
Total public – activity overseas	**134**	**66**	**305**	**439**	**744**
Total public*	**1,787**	**670**	**1,178**	**2,965**	**10,241**
* Of which:					
Measured at the present value of cash flows	**1,547**	**588**	**882**	**2,429**	**-**
Debts in troubled debt restructuring	**812**	**169**	**536**	**1,348**	**-**

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	September 30, 2018				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	157	42	91	248	2,899
Construction and real estate – real-estate activities	155	10	111	266	1,455
Financial services	5	2	26	31	322
Commercial – other	832	242	308	1,140	4,730
Total commercial	1,149	296	536	1,685	9,406
Private individuals – other	477	145	180	657	1,386
Total public – activity in Israel	1,626	441	716	2,342	10,792
Borrower activity overseas					
Public – commercial					
Construction and real estate	-	-	69	69	157
Commercial – other	75	39	229	304	528
Total commercial	75	39	298	373	685
Private individuals	37	36	-	37	39
Total public – activity overseas	112	75	298	410	724
Total public*	1,738	516	1,014	2,752	11,516
* Of which:					
Measured at the present value of cash flows	1,289	392	753	2,042	-
Debts in troubled debt restructuring	708	172	517	1,225	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	December 31, 2018				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	175	42	84	259	2,898
Construction and real estate – real-estate activities	161	13	123	284	1,336
Financial services	6	2	22	28	334
Commercial – other	816	300	269	1,085	4,648
Total commercial	1,158	357	498	1,656	9,216
Private individuals – other	498	145	190	688	1,433
Total public – activity in Israel	1,656	502	688	2,344	10,649
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	-	86	87	163
Commercial – other	91	51	181	272	522
Total commercial	92	51	267	359	685
Private individuals	18	18	-	18	20
Total public – activity overseas	110	69	267	377	705
Total public*	1,766	571	955	2,721	11,354
* Of which:					
Measured at the present value of cash flows	1,420	437	620	2,040	-
Debts in troubled debt restructuring	787	183	513	1,300	-

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income

	For the three months ended September 30, 2019			For the nine months ended September 30, 2019		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**267**	**2**	**2**	**285**	**3**	**2**
Construction and real estate – real-estate activities	**208**	**1**	**-**	**234**	**2**	**-**
Financial services	**17**	**-**	**-**	**23**	**-**	**-**
Commercial – other	**1,303**	**7**	**5**	**1,271**	**12**	**9**
Total commercial	**1,795**	**10**	**7**	**1,813**	**17**	**11**
Private individuals – other	**731**	**24**	**7**	**711**	**36**	**11**
Total public – activity in Israel	**2,526**	**34**	**14**	**2,524**	**53**	**22**
Borrower activity overseas						
Public – commercial						
Construction and real estate	**105**	**-**	**-**	**105**	**-**	**-**
Commercial – other	**304**	**3**	**-**	**254**	**3**	**-**
Total commercial	**409**	**3**	**-**	**359**	**3**	**-**
Private individuals	**6**	**-**	**-**	**12**	**-**	**-**
Total public – activity overseas	**415**	**3**	**-**	**371**	**3**	**-**
Total public	**2,941**	**37**	**14**	**2,895**	**56**	**22**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income would have been recorded in the amount of NIS 57 million and NIS 215 million for the three-month and nine-month periods ended September 30, 2019, respectively (September 30, 2018: NIS 62 million and NIS 193 million, respectively).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	For the three months ended September 30, 2018			For the nine months ended September 30, 2018		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	268	1	1	302	3	2
Construction and real estate – real-estate activities	265	1	-	267	3	1
Financial services	32	-	-	32	-	-
Commercial – other	1,122	6	4	1,086	13	7
Total commercial	1,687	8	5	1,687	19	10
Private individuals – other	685	12	4	703	36	11
Total public – activity in Israel	2,372	20	9	2,390	55	21
Borrower activity overseas						
Public – commercial						
Construction and real estate	64	-	-	56	-	-
Commercial – other	290	-	-	252	-	-
Total commercial	354	-	-	308	-	-
Private individuals	37	-	-	37	-	-
Total public – activity overseas	391	-	-	345	-	-
Total public	2,763	20	9	2,735	55	21

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income would have been recorded in the amount of NIS 57 million and NIS 215 million for the three-month and nine-month periods ended September 30, 2019, respectively (September 30, 2018: NIS 62 million and NIS 193 million, respectively).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring

	September 30, 2019			
	Recorded debt balance			
	Not accruing interest income	Accruing[(1)], in arrears of 30 to 89 days	Accruing[(1)], not in arrears	Total[(2)]
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	**41**	**-**	**19**	**60**
Construction and real estate – real-estate activities	**49**	**-**	**26**	**75**
Financial services	**4**	**-**	**1**	**5**
Commercial – other	**328**	**2**	**132**	**462**
Total commercial	**422**	**2**	**178**	**602**
Private individuals – other	**301**	**1**	**383**	**685**
Total public – activity in Israel	**723**	**3**	**561**	**1,287**
Borrower activity overseas				
Public – commercial				
Construction and real estate	**10**	**-**	**-**	**10**
Commercial – other	**51**	**-**	**-**	**51**
Total public – activity overseas	**61**	**-**	**-**	**61**
Total public	**784**	**3**	**561**	**1,348**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 17 million as at September 30, 2019 (September 30, 2018: NIS 5 million; December 31, 2018: NIS 5 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	September 30, 2018			
	Recorded debt balance			
	Not accruing interest income	Accruing[1], in arrears of 30 to 89 days	Accruing[1], not in arrears	Total[2]
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	25	-	15	40
Construction and real estate – real-estate activities	54	-	71	125
Financial services	3	-	1	4
Commercial – other	313	-	100	413
Total commercial	395	-	187	582
Private individuals – other	247	-	349	596
Total public – activity in Israel	642	-	536	1,178
Borrower activity overseas				
Public – commercial				
Commercial – other	47	-	-	47
Total public – activity overseas	47	-	-	47
Total public	689	-	536	1,225

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 17 million as at September 30, 2019 (September 30, 2018: NIS 5 million; December 31, 2018: NIS 5 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Audited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	December 31, 2018			
	Recorded debt balance			
	Not accruing interest income	Accruing(1), in arrears of 30 to 89 days	Accruing(1), not in arrears	Total(2)
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	30	-	17	47
Construction and real estate – real-estate activities	59	-	67	126
Financial services	3	-	1	4
Commercial – other	327	-	102	429
Total commercial	419	-	187	606
Private individuals – other	269	-	355	624
Total public – activity in Israel	688	-	542	1,230
Borrower activity overseas				
Public – commercial				
Construction and real estate	15	-	-	15
Commercial – other	54	-	1	55
Total commercial	69	-	1	70
Total public	757	-	543	1,300

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Accruing interest income.
(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 17 million as at September 30, 2019 (September 30, 2018: NIS 5 million; December 31, 2018: NIS 5 million).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended September 30, 2019			In the nine months ended September 30, 2019		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	69	16	14	213	36	31
Construction and real estate – real-estate activities	7	1	1	23	17	14
Financial services	6	2	2	12	3	3
Commercial – other	405	75	63	1,163	209	185
Total commercial	487	94	80	1,411	265	233
Private individuals – other	2,143	129	106	6,207	358	303
Total public – activity in Israel	2,630	223	186	7,618	623	536
Borrower activity overseas						
Public – commercial						
Construction and real estate	-	-	-	1	-	-
Total commercial	-	-	-	1	-	-
Private individuals	4	3	-	7	3	-
Total public – activity overseas	4	3	-	8	3	-
Total public	2,634	226	186	7,626	626	536

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended September 30, 2018			In the nine months ended September 30, 2018		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	53	10	10	167	40	36
Construction and real estate – real-estate activities	6	1	-	24	6	5
Financial services	4	-	-	9	4	4
Commercial – other	350	51	51	897	132	132
Total commercial	413	62	61	1,097	182	177
Private individuals – other	1,704	76	76	4,811	233	232
Total public – activity in Israel	2,117	138	137	5,908	415	409
Borrower activity overseas						
Public – commercial						
Construction and real estate	-	-	-	1	-	-
Commercial – other	1	7	7	2	47	47
Private individuals	2	-	-	7	-	-
Total public – activity overseas	3	7	7	10	47	47
Total public	2,120	145	144	5,918	462	456

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended September 30, 2019		**In the nine months ended September 30, 2019**	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	**50**	**1**	**109**	**5**
Construction and real estate – real-estate activities	**2**	**-**	**8**	**5**
Financial services	**2**	**-**	**5**	**-**
Commercial – other	**195**	**8**	**453**	**28**
Total commercial	**249**	**9**	**575**	**38**
Private individuals – other	**1,001**	**14**	**2,351**	**44**
Total public – activity in Israel	**1,250**	**23**	**2,926**	**82**
Borrower activity overseas				
Public – commercial				
Private individuals	**1**	**-**	**6**	**-**
Total public	**1,251**	**23**	**2,932**	**82**

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Unaudited
NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended September 30, 2018		In the nine months ended September 30, 2018	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	38	2	111	8
Construction and real estate – real-estate activities	7	1	14	1
Financial services	1	-	4	-
Commercial – other	167	13	436	28
Total commercial	213	16	565	37
Private individuals – other	880	18	2,503	50
Total public – activity in Israel	1,093	34	3,068	87
Borrower activity overseas				
Public – commercial				
Commercial – other	1	46	1	46
Private individuals	1	-	5	-
Total public – activity overseas	2	46	6	46
Total public	1,095	80	3,074	133

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

3. Additional information regarding housing loans – private individuals

End of period balances by financing ratio (LTV)*, repayment type, and interest type

		September 30, 2019			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	**48,364**	**1,349**	**30,741**	**2,157**
	Over 60%	**26,390**	**389**	**17,829**	**1,728**
Secondary lien or no lien		**637**	**21**	**342**	**1,607**
Total		**75,391**	**1,759**	**48,912**	**5,492**

		September 30, 2018			
		Balance of housing loans – private individuals			Off-balance sheet credit risk***
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	44,296	1,521	28,062	1,452
	Over 60%	23,881	416	16,448	863
Secondary lien or no lien		641	29	368	568
Total		68,818	1,966	44,878	2,883

		December 31, 2018			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Audited			
First lien: financing rate	Up to 60%	45,364	1,521	28,722	2,518
	Over 60%	24,409	416	16,693	1,624
Secondary lien or no lien		637	29	365	561
Total		70,410	1,966	45,780	4,703

* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** Reclassified.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – LTV ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. The borrower receives a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. A part of a credit facility that has not been utilized.
5. Substantial early repayment (10% or more).

The note presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

C. Information regarding debt sales

For information regarding credit sale transactions, see Note 10A(4).

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Off-balance sheet financial instruments

	September 30		December 31,	September 30		December 31,
	2019	2018	2018	**2019**	2018	2018
	Contract balances*			Allowance for credit losses		
	Unaudited		Audited	Unaudited		Audited
Transactions the balance of which represents a credit risk:						
Documentary credit	**772**	934	1,397	**3**	5	8
Credit guarantees	**5,554**	5,515	5,609	**38**	40	35
Guarantees to purchasers of homes	**20,726**	23,181	22,517	**43**	76	69
Guarantees and other commitments**	**25,350**	23,559	24,364	**131**	163	159
Unutilized credit-card credit facilities under the Bank's responsibility	**14,956**	14,741	14,689	**42**	40	36
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**44,378**	39,990	41,403	**107**	110	94
Irrevocable commitments to grant credit approved but not yet drawn***	**32,563**	26,643	30,306	**102**	91	101
Commitments to issue guarantees	**24,408**	22,555	20,449	**57**	84	66
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	**-**	24,429	24,845	**-**	20	21

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.
** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 146 million (December 31, 2018: NIS 174 million).
*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

E. Guarantees

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating at which the credit was granted.

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Guarantees (continued)

	September 30, 2019					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	**3,516**	**1,088**	**109**	**794**	**47**	**5,554**
Guarantees to purchasers of homes	**4,040**	**-**	**-**	**-**	**16,686**	**20,726**
Guarantees and other commitments	**11,010**	**5,943**	**3,756**	**4,641**	**-**	**25,350**
Commitments to issue guarantees	**8,287**	**12,958**	**3,094**	**69**	**-**	**24,408**
Total	**26,853**	**19,989**	**6,959**	**5,504**	**16,733**	**76,038**

	September 30, 2018					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	3,830	739	144	754	48	5,515
Guarantees to purchasers of homes	4,412	-	-	-	18,769	23,181
Guarantees and other commitments	10,862	5,240	3,678	3,779	-	23,559
Commitments to issue guarantees	9,861	11,604	1,028	62	-	22,555
Total	28,965	17,583	4,850	4,595	18,817	74,810

	December 31, 2018					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Audited					
Credit guarantees	3,898	660	158	839	54	5,609
Guarantees to purchasers of homes	5,163	-	-	-	17,354	22,517
Guarantees and other commitments	10,666	5,596	3,447	4,655	-	24,364
Commitments to issue guarantees	9,125	9,843	1,422	59	-	20,449
Total	28,852	16,099	5,027	5,553	17,408	72,939

Note 14 Assets and Liabilities by Linkage Base

Unaudited
NIS millions

	September 30, 2019						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	**56,442**	**-**	**13,461**	**333**	**2,281**	**-**	**72,517**
Securities	**34,753**	**4,006**	**24,056**	**897**	**195**	**1,685**	**65,592**
Securities borrowed or purchased under agreements to resell	**529**	**-**	**-**	**-**	**-**	**-**	**529**
Net credit to the public[2]	**215,311**	**48,060**	**20,920**	**3,751**	**1,840**	**1,125**	**291,007**
Credit to governments	**65**	**-**	**1,080**	**917**	**-**	**-**	**2,062**
Investments in equity-basis investees	**47**	**-**	**-**	**-**	**-**	**60**	**107**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,051**	**3,051**
Assets in respect of derivative instruments	**8,452**	**780**	**2,463**	**138**	**216**	**643**	**12,692**
Other assets	**3,865**	**300**	**90**	**112**	**38**	**556**	**4,961**
Assets attributed to a discontinued operation	**-**	**-**	**-**	**-**	**-**	**829**	**829**
Total assets	**319,464**	**53,146**	**62,070**	**6,148**	**4,570**	**7,949**	**453,347**
Liabilities							
Deposits from the public	**248,109**	**11,720**	**73,112**	**10,677**	**3,242**	**1,167**	**348,027**
Deposits from banks	**1,600**	**-**	**1,199**	**334**	**45**	**-**	**3,178**
Deposits from the government	**229**	**2**	**254**	**-**	**-**	**-**	**485**
Securities lent or sold under agreements to repurchase	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Bonds and subordinated notes	**940**	**27,211**	**165**	**10**	**11**	**-**	**28,337**
Liabilities in respect of derivative instruments	**8,897**	**980**	**2,901**	**153**	**185**	**612**	**13,728**
Other liabilities	**15,035**	**176**	**2,669**	**259**	**355**	**1,827**	**20,321**
Total liabilities	**274,810**	**40,089**	**80,300**	**11,433**	**3,848**	**3,606**	**414,086**
Surplus assets (liabilities)	**44,654**	**13,057**	**(18,230)**	**(5,285)**	**722**	**4,343**	**39,261**
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	**(24,524)**	**367**	**20,052**	**5,328**	**(1,223)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(534)**	**-**	**(251)**	**611**	**174**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**2,284**	**-**	**(1,533)**	**(708)**	**(43)**	**-**	**-**
Overall total	**21,880**	**13,424**	**38**	**(54)**	**(370)**	**4,343**	**39,261**
Options in the money, net (nominal present value)	**(2,432)**	**-**	**610**	**1,592**	**230**	**-**	**-**
Options out of the money, net (nominal present value)	**6,609**	**-**	**(4,908)**	**(1,744)**	**43**	**-**	**-**

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 14 Assets and Liabilities by Linkage Base (continued)

Unaudited
NIS millions

	September 30, 2018						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	62,186	-	10,543	754	4,139	-	77,622
Securities	29,533	448	24,688	924	284	2,066	57,943
Securities borrowed or purchased under agreements to resell	887	-	-	-	-	-	887
Net credit to the public[2]	199,911	46,338	22,488	3,948	2,289	832	275,806
Credit to governments	38	-	1,275	996	-	-	2,309
Investments in equity-basis investees	44	-	-	-	-	64	108
Buildings and equipment	-	-	-	-	-	2,994	2,994
Assets in respect of derivative instruments	4,555	947	3,057	205	190	974	9,928
Other assets	3,841	8	28	96	65	1,621	5,659
Assets attributed to a discontinued operation	13,962	60	113	77	-	453	14,665
Total assets	314,957	47,801	62,192	7,000	6,967	9,004	447,921
Liabilities							
Deposits from the public	235,755	13,173	76,195	12,172	3,617	863	341,775
Deposits from banks	1,555	125	2,305	340	32	-	4,357
Deposits from the government	187	4	101	-	-	-	292
Securities lent or sold under agreements to repurchase	-	-	-	-	11	-	11
Bonds and subordinated notes	2,479	25,735	329	11	93	-	28,647
Liabilities in respect of derivative instruments	4,332	868	2,612	204	196	952	9,164
Other liabilities	7,250	191	1,761	175	423	1,363	11,163
Liabilities attributed to a discontinued operation	14,417	69	279	5	-	24	14,794
Total liabilities	265,975	40,165	83,582	12,907	4,372	3,202	410,203
Surplus assets (liabilities)	48,982	7,636	(21,390)	(5,907)	2,595	5,802	37,718
Effect of hedging derivatives:							
Derivative instruments (excluding options)	654	-	4	-	(658)	-	-
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(27,601)	172	23,892	6,182	(2,645)	-	-
Options in the money, net (in terms of underlying asset)	1,850	-	(1,838)	(245)	233	-	-
Options out of the money, net (in terms of underlying asset)	386	-	(577)	49	142	-	-
Overall total	24,271	7,808	91	79	(333)	5,802	37,718
Options in the money, net (nominal present value)	2,906	-	(2,612)	(578)	284	-	-
Options out of the money, net (nominal present value)	2,400	-	(2,449)	(774)	823	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 14 Assets and Liabilities by Linkage Base (continued)

Audited
NIS millions

	December 31, 2018						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	69,982	-	12,341	311	1,825	-	84,459
Securities	25,935	2,645	24,881	846	288	1,521	56,116
Securities borrowed or purchased under agreements to resell	708	-	-	-	-	-	708
Net credit to the public[2]	203,606	46,180	24,463	4,864	2,575	819	282,507
Credit to governments	94	-	1,361	973	-	-	2,428
Investments in equity-basis investees	45	-	-	-	-	58	103
Buildings and equipment	-	-	-	-	-	3,111	3,111
Assets in respect of derivative instruments	3,889	715	4,079	432	323	1,096	10,534
Other assets	4,062	7	49	79	43	1,610	5,850
Assets attributed to a discontinued operation	14,394	62	115	55	-	484	15,110
Total assets	322,715	49,609	67,289	7,560	5,054	8,699	460,926
Liabilities							
Deposits from the public	246,394	12,493	78,007	10,645	3,891	830	352,260
Deposits from banks	2,104	124	1,934	344	22	-	4,528
Deposits from the government	106	3	99	-	-	-	208
Bonds and subordinated notes	1,857	27,796	339	11	21	-	30,024
Liabilities in respect of derivative instruments	3,893	622	3,492	306	263	1,100	9,676
Other liabilities	6,933	316	2,700	204	397	1,291	11,841
Liabilities attributed to a discontinued operation	14,362	68	275	5	-	23	14,733
Total liabilities	275,649	41,422	86,846	11,515	4,594	3,244	423,270
Surplus assets (liabilities)	47,066	8,187	(19,557)	(3,955)	460	5,455	37,656
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(23,613)	553	20,198	3,384	(522)	-	-
Options in the money, net (in terms of underlying asset)	1,153	-	(1,401)	439	(191)	-	-
Options out of the money, net (in terms of underlying asset)	(276)	-	44	173	59	-	-
Overall total	24,330	8,740	(716)	41	(194)	5,455	37,656
Options in the money, net (nominal present value)	1,916	-	(2,111)	68	127	-	-
Options out of the money, net (nominal present value)	(3,076)	-	1,542	763	771	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 15 Balances and Fair-Value Estimates of Financial Instruments

Fair value of financial instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal methods and assumptions used to estimate the fair value of financial instruments

Deposits with banks, nonmarketable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the primary market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows, discounted by a suitable discount rate. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the present value of a cash flow). In the absence of such data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in an increase of the fair value by NIS 31 million.

Deposits, bonds, and notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-customer lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative financial instruments – Derivative financial instruments that have an active market were assessed at the market value established in the primary market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Off-balance sheet financial instruments in which the balance represents credit risk – Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus, some of the inputs of which are unobservable.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments

	September 30, 2019				
	Balance sheet balance	Fair value[(1)]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	**72,517**	**3,117**	**-**	**69,426**	**72,543**
Securities*	**65,592**	**49,823**	**14,212**	**1,562**	**65,597**
Securities borrowed or purchased under agreements to resell	**529**	**-**	**-**	**529**	**529**
Net credit to the public***	**291,007**	**3,607**	**-**	**289,838**	**293,445**
Credit to governments	**2,062**	**-**	**-**	**2,065**	**2,065**
Assets in respect of derivative instruments	**12,692**	**652**	**7,510**	**4,530**	**12,692**
Other financial assets	**905**	**18**	**-**	**881**	**899**
Total financial assets	****445,304**	**57,217**	**21,722**	**368,831**	**447,770**
Financial liabilities					
Deposits from the public***	**348,027**	**4,258**	**-**	**345,855**	**350,113**
Deposits from banks	**3,178**	**-**	**-**	**3,180**	**3,180**
Deposits from the government	**485**	**-**	**-**	**498**	**498**
Securities lent or sold under agreements to repurchase	**10**	**-**	**-**	**10**	**10**
Bonds and subordinated notes	**28,337**	**27,327**	**1,564**	**304**	**29,195**
Liabilities in respect of derivative instruments	**13,728**	**650**	**7,289**	**5,789**	**13,728**
Other financial liabilities	**13,451**	**18**	**-**	**13,469**	**13,487**
Total financial liabilities	****407,216**	**32,253**	**8,853**	**369,105**	**410,211**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	**-**	**-**	**-**	**151**	**151**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,073 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.

** Of which: assets and liabilities in the amount of NIS 83,702 million and in the amount of NIS 18,038 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, amounts of NIS 0 million and NIS 34 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	September 30, 2018				
	Balance sheet balance	Fair value[1]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	77,622	3,548	-	73,915	77,463
Securities**	57,943	*41,375	*14,883	1,688	57,946
Securities borrowed or purchased under agreements to resell	887	-	-	887	887
Net credit to the public****	275,806	4,708	-	271,398	276,106
Credit to governments	2,309	-	-	2,312	2,312
Assets in respect of derivative instruments	9,928	946	5,606	3,376	9,928
Other financial assets	1,756	1,035	-	732	1,767
Assets attributed to a discontinued operation	14,047	74	-	13,951	14,025
Total financial assets	***440,298	*51,686	*20,489	368,259	440,434
Financial liabilities					
Deposits from the public****	341,775	5,245	-	337,504	342,749
Deposits from banks	4,357	-	-	4,368	4,368
Deposits from the government	292	-	-	302	302
Securities lent or sold under agreements to repurchase	11	-	-	11	11
Bonds and subordinated notes	28,647	26,162	2,030	1,512	29,704
Liabilities in respect of derivative instruments	9,164	948	4,732	3,484	9,164
Other financial liabilities	4,868	1,035	-	3,840	4,875
Liabilities attributed to a discontinued operation	14,630	-	-	14,622	14,622
Total financial liabilities	***403,744	33,390	6,762	365,643	405,795

* Reclassified.
** Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,079 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.
*** Of which: assets and liabilities in the amount of NIS 75,687 million and in the amount of NIS 15,467 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.
**** Of which, amounts of NIS 0 million and NIS 23 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.
(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Audited
NIS millions

A. Balances and fair-value estimates of financial instruments (continued)

	December 31, 2018				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	84,459	3,044	-	81,391	84,435
Securities**	56,116	*38,961	*15,556	1,602	56,119
Securities borrowed or purchased under agreements to resell	708	-	-	708	708
Net credit to the public****	282,507	3,715	-	277,962	281,677
Credit to governments	2,428	-	-	2,435	2,435
Assets in respect of derivative instruments	10,534	1,099	7,428	2,007	10,534
Other financial assets	1,814	1,010	-	870	1,880
Assets attributed to a discontinued operation	14,456	45	-	14,386	14,431
Total financial assets	***453,022	*47,874	*22,984	381,361	452,219
Financial liabilities					
Deposits from the public****	352,260	5,723	-	347,139	352,862
Deposits from banks	4,528	-	-	4,544	4,544
Deposits from the government	208	-	-	220	220
Securities lent or sold under agreements to repurchase	-	-	-	2	2
Bonds and subordinated notes	30,024	27,182	2,023	1,107	30,312
Liabilities in respect of derivative instruments	9,676	1,100	7,725	851	9,676
Other financial liabilities	5,684	1,010	-	4,748	5,758
Liabilities attributed to a discontinued operation	14,544	-	-	14,508	14,508
Total financial liabilities	***416,924	35,015	9,748	373,119	417,882
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	113	113

* Reclassified.

** Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million. For further details regarding the balance sheet balance and fair value of securities, see Note 5.

*** Of which: assets and liabilities in the amount of NIS 73,001 million and in the amount of NIS 16,411 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

**** Of which, amounts of NIS 0 million and NIS 2 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 – Fair-value measurements using quoted prices on an active market.
Level 2 – Fair-value measurements using other significant observable inputs.
Level 3 – Fair-value measurements using significant unobservable inputs.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis

	September 30, 2019			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	31,050	4,320	-	35,370
Foreign government bonds	11,082	242	-	11,324
Bonds of foreign financial institutions	150	6,706	178	7,034
Bonds of foreign others	41	2,427	-	2,468
Total bonds available for sale	42,323	13,695	178	56,196
Investments in shares not held for trading	578	29	-	607
Securities held for trading				
Israeli government bonds	7,402	-	-	7,402
Foreign government bonds	3	-	-	3
Tradable shares	5	-	-	5
Total securities held for trading	7,410	-	-	7,410
Assets in respect of derivative instruments				
NIS-CPI contracts	-	199	191	390
Other interest contracts	-	4,399	2,613	7,012
Foreign-currency contracts	56	2,706	1,662	4,424
Share contracts	596	189	46	831
Commodity and other contracts	-	17	18	35
Credit in respect of inter-customer lending	3,662	-	-	3,662
Assets in respect of activity in the Maof market	18	-	-	18
Total assets	54,643	21,234	4,708	80,585
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	159	87	246
Other interest contracts	-	5,561	2,343	7,904
Foreign-currency contracts	55	1,477	3,225	4,757
Share contracts	595	75	116	786
Commodity and other contracts	-	17	18	35
Liabilities in respect of embedded derivatives	-	16	18	34
Deposits in respect of inter-customer lending	3,662	-	-	3,662
Liabilities in respect of activity in the Maof market	18	-	-	18
Liabilities in respect of securities lending	596	-	-	596
Total liabilities	4,926	7,305	5,807	18,038

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	September 30, 2018			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Securities available for sale				
Israeli government bonds	25,768	4,387	-	30,155
Foreign government bonds	354	10,433	-	10,787
Bonds of financial institutions in Israel	17	-	-	17
Bonds of foreign financial institutions	347	7,615	220	8,182
Bonds of others in Israel	-	172	-	172
Bonds of foreign others	132	2,165	-	2,297
Tradable shares	955	-	-	955
Securities held for trading				
Israeli government bonds	3,803	-	-	3,803
Foreign government bonds	66	-	-	66
Bonds of foreign others	2	-	-	2
Tradable shares	42	-	-	42
Total securities measured at fair value	31,486	24,772	220	56,478
Assets in respect of derivative instruments				
NIS-CPI contracts	-	227	176	403
Other interest contracts	-	2,971	1,751	4,722
Foreign-currency contracts	31	2,189	1,379	3,599
Share contracts	915	216	41	1,172
Commodity and other contracts	-	3	29	32
Credit in respect of inter-customer lending	4,708	-	-	4,708
Assets in respect of activity in the Maof market	1,035	-	-	1,035
Total assets	38,175	30,378	3,596	72,149
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	180	70	250
Other interest contracts	-	3,132	1,553	4,685
Foreign-currency contracts	31	1,374	1,648	3,053
Share contracts	917	41	186	1,144
Commodity and other contracts	-	5	27	32
Liabilities in respect of embedded derivatives	-	(4)	27	23
Deposits in respect of inter-customer lending	4,708	-	-	4,708
Liabilities in respect of activity in the Maof market	1,035	-	-	1,035
Liabilities in respect of securities lending	537	-	-	537
Total liabilities	7,228	4,728	3,511	15,467

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Audited
NIS millions

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2018			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Securities available for sale				
Israeli government bonds	21,803	4,570	-	26,373
Foreign government bonds	374	10,046	-	10,420
Bonds of financial institutions in Israel	114	-	-	114
Bonds of foreign financial institutions	305	7,777	191	8,273
Bonds of others in Israel	-	141	-	141
Bonds of foreign others	136	2,403	-	2,539
Investments in shares not held for trading	470	-	-	470
Securities held for trading				
Israeli government bonds	6,266	-	-	6,266
Foreign government bonds	69	-	-	69
Bonds of foreign others	2	-	-	2
Tradable shares	41	-	-	41
Total securities held for trading	29,580	24,937	191	54,708
Assets in respect of derivative instruments				
NIS-CPI contracts	-	287	79	366
Other interest contracts	-	3,791	652	4,443
Foreign-currency contracts	35	3,097	1,153	4,285
Share contracts	1,064	232	81	1,377
Commodity and other contracts	-	21	42	63
Credit in respect of inter-customer lending	3,715	-	-	3,715
Assets in respect of activity in the Maof market	1,010	-	-	1,010
Total assets	35,404	32,365	2,198	69,967
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	199	25	224
Other interest contracts	-	4,532	56	4,588
Foreign-currency contracts	36	2,638	749	3,423
Share contracts	1,064	294	19	1,377
Commodity and other contracts	-	62	2	64
Liabilities in respect of embedded derivatives	-	(12)	14	2
Deposits in respect of inter-customer lending	3,715	-	-	3,715
Liabilities in respect of activity in the Maof market	1,010	-	-	1,010
Liabilities in respect of securities lending	2,008	-	-	2,008
Total liabilities	7,833	7,713	865	16,411

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

C. Items measured at fair value on a nonrecurring basis

	September 30, 2019				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended September 30, 2019
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**536**	**536**	**(1)34**
Investments in shares	**-**	**-**	**30**	**30**	**(2)(14)**
Total	**-**	**-**	**566**	**566**	**20**

	September 30, 2018				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended September 30, 2018
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	710	710	(1)142
Investments in shares	-	-	25	25	(2)(8)
Total	-	-	735	735	134

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Audited
NIS millions

C. Items measured at fair value on a nonrecurring basis (continued)

	December 31, 2018				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2018
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	681	681	(1)117
Investments in shares	-	-	49	49	(2)(34)
Total	-	-	730	730	83

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3

	For the three months ended September 30, 2019								
	Fair value as at June 30, 2019	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at September 30, 2019	Unrealized gains (losses) in respect of instruments held as at September 30, 2019
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	**183**	**(2)**	**(3)**	**-**	**-**	**-**	**-**	**178**	[(2)(1)]**11**
Net balances in respect of derivative instruments									
NIS-CPI contracts	**68**	**27**	**-**	**-**	**9**	**-**	**-**	**104**	[(3)]**7**
Other interest contracts	**156**	**63**	**-**	**(4)**	**55**	**-**	**-**	**270**	[(3)(1)]**93**
Foreign-currency contracts	**(832)**	**(584)**	**-**	**(80)**	**(67)**	**-**	**-**	**(1,563)**	[(3)]**(499)**
Share contracts	**(66)**	**(5)**	**-**	**-**	**1**	**-**	**-**	**(70)**	[(3)]**(3)**
Commodity and other contracts	**-**	**27**	**-**	**-**	**(27)**	**-**	**-**	**-**	[(3)]**19**
Embedded derivatives	**(21)**	**5**	**-**	**-**	**(2)**	**-**	**-**	**(18)**	[(3)]**6**
Total	**(512)**	**(469)**	**(3)**	**(84)**	**(31)**	**-**	**-**	**(1,099)**	**(366)**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the three months ended September 30, 2018								
	Fair value as at June 30, 2018	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at September 30, 2018	Unrealized gains (losses) in respect of instruments held as at September 30, 2018
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	186	-	34	-	-	-	-	220	[(2)(1)]11
Net balances in respect of derivative instruments									
NIS-CPI contracts	99	7	-	-	-	-	-	106	[(3)](5)
Other interest contracts	201	(2)	-	12	(13)	-	-	198	[(3)(1)](103)
Foreign-currency contracts	247	(586)	-	2	68	-	-	(269)	[(3)]88
Share contracts	24	(195)	-	-	26	-	-	(145)	[(3)](182)
Commodity and other contracts	-	1	-	1	-	-	-	2	[(3)](4)
Embedded derivatives	(17)	(14)	-	-	4	-	-	(27)	[(3)](20)
Total	740	(789)	34	15	85	-	-	85	(215)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the nine months ended September 30, 2019								
	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at September 30, 2019	Unrealized gains (losses) in respect of instruments held as at September 30, 2019
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	**191**	**(11)**	**(2)**	**-**	**-**	**-**	**-**	**178**	(2)(1)**(2)**
Net balances in respect of derivative instruments									
NIS-CPI contracts	**54**	**37**	**-**	**-**	**13**	**-**	**-**	**104**	(3)**15**
Other interest contracts	**596**	**(708)**	**-**	**(19)**	**401**	**-**	**-**	**270**	(3)(1)**(269)**
Foreign-currency contracts	**404**	**(2,027)**	**-**	**(179)**	**239**	**-**	**-**	**(1,563)**	(3)**(962)**
Share contracts	**62**	**(134)**	**-**	**(3)**	**5**	**-**	**-**	**(70)**	(3)**(123)**
Commodity and other contracts	**40**	**(11)**	**-**	**(1)**	**(28)**	**-**	**-**	**-**	(3)**(19)**
Embedded derivatives	**(14)**	**(10)**	**-**	**-**	**6**	**-**	**-**	**(18)**	(3)**(9)**
Total	**1,333**	**(2,864)**	**(2)**	**(202)**	**636**	**-**	**-**	**(1,099)**	**(1,369)**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the nine months ended September 30, 2018								
	Fair value as at December 31, 2017	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at September 30, 2018	Unrealized gains (losses) in respect of instruments held as at September 30, 2018
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	212	-	45	-	(37)	-	-	220	[(2)(1)]45
Net balances in respect of derivative instruments									
NIS-CPI contracts	103	(1)	-	-	4	-	-	106	[(3)](6)
Other interest contracts	295	(129)	-	82	(50)	-	-	198	[(3)(1)](110)
Foreign-currency contracts	(813)	354	-	10	180	-	-	(269)	[(3)]947
Share contracts	(3)	(211)	-	-	69	-	-	(145)	[(3)]16
Commodity and other contracts	(2)	-	-	3	1	-	-	2	[(3)](2)
Embedded derivatives	(29)	(9)	-	-	11	-	-	(27)	[(3)](13)
Total	(237)	4	45	95	178	-	-	85	877

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Audited
NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the year ended December 31, 2018								
	Fair value as at December 31, 2017	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at December 31, 2018	Unrealized gains (losses) in respect of instruments held as at December 31, 2018
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	212	16	-	-	(37)	-	-	191	(2)(1)-
Net balances in respect of derivative instruments									
NIS-CPI contracts	103	(59)	-	-	10	-	-	54	(3)(62)
Other interest contracts	295	40	-	5	256	-	-	596	(3)(1)86
Foreign-currency contracts	(813)	(236)	-	12	1,441	-	-	404	(3)159
Share contracts	(3)	8	-	(1)	58	-	-	62	(3)(32)
Commodity and other contracts	(2)	29	-	10	3	-	-	40	(3)(9)
Embedded derivatives	(29)	3	-	-	12	-	-	(14)	(3)(2)
Total	(237)	(199)	-	26	1,743	-	-	1,333	140

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value between Level 1 and Level 2.

F. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the banking corporation, transfers from level to level are recognized as occurring at the end of the reported period.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	September 30, 2019			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	**178**	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	**104**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.22%-5.02% (1.49%)
Other interest contracts	**270**	Interest-rate derivatives pricing model	Transaction counterparty risk	0.00%-15.49% (1.34%)
Foreign-currency contracts	**(1,563)**	Option pricing model	Transaction counterparty risk	0.22%-15.09% (1.17%)
Share contracts	**(92)**	Share derivatives pricing model	Transaction counterparty risk	0.22%-14.87% (0.44%)
Share contracts(1)	**22**	Option pricing model	Quote from counterparty	-
			Standard deviation	79.94%-79.94% (79.94%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.26%-0.26% (0.26%)
Commodity and other contracts	**-**	Currency derivatives pricing model	Transaction counterparty risk	0.22%-2.87% (1.36%)
Embedded derivatives(2)	**(18)**	Option pricing model	Quote from counterparty	-
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	**30**	Valuation		
Impaired credit the collection of which is contingent on collateral	**536**	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Unaudited

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	September 30, 2018			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	220	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	106	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.08%-6.24% (1.23%)
Other interest contracts	198	Interest-rate derivatives pricing model	Transaction counterparty risk	0.08%-16.29% (1.05%)
Foreign-currency contracts	(269)	Option pricing model	Transaction counterparty risk	0.08%-16.23% (1.24%)
Share contracts	(172)	Share derivatives pricing model	Transaction counterparty risk	0.08%-2.70% (0.26%)
Share contracts(1)	26	Option pricing model	Quote from counterparty	-
Commodity and other contracts	2	Currency derivatives pricing model	Transaction counterparty risk	0.08%-16.26% (2.73%)
Embedded derivatives(2)	(27)	Option pricing model	Quote from counterparty	-
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	25	Valuation		
Impaired credit the collection of which is contingent on collateral	710	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:
(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 15 Balances and Fair Value Estimates of Financial Instruments (continued)

Audited

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	December 31, 2018			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	191	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	54	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.38%-8.27% (2.03%)
Other interest contracts	596	Interest-rate derivatives pricing model	Transaction counterparty risk	0.38%-18.30% (6.10%)
Foreign-currency contracts	404	Option pricing model	Transaction counterparty risk	
Share contracts	64	Share derivatives pricing model	Transaction counterparty risk	0.38%-3.68% (2.57%)
Share contracts[1]	(2)	Option pricing model	Quote from counterparty	
			Dividend yield	
			Unlinked NIS interest rate	
Commodity and other contracts	40	Currency derivatives pricing model	Transaction counterparty risk	0.38%-18.30% (6.10%)
Embedded derivatives[2]	(14)	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	49	Valuation		
Impaired credit the collection of which is contingent on collateral	681	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 16 Regulatory Initiatives

Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated.

Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- The law states that credit-card companies are to be separated from the two largest banks (the Bank and Bank Leumi). Due to the choice made by the Bank to issue at least 25% of the credit-card company under its ownership, the separation process may take up to four years from January 2017. The Bank sold approximately 65.2% of the issued and paid-up capital of Isracard in April 2019. The Bank is preparing to complete its separation from the Isracard Group, as required by the law, through several possible alternatives. There is no certainty with regard to the manner and timing in which the Bank will choose to complete the separation.
- Beginning in February 2020, the Bank will be required to present detailed information to its customers, on its website, regarding transactions executed by the customers using non-bank credit cards. An amendment to Proper Conduct of Banking Business Directive 470, issued in November 2018, contains directives regarding the manner of presentation of the information. The Bank is preparing to comply with the schedule, as required.
- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years.
- Further to the statements in Note 35 to the Annual Financial Statements of the Bank for 2018 (p. 373) concerning the Bank's holdings in ABS (Automatic Bank Services Ltd., "ABS"), and regarding the requirement applicable to the Bank to sell its holdings exceeding 10% by January 2021, in April 2019, the Bank entered into an agreement with a company in the global MasterCard group ("MasterCard") for the sale of 10% of the shares of ABS, for a total consideration of USD 11 million (approximately NIS 39 million), of which USD 9 million is to be paid at the date of completion of the transaction and an additional USD 2 million is to be given in the form of various services provided by MasterCard (under the terms of the existing collaboration agreement between the parties, and as shall be agreed upon by the parties) over the next five years. The transaction was completed in May 2019. In addition, in May 2019, ABS published a prospectus for a sale offering of shares of ABS, within which the Bank (and other banks with holdings in ABS) sold 13.4% of its holdings in shares of ABS, retaining a holding of 10%.

The Bank recorded profit (before tax) in the amount of approximately NIS 65 million in the second quarter of 2019 in respect of the aforesaid transactions and the revaluation of the balance of the remaining investment.

Note 16 Regulatory Initiatives (continued)

Parliamentary Inquiry Committee on Credit Allocation in the Economy

In July 2017, the Knesset resolved to establish a parliamentary inquiry committee, headed by Knesset Member Eitan Cabel, to examine credit allocation in the economy and debt arrangements. The committee examined the conduct of the Bank of Israel, the Banking Supervision Department, the banks, institutional entities, insurance companies, and the various types of credit providers, and presented its recommendations on this subject. The CEO of the Bank and the Chairman of the Board of Directors appeared before the committee on October 21, 2018.

The committee released its recommendations, which are focused on the conduct of the supervisory bodies, on April 15, 2019. The recommendations do not contain specific recommendations targeted to a particular bank or to the officers of a bank. However, the recommendations directed to some of the regulators and the lateral recommendations may affect the activity of the banks, if adopted and implemented, whether through legislation or through an administrative decision of the relevant regulator. For example, one of the main points of the recommendations has the potential to significantly damage relationships between banks and customers, who benefit from various secrecy protections anchored in law and in rulings – the proposal to establish a joint parliamentary committee of the Economics Committee and the Finance Committee, which would be authorized to receive confidential information submitted to it despite secrecy directives established in financial law.

Additional recommendations address necessary changes in methods of supervision and enforcement applied by the Banking Supervision Department, such as proposals to establish a designated unit with investigative authority at the Banking Supervision Department (similar to the corresponding units at the Competition Authority and the Securities Authority); to prohibit informal enforcement measures by the Banking Supervision Department; and to mandate publication of all formal enforcement measures and of a comprehensive enforcement policy document. Another recommendation proposes establishing that the banks and the Association of Banks should not be members of the committee that advises the Governor of the Bank of Israel and the Supervisor of Banks, so that the committee consists only of government representatives; and that the committee should publish the minutes of its meetings. Other recommendations concerning the Competition Authority seek declaration by the Competition Authority that the banks are a concentration group or a monopoly, and a considerable increase in its willingness to act to discover cases of abuse of market power and of anti-competitive activity in the banking system.

Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect in February 2021, with an option for extension of implementation by one additional year. Since the publication of this bill, meetings of the committee for implementation of the law have been held at the Bank of Israel. It has been decided that Masav (the Bank Clearing Center) will manage the project. The Company has presented a schedule for implementation to the Banking Supervision Department and to all of the member banks.

Note 16 Regulatory Initiatives (continued)

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system. In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system, including authorizations to debit the account, management of negative balances in NIS and in foreign currency, management of securities, and more. A draft Proper Conduct of Banking Business Directive, "Online Switching of Customers' Financial Activity Between Banks," was also published in August 2019, regulating the series of actions required of the receiving bank and the transferring bank when switching, and specifying the obligations applicable to each bank.

Payment services reform

The Payment Services Law, issued in January 2019, will take effect in January 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The arrangement established in the law relies, among other matters, on the principles of the PSD2 directive, which took effect in Europe in May 2018. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated.
Another memorandum of law on this subject, establishing the duties that apply to an applicant seeking to obtain a license and serve as a payment service provider, was released for comments from the public in August 2018, and is expected to be discussed by the incoming Knesset.
The Ministry of Justice has issued a draft order postponing the inception of the law by six months, until July 9, 2020. The order can only take effect after it is approved by the Economics Committee.
Private legislation to benefit mortgage takers:

- Amendment 30 to the Banking Law (Service to Customers), published in January 2019, concerns the deferral of payment of a customer's housing loan under special circumstances. The law states that banks (and non-bank entities, if they sell mortgages in the future) must allow customers to choose a loan track in which they are permitted to defer payments on a housing loan in the event of unemployment, illness, childbirth, or injury.
- Amendment 31 to the Banking Law (Service to Customers), which concerns the deferral of mortgage payments due to the death of a borrower, was published in the Official Gazette of the Israeli Government in January 2019. Pursuant to the amendment to the law, in the event of the death of a borrower, at the request of the person obligated to repay the loan, the bank must defer the mortgage payments, for a period not to exceed twelve months, at no cost and without charging arrears interest.

These amendments took effect in July 2019.

Note 16 Regulatory Initiatives (continued)

Material directives and initiatives in the first nine months of 2019

- Replacement of benchmark interest rates overseas – In March 2019, the Bank of Israel sent a draft letter concerning the discontinuation of use of the LIBOR interest rate. The letter instructs banks to prepare for this matter comprehensively. Among other matters, the banks were asked to appoint a management function responsible for overseeing an examination of the effects and monitoring implementation. The banks will also map the instruments and contracts potentially affected by the replacement. In addition, the banks were asked to perform a comprehensive risk analysis, both for the corporation and regarding the implications for the bank's relationship with customers, and to establish policies and procedures addressing the transition, while examining various scenarios for the pace of the transition.
- The credit database became operational in April 2019. As a result of this law, every citizen will have a credit rating; in credit applications, the credit provider will be notified of this rating, with the citizen's consent.
- Proper Conduct of Banking Business Directive 434, Joint Accounts, "Survival" clause – In June 2019, the Bank of Israel issued a new draft Proper Conduct of Banking Business Directive on this subject, establishing rules for the management of an account in the event of the death of one of the owners of the account.
- Proper Conduct of Banking Business Directive 426, "Professional Human Telephone Response" – Proper Conduct of Banking Business Directive 426, also known as the implementation in the banking system of the "six minute rule," took effect on July 25, 2019. The purpose of this directive is to facilitate consumers' communication with certain entities, with respect to a professional, human response, through simplification and shortening of automatic call routing systems, and through restriction of the wait time for a professional human response to a period not to exceed six minutes from the beginning of the telephone call. The Banking Supervision Department will be required to report to the Economics Committee of the Knesset on compliance with the instructions established.
- Significant market power – In July 2019, the Competition Authority issued an opinion statement on standards for the examination of significant market power, further to Amendment 21 to the Restrictive Trade Practices Law of January 2019, stating that a monopoly is considered anyone holding significant market power with respect to the delivery of goods or provision or acquisition of services (in contrast to the previous definition of a monopoly as anyone in control of more than 50% of the market).
- Proper Conduct of Banking Business Directive regulating the engagement of banking corporations in activity in financial instruments on behalf of their customers – A draft was released in August 2019, designated to replace Proper Conduct of Banking Business Directive 461, regulating the broker-dealer activities of the banks.
- Fee rules – An amendment to the rules concerning fees took effect in August 2019, requiring banks to identify small businesses that could derive savings from transition to a fixed-rate current account fee track, and to proactively register the businesses for the track.
- Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account" – The Bank of Israel issued a draft amendment of Proper Conduct of Banking Business Directive 432 in August 2019, stating that banks must permit requests to transfer a securities portfolio to be submitted through their website.

Note 16 Regulatory Initiatives (continued)

- Open banking – The Bank is obligated to allow the transfer of information regarding customers' accounts to third parties providing customers with consulting, cost comparison, and financial information summation services. Such transfer shall be subject to the customer's approval, and shall be performed using open API. The draft Proper Conduct of Banking Business Directive concerning the implementation of the open banking standard in Israel, with an emphasis on information suppliers and consumers, on substantial issues as well as technical issues, was discussed by the advisory committee on September 12.
- Insolvency and Economic Rehabilitation Law – The law took effect on September 15, 2019.

  Main points: The law creates a single legislative framework to encompass all types of debtors, including the various types of individuals and corporations. Sections of the legislative framework address unique aspects relevant to corporations and unique aspects relevant to individuals.

  Corporations – The law is intended to regulate all aspects of insolvency of corporations, from debt-rescheduling arrangements and debts of officers in the period prior to the opening of insolvency proceedings, to restructuring and rehabilitation processes, to liquidation of a corporation and dismantling of its activity, in order to respond both to the need for uniformity and to the need for special arrangements in appropriate cases.

  Individuals: The law is intended to regulate aspects of insolvency of individuals by creating simpler, faster arrangements for debtors seeking to cope with insolvency. The formation of administrative tracks for the treatment of debts in low amounts of non-serial debtors allows individuals to initiate insolvency proceedings before they are actually insolvent, and makes it possible to grant a discharge contingent upon compliance with an economic guidance program, in order for the procedure to serve as a means of coping with the causes of the insolvency.

  The Ministry of Justice has issued draft regulations on eight different subjects for the implementation of the law. As the completion of the procedure for enactment of the regulations has been delayed due to the dispersal of the Knesset, the law has taken effect, while only five of the eight regulations have been approved and published. The remaining regulations require the approval of the Constitution Committee, which has not yet been established and convened.
- IT services bureau – In September 2018, the Ministry of Finance published rules for the provision of grants for the establishment of an IT bureau, which will set up IT infrastructures and provide comprehensive banking IT services to financial entities. In accordance with the rules, in March 2019, TCS was selected as the supplier to receive the grant. In the first stage, TCS will receive a grant of NIS 105 million, subject to the attainment of milestones. Note that the rules for the grant contain an incentive for the selected supplier to sign IT services delivery contracts with additional financial entities, which would cause the grant to increase, up to a maximum amount of NIS 200 million. In August 2019, the Supervisor of Banks instructed the banks to prepare to connect to the IT services bureau during 2020.

Note 16 Regulatory Initiatives (continued)

- CRS – Automatic exchanges of information about financial accounts – Income Tax Regulations (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts), 2019. The State of Israel has adopted the OECD standard for automatic exchanges of information about financial accounts of foreign residents for tax purposes (the Common Reporting Standard). Financial institutions are required to collect financial information, as defined, regarding foreign residents; the information is to be transferred to the foreign countries of residence through the Tax Authority. The regulations were approved on January 1, 2019. The Bank reported to the Tax Authority on June 23, 2019, with respect to the year 2017, and on September 8, 2019, with respect to 2018.
- Proper Conduct of Banking Business Directive 367 – The directive has been updated such that beginning in January 2020, the fax service channel will be included within digital banking. The definitions in the directive will also apply to the fax channel, from customer identification and verification to the implementation of controls and monetary transfer amounts. The Bank of Israel permits customers who were registered for the fax service with the Bank prior to the amendment to continue to operate without signing a new agreement.
- On October 28, 2019, after the reported period, the Bank of Israel issued a draft of a new Proper Conduct of Banking Business Directive concerning the management of retail credit. Among other matters, the draft requires the Bank to promote a policy of fair pricing of credit, consistent with the risk level and characteristics of the borrower, and to establish a maximum ratio of monthly payment to disposable income.
- On October 29, 2019, after the reported period, the Bank of Israel published final versions of two Proper Conduct of Banking Business Directives concerning credit: Proper Conduct of Banking Business Directive 311, "Credit Risk Management," and Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers."

These regulatory initiatives have an adverse effect on the income and expenses of the Bank, and may have an adverse effect on the business of the Bank Group in the future. At this stage, the Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

For further details regarding additional key reforms, see Note 35 to the Annual Financial Statements for 2018.

Note 17 Material Events During the Reported Period

A. Isracard Group

Further to the statements in Note 15E to the Annual Report of the Bank for 2018 concerning the Bank's preparations for separation from the Isracard Group, pursuant to the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering in April, for a total (gross) consideration of approximately NIS 1.76 billion, retaining a holding of approximately 33% of the shares of Isracard.

In accordance with the accounting principles applicable to the Bank, due to the decrease in the holding rate to less than 50%, the Bank discontinued the consolidation of the Isracard Group. However, it retains significant influence; the Bank therefore recognized net profit (after tax and expenses related to the sale offering) in the second quarter in the amount of approximately NIS 137 million in respect of the sale of the investment in Isracard (for further details, see Note 1E to the Condensed Financial Statements).

On April 11, 2019, in response to a request of the Bank, the Bank of Israel updated the permit for control of Isracard, such that the controlling core which the Bank must hold in Isracard shall not fall below 30% of any type of means of control in the clearers, instead of 50% in the previous permit.

Pursuant to the directives of the Law for Increasing Competition, the Bank is permitted to hold its remaining holdings in Isracard until January 31, 2021. The Bank is preparing to complete its separation from the Isracard Group, as required by the law, through several possible alternatives. These include a sale of shares constituting a controlling core of Isracard; a private sale without a controlling core or a public offering of Isracard shares, to foreign or Israeli investors; distribution of Isracard shares or share purchase options in the form of a dividend in kind; sale on the stock exchange (subject to the blockage rules of the stock exchange); or a combination of any of these alternatives. There is no certainty with regard to the manner and timing in which the Bank will choose to complete the separation.

For details regarding tax-assessment discussions concerning profit tax in respect of distributable profits, see Note 8C(3) to the Annual Financial Statements for 2018; with regard to the indemnification of Isracard for VAT on foreign-currency fees, see Note 8C(2) to the Annual Financial Statements for 2018.

B. Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

The Bank Group currently operates in Turkey through Bank Pozitif, which specializes in corporate banking.

In view of the economic and political situation in Turkey, a decision was made within the strategic plan of the Bank to act to gradually reduce the credit portfolio of Bank Pozitif. The minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. In this context, note that in January 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see the section "Capital and capital adequacy," above.

Note 17 Material Events During the Reported Period (continued)

The Bank has stepped up its activities towards selling its full holdings in Bank Pozitif, and, as part of this process, in October 2019, engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. Taking all of the foregoing into consideration, the Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year, at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 63 million.

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices
as at September 30, 2019

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5. Corporate governance

5.1. Internal audit

Details regarding the Group's internal auditing, including the professional standards under which internal audit operates and the considerations involved in formulating the annual and multi-year work plans, are provided in the Annual Report for 2018. No material changes occurred in this information during the reported period. The audit plan of the Isracard Group for 2019 is being implemented by the company's new auditor, Mr. Moni Avraham, who was appointed in April 2018 and replaced Mr. Zeev Hayo. Until Isracard became a public company (in April 2019), auditing was performed through the Internal Audit employees of the Bank, among other means. As of that date, Internal Audit employees of the Bank no longer provide auditing services to Isracard.

5.2. Other matters

In April 2019, the CEO of the Bank, Mr. Ari Pinto, gave notice of his decision not to renew his employment contract (which concludes at the end of 2019) as Chief Executive Officer of the Bank for another term. The Board of Director regretfully received Mr. Pinto's notice of his intention to end his term of office. During his tenure, Mr. Pinto, together with the Board of Management of the Bank, led a series of achievements and significant processes in order to cope with past challenges and prepare the Bank for those of the future, earning the deep appreciation and full confidence of the Board of Directors.

In May 2019, the Board of Directors of the Bank appointed a board committee to search for a CEO for the Bank. Members of the committee are the Chairman of the Board, Mr. Oded Eran (chairperson of the committee), Ms. Dalia Lev, and Mr. Yacov Peer. On July 15, 2019, the Board of Directors resolved, at the recommendation of its search committee, to appoint Mr. Dov Kotler as the next CEO of the Bank. This decision followed a structured search process performed by the search committee, encompassing an in-depth examination of the candidates' qualifications, and is based on confidence in the capability and qualification of Mr. Kotler to lead the Bank in the coming years. Mr. Kotler took office as CEO on October 1, 2019.

Mr. Ronen Stein, Head of Retail Banking, and Mr. Erez Yosef, Head of Corporate Strategy, Resources, and Operations, gave notice, in June and July 2019, respectively, of their intention to retire from the Bank, after 26 and 30 years of work at the Bank, respectively. Mr. Yosef and Mr. Stein retired from the Bank in October and November 2019. The Board of Directors thanks them for their many years of devoted service at the Bank.

In August 2019, Mr. Ofer Koren, Chief Financial Officer, gave notice of his wish to resign from the Bank. His service is expected to conclude in the coming few months.

At the recommendation of the CEO of the Bank, Mr. Dov Kotler, the Board of Directors of the Bank approved the following appointments and organizational changes in the Board of Management of the Bank on October 6, 2019:

Appointments:

Ms. Dalit Raviv, who previously served as Commercial Division Manager in the Corporate Banking Area of the Bank, was appointed to the position of Head of Retail Banking. Ms. Raviv took office on November 13, 2019, after the approval of the Banking Supervision Department for the appointment was received.

Mr. Amit Oberkovich was appointed to the position of Head of Human Resources. Mr. Oberkovich is expected to take office in December 2019.

Mr. Ram Gav was appointed to the position of Chief Financial Officer. Mr. Gav currently serves as CFO of Isracard Ltd. Mr. Gav, whose appointment has been approved by the Banking Supervision Department, is expected to take office within the coming few months.

Organizational changes:

The Human Resources Area will be directly subordinate to the CEO, and will be split off from the COO Area. The Logistics and Purchasing Divisions will be transferred to the Finance Area, and the Central Back Office will be transferred to the Retail Banking Area.

The Chief Accountant and Head of Comptrolling, Mr. Ofer Levy, will report directly to the CEO of the Bank.

The organizational changes are expected to be completed within the coming few months.

At the annual general meeting of shareholders of the Bank, which convened on July 18, 2019, the following resolutions were discussed and passed: discussion of the audited annual financial statements of the Bank as at December 31, 2018, and the Report of the Board of Directors and Board of Management for the year ended on that date; renewed appointment of Somekh Chaikin (KPMG), CPA (Isr.), and Ziv Haft (BDO), CPA (Isr.), as the joint auditors of the Bank, until the end of the next annual general meeting of the Bank; adoption of amendments to the Articles of the Bank; and approval of the appointment of five directors (of eight candidates proposed by the Banking Corporation Director Appointment Committee), as detailed below:

Mr. David Avner, as an external director pursuant to the Companies Law (who also meets the qualification requirements for an external director pursuant to Directive 301);

Mr. Reuven Krupik (a currently serving director) and Mr. Noam Hanegbi, as external directors pursuant to Directive 301 (who are also independent directors pursuant to the directives of the Companies Law);

Mr. Oded Eran (a currently serving director and Chairman of the Board) and Dr. David Zvilichovsky, as directors who are not external directors ("other" status).

The approval of the Supervisor was received on July 22, 2019, for the reappointment of Mr. Reuven Krupik for a second term of service as an external director pursuant to Directive 301, and it was clarified that the renewal of his appointment begins February 18, 2019 (when Mr. Krupik's service was extended by the Supervisor, in accordance with her authority under the Banking Ordinance). Accordingly, the additional three-year term of service of Mr. Krupik will be counted beginning on February 18, 2019.

The appointments of Mr. David Avner, Dr. David Zvilichovsky, and Mr. Noam Hanegbi took effect during September and October, after the Supervisor of Banks gave notice that she had no objection to the appointments.

The term of service of Mr. Yacov Peer on the Board of Directors of the Bank ended on October 5, 2019, after nine years of service.

On October 28, 2019, the Supervisor of Banks notified the Bank that she had no objection to the appointment of Mr. Oded Eran for an additional term of service as a director and as Chairman of the Board of the Bank. The additional term of service of Mr. Eran will begin on January 1, 2020.

In May 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the extension of the directors and officers' liability insurance policy of the Bank and of subsidiaries of the Bank by one month (i.e. until June 30, 2019, instead of May 31, 2019, the expiration date of the previous insurance policy), in consideration for a total of approximately USD 200,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of USD 250 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 50 million (USD 300 million in total), beginning July 1, 2019, for a period of eleven months. The total premium for the aforesaid insurance coverage is approximately USD 2.4 million.

At the date of approval of these statements, the Board of Directors granted approval to convene a special general meeting of shareholders of the Bank, with the agenda of temporarily extending the term of the existing remuneration policy of the Bank and approving the terms of service and employment of the Chairman of the Board and of the CEO of the Bank.

In July 2019, the Bank published its social, environmental, and economic responsibility report for 2018. The report, prepared in compliance with advanced GRI standards, is available on the Bank's website.

Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years. For additional information regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018.

Imposition of monetary sanctions by the Supervisor of Banks

Over the last few months, there has been an increase in instances of monetary sanctions imposed on banks and credit-card companies (including the Bank and Isracard) by the Banking Supervision Department, in cases in which, according to the position of the Banking Supervision Department, flaws or deficiencies have been discovered in the conduct of the financial institutions.

- On April 3, 2019, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 385 thousand upon the Bank. The monetary sanction was imposed due to the failure to remedy a deficiency in accordance with the instructions of the Banking Supervision Department. The instructions were issued following the investigation of public complaints, pursuant to Section 16(B) of the Banking Law (Service to Customers), 1981, and required the Bank to amend its documents pertaining to the service of delivering checkbooks to customers through the Israel Post, such that liability for damages in the event of loss or theft of the checkbooks during delivery by post would not apply to the customer.
- On May 16, 2019, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 1,575 thousand upon the Bank. The Banking Supervision Department decided to impose the monetary sanction following cases in which customers who sought to use the ATMs of the Bank to withdraw cash were debited for the withdrawal of monies and charged fees, despite the fact that the cash withdrawal failed. This constitutes a violation of Sections 3 and 5(A) of Proper Conduct of Banking Business Directive 433 and of the directives in Section 9J of the Banking Law (Service to Customers), 1981. The Banking Supervision Department recognized the arguments of the Bank regarding the actions taken to remedy the deficiencies and prevent the recurrence thereof, and therefore reduced the amount of the sanction by 10%, to the aforesaid total.
- In February 2019, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 675 thousand on Isracard, concerning credit marketing and the duty to include a warning in advertising. Pursuant to the decision of the Supervisor of Banks, the monetary sanction was imposed due to violation of Section 5(C) of the Banking Law (Service to Customers), as during an extensive campaign conducted by Isracard it failed to include a warning, as required by the Banking Law (Service to Customers), in an advertisement displayed on the mobile version of the marketing website of Isracard, instead including only a link to a landing page which contained a referral to the warning.

6. Additional information regarding the business of the corporation and the management thereof

6.1. Segments of activity based on management approach

6.1.1. Private Customer Segment

General information and segment structure

The Bank provides a wide range of services to private customers, including routine account-management services, credit granting for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes proactively initiated meetings and telephone calls and an advanced advisory system aided by decision-support tools.

Services are provided to customers of the segment through a network of 222 branches, including advanced digital branches and a mobile branch, and through direct channels: self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, contact through Facebook, and smartphone applications.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend of increasing banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center) over the last few years.

Pension advising

In the third quarter of 2019, the Bank launched a publicity campaign concerning pensions, aimed at raising awareness of the importance of pension advising and retirement advising at the Bank. Following the campaign, referrals to the advising centers increased significantly.

Technological changes that may have a material impact on the segment

Digital account opening

For the first time in Israel, Bank Hapoalim allows young people aged 16 to 18 to open bank accounts online, without a banker, in approximately seven minutes.

These customers are offered a unique, adapted account opening process, based on the understanding that they are taking their first steps in the financial world.

Young customers can open an account in a brief and fully digital process, without waiting for a banker or a call center, using facial recognition technology. The account allows the customers to use all of the channels available at the Bank: digital channels, branches, and telephone, according to their choice.

Bit application

An outline issued by the Bank of Israel in July 2019 allows payment applications of banks to serve as a means of payment for businesses. The new regulation is intended to protect credit-card companies by placing certain restrictions on the payment applications.

The outline of the Bank of Israel is the following:

- In 2019, 2020, and 2021, the activity of each bank in the area of payment applications for businesses will be limited to a threshold of NIS 2 billion, NIS 2.5 billion, and NIS 3 billion, respectively.
- Beginning in 2021, the activity threshold limit will not apply to businesses where payment is performed based on the international EMV standard for smart transactions.
- Concurrently, the Bank of Israel is acting to allow non-bank entities access to Masav (the Bank Clearing Center), in order to enable them to compete with banking entities in the provision of payment services. In this context, the bank applications for payment at businesses will not be based on an immediate payment service, if Masav develops such a service, unless non-bank entities are also allowed access to the service.
- The credit-card companies will be permitted activity in the area of payment applications for businesses, if they develop such applications or collaborate with non-bank entities, based on credit cards, with no limit on the volume of the activity.
- These restrictions will be reexamined in the event of substantial changes in the market or the entry of new players.

According to the estimates of the Bank, the outline published does not materially affect the income structure of the Bank in the coming few years.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- On March 14, 2018, the Knesset plenum passed the Banking Chapter of the Bank Switching System Law (the plan for increasing competition in the banking market through the removal of barriers to switching), in the second and third readings. Pursuant to the law, banks shall allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect within three years.

  In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system, including authorizations to debit the account, management of negative balances in NIS and in foreign currency, management of securities, and more. A draft Proper Conduct of Banking Business Directive was also published, regulating the series of actions required of the receiving bank and the transferring bank when switching, and specifying the obligations applicable to each bank.
- The Reduction of the Use of Cash and Checks Law was published in the Official Gazette of the Israeli Government on March 18, 2018. The law is aimed at reducing the extent of the use of cash and checks, mainly through the establishment of prohibitions and restrictions. The law took effect with regard to cash on January 1, 2019. The law took effect with regard to checks (Section 5 of the law) on July 1, 2019.

- On December 31, 2018, the Reform Committee of the Knesset passed the Payment Services Law, 2019, which establishes uniform regulation of consumer protections in the area of payment services. The main purpose of the Payment Services Law is to provide consumer protection to customers (payers or payees) who receive, and who will receive in the future, "payment services" from "payment service providers"; to increase public trust in the various "means of payment"; and to create an initial infrastructure for increased competition in the area of payment services in Israel. The law will take effect on January 9, 2020.
- The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee). Among other directives of the law, beginning in July 2018, the banks are required to transfer current-account balances on a daily basis to financial entities to be approved, subject to approval by the customer. Bank Hapoalim is prepared for the implementation of this directive.
- The credit database became operational in April 2019. As a result of this law, every citizen will have a credit rating; in credit applications, the credit provider will be notified of this rating, with the citizen's consent.

Private legislation to benefit mortgage takers:

- Amendment 30 to the Banking Law (Service to Customers), published in January 2019, concerns the deferral of payment of a customer's housing loan under special circumstances. The law states that banks (and non-bank entities, if they sell mortgages in the future) must allow customers to choose a loan track in which they are permitted to defer payments on a housing loan in the event of unemployment, illness, childbirth, or injury.
- Amendment 31 to the Banking Law (Service to Customers), which concerns the deferral of mortgage payments due to the death of a borrower, was published in the Official Gazette of the Israeli Government in January 2019. Pursuant to the amendment to the law, in the event of the death of a borrower, at the request of the person obligated to repay the loan, the bank must defer the mortgage payments, for a period not to exceed twelve months, at no cost and without charging arrears interest.

These amendments took effect in July 2019.

For additional information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the "Strum Committee"), see Note 16 to the Condensed Financial Statements.

Table 6-1: Results of operations and principal data of the Private Customer Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018*	**2019**	2018*
	NIS millions			
Total net interest income	**704**	685	**2,150**	2,050
Non-interest financing income	**2**	2	**6**	9
Total net financing profit	**706**	687	**2,156**	2,059
Fees and other income	**384**	386	**1,121**	1,148
Total income	**1,090**	1,073	**3,277**	3,207
Provision for credit losses	**58**	122	**180**	365
Total operating and other expenses	**982**	899	**2,823**	2,723
Profit from continued operations before taxes	**50**	52	**274**	119
Provision for taxes on profit from continued operations	**17**	25	**98**	47
Net profit attributed to shareholders of the Bank	**33**	27	**176**	72
Net credit to the public at the end of the reported period	**42,313**	44,067	**42,313**	44,067
Deposits from the public at the end of the reported period	**187,013**	176,684	**187,013**	176,684

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 176 million in the first nine months of 2019, compared with NIS 72 million in the same period last year. The increase mainly resulted from a decrease in the provision for credit losses, and from an increase in net financing profit.

Net financing profit totaled NIS 2,156 million in the first nine months of 2019, compared with NIS 2,059 million in the same period last year. The increase resulted from an increase in balances of deposits from the public, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Income from fees totaled NIS 1,121 million in the first nine months of 2019, compared with NIS 1,148 million in the same period last year. The decrease mainly resulted from a decrease in securities fees and in financial product distribution fees.

The provision for credit losses totaled NIS 180 million in the first nine months of 2019, compared with NIS 365 million in the same period last year. The decrease resulted from a decrease in the collective allowance, due to a decrease in automatic charge-offs and in the volume of problematic debts.

Operating and other expenses of the segment totaled NIS 2,823 million in the first nine months of 2019, compared with NIS 2,723 million in the same period last year. The increase resulted from an increase in IT expenses and in fees.

Net credit to the public totaled approximately NIS 42.3 billion as at September 30, 2019, compared with approximately NIS 44.1 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 187.0 billion as at September 30, 2019, compared with approximately NIS 187.1 billion as at December 31, 2018.
For additional information regarding credit risk with respect to private individuals, see "Credit risk" in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.2. Small Business Segment

General information and segment structure

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see the section "Private Customer Segment" above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.
Services for the segment's customers include routine account management, alongside extensive efforts aimed at supporting and growing this segment, including targeted credit tailored to customers' needs through a wide range of products.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

See "Private Customer Segment," above.
An update of the Banking Rules (Service to Customers) (Fees) concerning the registration of customers defined as a "small business" or a "licensed operator" for tracks was issued on April 14, 2019. Pursuant to the rules, customers charged current-account fees for transactions performed by a teller or through a direct channel in an amount exceeding the amount they would have paid if they had registered for one of the tracks (basic or expanded), in each month of the fiscal year, must be identified. This process will be performed in March, each year. Customers will be sent notice of registration and of the ways of canceling the registration. The rules for this year state that such customers are to be registered in August 2019.
The first process of registration of customers defined as a "small business" or "licensed dealer" for tracks was carried out on August 1, 2019, as required by the directive.

Table 6-2: Results of operations and principal data of the Small Business Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018*	**2019**	2018*
	NIS millions			
Total net interest income	**400**	410	**1,221**	1,209
Non-interest financing income	**1**	1	**2**	2
Total net financing profit	**401**	411	**1,223**	1,211
Fees and other income	**144**	146	**432**	434
Total income	**545**	557	**1,655**	1,645
Provision for credit losses	**68**	139	**235**	307
Total operating and other expenses	**303**	284	**881**	840
Profit from continued operations before taxes	**174**	134	**539**	498
Provision for taxes on profit from continued operations	**62**	57	**194**	197
Net profit attributed to shareholders of the Bank	**112**	77	**345**	301
Net credit to the public at the end of the reported period	**31,132**	32,343	**31,132**	32,343
Deposits from the public at the end of the reported period	**43,826**	40,765	**43,826**	40,765

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 345 million in the first nine months of 2019, compared with NIS 301 million in the same period last year. The increase mainly resulted from a decrease in the provision for credit losses, partly offset by an increase in operating and other expenses.

The provision for credit losses totaled NIS 235 million in the first nine months of 2019, compared with NIS 307 million in the same period last year. The decrease resulted from a decrease in the collective allowance for problematic debts and from a decrease in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 881 million in the first nine months of 2019, compared with NIS 840 million in the same period last year. The increase resulted from an increase in IT expenses and in fees.

Net credit to the public totaled approximately NIS 31.1 billion as at September 30, 2019, compared with approximately NIS 32.6 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 43.8 billion as at September 30, 2019, compared with approximately NIS 42.4 billion as at December 31, 2018.

6.1.3. Housing Loan Segment

General information and segment structure

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, at Mishkan representative offices within branches located nationwide.

Competition

Mortgages are a price-oriented product: a mortgage is a highly significant economic transaction for a household, and customers therefore conduct market surveys and compare prices. Accordingly, this market is characterized by high competitiveness.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- **Draft update of Proper Conduct of Banking Business Directive 329 –** On July 1, 2019, the Bank of Israel issued a draft update of Directive 329, pursuant to which the restrictions on the part of a loan at a floating rate of interest (Section 7 of the directive) will not apply to a loan to an Israeli citizen most of whose income is paid in foreign currency; this is in addition to the exception to the aforesaid restrictions already provided in the directive with respect to housing loans in foreign currency or linked to foreign currency granted to a foreign resident.
- **Draft update of questions and answers for Proper Conduct of Banking Business Directive 329 –** On July 8, 2019, the Bank of Israel sent a draft update of the questions and answers for Proper Conduct of Banking Business Directive 329, concerning two matters:
    1) The restrictions on the part of a loan at a floating rate of interest will apply to the total housing loan, less the amounts permitted for exclusion from these restrictions in accordance with the directive.
    2) In cases in which a relative who does not hold rights to the property joins the loan as a borrower, no more than half of the relative's income can be taken into consideration, even if the relative pays 100% of the monthly payments.
- **Questions and answers for Proper Conduct of Banking Business Directive 451 –** Further to the draft questions and answers for Proper Conduct of Banking Business Directive 451 issued by the Bank of Israel on April 8, 2019, concerning the classification of a loan designated for a family member, pursuant to which a loan with a lien on a residence intended to assist another member of the family for the purposes of a business shall be classified as an all-purpose loan with a lien on a residential property, and shall be subject to the 451 restrictions, the update of July 28, 2019, states that in accordance with the meeting minutes of the advisory committee of April 4, 2019, a decision has been made to remove the matter from the agenda at this point in time.

Table 6-3: Results of operations and principal data of the Housing Loan Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
	NIS millions			
Total net interest income	**214**	178	**612**	507
Fees and other income	**16**	14	**46**	46
Total income	**230**	192	**658**	553
Provision for credit losses	**6**	18	**25**	24
Total operating and other expenses	**67**	61	**196**	181
Profit from continued operations before taxes	**157**	113	**437**	348
Provision for taxes on profit from continued operations	**53**	48	**154**	137
Net profit attributed to shareholders of the Bank	**104**	65	**283**	211
Net credit to the public at the end of the reported period	**87,316**	79,011	**87,316**	79,011

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 283 million in the first nine months of 2019, compared with NIS 211 million in the same period last year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 612 million in the first nine months of 2019, compared with NIS 507 million in the same period last year. The increase resulted from an increase in the volume of credit and in financial spreads on credit.

Credit to the public totaled approximately NIS 87.3 billion as at September 30, 2019, compared with approximately NIS 81.5 billion as at December 31, 2018. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see Section 3.2.6 in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

6.1.4. Commercial Segment

General information and segment structure

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers for established customers and business centers for growing customers. Operational services for the segment's customers are provided by a nationwide network of service centers.

Principal developments in the segment

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate. These customers primarily operate in the domestic market; the segment also serves customers engaged in import and export activities. Most of the growth in this segment stems from the construction and real-estate sector. In addition, as part of its strategy, the Bank is focusing on deepening its activity with customers in the commerce sector.

Economic indicators point to a trend of deceleration in economic growth over the last few quarters, likely as a result of the trade war, which caused slower global growth; this effect is concentrated in the industrial sector, for the moment. Interest rates in all ranges fell during the quarter, providing support to the business sector, particularly real estate. The volume of purchases of new homes continued to rise, influenced by transactions within the Mechir Lamishtaken ("Tenant Price") project.

Table 6-4: Management approach activity segments – results of operations and principal data of the Commercial Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018*	**2019**	2018*
	NIS millions			
Total net interest income	**279**	254	**813**	743
Non-interest financing income	**3**	2	**8**	6
Total net financing profit	**282**	256	**821**	749
Fees and other income	**97**	89	**277**	262
Total income	**379**	345	**1,098**	1,011
Provision (income) for credit losses	**15**	18	**29**	(6)
Total operating and other expenses	**127**	124	**382**	384
Profit from continued operations before taxes	**237**	203	**687**	633
Provision for taxes on profit from continued operations	**85**	88	**249**	255
Net profit attributed to shareholders of the Bank	**152**	115	**438**	378
Net credit to the public at the end of the reported period	**39,997**	36,454	**39,997**	36,454
Deposits from the public at the end of the reported period	**23,493**	24,235	**23,493**	24,235

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 438 million in the first nine months of 2019, compared with NIS 378 million in the same period last year. The increase resulted from an increase in net financing profit, offset by an increase in the provision for credit losses.

Net financing profit totaled NIS 821 million in the first nine months of 2019, compared with NIS 749 million in the same period last year. The increase mainly resulted from an increase in volumes of credit and in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Income from fees totaled NIS 277 million in the first nine months of 2019, compared with NIS 262 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions.

The Commercial Segment recorded a provision for credit losses in the amount of NIS 29 million in the first nine months of 2019, compared with income in the amount of NIS 6 million in the same period last year. The increase in the provision for credit losses resulted from an increase in the provision recorded on an individual basis and from a decrease in recovery of charged-off debts.

Net credit to the public totaled approximately NIS 40.0 billion as at September 30, 2019, compared with approximately NIS 37.5 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 23.5 billion as at September 30, 2019, compared with approximately NIS 25.3 billion as at December 31, 2018.

6.1.5. Corporate Segment

General information and segment structure

The Corporate Segment specializes in providing financial services to large corporations in Israel. Credit granting constitutes its principal area of activity. The segment operates through three sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures and energy.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk sales.

Also operating within the Corporate Banking Area is the Special Credit Division, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

Table 6-5: Management approach activity segments – results of operations and principal data of the Corporate Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018*	**2019**	2018*
	NIS millions			
Total net interest income	**361**	345	**1,048**	1,015
Non-interest financing income	**16**	19	**55**	102
Total net financing profit	**377**	364	**1,103**	1,117
Fees and other income	**116**	109	**349**	365
Total income	**493**	473	**1,452**	1,482
Income in respect of credit losses	**(201)**	(212)	**(105)**	(317)
Total operating and other expenses	**154**	154	**456**	457
Profit from continued operations before taxes	**540**	531	**1,101**	1,342
Provision for taxes on profit from continued operations	**194**	228	**397**	531
Net profit attributed to shareholders of the Bank	**346**	303	**704**	811
Net credit to the public at the end of the reported period	**75,515**	69,580	**75,515**	69,580
Deposits from the public at the end of the reported period	**48,719**	39,013	**48,719**	39,013

* Expenses in respect of insurance for Sale Law guarantees were classified as a reduction of income from financing transaction fees, instead of being recorded within the "other expenses" item. In addition, some data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 704 million in the first nine months of 2019, compared with NIS 811 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,103 million in the first nine months of 2019, compared with NIS 1,117 million in the same period last year. The decrease mainly resulted from a decrease in profits in respect of the sale of loans. This decrease was partly offset by an increase in net interest income, due to an increase in balances of credit and deposits and in financial spreads on deposits.

Income from fees totaled NIS 349 million in the first nine months of 2019, compared with NIS 365 million in the same period last year. The decrease mainly resulted from a decrease in syndication fees, partly offset by an increase in foreign-trade fees and securities fees.

Income in respect of credit losses totaled NIS 105 million in the first nine months of 2019, compared with income in the amount of NIS 317 million in the same period last year. The change mainly resulted from an increase in the provision recorded on an individual basis, and from an increase in the collective allowance for credit losses, due to an increase in problematic debts.

Net credit to the public totaled approximately NIS 75.5 billion as at September 30, 2019, compared with approximately NIS 71.9 billion as at December 31, 2018. The increase mainly resulted from balances of credit in the amount of approximately NIS 3.6 billion to the Isracard Group, included for the first time in the second quarter of 2019 due to the discontinuation of consolidation.

Deposits from the public totaled approximately NIS 48.7 billion as at September 30, 2019, compared with approximately NIS 44.2 billion as at December 31, 2018. The increase resulted from an increase in deposits of large institutional clients.

6.1.6. International activity

General information

The international activity of the Bank Group includes the New York branch and representative offices, Hapoalim Switzerland, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions").

The Bank is acting to discontinue all of its activities overseas in the area of global private banking, and to close the subsidiaries that provide the related services. Among other matters, these actions have led to a decrease in the extent of assets of foreign residents deposited with the Bank Group.

Legislative restrictions, standards, and special constraints applicable to international activity

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of activity of the Group in the countries in which its business is conducted (cross-border regulations) and to regulatory supervision by various government agencies in the countries in which the Bank's overseas offices operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

For details regarding the investigation of the Bank Group's business with American customers, see Note 10D to the Condensed Financial Statements.

For details regarding the investigation of the Bank in connection with senior officials of the Fédération Internationale de Football Association (FIFA), see Note 10E to the Condensed Financial Statements.

Main international banking units

New York branch

Most of the Bank Group's international business banking is conducted through the New York branch.

The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity. The Bank has representative offices in Los Angeles (one office, currently in the process of closing); New Jersey; Miami; and Toronto, Canada (currently in the process of closing).

Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means.

In April 2018, the Bank signed an agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A. for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg.

Most of the customer assets in Switzerland and Luxembourg were transferred to the buyer in November 2018, in accordance with the agreement.

In June 2019, Hapoalim Switzerland signed an agreement with Hyposwiss Private Bank Geneva SA for the transfer of most of the remaining global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. The transfer is planned to take place in several increments over the coming eighteen months. During the course of September and October 2019, in the first increment of the transfer, a substantial part of the remaining accounts at the Zurich and Luxembourg branches were transferred to Hyposwiss Private Bank Geneva SA.

In accordance with the trajectory of the process required in order for the company to be removed from the supervisory authority of FINMA, the incorporation documents of the limited liability company were amended such that, among other matters, as of April 2019, the word "bank" has been removed from the company names of Hapoalim Switzerland and its Luxembourg branch.

Banque Hapoalim (Luxembourg) S.A. (Banque Hapoalim Luxembourg)

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to corporations with an affinity to Israel operating in Europe. In June 2019, as part of the process of strengthening control over overseas activities, the Board of Directors of the Bank resolved to act to close Banque Hapoalim Luxembourg, by transferring its existing credit portfolio to Israel or settling its balance, and to continue the financing activity in certain countries in Europe directly through the Bank in Israel.

Activity of the Bank in Turkey

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking.

The Bank's stake in Bank Pozitif stands at 69.8%. For further details, see Section 2.6 in the Report of the Board of Directors and Board of Management.

In view of the economic and political situation in Turkey, a decision was made within the strategic plan of the Bank to act to gradually reduce the credit portfolio of Bank Pozitif. The minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. In this context, note that in January 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see the section "Capital and capital adequacy," above.

The Bank has stepped up its activities towards selling its full holdings in Bank Pozitif, and, as part of this process, in October 2019, engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. Taking all of the foregoing into consideration, the Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year, at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 63 million.

Global Private Banking Center in Tel Aviv

Provides foreign residents with private-banking services and products. In the third quarter of 2019, the decision was made to discontinue securities activity for customers who are foreign residents, and to transfer the customers of the Center to a branch of the Retail Banking Area during the first quarter of 2020.

Table 6-6: Results of operations and principal data of the International Activity Segment

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018	**2019**	2018
	NIS millions			
Total net interest income	**123**	122	**357**	345
Non-interest financing income	**(5)**	(32)	**(4)**	(23)
Total net financing profit	**118**	90	**353**	322
Fees and other income	**23**	27	**57**	85
Total income	**141**	117	**410**	407
Provision for credit losses	**16**	33	**34**	53
Total operating and other expenses	**161**	287	**587**	802
Loss from continued operations before taxes	**(36)**	(203)	**(211)**	(448)
Provision for taxes (tax benefit) on profit (loss) from continued operations	**29**	(3)	**44**	5
Net profit (loss):				
Before attribution to non-controlling interests	**(65)**	(200)	**(255)**	(453)
Attributed to non-controlling interests	**3**	15	**10**	33
Net loss attributed to shareholders of the Bank	**(62)**	(185)	**(245)**	(420)
Net credit to the public at the end of the reported period	**12,690**	13,837	**12,690**	13,837
Deposits from the public at the end of the reported period	**15,910**	22,149	**15,910**	22,149

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 245 million in the first nine months of 2019, compared with NIS 420 million in the same period last year. The decrease in loss mainly resulted from a provision in connection with the investigation of the Bank Group's business with American customers at Hapoalim Switzerland and expenses for exchange-rate differences due to revaluation of the aforesaid provision recorded in the same period last year, versus income from exchange-rate differences due to revaluation of the aforesaid provision recorded this year. In addition, profits of business activity in the United States increased. The decrease in loss was partly offset by impairment in the amount of approximately NIS 63 million recorded in respect of the Bank's investment in Pozitif.

The principal changes in the results of international activity are set out below:

- Net profit of the New York branch totaled approximately NIS 82 million in the first nine months of 2019, compared with net profit in the amount of NIS 63 million in the same period last year. The increase mainly resulted from middle-market activity, due to an increase in net interest income, as a result of an increase in average credit balances and in financial spreads, partly offset by an increase in the provision for credit losses.

- The loss of Hapoalim Switzerland totaled approximately NIS 222 million in the first nine months of 2019, compared with a loss in the amount of approximately NIS 396 million in the same period last year. The decrease in loss mainly resulted from a provision recorded in connection with the investigation of the Bank Group's business with American customers in the same period last year, and from income recorded from exchange-rate differences due to revaluation of the aforesaid provision in the nine months ended September 30, 2019. This decrease was partly offset by a loss recorded from the sale of the customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg in the second quarter of 2019.
- The loss attributed to shareholders of the Bank in respect of the Bank Pozitif Group totaled approximately NIS 84 million in the first nine months of 2019, compared with approximately NIS 75 million in the same period last year. The increase in loss mainly resulted from impairment in the amount of approximately NIS 63 million recorded in respect of the Bank’s investment in Bank Pozitif, in view of the Bank’s expectation of selling the investment in the coming year, at a price lower than its value in the Bank's books. The increase in loss was partly offset by a significant allowance for credit losses recorded in the same period last year.

Total credit to the public in international activity amounted to approximately NIS 12.6 billion as at September 30, 2019, compared with approximately NIS 14.1 billion as at December 31, 2018.

- Credit to the public at the New York branch totaled approximately NIS 11.9 billion as at September 30, 2019, compared with approximately NIS 13.1 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 10.7 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.7 billion as at December 31, 2018, of which a total of approximately NIS 5.0 billion in respect of syndication transactions.
- Credit to the public at Hapoalim Switzerland totaled approximately NIS 0.1 billion as at September 30, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018. The decrease resulted from the continued reduction of activity of Hapoalim Switzerland. In this context, note that the first phase of the agreement to transfer the remaining global private banking customer asset portfolio of Hapoalim Switzerland to Hyposwiss Private Bank Geneva SA was completed on September 20, 2019.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at September 30, 2019, compared with approximately NIS 0.5 billion as at December 31, 2018.

Total deposits from the public in international activity amounted to approximately NIS 15.9 billion as at September 30, 2019, compared with approximately NIS 19.0 billion as at December 31, 2018.

- The balance of deposits from the public at the New York branch totaled approximately NIS 15.8 billion as at September 30, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 7.4 billion, compared with approximately NIS 6.8 billion as at December 31, 2018. The balance of brokered CD deposits from the public totaled approximately NIS 8.4 billion, compared with approximately NIS 11.3 billion as at December 31, 2018.
- The balance of deposits from the public at Hapoalim Switzerland totaled approximately NIS 0.1 billion as at September 30, 2019, compared with approximately NIS 1.0 billion as at December 31, 2018. The decrease mainly resulted from the continued reduction of activity of Hapoalim Switzerland, as noted above.

6.1.7. Financial Management Segment

General information and structure

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see the section "Review of risks" in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices (see below), investment portfolio management, issuance of bonds and notes, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of government and corporate bonds and the portfolio of shares, and for coordination of activity at the level of the Group.
- Activity in the trading books – Market making and trading activity in the dealing rooms in the areas of foreign currency, interest rates, and OTC derivatives.
- Activity with customers – Mainly includes the provision of services to the Bank's customers for the execution of transactions in Israeli and foreign securities, financial instruments in Israeli shekels, foreign currency, and interest rates, through the dealing rooms, as well as support for the development and pricing of sophisticated financial products, custody services, tradable and non-tradable derivatives, and operational services for mutual funds.

Further to the decision of the Bank to discontinue the activity of providing operational services for provident and study funds to management companies, as noted in Section 7.5.7 of the Corporate Governance Report for 2018, the discontinuation of this activity was completed in the third quarter of 2019.

Table 6-7: Management approach activity segments – results of operations and principal data of the Financial Management Segment[1]

	For the three months ended September 30		For the nine months ended September 30	
	2019	2018*	**2019**	2018*
	NIS millions			
Total net interest income	**200**	227	**817**	732
Non-interest financing income	**41**	400	**221**	871
Total net financing profit	**241**	627	**1,038**	1,603
Fees and other income	**31**	30	**104**	117
Total income	**272**	657	**1,142**	1,720
Provision (income) for credit losses	**(2)**	-	**2**	(2)
Total operating and other expenses	**109**	123	**314**	365
Profit from continued operations before taxes	**165**	534	**826**	1,357
Provision for taxes on profit from continued operations	**91**	173	**299**	454
Profit from continued operations after taxes	**74**	361	**527**	903
The Bank's share in profits of equity-basis investees, after taxes	**3**	-	**7**	8
Net profit (loss):				
Before attribution to non-controlling interests	**77**	361	**534**	911
Attributed to non-controlling interests	**-**	6	**4**	7
Net profit attributed to shareholders of the Bank	**77**	367	**538**	918
Net credit to the public at the end of the reported period	**2,044**	514	**2,044**	514
Deposits from the public at the end of the reported period	**29,066**	38,929	**29,066**	38,929

* Some of the data were reclassified in order to properly reflect changes.
(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 538 million in the first nine months of 2019, compared with NIS 918 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit of the segment totaled NIS 1,038 million in the first nine months of 2019, compared with NIS 1,603 million in the same period last year. The decrease mainly resulted from a loss in the amount of NIS 310 million, compared with profit in the amount of NIS 99 million in the same period last year, due to a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, mainly as a result of a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items and a decrease in income from linkage differentials, as a result of changes in the rate of increase of the known CPI between the periods. By contrast, profit from investment in securities increased.

Net credit to the public totaled approximately NIS 2.0 billion as at September 30, 2019, compared with approximately NIS 0.8 billion as at December 31, 2018.
Deposits from the public totaled approximately NIS 29.1 billion as at September 30, 2019, compared with approximately NIS 34.3 billion as at December 31, 2018.

6.1.8. Adjustments

This section includes activities of the Bank Group with negligible volumes, each of which does not form a reportable segment. This includes, among other things: (1) the results of the subsidiaries Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities.
The segment also includes the activity of the Isracard Group, which is classified as a "discontinued operation" beginning with the financial statements for the second quarter of 2018. For details regarding the activity of the Isracard Group, see the Corporate Governance section of the Annual Report for 2018.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Other Segment totaled NIS 189 million in the first nine months of 2019, compared with net profit in the amount of NIS 227 million in the same period last year.
The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 69 million in the first nine months of 2019, compared with a loss in the amount of NIS 52 million in the same period last year. The increase in loss mainly resulted from an increase in legal expenses in connection with the investigation of the Bank Group's business with American customers, offset by an increase in income from exchange-rate differences, due to revaluation of the provision for the investigation.
In addition, the Other Segment includes net profit attributed to a discontinued operation, which totaled NIS 258 million in the first nine months of 2019, compared with NIS 279 million in the same period last year.
The profit from a discontinued operation in the first nine months of 2019 includes net profit in the amount of approximately NIS 137 million in respect of the sale of the investment in Isracard. In addition, the results of the discontinued operation include the Bank's share in the profits of Isracard (33%) in the second and third quarters of 2019; until the end of the first quarter of 2019, profit from a discontinued operation included the share of the Bank (98.2%) in the profits of the Isracard Group.
The balances of credit to the public included in this segment in the comparative periods include the activity of the Isracard Group, which constitutes a discontinued operation.

6.2. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 6-8: Ratings

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating					
	Moody's	A1		Positive	April 2019
	S&P	AA-	A-1+	Stable	August 2019
	Fitch Ratings	A+	F1+	Stable	March 2019
Bank Hapoalim					
	Moody's	A2	P-1	Stable	September 2019
	S&P	A	A-1	Stable	November 2019
	Fitch Ratings	A	F1+	Stable	July 2019

	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	AAA		Stable	November 2019
	Midroog	Aaa	P-1	Stable	December 2018

In June 2019, S&P Maalot affirmed a rating of AA for subordinated notes of the Bank with a loss-absorption mechanism (CoCo), which are recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Stable outlook for these notes.

6.3. Social involvement and contribution to the community; social responsibility

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives.

This involvement, implemented through "Poalim for the Community," is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. In the third quarter of 2019, Poalim for the Community focused on projects in the areas of accessibility, employability, and education, aimed at children, adolescents, and specific population groups, with special emphasis on teaching astute financial behavior.

The community engagement of Poalim for the Community in the first nine months of 2019 was expressed in a cumulative financial expenditure of approximately NIS 28 million.

For further details regarding the activity of the Bank Group in the area of social involvement, contribution to the community, and social responsibility, see Section 7.8 of the Report on Corporate Governance and Additional Information in the Annual Periodic Report of the Bank for 2018.

7. Appendices

7.1. Material developments in income and expenses by quarter

Table 7-1: Quarterly developments in total net financing profit

	2019			2018			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Interest income	**2,593**	3,730	2,825	2,975	2,895	3,274	2,528
Interest expenses	**(310)**	(1,264)	(548)	(685)	(667)	(972)	(442)
Net interest income	**2,283**	2,466	2,277	2,290	2,228	2,302	2,086
Non-interest financing income	**58**	166	89	450	406	361	228
Total reported financing profit	**2,341**	2,632	2,366	2,740	2,634	2,663	2,314
Excluding effects not from regular activity:							
Income (expenses) from realization and adjustments to fair value of bonds	**169**	76	(23)	73	9	30	68
Profit from investments in shares	**12**	95	155	160	167	27	49
Loss from impairment of shares of affiliates	**(63)**	-	-	-	-	-	-
Gains (losses) in respect of loans sold	**-**	1	-	(2)	-	40	18
Adjustments to fair value of derivative instruments(1)	**(136)**	(77)	(97)	(35)	96	41	(38)
Financing income (expenses) from tax hedging of investments overseas(2)	**(28)**	(35)	(65)	17	6	55	(5)
Total income from regular financing activity(3)	**2,387**	2,572	2,396	2,527	2,356	2,470	2,222

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.

(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which, in respect of the effects of changes in the CPI: an expense of NIS 76 million in the third quarter of 2019; income of NIS 158 million in the second quarter of 2019; an expense of NIS 33 million in the first quarter of 2019; income of NIS 5 million in the fourth quarter of 2018; income of NIS 19 million in the third quarter of 2018; income of NIS 138 million in the second quarter of 2018; and an expense of NIS 34 million in the first quarter of 2018.

Table 7-2: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**

	2019			2018			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Individual provision for credit losses	**155**	268	230	293	167	222	153
Decrease in individual allowance for credit losses and recovery of charged off debts	**(306)**	(254)	(200)	(217)	(289)	(228)	(256)
Net individual provision (income) for credit losses	**(151)**	14	30	76	(122)	(6)	(103)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**111**	305	91	113	240	96	319
Total provision (income) for credit losses*	**(40)**	319	121	189	118	90	216
* Of which:							
Net provision (income) for credit losses in respect of commercial credit risk	**(103)**	256	51	81	(37)	(17)	87
Net provision for credit losses in respect of housing credit risk	**7**	8	3	9	20	6	5
Net provision for credit losses in respect of other private credit risk	**59**	54	65	95	135	103	124
Net provision (income) for credit losses in respect of risk of credit to banks and governments	**(3)**	1	2	4	-	(2)	-
Total provision (income) for credit losses	**(40)**	319	121	189	118	90	216
Provision as a percentage of total credit to the public***:							
Percentage of individual provision (income) for credit losses	**0.21%**	0.37%	0.32%	0.41%	0.24%	0.32%	(0.22%)
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	**0.36%**	0.79%	0.45%	0.57%	0.59%	0.46%	0.69%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.05%)**	0.44%	0.17%	0.27%	0.17%	0.13%	0.32%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.01%**	0.13%	0.17%	0.28%	0.15%	0.25%	0.11%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**0.50%**	9.47%	12.86%	21.29%	10.94%	18.32%	8.18%

** Including in respect of housing loans examined according to the extent of arrears.
*** Annualized.
**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.

Table 7-3: Details of fees and other income, by quarter

	2019			2018			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Fees							
Account management fees	**222**	212	218	231	230	227	232
Securities activity	**173**	174	174	196	174	182	189
Credit cards, net	**85**	88	63	64	81	70	67
Credit handling	**46**	46	54	45	47	76	55
Financing transaction fees	***122**	119	116	114	*115	*111	*110
Other fees	**167**	165	160	176	175	178	173
Total fees	***815**	804	785	826	*822	*844	*826
Other income	**11**	29	18	45	13	25	22
Total fee income and other income	***826**	833	803	871	*835	*869	*848

* Reclassified.

Table 7-4: Details of operating and other expenses, by quarter

	2019			2018			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Salary expenses							
Wages	**880**	889	941	938	890	952	960
Bonuses and share-based compensation	**130**	129	102	33	130	110	84
Total wages	**1,010**	1,018	1,043	971	1,020	1,062	1,044
Maintenance and depreciation of buildings and equipment	**351**	324	314	349	341	343	343
Others(1)(2)(3)	**609**	650	520	1,657	623	629	578
Total	**1,970**	1,992	1,877	2,977	1,984	2,034	1,965

(1) Includes expenses for the closure of private-banking activity in Switzerland, in the amount of NIS 76 million in the second quarter of 2019 and in the amount of NIS 30 million in the third quarter of 2018.
(2) In the third quarter of 2019, includes an expense in the amount of NIS 100 million in respect of legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (a total of NIS 111 million in the second quarter of 2019, a total of NIS 123 million in the first quarter of 2019, a total of NIS 194 million in the fourth quarter of 2018, a total of NIS 142 million in the third quarter of 2018, a total of NIS 103 million in the second quarter of 2018, and a total of NIS 87 million in the first quarter of 2018).
(3) In the third quarter of 2019, includes income in the amount of NIS 51 million in respect of expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (income in the amount of NIS 41 million in the second quarter of 2019, income in the amount of NIS 71 million in the first quarter of 2019, an expense in the amount of NIS 952 million in the fourth quarter of 2018, income in the amount of NIS 14 million in the third quarter of 2018, an expense in the amount of NIS 50 million in the second quarter of 2018, and an expense in the amount of NIS 61 million in the first quarter of 2018).

7.2. Rates of interest income and expenses

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses(1)

	For the three months ended September 30					
	2019			2018*		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates						
Interest-bearing assets						
Credit to the public(3):						
In Israel	**264,995**	**2,080**	**3.18%**	259,274	2,488	3.89%
Outside Israel	**15,536**	**213**	**5.60%**	15,307	203	5.41%
Total	**280,531**	**(5)2,293**	**3.31%**	274,581	(5)2,691	3.98%
Credit to governments:						
In Israel	**2,073**	**15**	**2.93%**	2,262	17	3.04%
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**2,073**	**15**	**2.93%**	2,262	17	3.04%
Deposits with banks:						
In Israel	**7,977**	**40**	**2.02%**	3,005	17	2.28%
Outside Israel	**156**	**(5)**	**(12.22%)**	326	(1)	(1.22%)
Total	**8,133**	**35**	**1.73%**	3,331	16	1.94%
Deposits with central banks:						
In Israel	**38,975**	**25**	**0.26%**	51,965	13	0.10%
Outside Israel	**9,472**	**58**	**2.47%**	8,187	41	2.02%
Total	**48,447**	**83**	**0.69%**	60,152	54	0.36%
Securities borrowed or purchased under agreements to resell:						
In Israel	**508**	**-**	**-**	829	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**508**	**-**	**-**	829	-	-
Bonds held to maturity and available for sale(4):						
In Israel	**55,757**	**150**	**1.08%**	46,323	161	1.40%
Outside Israel	**2,991**	**20**	**2.70%**	4,723	30	2.57%
Total	**58,748**	**170**	**1.16%**	51,046	191	1.51%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 263 million for the three months ended September 30, 2019 (September 30, 2018: NIS (134) million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(5) Fees in the amount of NIS 134 million were included in interest income in the three-month period ended September 30, 2019 (September 30, 2018: NIS 135 million).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended September 30					
	2019			2018*		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing assets (continued)						
Bonds held for trading[3]:						
In Israel	**7,341**	**(3)**	**(0.16%)**	5,863	6	0.41%
Outside Israel	**10**	**-**	**-**	71	1	5.75%
Total	**7,351**	**(3)**	**(0.16%)**	5,934	7	0.47%
Other assets:						
In Israel	**1,880**	**-**	**-**	689	-	-
Outside Israel	**1**	**-**	**-**	-	-	-
Total	**1,881**	**-**	**-**	689	-	-
Total interest-bearing assets	**407,672**	**2,593**	**2.57%**	398,824	2,976	3.02%
Non-interest-bearing debtors in respect of credit cards	**6,623**	**-**	**-**	16,564	-	-
Other non-interest-bearing assets[4]	**37,006**	**-**	**-**	38,135	-	-
Total assets	**451,301**	**-**	**-**	453,523	-	-
Total interest-bearing assets attributed to activities outside Israel	**28,166**	**286**	**4.12%**	28,614	274	3.89%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 263 million for the three months ended September 30, 2019 (September 30, 2018: NIS (134) million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[(1)] (continued)

	For the three months ended September 30					
	2019			2018*		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**192,126**	**239**	**0.50%**	193,737	318	0.66%
On demand	**83,519**	**45**	**0.22%**	86,552	17	0.08%
Fixed term	**108,607**	**194**	**0.72%**	107,185	301	1.13%
Outside Israel	**15,101**	**88**	**2.35%**	15,590	81	2.09%
On demand	**4,016**	**22**	**2.21%**	3,762	16	1.71%
Fixed term	**11,085**	**66**	**2.40%**	11,828	65	2.22%
Total	**207,227**	**327**	**0.63%**	209,327	399	0.76%
Deposits from the government:						
In Israel	**243**	**2**	**3.33%**	165	2	4.94%
Outside Israel	**-**	**-**		-	-	-
Total	**243**	**2**	**3.33%**	165	2	4.94%
Deposits from central banks:						
In Israel	**-**	**-**	-	-	-	-
Outside Israel	**100**	**-**	**-**	556	4	2.91%
Total	**100**	**-**	**-**	556	4	-
Deposits from banks:						
In Israel	**827**	**1**	**0.48%**	4,125	-	-
Outside Israel	**219**	**3**	**5.59%**	228	8	14.79%
Total	**1,046**	**4**	**1.54%**	4,353	8	0.74%
Securities lent or sold under agreements to repurchase:						
In Israel	-	**-**	-	-	-	-
Outside Israel	**11**	**1**	**41.63%**	43	1	9.63%
Total	**11**	**1**	**41.63%**	43	1	9.63%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[(1)] (continued)

	For the three months ended September 30					
	2019			2018*		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities (continued)						
Bonds:						
In Israel	**29,665**	**(31)**	**(0.42%)**	29,365	241	3.32%
Outside Israel	**222**	**8**	**15.21%**	506	10	8.14%
Total	**29,887**	**(23)**	**(0.31%)**	29,871	251	3.40%
Other liabilities:						
In Israel	**222**	**(2)**	**(3.56%)**	1,013	3	1.19%
Outside Israel	**3**	**1**	**216.05%**	5	-	-
Total	**225**	**(1)**	**(1.77%)**	1,018	3	1.18%
Total interest-bearing liabilities	**238,739**	**310**	**0.52%**	245,333	668	1.09%
Non-interest-bearing deposits from the public	**141,562**	**-**	**-**	134,100	-	-
Non-interest-bearing creditors in respect of credit cards	**9,644**	**-**	**-**	15,151	-	-
Other non-interest-bearing liabilities[(3)]	**21,908**	**-**	**-**	21,514	-	-
Total liabilities	**411,853**	**-**	**-**	416,098	-	-
Total capital means	**39,448**	**-**	**-**	37,425	-	-
Total liabilities and capital means	**451,301**	**-**	**-**	453,523	-	-
Interest spread	**-**	**-**	**2.05%**	-	-	1.93%
Net return on interest-bearing assets[(4)]						
In Israel	**379,506**	**2,098**	**2.23%**	370,210	2,138	2.33%
Outside Israel	**28,166**	**185**	**2.65%**	28,614	170	2.40%
Total	**407,672**	**2,283**	**2.26%**	398,824	2,308	2.33%
Total interest-bearing liabilities attributed to activities outside Israel	**15,656**	**101**	**2.61%**	16,928	104	2.48%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the nine months ended September 30*					
	2019			2018		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing assets						
Credit to the public[3]:						
In Israel	**264,671**	**7,460**	**3.78%**	256,004	7,543	3.95%
Outside Israel	**16,336**	**666**	**5.47%**	14,843	560	5.06%
Total	**281,007**	**[4]8,126**	**3.87%**	270,847	[4]8,103	4.01%
Credit to governments:						
In Israel	**2,163**	**51**	**3.16%**	2,458	50	2.72%
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**2,163**	**51**	**3.16%**	2,458	50	2.72%
Deposits with banks:						
In Israel	**6,233**	**115**	**2.47%**	4,479	78	2.33%
Outside Israel	**226**	**(13)**	**(7.60%)**	360	(4)	(1.48%)
Total	**6,459**	**102**	**2.11%**	4,839	74	2.04%
Deposits with central banks:						
In Israel	**42,189**	**80**	**0.25%**	47,559	36	0.10%
Outside Israel	**10,582**	**196**	**2.48%**	9,311	118	1.69%
Total	**52,771**	**276**	**0.70%**	56,870	154	0.36%
Securities borrowed or purchased under agreements to resell:						
In Israel	**614**	**-**	**-**	697	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**614**	**-**	**-**	697	-	-

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) Fees in the amount of NIS 388 million were included in interest income in the period ended September 30, 2019 (September 30, 2018: NIS 393 million).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[(1)] (continued)

	For the nine months ended September 30*					
	2019			2018		
	Average balance[(2)]	Interest income	Rate of income	Average balance[(2)]	Interest income	Rate of income
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing assets (continued)						
Bonds held to maturity and available for sale[(3)]:						
In Israel	**55,853**	**583**	**1.39%**	47,725	428	1.20%
Outside Israel	**3,233**	**71**	**2.94%**	4,827	86	2.38%
Total	**59,086**	**654**	**1.48%**	52,552	514	1.31%
Bonds held for trading[(3)]:						
In Israel	**6,123**	**29**	**0.63%**	7,875	31	0.53%
Outside Israel	**20**	**-**	**-**	71	2	3.77%
Total	**6,143**	**29**	**0.63%**	7,946	33	0.55%
Other assets:						
In Israel	**1,626**	**-**	**-**	559	-	-
Outside Israel	**1**	**-**	**-**	-	-	-
Total	**1,627**	**-**	**-**	559	-	-
Total interest-bearing assets	**409,870**	**9,238**	**3.02%**	396,768	8,928	3.01%
Non-interest-bearing debtors in respect of credit cards	**9,943**	**-**	**-**	15,710	-	-
Other non-interest-bearing assets[(4)]	**36,058**	**-**	**-**	39,553	-	-
Total assets	**455,871**	**-**	**-**	452,031	-	-
Total interest-bearing assets attributed to activities outside Israel	**30,398**	**920**	**4.06%**	29,412	762	3.47%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 115 million for the nine months ended September 30, 2019 (September 30, 2018: NIS (38) million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.
(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the nine months ended September 30*					
	2019			2018		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**195,438**	**1,115**	**0.76%**	196,561	963	0.65%
On demand	**87,939**	**169**	**0.26%**	85,922	64	0.10%
Fixed term	**107,499**	**946**	**1.18%**	110,639	899	1.08%
Outside Israel	**16,039**	**291**	**2.43%**	14,904	211	1.89%
On demand	**3,840**	**63**	**2.19%**	3,898	44	1.51%
Fixed term	**12,199**	**228**	**2.50%**	11,006	167	2.03%
Total	**211,477**	**1,406**	**0.89%**	211,465	1,174	0.74%
Deposits from the government:						
In Israel	**201**	**5**	**3.33%**	195	5	3.43%
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**201**	**5**	**3.33%**	195	5	3.43%
Deposits from central banks:						
In Israel	**-**	**-**	**-**	-	-	-
Outside Israel	**428**	**7**	**2.19%**	298	5	2.24%
Total	**428**	**7**	**2.19%**	298	5	2.24%
Deposits from banks:						
In Israel	**2,299**	**4**	**0.23%**	3,525	6	0.23%
Outside Israel	**243**	**10**	**5.52%**	282	18	8.60%
Total	**2,542**	**14**	**0.74%**	3,807	24	0.84%
Securities lent or sold under agreements to repurchase:						
In Israel	**-**	**-**	**-**	-	-	-
Outside Israel	**9**	**1**	**-**	99	-	-
Total	**9**	**1**	**-**	99	-	-

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the nine months ended September 30*					
	2019			2018		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)						
Interest-bearing liabilities (continued)						
Bonds:						
In Israel	**29,439**	**673**	**3.06%**	27,967	838	4.02%
Outside Israel	**284**	**14**	**6.63%**	638	29	6.11%
Total	**29,723**	**687**	**3.09%**	28,605	867	4.06%
Other liabilities:						
In Israel	**620**	**3**	**0.65%**	933	9	1.29%
Outside Israel	**5**	**1**	**-**	3	-	-
Total	**625**	**4**	**0.85%**	936	9	1.28%
Total interest-bearing liabilities	**245,005**	**2,124**	**1.16%**	245,405	2,084	1.13%
Non-interest-bearing deposits from the public	**139,652**	**-**	**-**	132,208	-	-
Non-interest-bearing creditors in respect of credit cards	**10,378**	**-**	**-**	14,701	-	-
Other non-interest-bearing liabilities[3]	**22,074**	**-**	**-**	23,044	-	-
Total liabilities	**417,109**	**-**	**-**	415,358	-	-
Total capital means	**38,762**	**-**	**-**	36,673	-	-
Total liabilities and capital means	**455,871**	**-**	**-**	452,031	-	-
Interest spread	**-**	**-**	**1.86%**	-	-	1.88%
Net return on interest-bearing assets[4]						
In Israel	**379,472**	**6,518**	**2.30%**	367,356	6,345	2.31%
Outside Israel	**30,398**	**596**	**2.62%**	29,412	499	2.27%
Total	**409,870**	**7,114**	**2.32%**	396,768	6,844	2.31%
Total interest-bearing liabilities attributed to activities outside Israel	**17,008**	**324**	**2.55%**	16,224	263	2.17%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Includes derivative instruments.
(4) Net return – net interest income divided by total interest-bearing assets.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended September 30					
	2019			2018*		
	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel						
Israeli currency unlinked						
Total interest-bearing assets	**283,373**	**2,011**	**2.87%**	284,194	1,972	2.80%
Total interest-bearing liabilities	**142,708**	**(115)**	**(0.32%)**	148,623	(110)	(0.30%)
Interest spread	**-**	**-**	**2.55%**	-	-	2.50%
Israeli currency CPI-linked						
Total interest-bearing assets	**52,138**	**9**	**0.07%**	47,889	453	3.84%
Total interest-bearing liabilities	**40,929**	**81**	**0.79%**	41,403	(294)	(2.87%)
Interest spread	**-**	**-**	**0.86%**	-	-	0.97%
Foreign currency (includes Israeli currency linked to foreign currency)						
Total interest-bearing assets	**43,995**	**287**	**2.64%**	38,127	277	2.94%
Total interest-bearing liabilities	**39,446**	**(175)**	**(1.79%)**	38,379	(160)	(1.68%)
Interest spread	**-**	**-**	**0.85%**	-	-	1.26%
Total activity in Israel						
Total interest-bearing assets	**379,506**	**2,307**	**2.45%**	370,210	2,702	2.95%
Total interest-bearing liabilities	**223,083**	**(209)**	**(0.38%)**	228,405	(564)	(0.99%)
Interest spread	**-**	**-**	**2.07%**	-	-	1.96%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the nine months ended September 30*					
	2019			2018*		
	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel (continued)						
Israeli currency unlinked						
Total interest-bearing assets	**283,893**	**6,068**	**2.86%**	281,858	5,829	2.77%
Total interest-bearing liabilities	**146,816**	**(413)**	**(0.38%)**	151,291	(356)	(0.31%)
Interest spread	**-**	**-**	**2.48%**	-	-	2.46%
Israeli currency CPI-linked						
Total interest-bearing assets	**50,932**	**1,321**	**3.47%**	47,033	1,549	4.42%
Total interest-bearing liabilities	**40,989**	**(810)**	**(2.64%)**	39,913	(1,043)	(3.50%)
Interest spread	**-**	**-**	**0.83%**	-	-	0.92%
Foreign currency (includes Israeli currency linked to foreign currency)						
Total interest-bearing assets	**44,647**	**929**	**2.78%**	38,465	788	2.74%
Total interest-bearing liabilities	**40,192**	**(577)**	**(1.92%)**	37,977	(422)	(1.48%)
Interest spread	**-**	**-**	**0.86%**	-	-	1.26%
Total activity in Israel						
Total interest-bearing assets	**379,472**	**8,318**	**2.93%**	367,356	8,166	2.97%
Total interest-bearing liabilities	**227,997**	**(1,800)**	**(1.05%)**	229,181	(1,821)	(1.06%)
Interest spread	**-**	**-**	**1.88%**	-	-	1.91%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses[1] (continued)

	For the three months ended September 30, 2019, vs. the three months ended September 30, 2018			For the nine months ended September 30, 2019, vs. the nine months ended September 30, 2018*		
	Increase (decrease) due to change[2]		Net change	Increase (decrease) due to change[2]		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
C. Analysis of changes in interest income and expenses						
Interest-bearing assets						
Credit to the public:						
In Israel	**45**	**(453)**	**(408)**	**244**	**(327)**	**(83)**
Outside Israel	**3**	**7**	**10**	**61**	**45**	**106**
Total	**48**	**(446)**	**(398)**	**305**	**(282)**	**23**
Other interest-bearing assets:						
In Israel	**7**	**6**	**13**	**26**	**209**	**235**
Outside Israel	**(4)**	**6**	**2**	**(9)**	**61**	**52**
Total	**3**	**12**	**15**	**17**	**270**	**287**
Total interest income	**51**	**(434)**	**(383)**	**322**	**(12)**	**310**
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**(2)**	**(77)**	**(79)**	**(6)**	**158**	**152**
Outside Israel	**(3)**	**10**	**7**	**21**	**59**	**80**
Total	**(5)**	**(67)**	**(72)**	**15**	**217**	**232**
Other interest-bearing liabilities:						
In Israel	**4**	**(280)**	**(276)**	**(1)**	**(172)**	**(173)**
Outside Israel	**(18)**	**8**	**(10)**	**(12)**	**(7)**	**(19)**
Total	**(14)**	**(272)**	**(286)**	**(13)**	**(179)**	**(192)**
Total interest expenses	**(19)**	**(339)**	**(358)**	**2**	**38**	**40**
Total interest income less interest expenses	**70**	**(95)**	**(25)**	**320**	**(50)**	**270**

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Auxiliary corporation

A corporation that is not a banking corporation in its own right, and which engages only in an area of activity permitted to the banking corporation that controls it, excluding occupations permitted exclusively to banking corporations by law.

B2B

Business to business - A business activity in which a product is sold or a service is provided by an organization to another organization.

B2C

Business to consumer - A business activity in which a product is sold or a service is provided to an end consumer.

Basel

Basel 2/Basel 3 - Risk-management regulations for banks, established by the Basel Committee, which is engaged in supervision and setting standards for supervision of banks worldwide.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

BOT

Build Operate Transfer - A financing arrangement for public projects, in which a private entity receives a franchise from a public entity to finance, plan, build, and operate a public facility for a limited period, at the completion of which the ownership of the project is transferred to the government.

Business continuity management

An organization-wide approach encompassing policy guidelines, standards, and procedures aimed at protecting the Bank's existence as an active, robust financial entity and its ability to continue to provide optimal service to its customers even during emergencies and significant operational disruptions.

CPI

Consumer price index - An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family.

CVA

Credit valuation adjustment - Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Discontinued operation

Pursuant to United States standards, a discontinued operation is defined as a component of an entity (or a group of components) that fulfills the following two criteria:

1. The component fulfills the criteria of "held for sale."

2. It constitutes (a) a strategic change; and (b) it has, or will have, a material effect on the activity and financial results of the entity.

Dodd-Frank Act

Federal regulations passed by the United States Congress in 2010 with the aim of increasing stability, transparency, and efficiency in the US financial system, particularly in the market for OTC derivatives. Government agencies have been established in accordance with these regulations in order to supervise, enforce, and monitor the performance of large financial entities.

Dormant shares

Shares held directly by the company itself.These shares are denied rights to capital or voting in the company.

Duration

Weighted average term to maturity of the principal and interest payments on a bond.

Emergency

A period in which the economy is operated in emergency mode, in accordance with a government resolution, the declaration of a special situation on the home front, or declaration of a state of emergency by the Supervisor.

EMIR

European Market Infrastructure Regulation - Regulation adopted by the European Union in 2012 in order to increase stability, transparency, and efficiency in derivatives markets in the European Union, particularly in the market for OTC derivatives.

FATCA

Foreign Accounts Tax Compliance Act - An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC

Federal Deposit Insurance Corporation - The Federal Deposit Insurance Corporation in the United States.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

GRI

Global Reporting Initiative - An international standard for reporting on sustainability and corporate social responsibility.

ICAAP

Internal Capital Adequacy Assessment Process - An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations.The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

LDC

Less developed country - A country classified by the World Bank as having low or medium revenue.

LTV

Loan to value ratio - The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

Middle market

Commercial activity conducted with mid-sized businesses, usually in the United States.

MTM

Mark to market - Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL

Non-performing loan - Impaired credit not accruing interest income.

Obligo

Total liabilities of the customer to the Bank.

Off-balance sheet credit

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

Option

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

OTC derivative

Over-the-counter derivative - A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists wherein its value can be determined.

Phantom shares

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

Securitization

Non-bank capital raising by a financial entity through special bonds, performed through the acquisition of expected cash flows aggregated via pooling and converted into issuable securities.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Supervisory capital

Supervisory capital comprises two tiers:Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

VaR

Value at risk - A commonly used statistical model for the quantification of market risks.The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance level.

Volcker Rule

The Volcker Rule is American legislation applicable to certain banking corporations, which imposes prohibitions and restrictions related to proprietary trading and investment activity and/or sponsorship of covered funds, as defi