

Bank Hapoalim

Condensed Quarterly Financial Statements
as at March 31, 2019



Q1

Contents

A. Report of the Board of Directors and Board of Management	5
1. General review, objectives, and strategy	11
2. Explanation and analysis of results and business position	18
3. Review of risks	59
4. Critical accounting policies and estimates; controls and procedures	87
B. Declarations of Internal Control Over Financial Reporting	89
C. Condensed Financial Statements as at March 31, 2019	93
Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.	97
Notes to the Financial Statements	107
D. Corporate Governance, Additional Information, and Appendices	239
5. Corporate governance	243
6. Additional information regarding the business of the corporation and the management thereof	245
7. Appendices	268
Glossary	277
Index	281

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In case of any discrepancy, the Hebrew version will prevail.

Bank Hapoalim

Report of the Board of Directors
and Board of Management
as at March 31, 2019



Q1

Report of the Board of Directors and Board of Management

as at March 31, 2019

Contents

1. General review, objectives, and strategy	11
1.1. Forward-looking information	11
1.2. Condensed financial information	12
1.3. Condensed description of the principal risks to which the Bank is exposed	15
1.4. Objectives and business strategy	15
2. Explanation and analysis of results and business position	18
2.1. Trends, events, developments, and material changes	18
2.2. Material developments in income, expenses, and other comprehensive income	23
2.3. Structure and development of assets, liabilities, capital, and capital adequacy	31
2.4. Description of the Bank Group's business by supervisory activity segments	46
2.5. Description of the Bank Group's business by segment of activity based on the management approach	53
2.6. Principal subsidiary and affiliated companies	56
3. Review of risks	59
3.1. General description of risks and risk management	59
3.2. Credit risk	61
3.3. Market risk	82
3.4. Liquidity and refinancing risk	85
3.5. Compliance risk	86
3.6. Other risks	86
4. Critical accounting policies and estimates; controls and procedures	87
4.1. Critical accounting policies and estimates	87
4.2. Controls and procedures	87

Report of the Board of Directors and Board of Management

as at March 31, 2019

List of Tables

Table 1-1: Condensed financial information and principal performance indicators over time	12
Table 2-1: Changes in the CPI and in exchange rates	20
Table 2-2: Condensed statement of profit and loss	23
Table 2-3: Composition of net financing profit	24
Table 2-4: Principal data regarding interest income and expenses	25
Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments	27
Table 2-6: Details of fees and other income	28
Table 2-7: Details of operating and other expenses	28
Table 2-8: Comprehensive income	30
Table 2-9: Developments in principal balance sheet items	31
Table 2-10: Development of net balance sheet credit to the public, by principal economic sector	31
Table 2-11: Problematic credit risk	32
Table 2-12: Developments in principal off-balance sheet items	33
Table 2-13: Securities balances	34
Table 2-14: Details of corporate bonds by economic sector	35
Table 2-15: Developments in balances of deposits	35
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	36
Table 2-17: Details of bonds and subordinated notes	36
Table 2-18: Derivative instruments	37
Table 2-19: Details of dividends paid	38
Table 2-20: Calculation of the capital-adequacy ratio	42
Table 2-21: Composition of capital for the purpose of calculating the ratio of capital to risk components	43
Table 2-22: Risk components and regulatory capital requirements in respect of credit risk, market risk, and operational risk	44
Table 2-23: Leverage ratio	45
Table 2-24: Results of operations and principal data of the supervisory activity segments	47
Table 2-25: Results of operations and principal data of the segments of activity based on management approach	54
Table 3-1: Problematic credit risk	62
Table 3-2: Nonperforming assets	62
Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance	63
Table 3-4: Credit risk indicators	65
Table 3-5: Credit risk by economic sector	67
Table 3-6: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity	70
Table 3-7: Principal exposures to foreign countries	71
Table 3-8: Exposure of the Bank Group to foreign financial institutions	72
Table 3-9: Risks in the housing loan portfolio	74
Table 3-10: Development of amounts in arrears in housing loans and allowance for credit losses	75
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	75
Table 3-12: Developments in housing credit balances, last five quarters	76
Table 3-13: Characteristics of housing credit granted by the Bank	76

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 3-14: Balance of credit to private individuals in Israel	78
Table 3-15: Distribution of risk of balance sheet credit to private individuals at the Bank, by average income and loan size	78
Table 3-16: Distribution of risk of balance sheet credit to private individuals at the Bank, by borrowers' financial asset portfolio balance	79
Table 3-17: Distribution of risk of balance sheet credit to private individuals at the Bank, by type of interest and remaining repayment period	79
Table 3-18: Information regarding problematic debts in respect of private individuals in Israel	79
Table 3-19: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower	80
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	81
Table 3-21: Credit risk balances 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 March 31, 2019	82
Table 3-22: Adjusted net fair value of the financial instruments of the Bank and its consolidated companies	83
Table 3-23: Effect of scenarios of changes in interest rates on the adjusted net fair value of the Bank and its consolidated companies	84
Table 3-24: Effect of scenarios of changes in interest rates on interest income	84
Table 3-25: Liquidity coverage ratio	85

1. General review, objectives, and strategy

At the meeting of the Board of Directors held on May 28, 2019, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries for the period of January-March 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

1.2. Condensed financial information

The activity of the Isracard Group has been classified as a “discontinued operation” since the financial statements for the second quarter of 2018. The data of the Isracard Group are therefore not presented in most of the detailed information below, including restatement of comparative periods (except where otherwise noted). For further details, see [Note 1E](#) to the Financial Statements.

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

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
Main performance indicators			
Return of net profit on equity attributed to shareholders of the Bank ⁽²⁾	8.97%	7.16%	7.06%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items ⁽²⁾⁽³⁾	8.97%	7.86%	9.74%
Return of net profit from continued operations on equity attributed to shareholders of the Bank ⁽²⁾⁽⁷⁾	7.94%	6.26%	6.07%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items ⁽²⁾⁽³⁾⁽⁷⁾	7.94%	6.96%	8.75%
Return on average assets ⁽²⁾	0.71%	0.56%	0.57%
Ratio of income to average assets	0.51%	0.51%	2.29%
Efficiency ratio – cost-income ratio from continued operations	59.23%	*62.14%	65.05%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations ⁽³⁾	59.23%	*60.25%	57.70%
Financing margin from regular activity ⁽²⁾⁽⁴⁾	2.24%	2.17%	2.31%
Liquidity coverage ratio ⁽⁵⁾	125%	120%	120%
	As at March 31	December 31	
	2019	2018	2018
Ratio of common equity Tier 1 capital to risk components ⁽⁶⁾	11.45%	11.05%	11.16%
Ratio of total capital to risk components ⁽⁶⁾	14.45%	14.06%	14.39%
Leverage ratio ⁽⁶⁾	7.58%	7.38%	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) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(2) Calculated on an annualized basis.

(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, and costs in respect of the discontinuation of activity in Switzerland.

(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, after separation from Isracard, may be influenced by processes of adjustment of capital in respect of the subtraction of risk-adjusted assets in the amount of approximately NIS 12.5 billion, as a result of the separation, and additional adjustments.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
Main credit quality indicators			
Allowance for credit losses as a percentage of credit to the public ⁽¹⁾	1.33%	1.37%	1.31%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public ⁽¹⁾	1.35%	1.27%	1.23%
Net charge-offs as a percentage of average credit to the public ⁽¹⁾⁽²⁾	0.17%	0.11%	0.20%
Provision for credit losses as a percentage of average credit to the public ⁽¹⁾⁽²⁾	0.17%	0.32%	0.22%
NIS millions			
Main profit and loss data			
Net profit attributed to shareholders of the Bank	821	628	2,595
Net profit attributed to shareholders of the Bank excluding extraordinary items ⁽³⁾	821	688	3,579
Net profit from continued operations attributed to shareholders of the Bank	730	551	2,231
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items ⁽³⁾	730	611	3,215
Net interest income	2,277	2,086	8,906
Provision for credit losses	121	216	613
Net financing profit**	2,366	2,314	10,351
Non-interest income	892	*1,076	4,868
Of which: fees	785	*826	3,318
Operating and other expenses	1,877	*1,965	8,960
Of which: salaries and related expenses	1,043	1,044	4,097
Total income	3,169	*3,162	13,774
Net earnings per ordinary share (in NIS)			
Net profit attributed to shareholders of the Bank	0.62	0.47	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) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(2) Calculated on an annualized basis.

(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, and costs in respect of the discontinuation of activity in Switzerland.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31		December 31
	2019	2018	2018
NIS millions			
Main balance sheet data			
Total assets	465,778	448,195	460,926
Of which: cash and deposits with banks	78,332	78,125	84,459
Securities	66,259	61,508	56,116
Net credit to the public	283,048	270,793	282,507
Net problematic credit risk	7,256	6,992	6,944
Net impaired balance sheet debts	2,344	2,030	2,158
Credit to the public not accruing interest income (NPL)	2,476	1,973	2,178
Total liabilities	427,207	411,979	423,270
Of which: deposits from the public	354,232	344,703	352,260
Deposits from banks	3,328	3,102	4,528
Bonds and subordinated notes	29,695	26,214	30,024
Shareholders' equity	38,481	36,084	37,544
Additional data			
Share price at end of period (in NIS)	24.2	24.0	23.7
	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
Total dividend per share (in agorot)**	-	18.35	37.17
Ratio of fees to average assets	0.17%	*0.18%	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) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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 March 31, 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 multitude of varied 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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 global economy looked positive in the first quarter, despite risk factors such as the trade struggle between the United States and China and the failure of Britain and the European Union to reach an agreement regarding the terms of Britain's withdrawal from the union. The annualized growth rate in the first quarter in the United States was 3.2%; in the Eurozone, growth accelerated to an annualized rate of 1.6%. The labor market in the United States is at full employment. The unemployment rate has fallen to 3.6%, a fifty-year low. In the Eurozone, unemployment fell to 7.7%, the lowest rate in a decade. The strong condition of the labor market and the expansionary monetary policy did not cause inflation to rise; inflation actually subsided slightly in the first quarter, both in the United States and in Europe, to annualized rates of 2.0% and 0.8%, respectively (data for March, core inflation). Central banks around the world have signaled a halt to the process of raising interest rates, and possibly rate cuts. In the United States, the yield curve has become negatively sloped in the short section, meaning that investors expect decreases in the interest rate in the near future. In the Eurozone, the central bank's message has been that the interest rate will remain at its present level of -0.4% for a longer period.

Economic activity in Israel

The Israeli economy grew at a high annualized rate of 5.2% in the first quarter. While the growth was influenced by an increase in vehicle imports (due to tax collected in respect of the vehicles), even excluding this item the growth rate was high, at 3.7%. Growth was balanced in terms of the uses of funds: increases were recorded in private consumption, exports, and investments, including residential construction. Exports of services from Israel rose rapidly, mainly due to a sharp increase in exports of high-technology services (excluding start-up companies) and tourism services. The steep price gains on capital markets in the first quarter also contributed to improved consumer confidence, and led to increased consumption. According to our estimates, the high growth rate during this period was influenced by factors including the highly expansionary monetary and fiscal economic policies. The unemployment rate fell to 3.9% in March. The number of employed persons rose at an annualized rate of 3.6% in the first quarter, high relative to the long-term growth of the workforce. Average wages rose by 3.8% in the last twelve months.

Residential real estate

Sales of new homes have trended up since the second half of 2018. Sales of homes in the first quarter of 2019 were approximately 16% higher than in the same quarter last year. Construction starts increased to 13,800 units in the fourth quarter of 2018, from an average of 11,200 units in the first three quarters of 2018. Construction starts for the full year totaled 47,400 housing units. Construction completions in 2018 reached a record level of 50,000 units. The decrease in sales of homes was arrested in recent months. The survey of prices of homes issued by the Central Bureau of Statistics indicates a 0.5% increase over the twelve months through April. Prices are 1.9% lower than the record high level.

Fiscal and monetary policy

The Bank of Israel interest rate remained unchanged at 0.25% in the first quarter and in April. The interest rate is still considerably lower than inflation expectations, so that the real interest rate is negative. The Bank of Israel also maintained its monetary guidance according to which its policy would support an increase in the inflation environment, to the middle of the target range. The inflation environment rose slightly during the first quarter, and markets are currently pricing in one interest-rate hike this year.

The budget deficit in the first quarter totaled NIS 9.3 billion, compared with NIS 2.1 billion in the same period last year. The deficit as a percentage of GDP is trending up, reaching 3.4% in March. Data for April indicated a sharper increase in the deficit, to 3.8% of GDP. These ratios exceed the deficit target for 2019, which is 2.9% of GDP. Government expenditures in the first quarter were approximately 11% higher than in the first quarter of 2018, while tax revenues grew by 2.2%.

Inflation and exchange rates

The “known” consumer price index decreased by 0.3% in the first quarter. The CPI for March rose by 0.5%, compared to February. The CPI for April rose by 0.3%. The rate of annual inflation rose to 1.4% at the end of the quarter. The housing component rose by 2.6% over this period, making the largest contribution to inflation. However, increasing competition from online purchasing continued to lower prices of products such as clothing and footwear, furniture, and household goods.

The shekel appreciated by 3.1% against the US dollar and by 5.0% against the euro in the first quarter. The shekel appreciated by 3.5% against the effective currency basket. In late 2018, the Bank of Israel announced that it would stop purchasing foreign currency, as part of the plan to offset the effect of natural gas on the exchange rate. The Bank of Israel did not rule out the possibility of foreign-currency purchases in the event of a sharp appreciation of the shekel. The Bank of Israel purchased foreign currency in a low amount of USD 32 million in the first quarter.

Financial and capital markets

Stock indices, globally and in Israel, posted steep gains during the first quarter, returning to the record levels of last September. Factors that may explain the increases include the stabilization of the interest rate in the United States, the relatively strong economic activity data, and the progress of the trade agreement negotiations between the United States and China. The S&P 500 index was up by 13%, the STOXX Europe 600 index rose by 12%, the EEM emerging-markets index rose by 10%, and the TA-125 index rose by 6.4% (all in local currency). The gains continued in April. However, daily turnovers in shares and convertibles in Tel Aviv fell to NIS 1,150 million in the first quarter of 2019, compared with NIS 1,590 million in the same quarter last year.

Report of the Board of Directors and Board of Management

as at March 31, 2019

As noted, central banks have put plans to raise the interest rate on hold, and long-term bond yields decreased. The decrease in bond yields was prominent in the United States, and the yield curve slope actually inverted in the short section, as yields of ten-year bonds fell to 2.41% at the end of March, from 2.68% at the end of 2018. The decrease in yields in Europe and in Israel was similar. Ten-year yields reached 1.86% in Israel at the end of March, while the corresponding German bond yield turned negative, at -0.07%. Overall in the first quarter, the unlinked government bond index rose by 2.3%, while the CPI-linked government bond index rose by 3.5%. The Tel Bond 60 index of corporate bonds rose by 3.8% in the first quarter of 2019, and yield spreads against government bonds dropped to the low levels of mid-2018.

Capital raised through bonds by non-financial Israeli companies fell sharply, by approximately 60% compared to the first quarter of 2018, to a total of approximately NIS 8.4 billion. Approximately 67% of the issues were in the real-estate sector.

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

	For the three months ended March 31		For the year 2018
	2019	2018	
Rate of increase (decrease) in "known" CPI	(0.3%)	(0.3%)	1.2%
Rate of increase (decrease) in USD exchange rate	(3.1%)	1.4%	8.1%
Rate of increase (decrease) in GBP exchange rate	(1.3%)	5.6%	2.4%
Rate of increase (decrease) in CHF exchange rate	(4.1%)	3.4%	7.1%
Rate of increase (decrease) in EUR exchange rate	(5.0%)	4.2%	3.3%
Rate of decrease in TRY exchange rate	(9.3%)	(4.1%)	(23.1%)

Data regarding the Bank of Israel interest rate

	March 31, 2019	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	March 31, 2018
Interest rate at end of period	0.25%	0.25%	0.10%	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 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 globally is reflected in the continuing investigations of banks around the world, and 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 United States government agencies. 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 March 31, 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

- **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 March 31, 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 technological entities, new technologies, changes in customer behavior, and new business models in the financial sphere have the power to significantly affect the banking system, in Israel and worldwide, alongside the other regulatory and competitive changes in this field. The Bank works to update its strategic plan, while taking 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 March 31, 2019.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

Net profit attributed to shareholders of the Bank totaled NIS 821 million in the first three months of 2019, compared with profit in the amount of NIS 628 million in the same period last year.

Net return on equity attributed to shareholders of the Bank was approximately 9.0% in the first three months of 2019, compared with approximately 7.2% in the same period last year.

Table 2-2: Condensed statement of profit and loss⁽¹⁾

	For the three months ended		Change
	March 31, 2019	March 31, 2018	
	NIS millions		
Interest income	2,825	2,528	11.7%
Interest expenses	(548)	(442)	24.0%
Net interest income	2,277	2,086	9.2%
Non-interest financing income	89	228	(61.0%)
Net financing profit*	2,366	2,314	2.2%
Provision for credit losses	121	216	(44.0%)
Net financing profit after provision for credit losses	2,245	2,098	7.0%
Fees and other income	803	**848	(5.3%)
Operating and other expenses	1,877	**1,965	(4.5%)
Profit from continued operations before taxes	1,171	981	19.4%
Provision for taxes on profit from continued operations	449	444	1.1%
Profit from continued operations after taxes	722	537	34.5%
The Bank's share in profits of equity-basis investees, after taxes	-	4	(100.0%)
Net profit from continued operations	722	541	33.5%
Net profit from a discontinued operation	91	77	18.2%
Net profit:			
Before attribution to non-controlling interests	813	618	31.6%
Loss (profit) attributed to non-controlling interests	8	10	(20.0%)
Attributed to shareholders of the Bank	821	628	30.7%
Return of net profit	9.0%	7.2%	25.3%

* 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.

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

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		Change
	March 31, 2019	March 31, 2018	
	NIS millions		
Interest income	2,825	2,528	11.75%
Interest expenses	(548)	(442)	23.98%
Net interest income	2,277	2,086	9.16%
Non-interest financing income	89	228	(60.96%)
Total reported financing profit	2,366	2,314	2.25%
Excluding effects not from regular activity:			
Income (expenses) from realization and adjustments to fair value of bonds	(23)	68	(133.82%)
Profit from investments in shares	155	49	216.33%
Gains in respect of loans sold	-	18	
Adjustments to fair value of derivative instruments ⁽¹⁾	(97)	(38)	
Financing expenses from tax hedging of investments overseas and hedges of currency exposures of non-monetary items ⁽²⁾	(65)	(5)	
Total effects not from regular activity	(30)	92	(132.61%)
Total income from regular financing activity ⁽³⁾	2,396	2,222	7.83%

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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 33 million in the first quarter of 2019, compared with an expense in the amount of NIS 34 million in the first quarter of 2018.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Income from regular financing activity totaled NIS 2,396 million in the first three months of 2019, compared with a total of NIS 2,222 million in the same period last year. The increase mainly 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.

Total reported financing income amounted to NIS 2,366 million in the first three months of 2019, compared with a total of NIS 2,314 million in the same period last year. The increase mainly resulted from an increase in profit from regular activity, as noted above, and from an increase in profit from investment in shares. By contrast, profit from investment in bonds and profit from the sale of loans decreased. A decrease also occurred due to a change in the differences 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. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items.

Table 2-4: Principal data regarding interest income and expenses⁽¹⁾

	For the three months ended			
	March 31, 2019		March 31, 2018	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS million/percent			
Interest income	2,825	2.81%	2,528	2.61%
Interest expenses	(548)	0.88%	(442)	0.72%
Net interest income	2,277	1.93%	2,086	1.89%
Net interest income as a percentage of the balance of interest-bearing assets		2.27%		2.15%

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Interest income and expenses increased in the first three months of 2019, compared with the same period last year, as a result of an increase in the dollar and shekel interest rates. In addition, interest income increased due to an increase in business credit and housing credit volumes.

An analysis of the changes in interest income and expenses, in a comparison of the first three months of 2019 with 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 101 million, and changes in interest rates caused an increase in the amount of approximately NIS 90 million in net interest income.

Report of the Board of Directors and Board of Management

as at March 31, 2019

The provision for credit losses totaled NIS 121 million in the first three months of 2019, compared with a total of NIS 216 million in the same period last year.

A provision in the amount of NIS 30 million was recorded in respect of the net individual allowance in the first three months of 2019, compared with income in the amount of NIS 103 million in the same period last year. The increase in this item resulted from an increase in the individual provision, along with a decrease in income from recovery of charged off debts.

The net provision in respect of the collective allowance totaled NIS 91 million in the first three months of 2019, compared with a provision in the amount of NIS 319 million in the same period last year. The collective provision in the first three months of 2018 was relatively high, mainly due to a significant increase in credit balances during the period.

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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 2-5: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments⁽¹⁾**

	For the three months ended	
	March 31, 2019	March 31, 2018
	NIS millions	
Individual provision for credit losses	230	153
Decrease in individual allowance for credit losses and recovery of charged off debts	(200)	(256)
Net individual provision (income) for credit losses	30	(103)
Net provision in respect of the collective allowance for credit losses and net charge-offs	91	319
Total provision for credit losses*	121	216
* Of which:		
Net provision for credit losses in respect of commercial credit risk	51	87
Net provision for credit losses in respect of housing credit risk	3	5
Net provision for credit losses in respect of other private credit risk	65	124
Net provision for credit losses in respect of risk of credit to banks and governments	2	-
Total provision for credit losses	121	216
	%	
Provision (income) as a percentage of total credit to the public:		
Percentage of individual provision (income) for credit losses	0.32%	(0.22%)
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public***	0.45%	0.69%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	0.17%	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	0.17%	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	12.86%	8.18%

** 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.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Fees and other income totaled NIS 803 million in the first three months of 2019, compared with NIS 848 million in the same period last year. The decrease mainly resulted from capital-market fees and account-management fees.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 2-6: Details of fees and other income⁽¹⁾

	For the three months ended		Change
	March 31, 2019	March 31, 2018	
	NIS millions		
Fees			
Account management fees	218	232	(6.0%)
Securities activity	174	189	(7.9%)
Credit cards, net	63	67	(6.0%)
Credit handling	54	55	(1.8%)
Financing transaction fees	116	*110	5.5%
Other fees	160	173	(7.5%)
Total operating fees	785	*826	(5.0%)
Total others	18	22	(18.2%)
Total operating income and other income	803	*848	(5.3%)

* 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) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Operating and other expenses totaled NIS 1,877 million in the first three months of 2019, compared with NIS 1,965 million in the same period last year, a decrease of approximately 4.5%.

Table 2-7: Details of operating and other expenses*

	For the three months ended		Change
	March 31, 2019	March 31, 2018	
	NIS millions		
Salary expenses			
Wages	942	960	(1.9%)
Bonuses and share-based compensation	101	84	20.2%
Total wages	1,043	1,044	(0.1%)
Maintenance and depreciation of buildings and equipment	314	343	(8.5%)
Other expenses	520	⁽¹⁾ 578	(10.0%)
Total operating and other expenses	1,877	⁽¹⁾ 1,965	(4.5%)

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Salary expenses totaled NIS 1,043 million in the first three months of 2019, compared with NIS 1,044 million in the same period last year, a decrease of 0.1%.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 314 million in the first three months of 2019, compared with NIS 343 million in the same period last year, a decrease of 8.5%.

Other expenses totaled NIS 520 million in the first three months of 2019, compared with NIS 578 million in the same period last year. The decrease mainly resulted from a provision for the investigation of the Bank Group's business with American customers recorded in the first quarter of 2018, partly offset by an increase in legal expenses, mainly in respect of the investigation; an increase in IT expenses; and an increase in fees, due to an increase in volumes of activity.

The provision for taxes on profit from continued operations totaled NIS 449 million in the first three months of 2019, compared with a total of NIS 444 million in the same period last year.

The effective tax rate for the Bank reached 38.3% in the first three 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 91 million in the first three months of 2019, compared with a total of NIS 77 million in the same period last year.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 8 million in the first three months of 2019, compared with a share in loss in the amount of NIS 10 million in the same period last year.

Net profit attributed to shareholders of the Bank totaled NIS 821 million in the first three months of 2019, compared with a total of NIS 628 million in the same period last year.

Basic net profit per share of par value NIS 1 amounted to NIS 0.62 in the first three months of 2019, compared with NIS 0.47 in the same period last year.

Report of the Board of Directors and Board of Management

as at March 31, 2019

2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income⁽¹⁾

	For the three months ended	
	March 31, 2019	March 31, 2018
	NIS millions	
Net profit before attribution to non-controlling interests	813	618
Net loss attributed to non-controlling interests	8	10
Net profit attributed to shareholders of the Bank	821	628
Other comprehensive income (loss) before taxes:		
Net adjustments in respect of bonds available for sale at fair value ⁽²⁾	351	(339)
Net adjustments from translation of financial statements,* after hedge effects**	-	(5)
Adjustments of liabilities in respect of employee benefits***	(197)	79
Net gains in respect of cash-flow hedges	-	-
Other comprehensive income (loss) before taxes	154	(265)
Effect of related tax	(41)	99
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	113	(166)
Net of other comprehensive loss (income) attributed to non-controlling interests	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	113	(166)
Comprehensive income before attribution to non-controlling interests	926	452
Comprehensive loss attributed to non-controlling interests	8	10
Comprehensive income attributed to shareholders of the Bank	934	462

* 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) Includes balances attributed to a discontinued operation.

(2) Until December 31, 2018, securities available for sale.

Comprehensive income totaled NIS 934 million in the first three months of 2019, compared with a total of NIS 462 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, in contrast to decreases in prices of securities available for sale in the same period last year. This increase was offset by changes in adjustments of employee benefit liabilities, due to a decrease in interest-rate curves, which led to an increase in actuarial provisions.

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

The consolidated balance sheet as at March 31, 2019 totaled NIS 465.8 billion, compared with NIS 460.9 billion at the end of 2018.

Table 2-9: Developments in principal balance sheet items⁽¹⁾

	Balance as at		Change
	March 31, 2019	Dec. 31, 2018	
	NIS millions		
Total assets	465,778	460,926	1.1%
Net credit to the public	283,048	282,507	0.2%
Cash and deposits with banks	78,332	84,459	(7.3%)
Securities	66,259	56,116	18.1%
Assets attributed to a discontinued operation	15,766	15,110	4.3%
Deposits from the public	354,232	352,260	0.6%
Bonds and subordinated notes	29,695	30,024	(1.1%)
Liabilities attributed to a discontinued operation	16,758	14,733	13.7%
Shareholders' equity	38,481	37,544	2.5%

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

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⁽¹⁾

	As at		Change
	March 31, 2019	Dec. 31, 2018	
	NIS millions		
Private individuals – housing loans	71,318	70,042	1.8%
Private individuals – other	41,266	42,269	(2.4%)
Construction and real estate	53,372	52,350	2.0%
Commerce	28,184	27,909	1.0%
Industry	16,277	17,037	(4.5%)
Financial services	18,781	18,993	(1.1%)
Other	53,848	53,907	(0.1%)
Total	283,046	282,507	0.2%

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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⁾⁽³⁾

	March 31, 2019			December 31, 2018		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	2,985	590	3,575	2,729	582	3,311
Substandard credit risk ⁽²⁾	1,412	173	1,585	1,451	220	1,671
Credit risk under special supervision	2,522	879	3,401	2,432	770	3,202
Total problematic credit risk*	6,919	1,642	8,561	6,612	1,572	8,184
Net problematic credit risk	5,726	1,530	7,256	5,492	1,452	6,944
* Of which, unimpaired debts in arrears of 90 days or more ⁽²⁾	876	-	876	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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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 5% in the first quarter 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](#), "Problematic debts," in the "Review of risks," in the Report of the Board of Directors and Board of Management.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Off-balance sheet credit

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

	Balance as at		Change
	March 31, 2019	Dec. 31, 2018	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	1,087	1,397	(22.2%)
Guarantees and other commitments**	50,486	52,490	(3.8%)
Unutilized credit-card credit facilities under the Bank's responsibility	14,806	14,689	0.8%
Unutilized revolving overdraft and other credit facilities in on-demand accounts**	40,082	41,403	(3.2%)
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees***	53,926	50,755	6.2%
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	24,508	24,845	(1.4%)

* The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

** Includes off-balance sheet credit risk in the amount of approximately NIS 20,258 million, in respect of which insurance was acquired from foreign insurers 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 153 million (March 31, 2018: NIS 311 million; December 31, 2018: NIS 174 million).

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 66.3 billion as at March 31, 2019, compared with approximately NIS 56.1 billion at the end of 2018, an increase of approximately 18.1%, which mainly resulted from net purchases of tradable Israeli government bonds and US government bonds in the portfolio available for sale.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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								
March 31, 2019								
Israeli government bonds	5,594	8.4%	32,972	49.8%	-	-	38,566	58.2%
US government bonds	-	-	13,572	20.5%	-	-	13,572	20.5%
Government bonds – other foreign countries	3	0.0%	872	1.3%	-	-	875	1.3%
Total government bonds	5,597	8.4%	47,416	71.6%	-	-	53,013	80.0%
Corporate bonds – Israel	-	-	191	0.3%	306	0.5%	497	0.8%
Corporate bonds – foreign countries	-	-	10,913	16.5%	-	-	10,913	16.5%
Total corporate bonds	-	-	11,104	16.8%	306	0.5%	11,410	17.2%
Shares ⁽¹⁾	10	0.0%	1,826	2.8%	-	-	1,836	2.8%
Total securities	5,607	8.5%	60,346	91.1%	306	0.5%	66,259	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	0.5%	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 ⁽¹⁾	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%

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 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	545	4.8%	544	4.7%
Industry	722	6.3%	578	5.0%
Electricity and water	418	3.7%	418	3.7%
Information and communications	507	4.4%	447	3.9%
Banks and financial institutions	8,538	74.8%	8,785	76.6%
Others	680	6.0%	695	6.0%
Total corporate bonds	11,410	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⁽¹⁾

	Balance as at		Change
	March 31, 2019	December 31, 2018	
	NIS millions		
Deposits from the public	354,232	352,260	0.56%
Deposits from banks	3,328	4,528	(26.50%)
Deposits from the government	358	208	72.12%
Total	357,918	356,996	0.26%

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

The balance of deposits totaled approximately NIS 358 billion as at March 31, 2019, compared with a total of approximately NIS 357 billion at the end of 2018. The increase resulted from an increase in deposits of private individuals, partly offset by a decrease in deposits of institutional entities and deposits from banks.

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
	March 31, 2019	December 31, 2018	
	NIS millions		
Securities ⁽¹⁾	708,738	828,350	(14.44%)
Assets of provident funds receiving operational services ⁽²⁾	72,928	85,305	(14.51%)
Mutual fund assets ⁽³⁾	80,622	76,213	5.79%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.

(2) The Bank has decided to discontinue the activity of providing operational services in provident funds and study funds to the management companies for which it provides operational services. The activity is being discontinued through a gradual process conducted with all of the relevant parties. For additional details, see ["Financial Management Segment"](#) in the section "Segments of activity based on management approach" in the Corporate Governance Report.

(3) Value of assets of mutual funds receiving services related to account management at various volumes.

Bonds and subordinated notes totaled NIS 29.7 billion as at March 31, 2019, compared with NIS 30.0 billion at the end of 2018, a decrease of approximately 1.1%. The decrease resulted from bond maturities and from early redemption of subordinated notes, as described in Note 9K to the Condensed Financial Statements. This decrease was offset by bond issuance by a wholly-owned subsidiary of the Bank (Hapoalim Hanpakot) in March, in the amount of approximately NIS 2.5 billion.

Table 2-17: Details of bonds and subordinated notes

	March 31, 2019		December 31, 2018	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	13,372	10,693	15,371	12,108
Bonds	16,323	16,073	14,653	14,392
Total bonds and subordinated notes	29,695	26,766	30,024	26,500

In April 2019, after the date of the financial statements, Hapoalim Hanpakot completed a public offering of subordinated notes with a loss-absorption mechanism, in consideration for approximately NIS 0.5 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 2-18: Derivative instruments

	March 31, 2019			December 31, 2018		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
NIS millions						
Interest contracts	6,294	6,459	730,776	4,809	4,811	793,078
Currency contracts	3,095	3,148	278,736	4,285	3,423	264,123
Share-related contracts	834	830	43,583	1,377	1,380	51,423
Commodity and service contracts (including credit derivatives)	23	23	1,164	63	64	1,280
Total	10,246	10,460	1,054,259	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 March 31, 2019, is NIS 1,334,620,849 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 2,756,262 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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, quarterly dividends from 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 a dividend, 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. Further to the coordination with the Banking Supervision Department, the Board of Directors of the Bank instructed the Board of Management to formulate a plan for a buyback of shares of the Bank against this capital surplus, to be executed over a period of time, subject to the directives of the law and of the Banking Supervision Department on this matter. The implementation, volume, and terms of the plan are subject to resolution and approval by the Board of Directors of the Bank.

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 March 31, 2019, stand at 10.24% and 13.74%, respectively.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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 0.14% as at March 31, 2019, are 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

In April 2019, the Bank issued a series of subordinated notes, in the amount of approximately NIS 0.5 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 in February 2019, in the amount of NIS 582 million.

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 the fulfillment of 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 fulfillment of 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 volume 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.

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 Bank is examining possibilities for the sale of its full holdings, and in accordance with its strategic plan, has decided to gradually reduce the credit portfolio.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at March 31, 2019, is a decrease of approximately 0.05%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.12%, under the assumption of weighting of the risk-adjusted assets at 600%.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019	March 31, 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⁾	38,903	36,637	38,004
Additional Tier 1 capital	733	977	977
Total Tier 1 capital ⁽¹⁾	39,636	37,614	38,981
Tier 2 capital	9,436	9,016	10,042
Total overall capital ⁽¹⁾	49,072	46,630	49,023
2. Weighted balances of risk-adjusted assets			
Credit risk ⁽²⁾	312,408	303,068	312,900
Market risks	2,998	4,692	3,429
Operational risk	24,285	23,779	24,268
Total weighted balances of risk-adjusted assets ⁽²⁾	339,691	331,539	340,597
	%		
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components ⁽³⁾	11.45%	11.05%	11.16%
Ratio of Tier 1 capital to risk components ⁽³⁾	11.67%	11.35%	11.44%
Ratio of total capital to risk components ⁽³⁾	14.45%	14.06%	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽⁴⁾	10.24%	10.23%	10.24%
Minimum total capital ratio required by the Banking Supervision Department ⁽⁴⁾	13.74%	13.73%	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 585 million as at March 31, 2019, NIS 640 million as at December 31, 2018, and NIS 800 million as at March 31, 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 effect of the sale of 65.2% of the issued and paid-up capital of Isracard, performed in April 2019, is estimated at an increase of approximately 0.4% in the common equity Tier 1 capital ratio and in the total capital ratio.

(4) 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019	March 31, 2018	December 31, 2018
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	8,153	8,148	8,135
Retained earnings	31,368	28,849	30,565
Non-controlling interests in equity of consolidated subsidiaries	43	49	40
Unrealized gains (losses) from adjustments of bonds available for sale to fair value*	94	287	(163)
Other capital instruments	(715)	(628)	(536)
Amounts deducted from Tier 1 capital	(40)	(68)	(37)
Total common equity Tier 1 capital	38,903	36,637	38,004
Innovative hybrid instruments	733	977	977
Total Tier 1 capital	39,636	37,614	38,981
Tier 2 capital			
Hybrid capital instruments and subordinated notes	45	136	57
Collective allowances for credit losses before the effect of related tax	3,856	3,788	3,911
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	5,535	5,092	6,074
Total Tier 2 capital	9,436	9,016	10,042
Total qualifying capital	49,072	46,630	49,023

* 2018 – Securities available for sale.

For further details, see [Note 9](#) to the Condensed Financial Statements.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019		March 31, 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	1,284	176	1,407	193	1,474	203
Debts of public-sector entities	2,781	382	3,069	421	2,923	402
Debts of banking corporations	7,795	1,071	5,577	766	5,986	822
Debts of corporations	115,995	15,937	115,891	15,912	122,423	16,820
Debts secured by commercial real estate	58,423	8,027	53,016	7,279	55,817	7,669
Retail exposures to individuals	49,393	6,787	50,172	6,889	49,009	6,734
Loans to small businesses	7,479	1,028	8,255	1,133	7,360	1,011
Housing loans	46,246	6,354	42,460	5,830	45,304	6,225
Securitization	133	18	88	12	143	20
Other assets	19,832	2,725	19,125	2,626	19,134	2,629
CVA risk	3,047	419	4,008	550	3,327	457
Total in respect of credit risk	312,408	42,924	303,068	41,611	312,900	42,992
Market risks	2,998	412	4,692	644	3,429	471
Operational risk	24,285	3,337	23,779	3,265	24,268	3,334
Total risk-adjusted assets in respect of the various risks	339,691	46,673	331,539	45,520	340,597	46,797
Common equity Tier 1 capital	38,903		36,637		38,004	
Tier 1 capital	39,636		37,614		38,981	
Total capital	49,072		46,630		49,023	

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.74% as at March 31, 2019; 13.74% as at December 31, 2018; and 13.73% as at March 31, 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).

Report of the Board of Directors and Board of Management

as at March 31, 2019

(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

	March 31, 2019	March 31, 2018	December 31, 2018
	NIS millions		
Consolidated data			
Tier 1 capital*	39,636	37,614	38,981
Total exposures*	523,012	509,845	518,980
	%		
Leverage ratio	7.58%	7.38%	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 March 31, 2019, estimated at approximately 0.08%, is allocated in equal parts over five years, beginning in 2017.

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

Reporting on segments of activity is 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](#).

The activity of the Isracard Group is classified as a "discontinued operation." The balance sheet balances of assets and liabilities and results attributed to the discontinued operation are presented separately from the continued operations, under the "Other" segment.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	For the three months ended March 31, 2019										Total
	Activity in Israel									Activity overseas	
	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	818	46	597	193	263	28	268	2	2,215	151	2,366
Fees and other income	317	35	204	68	90	25	21	31	791	12	803
Total income	1,135	81	801	261	353	53	289	33	3,006	163	3,169
Provision (income) for credit losses	69	-	43	1	11	(1)	2	-	125	(4)	121
Operating and other expenses	885	46	428	79	77	40	110	42	1,707	170	1,877
Profit (loss) from continued operations before taxes	181	35	330	181	265	14	177	(9)	1,174	(3)	1,171
Provision for taxes (tax benefit) on profit (loss) from continued operations	66	13	124	68	102	5	51	(2)	427	22	449
Net profit (loss) from continued operations	115	22	206	113	163	9	126	(7)	747	(25)	722
Net profit from a discontinued operation	-	-	-	-	-	-	-	91	91	-	91
Net profit (loss) attributed to shareholders of the Bank	115	22	206	113	163	9	131	84	843	(22)	821
Balance of gross credit to the public at the end of the reported period	113,660	884	65,259	30,408	58,052	1,494	-	(1)15,152	284,909	17,117	302,026
Balance of deposits from the public at the end of the reported period	134,474	33,316	62,413	20,027	37,749	47,284	-	(1)575	335,838	18,969	354,807

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

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	For the three months ended March 31, 2018*										Total
	Activity in Israel									Activity overseas	
	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	763	34	575	168	244	28	359	-	2,171	143	2,314
Fees and other income	334	40	208	66	85	36	24	30	823	25	848
Total income	1,097	74	783	234	329	64	383	30	2,994	168	3,162
Provision (income) for credit losses	127	-	74	6	(8)	2	-	-	201	15	216
Operating and other expenses	869	45	420	76	77	38	124	67	1,716	249	1,965
Profit (loss) from continued operations before taxes	101	29	289	152	260	24	259	(37)	1,077	(96)	981
Provision for taxes (tax benefit) on profit (loss) from continued operations	36	10	104	55	103	10	101	9	428	16	444
Net profit (loss) from continued operations	65	19	185	97	157	14	162	(46)	653	(112)	541
Net profit from a discontinued operation	-	-	-	-	-	-	-	77	77	-	77
Net profit (loss) attributed to shareholders of the Bank	65	19	185	97	157	14	165	31	733	(105)	628
Balance of gross credit to the public at the end of the reported period	110,921	1,010	62,800	27,554	54,690	2,574	-	⁽¹⁾ 13,514	273,063	15,004	288,067
Balance of deposits from the public at the end of the reported period	125,659	32,391	60,446	18,822	36,091	49,464	-	⁽¹⁾ 107	322,980	21,830	344,810

* Reclassified. For additional information, see [Note 28 to the Annual Financial Statements for 2018](#).

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

Report of the Board of Directors and Board of Management

as at March 31, 2019

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 115 million in the first quarter of 2019, compared with net profit in the amount of NIS 65 million in the same quarter 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 818 million in the first quarter of 2019, compared with NIS 763 million in the same quarter last year. The increase resulted from an increase in housing credit balances and in deposits from the public, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 317 million in the first quarter of 2019, compared with NIS 334 million in the same quarter last year. The decrease mainly resulted from a decrease in financial product distribution fees and in securities activity fees.

The provision for credit losses totaled NIS 69 million in the first quarter of 2019, compared with NIS 127 million in the same quarter last year. The decrease resulted from a decrease in the collective allowance, mainly due to a decrease in the volume of problematic debts.

Credit to the public totaled approximately NIS 114 billion as at March 31, 2019 (of which: housing credit in the amount of approximately NIS 71 billion, credit cards in the amount of approximately NIS 5 billion, and consumer credit in the amount of approximately NIS 37 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 134.5 billion as at March 31, 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 22 million in the first quarter of 2019, compared with net profit in the amount of NIS 19 million in the same quarter last year.

Net financing profit totaled NIS 46 million in the first quarter of 2019, compared with NIS 34 million in the same quarter 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.

Credit to the public totaled approximately NIS 0.9 billion as at March 31, 2019, similar to the balance as at December 31, 2018.

Deposits from the public totaled approximately NIS 33.3 billion as at March 31, 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 206 million in the first quarter of 2019, compared with NIS 185 million in the same quarter 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 597 million in the first quarter of 2019, compared with NIS 575 million in the same quarter 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.

The provision for credit losses totaled NIS 43 million in the first quarter of 2019, compared with NIS 74 million in the same quarter last year. The decrease resulted from a decrease in the collective allowance, partly offset by a decrease in income recorded in respect of recovery of charged-off debts.

Credit to the public totaled approximately NIS 65.3 billion as at March 31, 2019, compared with approximately NIS 64.7 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 62.4 billion as at March 31, 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 113 million in the first quarter of 2019, compared with NIS 97 million in the same quarter last year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 193 million in the first quarter of 2019, compared with NIS 168 million in the same quarter last year. The increase resulted from an increase in balances of credit and deposits, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Credit to the public totaled approximately NIS 30.4 billion as at March 31, 2019, compared with approximately NIS 29.9 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 20.0 billion as at March 31, 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 163 million in the first quarter of 2019, compared with NIS 157 million in the same quarter last year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 263 million in the first quarter of 2019, compared with NIS 244 million in the same quarter last year. The increase resulted from an increase in average balances of credit and deposits between the periods, and from an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Report of the Board of Directors and Board of Management

as at March 31, 2019

The provision for credit losses totaled NIS 11 million in the first quarter of 2019, compared with income in the amount of NIS 8 million in the same quarter last year. The increase mainly resulted from an increase in the provision recorded on an individual basis. This increase was offset by a decrease in the collective allowance, mainly in respect of sound credit.

Credit to the public totaled approximately NIS 58.1 billion as at March 31, 2019, compared with approximately NIS 59.1 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 37.7 billion as at March 31, 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 9 million in the first quarter of 2019, compared with NIS 14 million in the same quarter last year. The decrease mainly resulted from a decrease in income from fees.

Fees and other income totaled NIS 25 million in the first quarter of 2019, compared with NIS 36 million in the same quarter last year. The decrease resulted from a decrease in securities activity fees.

Credit to the public totaled approximately NIS 1.5 billion as at March 31, 2019, compared with approximately NIS 1.6 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 47.3 billion as at March 31, 2019, compared with approximately NIS 43.4 billion as at December 31, 2018. The increase resulted from an increase in deposits of large institutional investors.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 131 million in the first quarter of 2019, compared with NIS 165 million in the same quarter last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 268 million in the first quarter of 2019, compared with NIS 359 million in the same quarter last year. The decrease mainly resulted from a decrease in profit from investment in bonds and profit from the sale of loans. Profit also decreased due to a change in the differences 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. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items.

This decrease was partly offset by an increase in profit from investment in shares.

Other Segment (activity in Israel)

Net profit attributed to shareholders of the Bank in the Other Segment totaled NIS 84 million in the first quarter of 2019, compared with profit in the amount of NIS 31 million in the same quarter last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 7 million in the first quarter of 2019, compared with a loss in the amount of NIS 46 million in the same quarter 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 quarter last year. This decrease was partly offset by an increase in the legal expenses related to this investigation.

In addition, the Other Segment includes net profit attributed to a discontinued operation, in the amount of NIS 91 million in the first quarter of 2019, compared with NIS 77 million in the same quarter last year.

The balance sheet balances of credit-card activity included in this segment include credit to the public, which constitutes part of the discontinued operation, in the amount of approximately NIS 15.2 billion as at March 31, 2019, compared with NIS 14.6 billion as at December 31, 2018. For further details, see [Note 1E](#) to the Condensed Financial Statements.

International Activity Segment

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 22 million in the first quarter of 2019, compared with a loss in the amount of NIS 105 million in the same quarter last year. The decrease in loss mainly resulted from a provision recorded in the same quarter last year in connection with the investigation of the Bank Group's business with American customers at Hapoalim Switzerland. In addition, profits of business activity in the United States increased.

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

- Net profit of the New York branch totaled approximately NIS 44 million in the first quarter of 2019, compared with net profit in the amount of NIS 31 million in the same quarter 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 credit balances and in financial spreads.
- The loss of Hapoalim Switzerland totaled approximately NIS 59 million in the first quarter of 2019, compared with a loss in the amount of approximately NIS 121 million in the same quarter last year. The decrease in loss mainly resulted from a provision recorded in the same quarter last year in connection with the investigation of the Bank Group's business with American customers.
- The loss attributed to shareholders of the Bank at the Bank Pozitif Group totaled approximately NIS 6 million in the first quarter of 2019, compared with approximately NIS 17 million in the same quarter last year. The decrease in loss mainly resulted from a significant allowance for credit losses in the same quarter last year.

Total credit to the public in international activity amounted to approximately NIS 17.1 billion as at March 31, 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 14.3 billion as at March 31, 2019, compared with approximately NIS 14.6 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 11.3 billion, of which a total of approximately NIS 5.0 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 0.3 billion as at March 31, 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.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.5 billion as at March 31, 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 19.0 billion as at March 31, 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 18.2 billion as at March 31, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 6.9 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 11.2 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 0.7 billion as at March 31, 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 that serve them, 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](#).

The activity of the Isracard Group is classified as a "discontinued operation." The balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity, the "Isracard Group," are presented separately from the continued operations, within the "Adjustments" segment.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	For the three months ended March 31, 2019								
	Retail activity			Business activity			Financial Adjustments ⁽⁴⁾ management ⁽³⁾	Total	
	Private customers ⁽¹⁾	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate	International activity			
	NIS millions								
Net financing profit	726	415	194	264	363	137	249	18	2,366
Fees and other income	354	143	15	89	116	16	40	30	803
Total income	1,080	558	209	353	479	153	289	48	3,169
Provision (income) for credit losses	57	78	7	1	(20)	(4)	2	-	121
Operating and other expenses	924	294	63	122	143	173	103	55	1,877
Profit (loss) from continued operations before taxes	99	186	139	230	356	(16)	184	(7)	1,171
Provision for taxes (tax benefit) on profit (loss) from continued operations	38	71	52	87	135	17	54	(5)	449
Net profit (loss) from continued operations	61	115	87	143	221	(33)	130	(2)	722
Net profit from a discontinued operation	-	-	-	-	-	-	-	91	91
Net profit (loss) attributed to shareholders of the Bank	61	115	87	143	221	(30)	135	89	821
Net credit to the public at the end of the reported period	43,436	32,111	83,148	38,205	72,004	13,512	632	14,911	297,959
Deposits from the public at the end of the reported period	187,820	42,854	-	23,963	48,422	18,804	32,369	575	354,807

- (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 5,046 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 1,592 million.
- (3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	For the three months ended March 31, 2018*								Total
	Retail activity			Business activity		International activity management ⁽³⁾	Financial Adjustments ⁽⁴⁾		
	Private customers ⁽¹⁾	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate				
NIS millions									
Net financing profit	678	400	160	244	363	131	330	8	2,314
Fees and other income	377	145	15	92	114	31	38	36	848
Total income	1,055	545	175	336	477	162	368	44	3,162
Provision (income) for credit losses	110	95	5	21	(30)	15	-	-	216
Operating and other expenses	900	274	60	130	154	252	130	65	1,965
Profit (loss) from continued operations before taxes	45	176	110	185	353	(105)	238	(21)	981
Provision for taxes (tax benefit) on profit (loss) from continued operations	16	67	39	71	134	12	89	16	444
Net profit (loss) from continued operations	29	109	71	114	219	(117)	153	(37)	541
Net profit from a discontinued operation	-	-	-	-	-	-	-	77	77
Net profit (loss) attributed to shareholders of the Bank	29	109	71	114	219	(110)	156	40	628
Net credit to the public at the end of the reported period	45,750	32,136	75,606	34,847	68,627	12,356	1,471	13,310	284,103
Deposits from the public at the end of the reported period	174,453	38,810	-	24,284	41,209	21,830	44,117	107	344,810

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

- (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 5,745 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 1,237 million.
- (3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within 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 subsidiary and affiliated companies

2.6.1. Isracard Group

The Group includes the following companies: Isracard Ltd., Poalim Express Ltd. ("Poalim Express"), Europay (Eurocard) Israel Ltd., Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd.

The core activity of the Isracard Group is issuance, clearing, and financing in Isracard credit cards, a private brand under its ownership, as well as MasterCard, Visa, and American Express credit cards under licensing agreements. The Group also has activities in the following areas: granting consumer credit other than through credit cards, check payment guarantees and check discounting, direct sales-slip discounting, and factoring (receivables discounting).

The contribution of the Isracard Group to the net profit of the Bank amounted to NIS 91 million in the first quarter of 2019, compared with NIS 77 million in the same period last year.

The Bank's investment in the Isracard Group totaled NIS 2,209 million as at March 31, 2019, compared with NIS 3,431 million at the end of 2018. The decrease in the balance of the investment resulted from 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, offset by the Bank's share in profit for the quarter.

At the balance sheet date, the Bank holds approximately 98% of the 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"), and the publication of a prospectus for a public sale offering of the shares of Isracard, the Bank sold approximately 65.2% of the capital of Isracard, for a total (gross) consideration of approximately NIS 1.76 billion, in a public sale offering, after the balance sheet date, on April 8, 2019, reflecting a value of NIS 2.7 billion for the company.

As a result, the Bank will include net profit (after tax and expenses related to the sale offering) in the amount of approximately NIS 210 million in its financial statements for the second quarter of 2019, 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 date of the issuance.

After the sale, the Bank retains a holding of approximately 33% of the shares of Isracard. This holding will be accounted for using the equity method, as long as the Bank has material influence on Isracard.

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 in the clearers, 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 shall not constitute a majority on the boards of directors of the companies in the Isracard Group; and limits 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 Reducing Concentration in the Banking Market in Israel 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](#).

For details regarding contractual engagements in issuance and operation agreements with credit-card companies, see [Note 25G 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.

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 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 15, 2019, the name of the company has been changed to:

- Hapoalim (Switzerland) Ltd.
- Hapoalim (Switzerland) Ltd., Luxembourg Branch.

The loss of Hapoalim Switzerland in the first quarter of 2019 totaled CHF 29 million, compared with a loss in the amount of CHF 31 million in the same period last year. The loss in 2019 mainly resulted from legal expenses and from a loss in operating activity, whereas the loss in 2018 mainly resulted from the provision recorded for the American investigation.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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 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 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.

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 experienced an economic and financial crisis during 2018. Turkey has a high deficit in the current account of its balance of payments, and therefore relies on financing sources in foreign currency from other countries. The Turkish economy grew very rapidly in the preceding years, while the deficit in the current account rose and the budget deficit increased. 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. 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%. Improvement in the relationship with the United States also supported the Turkish lira. The sharp depreciation of the Turkish lira, the increase in the interest rate in Turkey, and the measures applied by the government brought the Turkish economy into recession in the second half of 2018. The depreciation of the Turkish lira resumed in early 2019; the Turkish lira depreciated by approximately 13% against the dollar by the end of April. The background for the depreciation was renewed tensions between Turkey and the United States, after Turkey purchased defense systems from Russia, as well as reports of a decrease in foreign-currency balances of the central bank.

The Bank is examining possibilities for discontinuation of this activity, through the sale of its assets or by other means, further to the Bank's strategic plan, in which a decision was made to gradually reduce the credit portfolio at Bank Pozitif. In this context, note that on January 20, 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 balance of credit to the public totaled TRY 735 million (approximately NIS 472 million) as at March 31, 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 a loss of approximately TRY 3 million in the first quarter of 2019, compared with a loss of approximately TRY 25 million in the same period last year, which mainly resulted from an allowance for credit losses.

The Bank Pozitif Group's contribution to the Bank's operating results amounted to a negative contribution of approximately NIS 19 million in the first quarter of 2019, compared with a negative contribution of approximately NIS 23 million in the same period last year.

The Bank's total investment in the Bank Pozitif Group (in capital and loans) amounted to NIS 203 million as at March 31, 2019 (NIS 112 million in capital and NIS 91 million in loans granted in order to comply with liquidity requirements), compared with approximately NIS 320 million (NIS 132 million in capital and NIS 188 million in loans) 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 March 31, 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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.

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 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 March 31, 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⁾⁽³⁾

	March 31, 2019			December 31, 2018		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	2,985	590	3,575	2,729	582	3,311
Substandard credit risk ⁽²⁾	1,412	173	1,585	1,451	220	1,671
Credit risk under special supervision	2,522	879	3,401	2,432	770	3,202
Total problematic credit risk*	6,919	1,642	8,561	6,612	1,572	8,184
Net problematic credit risk	5,726	1,530	7,256	5,492	1,452	6,944
* Of which, unimpaired debts in arrears of 90 days or more ⁽²⁾	876	-	876	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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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⁽¹⁾

	Balance as at	
	March 31, 2019	December 31, 2018
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	2,476	2,178
Assets received upon settlement of debts	59	81
Total nonperforming assets	2,535	2,259
NPL as a percentage of total credit to the public	0.86%	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.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance⁽¹⁾

	For the three months ended March 31, 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	481	105	586
Debts returned to unimpaired classification	(45)	(4)	(49)
Impaired debts charged off	(79)	(41)	(120)
Impaired debts repaid	(109)	(44)	(153)
Balance of impaired debts at end of period	2,263	722	2,985
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	676	624	1,300
Restructured during the period	86	109	195
Debts in restructuring charged off	(18)	(30)	(48)
Debts in restructuring repaid	(84)	(52)	(136)
Balance in troubled debt restructuring at end of period	660	651	1,311
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	180	57	237
Provision for credit losses – reduction of allowance	(26)	(21)	(47)
Recoveries of debts charged off in previous years	(118)	(35)	(153)
Allocated to profit and loss – allowance for credit losses	36	1	37
Charge-offs during the period	(79)	(41)	(120)
Recovery of charged-off debts	118	35	153
Other	-	-	-
Allowance for credit losses in respect of impaired debts at end of period	483	158	641

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 3-3: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance⁽¹⁾ (continued)

	For the three months ended March 31, 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	72	72	144
Debts returned to unimpaired classification	(8)	(5)	(13)
Impaired debts charged off	(70)	(48)	(118)
Impaired debts repaid	(51)	(41)	(92)
Balance of impaired debts at end of period	1,821	727	2,548
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	672	634	1,306
Restructured during the period	52	72	124
Debts in restructuring charged off	(20)	(32)	(52)
Debts in restructuring repaid	(67)	(55)	(122)
Balance in troubled debt restructuring at end of period	637	619	1,256
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	96	59	155
Provision for credit losses – reduction of allowance	(19)	(32)	(51)
Recoveries of debts charged off in previous years	(175)	(30)	(205)
Allocated to the statement of profit and loss – allowance for credit losses	(98)	(3)	(101)
Charge-offs during the period	(70)	(48)	(118)
Recovery of charged-off debts	175	30	205
Other	1	1	2
Allowance for credit losses in respect of impaired debts at end of period	314	206	520

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Report of the Board of Directors and Board of Management

as at March 31, 2019

Table 3-4: Credit risk indicators⁽¹⁾

	As at	
	March 31, 2019	December 31, 2018
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	1.04%	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*	0.31%	0.28%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	1.33%	1.31%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*	1.11%	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*	128.17%	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*	99.09%	106.49%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	1.98%	1.89%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	⁽²⁾ 0.17%	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	⁽²⁾ 0.17%	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	⁽²⁾ 12.86%	14.58%

* Before deduction of the allowance for credit losses.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(2) Calculated on an annualized basis.

Portfolio quality analysis

In the first quarter of 2019, increases were recorded in the balance of impaired 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; and the allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public. This increase followed a downward trend over a long period; the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public decreased moderately over the last five quarters, and the two other indicators showed volatility with no clear trend. It is therefore too early to determine whether the change this quarter represents a reversal of the trend.

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 also rose during the quarter, but this figure is characterized by volatility, and no upward trend is apparent relative to previous quarters.

Some indicators of credit risk decreased:

- 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.
- The collective allowance for credit losses, as a percentage of the balance of credit to the public.

The improvements in the indicators of provision and charge-offs was influenced, among other factors, by the measures taken by the Bank to improve the quality of the portfolio of credit to private individuals.

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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

3.2.2. Classification and analysis of credit risk by economic sector

Table 3-5: Credit risk by economic sector*

	March 31, 2019						
	Total credit risk ⁽¹⁾	Of which: credit execution rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Of which: impaired credit risk	Credit losses ⁽⁴⁾		
					Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	31,800	30,547	1,276	410	39	8	375
Construction and real estate – construction	60,591	58,938	1,161	691	(60)	3	486
Construction and real estate – real-estate activities	24,810	24,264	610	275	(35)	(52)	299
Commerce	37,161	35,571	839	432	52	29	802
Financial services	33,434	33,329	46	25	(1)	-	147
Other business services	16,189	15,691	158	98	17	15	153
Public and community services	8,284	7,959	49	21	10	6	55
Other sectors	43,757	42,120	1,754	558	46	17	558
Total commercial	256,026	248,419	5,893	2,510	68	26	2,875
Private individuals – housing loans	76,512	75,522	568	-	3	2	367
Private individuals – other	63,007	60,714	854	709	66	93	866
Total public – activity in Israel	395,545	384,655	7,315	3,219	137	121	4,108
Total banks in Israel	3,877	3,877	-	-	-	-	-
Israeli government	40,297	40,297	-	-	-	-	-
Total activity in Israel	439,719	428,829	7,315	3,219	137	121	4,108
Total public – activity overseas	35,888	33,969	1,246	353	(18)	2	213
Banks and governments overseas	51,365	51,366	-	-	2	-	11
Total activity overseas	87,253	85,335	1,246	353	(16)	2	224
Total activity in Israel and overseas	526,972	514,164	8,561	3,572	121	123	4,332

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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 310,214, 64,423, 714, 10,245, and 141,376 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 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	32,359	31,183	1,025	264	(14)	(9)	315
Construction and real estate – construction	63,384	61,786	1,249	628	-	(52)	586
Construction and real estate – real-estate activities	22,682	22,268	489	291	(32)	(32)	293
Commerce	36,495	34,742	1,401	245	46	29	896
Financial services	32,708	32,589	95	36	2	(3)	170
Other business services	14,357	13,923	121	68	10	13	128
Public and community services	7,971	7,744	50	22	4	6	53
Other sectors	42,332	40,624	1,729	603	54	17	515
Total commercial	252,288	244,859	6,159	2,157	70	(31)	2,956
Private individuals – housing loans	69,272	68,301	589	-	5	2	334
Private individuals – other	65,016	62,256	874	692	124	113	917
Total public – activity in Israel	386,576	375,416	7,622	2,849	199	84	4,207
Total banks in Israel	3,006	3,006	-	-	-	-	-
Israeli government	42,813	42,813	-	-	-	-	-
Total activity in Israel	432,395	421,235	7,622	2,849	199	84	4,207
Total public – activity overseas	34,313	32,776	642	253	17	(3)	188
Banks and governments overseas	46,541	46,541	-	-	-	-	7
Total activity overseas	80,854	79,317	642	253	17	(3)	195
Total activity in Israel and overseas	513,249	500,552	8,264	3,102	216	81	4,402

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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 298,495, 59,429, 608, 12,272, and 142,445 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	December 31, 2018						
	Total credit risk ⁽¹⁾	Of which: credit execution rating ⁽⁵⁾	Of which: problematic credit risk ⁽⁶⁾	Of which: impaired credit risk	Credit losses ⁽⁴⁾		
					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

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 95 billion as at March 31, 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 March 31, 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	2,084	1,038	3,122	2,074	831	2,905
Construction for industry	297	92	389	388	112	500
Housing construction	16,980	*26,083	43,063	16,675	*24,760	41,435
Yield-generating properties	24,074	5,836	29,910	23,508	6,206	29,714
Other	10,702	7,931	18,633	10,497	8,070	18,567
Total construction and real-estate sectors	54,137	40,980	95,117	53,142	39,979	93,121

* Includes off-balance sheet credit risk in the amount of approximately NIS 5,372 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).

Report of the Board of Directors and Board of Management

as at March 31, 2019

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⁾

Country	March 31, 2019			December 31, 2018		
	Exposure			Exposure		
	Balance sheet	Off-balance sheet ⁽²⁾⁽³⁾	Total	Balance sheet	Off-balance sheet ⁽²⁾⁽³⁾	Total
NIS millions						
United States	27,854	6,906	34,760	21,445	7,177	28,622
Switzerland	3,797	1,584	5,381	2,973	1,774	4,747
England	8,314	3,935	12,249	7,273	4,358	11,631
Germany	1,468	1,694	3,162	795	1,894	2,689
France	2,149	2,064	4,213	1,896	2,205	4,101
Others	14,064	2,620	16,684	13,567	2,921	16,488
Total exposures to foreign countries	57,646	18,803	76,449	47,949	20,329	68,278
Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain)	356	575	931	329	612	941
Of which: total exposure to LDCs	1,970	219	2,189	1,794	259	2,053
Of which: total exposure to countries with liquidity problems	10	-	10	10	-	10

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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⁾⁽⁶⁾

	March 31, 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-	4,559	4,301	8,860	4,071	4,868	8,939
A+ to A-	14,695	2,377	17,072	11,237	2,517	13,754
BBB+ to BBB-	1,030	283	1,313	1,012	298	1,310
BB+ to B-	16	37	53	24	55	79
Lower than B-	-	-	-	-	-	-
Unrated**	203	122	325	252	143	395
Total present credit exposures to foreign financial institutions*	20,503	7,120	27,623	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	20,503	7,120	27,623	16,596	7,881	24,477
Collective allowance for credit losses	6	1	7	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 136 million, of which a total of NIS 132 million rated A- and a total of NIS 4 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 – Total exposure of NIS 19 million, rated A (total exposure at the end of 2018 was approximately NIS 15 million, unrated).
 Italy – Total exposure of approximately NIS 148 million, of which a total of NIS 143 million rated BBB and the remaining amount of NIS 5 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 and Portugal.

** Of which, clearing houses overseas constitute 5% 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.

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Report of the Board of Directors and Board of Management

as at March 31, 2019

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 27.6 billion on March 31, 2019, an increase of approximately NIS 3.1 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 3.9 billion, and a decrease in off-balance sheet exposure in the amount of approximately NIS 0.8 billion. Approximately 93.39% 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: 78.24% in banks and bank holding companies, 21.18% in insurance companies, and 0.58% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (65.75%) and in the United States (14.7%).

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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

3.2.6. Risks in the housing loan portfolio

Table 3-9: Risks in the housing loan portfolio

	Balance as at		
	March 31, 2019	March 31, 2018	December 31, 2018
	NIS millions		
Credit balances			
Loans from Bank funds	83,148	76,005	81,454
Loans from Finance Ministry funds*	1,260	1,418	1,301
Grants from Finance Ministry funds*	98	78	87
Total	84,506	77,501	82,842
	For the three months ended		For the year ended
	March 31, 2019	March 31, 2018	December 31, 2018
	NIS millions		
Execution of housing loans			
Loans from Finance Ministry funds			
Loans	36	19	88
Grants	13	8	30
Total from Finance Ministry funds	49	27	118
Total loans from Bank funds	4,226	3,761	15,450
Total new loans	4,275	3,788	15,568
Old loans refinanced from Bank funds	222	334	1,004
Total loans extended	4,497	4,122	16,572

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

Report of the Board of Directors and Board of Management

as at March 31, 2019

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
March 31, 2019	83,148	114	0.14%	426	0.51%	1,228	1.48%
December 31, 2018	81,454	115	0.14%	424	0.52%	1,160	1.42%

Amounts in arrears as a percentage of credit balances and the rate of the allowance for credit losses based on the extent of arrears remained stable in the first quarter of 2019. The rate of problematic debt increased.

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 Recorded debt balance in NIS millions	Rate of change during the period
	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 %		
March 31, 2019	15,004	18.0%	31,928	38.4%	13,560	16.3%	22,320	26.8%	336	0.4%	83,148	2.1%
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, 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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Balances at end of period	83,148	81,454	79,425	77,875	76,005
Change in balances	2.1%	2.6%	2.0%	2.5%	2.0%
Execution of new loans	4,226	4,265	3,696	3,728	3,761

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				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Characteristics					
Financing rate over 60%	38.1%	34.5%	34.2%	31.2%	29.6%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	0.0%	0.2%	0.1%	0.1%	0.0%
Percentage with floating interest rates varying at a frequency of less than 5 years	31.5%	30.3%	32.5%	32.6%	31.5%
Percentage with floating rates	59.2%	57.9%	59.5%	60.1%	58.1%
Percentage of all-purpose loans	6.0%	6.3%	6.2%	5.7%	6.2%
Loans for investment purposes as a percentage of total purchases of homes	9.7%	10.2%	9.0%	9.3%	10.8%
Principal planned for repayment after age 67 (excluding investments)	6.9%	7.3%	7.3%	7.0%	7.1%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	24.7	24.6	24.6	24.5	23.9

Balances at the end of the period rose in the first quarter of 2019. The upward trend in the percentage of credit granted with a financing rate greater than 60% continued. The percentage of floating-rate loans rose. The percentage of credit granted with payments at a rate higher than 40% of income fell to a near-zero rate. The percentage of credit granted with principal scheduled for repayment after the age of 67 (excluding investments), loans for investment purposes as a percentage of total purchases of homes, and the percentage of all-purpose loans decreased.

The average term to maturity of loans for purchases of homes (excluding bridge loans) has continued to increase.

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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	Balance as at		Change	
	March 31, 2019	December 31, 2018		
	NIS millions			%
Balance sheet				
Negative balance in current accounts	3,887	3,892	(5)	(0.13%)
Loans ⁽¹⁾	29,225	29,791	(566)	(1.90%)
Of which: bullet and balloon loans	98	114	(16)	(14.04%)
Credit for purchases of motor vehicles ⁽²⁾	4,036	4,375	(339)	(7.75%)
Debtors in respect of credit-card activity	4,830	4,905	(75)	(1.53%)
Total balance sheet credit risk	41,978	42,963	(985)	(2.29%)
Off-balance sheet				
Off-balance sheet credit risk	21,029	20,368	661	3.25%
Total credit risk	63,007	63,331	(324)	(0.51%)

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(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

	March 31, 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	1,678	909	910	3,497	1,676	903	909	3,488
20 to 40	1,840	842	944	3,626	1,869	851	966	3,686
40 to 80	4,083	2,339	1,967	8,389	4,112	2,352	2,018	8,482
80 to 150	4,354	4,925	4,094	13,373	4,493	4,915	4,303	13,711
150 to 300	1,133	3,558	6,422	11,113	1,216	3,596	6,645	11,457
Over 300	125	224	1,696	2,045	143	236	1,825	2,204
Total	13,213	12,797	16,033	42,043	13,509	12,853	16,666	43,028

(1) Account income was calculated based on the average income over a period of twelve months.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019	December 31, 2018
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	24,152	24,760
10 to 50	7,357	7,539
50 to 200	5,498	5,632
200 to 500	2,417	2,470
Over 500	2,619	2,627
Total	42,043	43,028

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

	March 31, 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	4,859	5,386	10,245	5,081	5,337	10,418
1 to 3 years	7,539	89	7,628	7,705	93	7,798
3 to 5 years	15,174	121	15,295	15,495	121	15,616
Over 5 years	8,764	111	8,875	9,091	105	9,196
Total	36,336	5,707	42,043	37,372	5,656	43,028

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	
	March 31, 2019	December 31, 2018		March 31, 2019	December 31, 2018
	NIS millions				
Problematic credit risk	854	873	(2.18%)	2.03%	2.03%
Of which: impaired credit risk	709	694	2.16%	1.69%	1.62%
Debts in arrears of more than 90 days	85	107	(20.56%)	0.20%	0.25%
Net charge-offs for the period	93	473	⁽¹⁾ (21.35%)	⁽¹⁾ 0.89%	1.10%
Allowance for credit losses	866	892	(2.91%)	2.06%	2.08%

(1) Calculated on an annualized basis.

Report of the Board of Directors and Board of Management

as at March 31, 2019

In the first quarter of 2019, the balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by 2.6%. Total balance sheet credit risk decreased by 2.3%.

Most indicators of portfolio quality show an improvement in this quarter. The rate of problematic credit risk remained stable, and the rate of impaired credit risk rose, but the other indicators point to improvement. The percentage of debts in arrears of more than 90 days decreased from 0.25% in December 2018 to 0.20% in March 2019. The rate of net charge-offs decreased significantly, from 1.10% in December 2018 to 0.89% in March 2019, indicating the effect of the measures taken by the Bank to improve the quality of underwriting in credit for private individuals. The rate of the allowance for credit losses also decreased slightly.

3.2.8. Leveraged financing

Data regarding credit risks 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

	March 31, 2019			Total
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	
			NIS millions	
Economic sector of the borrower				
Construction and real estate – construction	1	252	-	252
Construction and real estate – real-estate activities	1	121	96	217
Mining and quarrying	2	1,347	22	1,369
Information and communications	1	266	-	266
Commerce	2	588	35	623
Total	7	2,574	153	2,727

	December 31, 2018			Total
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	
			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

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	3	959	4,625	5,584
Electricity and water supply	1	1,273	1,757	3,030
Financial services	5	5,030	4,411	9,441
Total	9	7,262	10,793	18,055

	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

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 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 March 31, 2019

	Balance sheet credit risk ⁽¹⁾	Off-balance sheet credit risk ⁽¹⁾	Of which: off-balance sheet credit risk in respect of derivative instruments ⁽²⁾	Gross indebtedness ⁽³⁾	Deductions ⁽⁴⁾	Net indebtedness ⁽⁵⁾	Percentage of regulatory capital
	NIS millions						
Borrower group A	3,821	3,059	456	6,891	22	6,869	17.62%

- (1) After deduction of the balance of charge-offs and the allowance for credit losses calculated on an individual basis.
- (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.
- (5) The data presented above represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313, and after deduction of the allowance for credit losses calculated on an individual basis. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

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;

Report of the Board of Directors and Board of Management

as at March 31, 2019

- **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**

	March 31, 2019			December 31, 2018		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
NIS millions						
Adjusted net fair value*	32,913	1,198	34,111	32,971	1,120	34,091
Of which: banking book	32,540	1,093	33,633	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 17](#) to the Condensed Financial Statements.

Report of the Board of Directors and Board of Management

as at March 31, 2019

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

	March 31, 2019			December 31, 2018		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
NIS millions						
Parallel changes						
1% parallel increase	538	223	761	415	211	626
Of which: banking book	505	282	787	441	227	668
1% parallel decrease	(569)	(208)	(777)	(389)	(270)	(659)
Of which: banking book	(540)	(196)	(736)	(446)	(238)	(684)
Non-parallel changes						
Steepening ⁽¹⁾	(23)	82	59	(201)	119	(82)
Flattening ⁽²⁾	151	(61)	90	124	(32)	92
Increase in short-term interest rate	351	(25)	326	122	178	300
Decrease in short-term interest rate	(369)	34	(335)	(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*

	March 31, 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	850	521	1,370	838	522	1,360
Of which: banking book	850	505	1,355	838	552	1,390
1% parallel decrease	(680)	(576)	(1,256)	(596)	(563)	(1,159)
Of which: banking book	(680)	(546)	(1,226)	(596)	(575)	(1,171)

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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 March 31, 2019	For the three months ended March 31, 2018	For the three months ended December 31, 2018
	%		
A. Consolidated data			
Liquidity coverage ratio	125%	119%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
B. Bank data			
Liquidity coverage ratio	122%	116%	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%

* Includes balances attributed to a discontinued operation.

The consolidated ratio and the stand-alone ratio for the banking corporation are calculated daily, and reported as an average of 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 March 31, 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 more detailed and extensive information, see [Section 5.2, "Other matters,"](#) in the Corporate Governance Report.

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](#).

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.

Report of the Board of Directors and Board of Management

as at March 31, 2019

The Bank updated 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 examined the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year.

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 March 31, 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 March 31, 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

Ari Pinto

President and Chief Executive Officer

Tel-Aviv, May 28, 2019

Declarations of Internal Control Over Financial Reporting

as at March 31, 2019

CEO Declaration

I, Ari Pinto, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on March 31, 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.

Ari Pinto

President and Chief Executive Officer

Tel-Aviv, May 28, 2019

Declarations of Internal Control Over Financial Reporting

as at March 31, 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 March 31, 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, May 28, 2019

Declarations of Internal Control Over Financial Reporting

as at March 31, 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 March 31, 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, May 28, 2019

Bank Hapoalim

Condensed Financial Statements
as at March 31, 2019



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Contents

Auditors' Review Report to the Shareholders of Bank Hapoalim B.M.	97
Condensed Consolidated Statement of Profit and Loss	98
Condensed Consolidated Statement of Comprehensive Income	99
Condensed Consolidated Balance Sheet	100
Condensed Statement of Changes in Equity	101
Condensed Consolidated Statement of Cash Flows	104
Notes to the Financial Statements	107
Note 1 Significant Accounting Policies	107
Note 2 Interest Income and Expenses	112
Note 3 Non-Interest Financing Income	113
Note 4 Accumulated Other Comprehensive Income (Loss)	115
Note 5 Securities	118
Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses	125
Note 7 Deposits from the Public	129
Note 8 Employee Benefits	130
Note 9 Capital, Capital Adequacy, Leverage, and Liquidity	138
Note 10 Contingent Liabilities and Special Commitments	148
Note 11 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates	156
Note 12 Supervisory Activity Segments	168
Note 12A Segments of Activity Based on Management Approach	180
Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses	187
Note 14 Assets and Liabilities by Linkage Base	211
Note 15 Balances and Fair-Value Estimates of Financial Instruments	214
Note 16 Regulatory Initiatives	231
Note 17 Events After the Balance Sheet Date	237



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 March 31, 2019 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three month period 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 I, "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

Certified Public Accountants (Isr)

Ziv Haft

Certified Public Accountants (Isr)

Tel Aviv, May 28, 2019

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Statement of Profit and Loss⁽¹⁾ for the period ended March 31, 2019

NIS millions

	Note	For the three months ended March 31		For the year ended December 31
		2019	2018	2018
		Unaudited		Audited
Interest income	2	2,825	2,528	11,672
Interest expenses	2	(548)	(442)	(2,766)
Net interest income		2,277	2,086	8,906
Provision for credit losses	6(2)	121	216	613
Net interest income after provision for credit losses		2,156	1,870	8,293
Non-interest income				
Non-interest financing income	3	89	228	1,445
Fees		785	826	3,318
Other income		18	22	105
Total non-interest income		892	1,076	4,868
Operating and other expenses				
Salaries and related expenses		1,043	*1,044	4,097
Maintenance and depreciation of buildings and equipment		314	343	1,376
Other expenses		520	*578	3,487
Total operating and other expenses		1,877	1,965	8,960
Profit from continued operations before taxes		1,171	981	4,201
Provision for taxes on profit from continued operations		449	444	2,009
Profit from continued operations after taxes		722	537	2,192
The Bank's share in profits of equity-basis investees, after taxes		-	4	4
Net profit from continued operations		722	541	2,196
Net profit from a discontinued operation	1(E)	91	77	364
Net profit:				
Before attribution to non-controlling interests		813	618	2,560
Loss attributed to non-controlling interests		8	10	35
Attributed to shareholders of the Bank		821	628	2,595
Earnings per ordinary share in NIS				
Basic earnings				
Net profit attributed to shareholders of the Bank		0.62	0.47	1.95
Net profit attributed to shareholders of the Bank from continued operations		0.55	0.41	1.68
Diluted earnings				
Net profit attributed to shareholders of the Bank		0.61	0.47	1.94
Net profit attributed to shareholders of the Bank from continued operations		0.54	0.41	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.

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

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

Oded Eran

Chairman of the
Board of Directors

Tel Aviv, May 28, 2019

Ari Pinto

President and
Chief Executive Officer

Ofer Koren

Senior Deputy Managing Director,
Chief Financial Officer

Ofer Levy

Senior Deputy Managing
Director, Chief Accountant

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Statement of Comprehensive Income⁽¹⁾ for the period ended March 31, 2019

NIS millions

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Note			
Net profit before attribution to non-controlling interests	813	618	2,560
Net loss attributed to non-controlling interests	8	10	35
Net profit attributed to shareholders of the Bank	821	628	2,595
Other comprehensive income (loss) before taxes:	4		
Net adjustments in respect of bonds available for sale at fair value ⁽²⁾	351	(339)	(920)
Net adjustments from translation of financial statements,* after hedge effects**	-	(5)	(2)
Adjustments of employee benefit liabilities***	(197)	79	379
Net gains in respect of cash-flow hedges	-	-	-
Other comprehensive income (loss) before taxes	154	(265)	(543)
Effect of related tax	(41)	99	135
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	113	(166)	(408)
Net of other comprehensive loss (income) attributed to non-controlling interests	-	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	113	(166)	(408)
Comprehensive income before attribution to non-controlling interests	926	452	2,152
Comprehensive loss attributed to non-controlling interests	8	10	35
Comprehensive income attributed to shareholders of the Bank	934	462	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 hedging 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) Includes balances attributed to a discontinued operation.

(2) Until December 31, 2018, securities available for sale.

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

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Balance Sheet⁽¹⁾ as at March 31, 2019

NIS millions

		March 31		December 31
		2019	2018	2018
	Note	Unaudited		Audited
Assets				
Cash and deposits with banks		78,332	78,125	84,459
Securities ⁽²⁾⁽³⁾	5	66,259	61,508	56,116
Securities borrowed or purchased under agreements to resell		714	608	708
Credit to the public		286,874	274,553	286,265
Allowance for credit losses		(3,826)	(3,760)	(3,758)
Net credit to the public	3, 6	283,048	270,793	282,507
Credit to governments		2,279	2,476	2,428
Investments in equity-basis investees		103	101	103
Buildings and equipment		3,077	3,044	3,111
Assets in respect of derivative instruments	11	10,246	12,273	10,534
Other assets ⁽²⁾		5,954	5,282	5,850
Assets attributed to a discontinued operation		15,766	13,985	15,110
Total assets		465,778	448,195	460,926
Liabilities and capital				
Deposits from the public	7	354,232	344,703	352,260
Deposits from banks		3,328	3,102	4,528
Deposits from the government		358	385	208
Securities lent or sold under agreements to repurchase		5	6	-
Bonds and subordinated notes		29,695	26,214	30,024
Liabilities in respect of derivative instruments	11	10,429	11,436	9,676
Other liabilities (of which: 496; 637; 569, respectively, allowance for credit losses in respect of off-balance sheet credit instruments) ⁽²⁾		12,402	10,857	11,841
Liabilities attributed to a discontinued operation		16,758	15,276	14,733
Total liabilities		427,207	411,979	423,270
Shareholders' equity	9	38,481	36,084	37,544
Non-controlling interests		90	132	112
Total capital		38,571	36,216	37,656
Total liabilities and capital		465,778	448,195	460,926

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

(2) With regard to amounts measured at fair value, see [Note 15B](#).

(3) For details regarding securities pledged to lenders, see [Note 5](#).

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

Condensed Financial Statements

as at March 31, 2019

Condensed Statement of Changes in Equity⁽¹⁾ for the period ended March 31, 2019

Unaudited
NIS millions

	For the three months ended March 31, 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 ⁽²⁾	-	-	-	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	-	-	-	-	821	821	(6)	815
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	3	3	-	-	3	-	3
Exercise of equity compensation into shares	18	(18)	-	-	-	-	-	-
Net other comprehensive income, after tax effect	-	-	-	113	-	113	-	113
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(16)	(16)
Balance as at March 31, 2019	8,153	23	8,176	(1,063)	31,368	38,481	90	38,571

* Excluding a balance of 2,756,262 treasury shares.

(1) Includes balances attributed to a discontinued operation.

(2) 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 Financial Statements

as at March 31, 2019

Condensed Statement of Changes in Equity⁽¹⁾ for the period ended March 31, 2019 (continued)

Unaudited
NIS millions

	For the three months ended March 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 period	-	-	-	-	628	628	(9)	619
Dividend	-	-	-	-	(245)	(245)	-	(245)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	4	4	-	-	4	-	4
Exercise of equity compensation into shares	24	(24)	-	-	-	-	-	-
Net other comprehensive loss, after tax effect	-	-	-	(166)	-	(166)	-	(166)
Balance as at March 31, 2018	8,148	39	8,187	(952)	28,849	36,084	132	36,216

* Excluding a balance of 3,101,627 treasury shares.

(1) Includes balances attributed to a discontinued operation.

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

Condensed Financial Statements

as at March 31, 2019

Condensed Statement of Changes in Equity⁽¹⁾ for the period ended March 31, 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
Dividend	-	-	-	-	(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.

(1) Includes balances attributed to a discontinued operation.

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

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Statement of Cash Flows⁽¹⁾ for the period ended March 31, 2019

NIS millions

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Cash flows from (for) operating activity			
Net profit for the period	815	619	2,566
Adjustments necessary to present cash flows from operating activity			
The Bank's share in profits of equity-basis investees	-	(4)	(4)
Depreciation of buildings and equipment	111	166	590
Amortizations	4	5	19
Provision for credit losses	147	250	765
Gain from sale of bonds available for sale and shares not held for trading*	(79)	(111)	(531)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	(54)	(1)	(25)
Gain from realization of buildings and equipment	(1)	(13)	(28)
Change in benefit due to share-based payment transactions	(66)	(83)	(40)
Net change in liabilities in respect of employee benefits	(475)	5	(98)
Deferred taxes, net	(52)	73	(21)
Gain from sale of credit portfolios	-	(18)	(56)
Dividends received from equity-basis investees	-	20	22
Adjustments in respect of exchange-rate differences	528	(107)	(409)
Accumulation differentials included in investing and financing activities	735	(992)	(2,247)
Net change in current assets			
Assets in respect of derivative instruments	288	(260)	1,481
Securities held for trading	721	(3,780)	(1,142)
Other assets	(163)	67	(371)
Net change in current liabilities			
Liabilities in respect of derivative instruments	753	(641)	(2,426)
Other liabilities	1,230	259	1,180
Net cash from (for) operating activity	4,442	(4,546)	(775)

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

(1) Includes balances attributed to a discontinued operation.

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

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Statement of Cash Flows⁽¹⁾ for the period ended March 31, 2019 (continued)

NIS millions

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Cash flows for investing activity			
Deposits with banks	(109)	(801)	1,018
Credit to the public	1,511	(2,543)	(7,487)
Credit to governments	149	(184)	(136)
Securities borrowed or purchased under agreements to resell	(6)	76	(24)
Acquisition of bonds held to maturity	(15)	-	-
Proceeds from redemption of bonds held to maturity	117	5	35
Acquisition of bonds available for sale and shares not held for trading*	(19,894)	(6,042)	(34,725)
Proceeds from sale of bonds available for sale and shares not held for trading*	6,669	8,899	36,622
Proceeds from redemption of bonds available for sale and shares not held for trading*	2,297	4,933	10,515
Acquisition of credit portfolios	(2,792)	(3,169)	(11,768)
Proceeds from sale of credit portfolios	-	119	382
Investment in equity-basis investees	(2)	-	(5)
Acquisition of buildings and equipment	(134)	(104)	(683)
Proceeds from realization of buildings and equipment	2	17	47
Net cash from (for) investing activity	(12,207)	1,206	(6,209)

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

(1) Includes balances attributed to a discontinued operation.

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

Condensed Financial Statements

as at March 31, 2019

Condensed Consolidated Statement of Cash Flows⁽¹⁾ for the period ended March 31, 2019 (continued)

NIS millions

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Cash flows from (for) financing activity			
Deposits from banks	50	(586)	1,003
Deposits from the public	2,465	(2,688)	4,761
Deposits from the government	150	65	(112)
Securities lent or sold under agreements to repurchase	5	(374)	(380)
Issuance of bonds and subordinated notes	2,782	96	6,359
Redemption of bonds and subordinated notes	(3,417)	(2,174)	(5,390)
Dividend paid to shareholders of the Bank	-	-	(496)
Buyback of shares	-	-	(24)
Dividend paid to minority interests in consolidated companies	16	-	-
Net cash from (for) financing activity	2,051	(5,661)	5,721
Decrease in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	(5,714)	(9,001)	(1,263)
Net of the increase (decrease) in cash and cash equivalents attributed to a discontinued operation	(8)	2	1
Decrease in cash	(5,706)	(9,003)	(1,264)
Balance of cash from continued operations at beginning of period	82,217	82,856	82,856
Effect of changes in exchange rates on cash balances	(528)	223	625
Balance of cash from continued operations at end of period	75,983	74,076	82,217
Interest and taxes paid and/or received			
Interest received	3,309	2,667	11,747
Interest paid	(1,010)	(882)	(2,466)
Dividends received	2	25	49
Income tax paid	(468)	(857)	(2,615)
Income tax received	311	-	232

(1) Includes balances attributed to a discontinued operation.

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 March 31, 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 May 28, 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 (in addition, the manner of presentation of financial instruments in the balance sheet has been updated).

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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.	The Bank is preparing to implement this standard.
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 portfolio available for sale 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.

E. Discontinued operation

In light of the directives of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, and the progress of the processes of separation from the Isracard Group (for details regarding the sale offering after the balance sheet date, see [Note 17](#) below), the activity of the Isracard Group has been classified as a "discontinued operation" since the financial statements for the second quarter of 2018.

In accordance with the directives in United States accounting standards, at the date of classification as a discontinued operation, the Bank classified all of the assets and liabilities attributed to the operation in the balance sheet as separate lines in the statement of financial position, including amendment of comparative figures. Similarly, in the statement of profit and loss, the Bank presented profit attributed to the discontinued operation separately, for all of the reported periods. In addition, beginning on that date, the Bank stopped accruing depreciation in respect of the depreciable assets of the Isracard Group.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 1 Significant Accounting Policies (continued)

NIS millions

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

	March 31, 2019	March 31, 2018	December 31, 2018
	Unaudited		Audited
Net credit to the public	14,911	13,310	14,366
Buildings and equipment	412	282	356
Others	443	393	388
Total assets of the Isracard Group	15,766	13,985	15,110
Other liabilities	14,233	14,669	13,951
Deposits	2,525	607	782
Total liabilities of the Isracard Group	16,758	15,276	14,733

b. Profit and loss attributed to a discontinued operation*

	For the three months ended March 31	For the year ended December 31
	2019	2018
	Unaudited	Audited
Income		
Net interest income	88	72
Fees	407	419
Others	12	3
Expenses		
Provision for credit losses	26	34
Salaries and related expenses	85	86
Other expenses	257	245
Maintenance and depreciation of buildings**	13	22
Profit before taxes	126	107
Provision for taxes on profit	33	29
Net profit before attribution to non-controlling interests	93	78
Profit attributed to non-controlling interests	2	1
Net profit	91	77

* Without netting of intercompany transactions between the Bank and the Isracard Group.

** Beginning in the third quarter of 2018, the statement of profit and loss does not include depreciation expenses attributed to the discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 1 Significant Accounting Policies (continued)

NIS millions

c. Cash flow attributed to a discontinued operation

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Net cash flow from operating activity	(420)	(56)	1,270
Net cash flow from investing activity	(531)	20	(987)
Net cash flow from financing activity	943	38	(282)
Increase (decrease) in cash and cash equivalents attributed to a discontinued operation	(8)	2	1

d. Earnings per ordinary share in NIS – net profit attributed to shareholders of the Bank from a discontinued operation

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Basic earnings	0.07	0.06	0.27
Diluted earnings	0.07	0.06	0.27

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 2 Interest Income and Expenses⁽¹⁾

Unaudited
NIS millions

	For the three months ended March 31	
	2019	2018
A. Interest income*		
From credit to the public	2,458	2,269
From credit to governments	17	16
From deposits with banks	103	73
From deposits with the Bank of Israel and from cash	29	11
From bonds	218	159
Total interest income	2,825	2,528
B. Interest expenses**		
On deposits from the public	(428)	(288)
On deposits from the government	(2)	(1)
On deposits from banks	(6)	(6)
On securities lent or sold under agreements to repurchase	-	1
On bonds and subordinated notes	(113)	(148)
On other liabilities	1	-
Total interest expenses	(548)	(442)
Total net interest income	2,277	2,086
C. Details of net effect of hedging derivative instruments on interest income and expenses**		
Interest income	3	(16)
Interest expenses	(1)	(3)
D. Details of interest income from bonds on a cumulative basis		
Held to maturity	3	3
Available for sale	209	153
Held for trading	6	3
Total included in interest income	218	159

* Including the effective component in hedges.

** Details of the effect of hedging derivative instruments on subsections A and B.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 3 Non-Interest Financing Income⁽⁵⁾

Unaudited
NIS millions

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

	For the three months ended March 31	
	2019	2018
1. From activity in derivative instruments		
Total from activity in derivative instruments ⁽¹⁾	(687)	682
2. From investment in bonds		
Gains from sale of bonds available for sale	30	85
Losses from sale of bonds available for sale	(3)	(18)
Total from investment in bonds	27	67
3. Net exchange-rate differences	643	(593)
Net of balances classified as exchange-rate differences from a discontinued operation	-	-
Net exchange-rate differences from continued operations	643	(593)
4. Gains (losses) from investment in shares		
Net realized and unrealized gains from adjustments to fair value of shares not held for trading ⁽²⁾⁽³⁾⁽⁴⁾	153	44
Dividend from shares not held for trading ⁽⁴⁾	2	5
Total from investment in shares	155	49
5. Net gains (losses) in respect of securitization transactions	-	-
6. Net gains in respect of loans sold	-	18
Total non-interest financing income in respect of non-trading activities	138	223

(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 for the three-month period ended March 31, 2019 (approximately NIS 8 million for the three-month period ended March 31, 2018).

(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.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 3 Non-Interest Financing Income⁽²⁾ (continued)

Unaudited
NIS millions

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

	For the three months ended March 31	
	2019	2018
Net income in respect of derivative instruments held for trading	1	4
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading ⁽¹⁾	(50)	1
Total non-interest financing income (expenses) in respect of trading activities**	(49)	5
Total non-interest financing income	89	228
Details of non-interest financing income in respect of trading activities, by risk exposure:		
Interest rate exposure	(50)	1
Foreign currency exposure	-	-
Share exposure	1	4
Total	(49)	5

* 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 (51) million for the three-month period ended March 31, 2019 (approximately NIS 4 million for the three-month period ended March 31, 2018).

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 4 Accumulated Other Comprehensive Income (Loss)

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 March 31, 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		
	Unaudited						
Balance as at January 1, 2019	(160)	(37)	(1)	(993)	(1,191)	3	(1,194)
Cumulative effect of initial implementation of US GAAP ⁽²⁾	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	239	-	-	(126)	113	-	113
Balance as at March 31, 2019	97	(37)	(1)	(1,119)	(1,060)	3	(1,063)
Balance as at January 1, 2018	513	(53)	(1)	(1,242)	(783)	3	(786)
Net change during the period	(223)	5	-	52	(166)	-	(166)
Balance as at March 31, 2018	290	(48)	(1)	(1,190)	(949)	3	(952)

- 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		
	Audited						
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.

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

(1) Includes balances attributed to a discontinued operation.

(2) 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\(1\)](#).

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁾

1. Changes in accumulated other comprehensive income (loss) for the three-month periods ended March 31, 2019 and 2018

	For the three months ended					
	March 31, 2019			March 31, 2018		
	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	377	(115)	262	(234)	84	(150)
(Gains) losses in respect of bonds available for sale reclassified to the statement of profit and loss ⁽²⁾⁽⁴⁾	(26)	3	(23)	(105)	32	(73)
Net change during the period	351	(112)	239	(339)	116	(223)
Adjustments from translation*						
Adjustments from translation of financial statements	-	-	-	23	-	23
Hedges**	-	-	-	(28)	10	(18)
Net change during the period	-	-	-	(5)	10	5
Cash-flow hedges						
Net (gains) losses in respect of cash-flow hedges reclassified to the statement of profit and loss ⁽²⁾	-	-	-	-	-	-
Net change during the period	-	-	-	-	-	-
Employee benefits						
Net actuarial profit (loss) during the period	(223)	80	(143)	36	(13)	23
Net (gains) losses reclassified to the statement of profit and loss ⁽³⁾	26	(9)	17	43	(14)	29
Net change during the period	(197)	71	(126)	79	(27)	52
Total net change during the period	154	(41)	113	(265)	99	(166)
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	154	(41)	113	(265)	99	(166)

* 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 items "salaries and related expenses" and "other expenses."

(4) Until December 31, 2018, securities available for sale.

Notes to the Condensed Financial Statements

as at March 31, 2019

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)

2. 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 items "salaries and related expenses" and "other expenses."

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽²⁾

Unaudited
NIS millions

	March 31, 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	4	-	310
Total bonds held to maturity	306	306	4	-	310

	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	32,972	32,795	179	(2)	32,972
Foreign governments	14,444	14,531	25	(112)	14,444
Financial institutions in Israel	118	117	1	-	118
Foreign financial institutions	8,114	8,090	46	(22)	8,114
Others in Israel	73	73	-	-	73
Foreign others	2,799	2,792	21	(14)	2,799
Total bonds and debentures available for sale	58,520	58,398	(1)272	(1)(150)	58,520

* 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.

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽⁴⁾ (continued)

Unaudited
NIS millions

	March 31, 2019				Fair value*
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	
3) Investments in shares not held for trading	1,826	1,749	⁽²⁾ 86	⁽²⁾ (9)	1,826
Of which: shares for which fair value is not readily available	1,078	1,078	-	-	1,078
Total securities not held for trading	60,652	60,453	362	⁽¹⁾ (159)	60,656
4) Securities held for trading					
Bonds and debentures					
Israeli government	5,594	5,552	42	-	5,594
Foreign governments	3	3	-	-	3
Foreign others	-	-	-	-	-
Total bonds and debentures held for trading	5,597	5,555	42	-	5,597
Shares					
Others	10	7	3	-	10
Total securities held for trading	5,607	5,562	⁽²⁾ 45	⁽²⁾ -	5,607
Total securities ⁽³⁾	66,259	66,015	407	(159)	66,263

* 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.

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

(3) Of which: securities in the amount of approximately NIS 2.8 billion were pledged to lenders.

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽¹⁾ (continued)

Unaudited
NIS millions

	March 31, 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	2,860	(2)	-	(2)	-	-	-	-
Foreign governments	-	-	-	-	8,883	(112)	-	(112)
Financial institutions in Israel	-	-	-	-	-	-	-	-
Foreign financial institutions	1,022	(6)	-	(6)	2,515	(16)	-	(16)
Others in Israel	-	-	-	-	-	-	-	-
Foreign others	595	(9)	-	(9)	510	(5)	-	(5)
Total bonds and debentures available for sale	4,477	(17)	-	(17)	11,908	(133)	-	(133)

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽³⁾ (continued)

Unaudited
NIS millions

	March 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	421	421	4	-	425
Total bonds held to maturity	421	421	4	-	425
	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
		(in shares - cost)	Gains	Losses	
2) Securities available for sale					
Bonds and debentures					
Israeli government	31,986	31,756	231	(1)	31,986
Foreign governments	10,512	10,714	17	(219)	10,512
Financial institutions in Israel	44	42	2	-	44
Foreign financial institutions	5,797	5,831	24	(58)	5,797
Others in Israel	307	303	6	(2)	307
Foreign others	1,415	1,405	16	(6)	1,415
Total bonds and debentures available for sale	50,061	50,051	296	(286)	50,061
Shares					
Others	2,035	1,739	308	(12)	⁽¹⁾ 2,035
Total securities available for sale	52,096	51,790	⁽²⁾ 604	⁽²⁾ (298)	⁽¹⁾ 52,096

* 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 970 million.

(2) Included in equity under the item "adjustments for presentation of securities available for sale at fair value."

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽⁴⁾ (continued)

Unaudited
NIS millions

	March 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	8,876	8,865	11	-	8,876
Foreign governments	69	68	1	-	69
Foreign financial institutions	-	-	-	-	-
Others in Israel	-	-	-	-	-
Foreign others	2	2	-	-	2
Total bonds and debentures held for trading	8,947	8,935	12	-	8,947
Shares					
Others	44	47	-	(3)	44
Total securities held for trading	8,991	8,982	⁽²⁾ 12	⁽²⁾ (3)	8,991
Total securities ⁽³⁾	61,508	61,193	620	(301)	⁽¹⁾ 61,512

	March 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	2,188	(1)	-	(1)	-	-	-	-
Foreign governments	8,980	(203)	-	(203)	923	(16)	-	(16)
Foreign financial institutions	3,826	(55)	-	(55)	301	(3)	-	(3)
Others in Israel	67	(2)	-	(2)	-	-	-	-
Foreign others	298	(4)	-	(4)	184	(2)	-	(2)
Total bonds and debentures available for sale	15,359	(265)	-	(265)	1,408	(21)	-	(21)
Shares								
Others	839	(12)	-	(12)	-	-	-	-
Total securities available for sale	16,198	(277)	-	(277)	1,408	(21)	-	(21)

* 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 970 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

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽³⁾ (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	Accumulated other comprehensive income		Fair value*
		(in shares – cost)	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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 5 Securities⁽⁴⁾ (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

	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)

* 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.

(4) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses⁽⁵⁾

Unaudited
NIS millions

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

	March 31, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	132,037	-	965	133,002	23,340	156,342
Debts examined on a collective basis ⁽¹⁾	41,042	71,687	41,143	153,872	-	153,872
(1) Of which: allowance for which was calculated according to the extent of arrears	11,461	71,490	-	82,951	-	82,951
Total ⁽²⁾	173,079	71,687	42,108	286,874	23,340	310,214
(2) Of which:						
Debts in restructuring	660	-	651	1,311	-	1,311
Other impaired debts	1,603	-	71	1,674	-	1,674
Total impaired debts	2,263	-	722	2,985	-	2,985
Debts in arrears of 90 days or more	202	589	85	876	-	876
Other problematic debts	2,977	1	60	3,038	-	3,038
Total problematic debts	5,442	590	867	6,899	-	6,899
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	2,130	-	154	2,284	10	2,294
In respect of debts examined on a collective basis ⁽³⁾	488	369	685	1,542	-	1,542
(3) Of which: allowance for which was calculated according to the extent of arrears***	57	369	-	426	-	426
Total allowance for credit losses ⁽⁴⁾	2,618	369	839	3,826	10	3,836
(4) Of which: allowance in respect of impaired debts	483	-	158	641	-	641

* 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 11,461 million.

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 290 million.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses⁽⁵⁾ (continued)

Unaudited
NIS millions

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

	March 31, 2018				Banks and governments	Total
	Credit to the public			Total		
	Commercial**	Housing	Other private			
Recorded debt balance						
Debts examined on an individual basis	125,186	-	1,323	126,509	23,942	150,451
Debts examined on a collective basis ⁽¹⁾	37,716	66,209	44,119	148,044	-	148,044
(1) Of which: allowance for which was calculated according to the extent of arrears	9,796	65,996	-	75,792	-	75,792
Total ⁽²⁾	162,902	66,209	45,442	274,553	23,942	298,495
(2) Of which:						
Debts in restructuring	637	-	619	1,256	-	1,256
Other impaired debts	1,184	-	108	1,292	-	1,292
Total impaired debts	1,821	-	727	2,548	-	2,548
Debts in arrears of 90 days or more	256	591	92	939	-	939
Other problematic debts	3,251	2	89	3,342	-	3,342
Total problematic debts	5,328	593	908	6,829	-	6,829
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	2,043	-	207	2,250	6	2,256
In respect of debts examined on a collective basis ⁽³⁾	488	336	686	1,510	-	1,510
(3) Of which: allowance for which was calculated according to the extent of arrears***	63	336	-	399	-	399
Total allowance for credit losses ⁽⁴⁾	2,531	336	893	3,760	6	3,766
(4) Of which: allowance in respect of impaired debts	314	-	206	520	-	520

* 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 9,796 million.

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 265 million.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses⁽⁵⁾ (continued)

Audited
NIS millions

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

	December 31, 2018				Banks and governments	Total
	Credit to the public			Total		
	Commercial**	Housing	Other private			
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 for which was calculated according to 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 beyond 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.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 6 Credit Risk, Credit to the Public, and Allowance for Credit Losses⁽³⁾ (continued)

NIS millions

2. Change in allowance for credit losses

	For the three months ended March 31, 2019					Total
	Credit to the public				Banks and governments	
	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⁾	51	3	65	119	2	121
Charge-offs	(167)	(2)	(188)	(357)	-	(357)
Recoveries of debts charged off in previous years	139	-	95	234	-	234
Net charge-offs	(28)	(2)	(93)	(123)	-	(123)
Allowance for credit losses as at March 31, 2019 ⁽²⁾ (unaudited)	3,076	369	876	4,321	11	4,332
(1) Of which: in respect of off-balance sheet credit instruments	(74)	-	2	(72)	-	(72)
(2) Of which: in respect of off-balance sheet credit instruments	458	-	37	495	1	496
	For the three months ended March 31, 2018*					Total
	Credit to the public				Banks and governments	
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	2,986	333	940	4,259	7	4,266
Provision for credit losses ⁽¹⁾	87	5	124	216	-	216
Charge-offs	(156)	(2)	(187)	(345)	-	(345)
Recoveries of debts charged off in previous years	189	-	75	264	-	264
Net charge-offs	33	(2)	(112)	(81)	-	(81)
Adjustments from translation of financial statements	-	-	1	1	-	1
Allowance for credit losses as at March 31, 2018 ⁽²⁾ (unaudited)	3,106	336	953	4,395	7	4,402
(1) Of which: in respect of off-balance sheet credit instruments	16	-	12	28	-	28
(2) Of which: in respect of off-balance sheet credit instruments	575	-	60	635	1	636

* Comparative figures were restated in order to present a discontinued operation separately from continued operations.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 7 Deposits from the Public⁽¹⁾

NIS millions

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

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
In Israel			
On demand			
Non-interest bearing	138,395	129,025	134,527
Interest bearing	91,730	84,384	90,919
Total on demand	230,125	213,409	225,446
Fixed term	105,138	111,647	107,694
Total deposits from the public in Israel*	335,263	325,056	333,140
Outside Israel			
On demand			
Non-interest bearing	1,974	4,425	2,116
Interest bearing	4,121	3,579	3,902
Total on demand	6,095	8,004	6,018
Fixed term	12,874	11,643	13,102
Total deposits from the public outside Israel	18,969	19,647	19,120
Total deposits from the public	354,232	344,703	352,260
* Of which:			
Deposits of private individuals	167,790	160,226	168,932
Deposits of institutional entities	47,284	49,364	43,402
Deposits of corporations and others	120,189	115,466	120,806

B. Deposits from the public by size

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Deposit ceiling			
Up to 1	123,183	119,581	124,117
Over 1 up to 10	89,154	83,817	89,745
Over 10 up to 100	53,977	51,323	52,811
Over 100 up to 500	32,274	35,363	33,202
Over 500	55,644	54,619	52,385
Total	354,232	344,703	352,260

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits

NIS millions

A. Employee benefits

Balances in this note are stated without exclusion of immaterial balances attributed to a discontinued operation, in the amount of approximately NIS 39 million as at March 31, 2019.

	March 31	December 31
	2019	2018
	Unaudited	Audited
Early retirement and severance pay		
Amount of liability	7,355	7,131
Fair value of plan assets	(3,809)	(3,722)
Surplus liability over plan assets (included in other liabilities)	3,546	3,409
Grant for non-utilization of sick days		
Amount of liability	359	339
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	359	339
25-year service grant		
Amount of liability	37	36
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	37	36
Other benefits at end of employment and post-employment		
Amount of liability	610	571
Fair value of plan assets	-	-
Surplus liability over plan assets (included in other liabilities)	610	571
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	4,552	4,355
* Of which: in respect of benefits for employees overseas	51	54

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan⁽¹⁾

(1) Commitments and financing status

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

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Net commitment in respect of forecast benefit at beginning of period	4,319	4,760	4,760
Service cost	33	36	135
Interest cost	38	34	136
Deposits by plan participants	-	-	(13)
Actuarial loss (profit)	225	(37)	(237)
Changes in foreign-currency exchange rates	(2)	1	4
Benefits paid	(98)	(120)	(466)
Net commitment in respect of forecast benefit at end of period	4,515	4,674	4,319
Net commitment in respect of cumulative benefit at end of period	4,303	4,448	4,123

b. Amounts recognized in the consolidated balance sheet

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Early retirement and severance pay			
Amounts recognized in the item "other liabilities"	4,515	4,674	4,319

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

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Net actuarial loss	1,695	1,798	1,498
Closing balance in accumulated other comprehensive income	1,695	1,798	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 \(4\)](#) below.

(1) Includes balances attributed to a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan⁽¹⁾ (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

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Commitment in respect of forecast benefit	8,324	8,615	8,041
Commitment in respect of cumulative benefit	8,112	8,389	7,845
Fair value of plan assets	(3,809)	(3,941)	(3,722)

(2) Expense for the period

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

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Service cost	33	36	135
Interest cost	38	34	136
Subtraction of unrecognized amounts:			
Net actuarial loss	26	43	146
Net total benefit cost	97	113	417

(1) Includes balances attributed to a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits (continued)

NIS millions

B. Post-retirement benefit plan⁽¹⁾ (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 March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Net actuarial loss (profit) for the period	225	(37)	(237)
Subtraction of actuarial loss	(26)	(43)	(146)
Changes in foreign-currency exchange rates	(2)	1	4
Subtraction due to reduction/extinguishment	-	-	-
Total recognized in other comprehensive income	197	(79)	(379)
Net total benefit cost	97	113	417
Total recognized in net benefit cost for the period and in other comprehensive income	294	34	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
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(1) Includes balances attributed to a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits (continued)

B. Post-retirement benefit plan⁽¹⁾ (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

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Capitalization rate	1.25%	1.32%	1.89%
Rate of increase in the CPI	2.0%	2.0%	2.0%
Rate of increase in remuneration ⁽²⁾	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 March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Capitalization rate	1.89%	1.25%	1.42%
Rate of increase in remuneration ⁽²⁾	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		
	March 31		December 31	March 31		December 31
	2019	2018	2018	2019	2018	2018
	Unaudited		Audited	Unaudited		Audited
Capitalization rate	(364)	(375)	(332)	430	444	390

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

(1) Includes balances attributed to a discontinued operation.

(2) 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 1.5% 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⁽¹⁾ (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:

	March 31		December 31
	2019	2018	2018
	Unaudited		Audited
Liability for severance pay	3,545	3,707	3,469
Amounts funded for severance pay	(3,427)	(3,582)	(3,359)
Net liability	118	125	110

(1) Includes balances attributed to a discontinued operation.

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 22 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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 8 Employee Benefits (continued)

NIS millions

C. Cash flows

(1) Deposits

	Forecast	Actual deposits		
		For the three months ended March 31		For the year ended December 31
		2019*	2018	2018
			Unaudited	Audited
Deposits	125	42	43	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	425
2020	375
2021	369
2022	319
2023	298
2024-2028	1,229
2029 forward	2,241
Total	5,256

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 are preparing to begin 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 a total of NIS 100,896 to which the CEO is entitled 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 if remuneration higher than the remuneration ceiling is 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.

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, quarterly dividends from 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 a dividend, with no change to the Bank's dividend distribution policy.

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. Further to the coordination with the Banking Supervision Department, the Board of Directors of the Bank instructed the Board of Management to formulate a plan for a buyback of shares of the Bank against this capital surplus, to be executed over a period of time, subject to the directives of the law and of the Banking Supervision Department on this matter. The implementation, volume, and terms of the plan are subject to resolution and approval by the Board of Directors of the Bank.

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

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

	March 31, 2019	March 31, 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⁾	38,903	36,637	38,004
Additional Tier 1 capital	733	977	977
Total Tier 1 capital ⁽¹⁾	39,636	37,614	38,981
Tier 2 capital	9,436	9,016	10,042
Total overall capital ⁽¹⁾	49,072	46,630	49,023
2. Weighted balances of risk-adjusted assets			
Credit risk ⁽²⁾	312,408	303,068	312,900
Market risks	2,998	4,692	3,429
Operational risk	24,285	23,779	24,268
Total weighted balances of risk-adjusted assets ⁽²⁾	339,691	331,539	340,597
	%		
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components ⁽³⁾	11.45%	11.05%	11.16%
Ratio of Tier 1 capital to risk components ⁽³⁾	11.67%	11.35%	11.44%
Ratio of total capital to risk components ⁽³⁾	14.45%	14.06%	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽⁴⁾	10.24%	10.23%	10.24%
Minimum total capital ratio required by the Banking Supervision Department ⁽⁴⁾	13.74%	13.73%	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 585 million as at March 31, 2019, NIS 640 million as at December 31, 2018, and NIS 800 million as at March 31, 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 effect of the sale of 65.2% of the issued and paid-up capital of Isracard, performed in April 2019, is estimated at an increase of approximately 0.4% in the common equity Tier 1 capital ratio and in the total capital ratio.

(4) 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)

	March 31, 2019	March 31, 2018	December 31, 2018
	Unaudited		Audited
	%		
4. Significant subsidiaries			
Isracard			
Ratio of common equity Tier 1 capital to risk components	12.46%	19.80%	19.96%
Ratio of Tier 1 capital to risk components	12.46%	19.80%	19.96%
Ratio of total capital to risk components	13.52%	20.86%	21.03%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department ⁽¹⁾	8.00%	8.00%	8.00%
Minimum total capital ratio required by the Banking Supervision Department ⁽¹⁾	11.50%	11.50%	11.50%
Bank Hapoalim Switzerland ⁽³⁾⁽⁴⁾			
Ratio of common equity Tier 1 capital to risk components	52.30%	22.69%	(24.27%)
Ratio of Tier 1 capital to risk components	52.30%	22.69%	(24.27%)
Ratio of total capital to risk components	52.38%	22.77%	(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 ⁽²⁾			
Bank Pozitif ⁽³⁾			
Ratio of Tier 1 capital to risk components	30.64%	29.04%	31.96%
Ratio of total capital to risk components	30.64%	29.04%	31.96%
Minimum total capital ratio required by local regulation	12.00%	12.00%	12.00%

(1) The required rates are in accordance with Proper Conduct of Banking Business Directive 472.

(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

(3) As reported to the local regulator.

(4) 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 CHF 250 million in the capital of Hapoalim Switzerland in the first quarter of 2019.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

NIS millions

E. Capital components for the calculation of the capital ratio

	March 31, 2019	March 31, 2018	December 31, 2018
	Unaudited		Audited
Common equity Tier 1 capital			
Total capital	38,571	36,216	37,656
Differences between total capital and common equity Tier 1 capital	(47)	(83)	(72)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	38,524	36,133	37,584
Supervisory adjustments and deductions:			
Deferred tax assets	(39)	(40)	(34)
Other supervisory adjustments and deductions – common equity Tier 1 capital	(1)	(28)	(3)
Total supervisory adjustments and deductions, before Efficiency Plan Adjustments – common equity Tier 1 capital	(40)	(68)	(37)
Total Efficiency Plan Adjustments – common equity Tier 1 capital*	419	572	457
Total common equity Tier 1 capital, after supervisory adjustments and deductions	38,903	36,637	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	39,636	37,614	38,981
Tier 2 capital			
Tier 2 capital – instruments, before deductions	5,580	5,228	6,131
Tier 2 capital – allowance for credit losses, before deductions	3,856	3,788	3,911
Total Tier 2 capital, before deductions	9,436	9,016	10,042
Deductions:			
Total deductions – Tier 2 capital	-	-	-
Total Tier 2 capital	9,436	9,016	10,042
Total overall capital	49,072	46,630	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

	March 31, 2019	March 31, 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	11.31%	10.85%	11.00%
Effect of Efficiency Plan Adjustments*	0.14%	0.20%	0.16%
Ratio of common equity Tier 1 capital to risk components	11.45%	11.05%	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 March 31, 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
	%	
Bank in consolidated data	(0.03%)	(0.03%)
Isracard	(0.57%)	(0.67%)

**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 March 31, 2019, stand at 10.24% and 13.74%, 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 0.14% as at March 31, 2019, are 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.

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

In April 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 0.5 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.

Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)**K. Early redemption of capital notes in Tier 1 capital**

The Bank carried out full early redemption of the subordinated notes in Series B in February 2019, in the amount of NIS 582 million.

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 volume 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.

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 Bank is examining possibilities for the sale of its full holdings, and in accordance with its strategic plan, has decided to gradually reduce the credit portfolio.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at March 31, 2019, is a decrease of approximately 0.05%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.12%, under the assumption of weighting of the risk-adjusted assets at 600%.

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

Notes to the Condensed Financial Statements

as at March 31, 2019

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

N. Leverage ratio (continued)

	March 31, 2019	March 31, 2018	December 31, 2018
	Unaudited		Audited
	NIS millions		
a. Consolidated data			
Tier 1 capital*	39,636	37,614	38,981
Total exposures*	523,012	509,845	518,980
		%	
Leverage ratio	7.58%	7.38%	7.51%
Minimum leverage ratio required by the Banking Supervision Department	6.00%	6.00%	6.00%
b. Significant subsidiaries			
Isracard			
Leverage ratio	7.67%	12.37%	12.62%
Minimum leverage ratio required by the Banking Supervision Department	5.00%	5.00%	5.00%
Bank Pozitif			
Leverage ratio	25.26%	22.60%	26.56%
Minimum required leverage ratio according to local regulation	3.00%	3.00%	3.00%
* 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 March 31, 2019, estimated at approximately 0.08%, is allocated in equal parts over five years, beginning in 2017.			
		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 March 31, 2019			
Bank in consolidated data		(0.02%)	(0.01%)
Isracard		(0.35%)	(0.26%)

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 63. Credit-card companies are exempt from independent calculations, but are included in the consolidated data.

	For the three months ended March 31, 2019	For the three months ended March 31, 2018	For the three months ended December 31, 2018
	%		
a. Consolidated data			
Liquidity coverage ratio	125%	119%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
b. Bank data			
Liquidity coverage ratio	122%	116%	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	100%	100%	100%
c. Significant subsidiaries*			
Bank Hapoalim Switzerland			
Liquidity coverage ratio according to local regulation	338%	207%	266%
Minimum liquidity coverage ratio required by local regulation**	100%	90%	90%

* At this stage, credit-card companies are not required to comply with the circular, and shall continue to fulfill the requirements of Proper Conduct of Banking Business Directive 342. At a later date, credit-card companies will be required to comply with a supervisory quantitative model adapted to the characteristics of their operations. 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.

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

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 10 Contingent Liabilities and Special Commitments

NIS millions

A. Contingent liabilities and other special commitments

	March 31		December 31
	2019	2018*	2018
	Unaudited		Audited
1. Commitment to purchase securities	462	374	460
2. Construction and acquisition of buildings and equipment	16	35	11
3. Long-term rent contracts – rent for buildings and equipment in commitments payable in future years:			
First year	138	153	139
Second year	134	143	134
Third year	124	125	124
Fourth year	114	115	115
Fifth year	105	107	107
Over five years	833	907	887
Total rent on buildings and equipment	1,448	1,550	1,506

* Restated.

4. Credit selling activity

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

	For the three months ended March 31		For the year ended December 31
	2019	2018	2018
	Unaudited		Audited
Book value of credit sold	-	101	225
Consideration received in cash	-	119	281
Total net profit from sale of credit	-	18	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 CHF 2 million (at this time, approximately CHF 3 million). Close to the beginning of the period of the lease, 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 CHF 23 million 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 CHF 23 million, in respect of which no provision was made, based on the evaluation of the legal advisors of Hapoalim Switzerland, as noted above.

Note 10 Contingent Liabilities and Special Commitments (continued)

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 March 31, 2019, that have a “reasonably possible” probability of materialization amounts to approximately NIS 276 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.

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 Note”).

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.** With regard to the claim and petition to certify the claim as a class action described in Section 3 of the 2018 Annual Note, 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.
- 2.** With regard to the claims and petitions to certify class actions described in Section 6 and Section 8 of the 2018 Annual Note, verdicts were given in March 2018 in which the certification petitions were denied. The petitioners filed an appeal of these verdicts 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:

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.

Note 10 Contingent Liabilities and Special Commitments (continued)**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 claim described in Section 1 of Note 25C(c) for 2018, in its ruling of March 21, 2019, after the response of the Governor of the Bank of Israel, the Monetary Committee of the Bank of Israel, and the Supervisor of Banks to the petition was submitted, the High Court of Justice ordered the defendant banks to submit their response to the petition by October 16, 2019. A hearing of the petition has been scheduled for November 6, 2019.
- 2.** With regard to the claim described in Section 3 of Note 25C(c) for 2018, on March 26, 2019, the parties informed the court that the mediation proceeding was still underway. The court ruled that the parties must complete the mediation proceeding by June 30, 2019.
- 3.** With regard to the claim described in Section 5 of Note 25C(c) for 2018, 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, the state gave notice that it did not object to the petition to approve the settlement agreement. In its ruling of May 5, 2019, the court ordered the parties to publish the settlement agreement.
- 4.** With regard to the claims described in Section 8 of Note 25C for 2018, 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. Accordingly, the court scheduled a hearing of the motion for July 9, 2019.

Note 10 Contingent Liabilities and Special Commitments (continued)

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. At this stage, as the investigation of the United States authorities has not ended, no agreement has been reached yet regarding a resolution or 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 resolution or resolutions.

Note 10 Contingent Liabilities and Special Commitments (continued)

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). At this time, it appears that a resolution or resolutions with the DOJ may be in the form of a deferred prosecution agreement or a plea agreement. An array of considerations may adversely affect the resolution or resolutions (if reached), including possible arguments with respect to certain actions of former senior employees of Hapoalim Switzerland that have emerged in the investigation, the nature and scope of cooperation with the DOJ, and the findings with respect to the severity of the acts and the scope of the activities.

As at March 31, 2019, the total provision for this matter is equal to an amount of approximately USD 611 million (approximately NIS 2,220 million). This amount also includes, as noted, 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 includes provision for the three components that, in the Bank's best judgment at this time, 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 component of income of the Bank Group from American customers, as noted, and a component of the penalty which the Bank Group may pay. 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. As noted above, the aforesaid amounts also include a provision at a rate of 30% of the amount of the provision in respect of the DOJ, for the exposure to other United States authorities.

The provision was calculated based on the quantitative information available to the Bank Group in respect of these customers, as at the date of publication of the financial statements. Before the American customers database is fully updated and validated and agreements are reached with the United States authorities regarding the criteria for determining the population of customers relevant for the calculation, the periods relevant for the calculation, the components of the calculation, and the calculation methods, 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.

Note 10 Contingent Liabilities and Special Commitments (continued)

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 negotiations with the other 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.

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 it is unable to estimate these amounts, as noted above.

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 is 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 stored on or accessible from the Bank's servers in the United States, in a manner that might not be consistent with bank secrecy and privacy protection laws and regulations. The Bank, with the assistance of external advisors, is acting 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. The Bank Group is examining the legal and regulatory implications, which also include financial exposures, the probability and scope of which are difficult to assess at this stage.

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, quarterly dividends from 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 profits, beginning with the second quarter of 2018, with no change to the Bank's dividend distribution policy. See also [Note 9](#) above. 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.

Note 10 Contingent Liabilities and Special Commitments (continued)

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.

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.

According to the opinion of the legal advisors of the Bank Group, at this stage it is not possible to estimate whether the Bank Group will bear any liability on the criminal, civil, or regulatory plane with regard to this matter; 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. Inception of the agreement is contingent upon approval by the Banking Supervision Department.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

Unaudited
NIS millions

A. Nominal amount of derivative instruments

	March 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	34,451	-	34,451
Options written	14,061	-	14,061
Options bought	15,008	-	15,008
Swaps ⁽¹⁾	667,256	-	667,256
Total ⁽²⁾	730,776	-	730,776
Of which: hedging derivatives	14,059	-	14,059
Foreign-currency contracts			
Future and forward contracts	187,588	-	187,588
Options written	27,357	2,475	29,832
Options bought	23,710	2,475	26,185
Swaps	35,131	-	35,131
Total ⁽³⁾	273,786	4,950	278,736
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	13,758	13,758
Options written	2,233	9,504	11,737
Options bought ⁽⁴⁾	668	9,504	10,172
Swaps	7,916	-	7,916
Total	10,817	32,766	43,583
Commodity and other contracts			
Future and forward contracts	548	-	548
Options written	333	-	333
Options bought	278	-	278
Swaps	5	-	5
Total	1,164	-	1,164
Credit contracts			
Bank as guarantor	-	-	-
Bank as beneficiary	-	-	-
Total	-	-	-
Total nominal amount	1,016,543	37,716	1,054,259

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 333,989 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 27,010 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 12,439 million.

(4) Of which: traded on the stock exchange in the amount of NIS 9,504 million.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

Unaudited
NIS millions

A. Nominal amount of derivative instruments (continued)

	March 31, 2018		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	37,329	-	37,329
Options written	31,305	-	31,305
Options bought	30,145	-	30,145
Swaps ⁽¹⁾	735,378	61	735,439
Total ⁽²⁾	834,157	61	834,218
Of which: hedging derivatives	8,441	-	8,441
Foreign-currency contracts			
Future and forward contracts	171,004	-	171,004
Options written	19,685	4,425	24,110
Options bought	18,898	4,425	23,323
Swaps	44,361	-	44,361
Total ⁽³⁾	253,948	8,850	262,798
Of which: hedging derivatives	1,731	-	1,731
Share-related contracts			
Future and forward contracts	-	10,039	10,039
Options written	2,646	10,283	12,929
Options bought ⁽⁴⁾	881	10,283	11,164
Swaps	10,932	-	10,932
Total	14,459	30,605	45,064
Commodity and other contracts			
Future and forward contracts	157	-	157
Options written	320	-	320
Options bought	288	-	288
Swaps	-	-	-
Total	765	-	765
Credit contracts			
Bank as guarantor	123	-	123
Bank as beneficiary	50	-	50
Total	173	-	173
Total nominal amount	1,103,502	39,516	1,143,018

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 373,701 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 29,506 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 13,202 million.

(4) Of which: traded on the stock exchange in the amount of NIS 10,283 million.

Notes to the Condensed Financial Statements

as at March 31, 2019

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

Unaudited
NIS millions

B. Gross fair value of derivative instruments

	March 31, 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	6,294	-	6,294	6,459	-	6,459
Of which: hedging derivatives	75	-	75	310	-	310
Foreign-currency contracts	3,072	23	3,095	3,125	23	3,148
Of which: hedging derivatives	-	-	-	-	-	-
Share-related contracts	186	648	834	179	651	830
Commodity and other contracts	23	-	23	23	-	23
Credit contracts	-	-	-	-	-	-
Total gross assets (liabilities) in respect of derivatives ⁽¹⁾	9,575	671	10,246	9,786	674	10,460
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	9,575	671	10,246	9,786	674	10,460
Of which: not subject to a netting arrangement or similar arrangements	754	105	859	649	105	754

(1) Of which: gross fair value of assets in respect of embedded derivatives in the amount of NIS 0 million; gross fair value of liabilities in respect of embedded derivatives in the amount of NIS 31 million.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

Unaudited
NIS millions

B. Gross fair value of derivative instruments (continued)

	March 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	7,068	-	7,068	7,124	-	7,124
Of which: hedging derivatives	109	-	109	110	-	110
Foreign-currency contracts	4,233	44	4,277	3,352	45	3,397
Of which: hedging derivatives	9	-	9	11	-	11
Share-related contracts	220	693	913	213	695	908
Commodity and other contracts	14	-	14	14	-	14
Credit contracts	1	-	1	-	-	-
Total gross assets (liabilities) in respect of derivatives ⁽¹⁾	11,536	737	12,273	10,703	740	11,443
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	11,536	737	12,273	10,703	740	11,443
Of which: not subject to a netting arrangement or similar arrangements	1,726	737	2,463	658	740	1,398

(1) Of which: gross fair value of assets in respect of embedded derivatives in the amount of NIS 0 million; gross fair value of liabilities in respect of embedded derivatives in the amount of NIS 7 million.

Notes to the Condensed Financial Statements

as at March 31, 2019

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
Credit contracts	-	-	-	-	-	-
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: gross fair value of assets in respect of embedded derivatives in the amount of NIS 0 million; gross fair value of liabilities in respect of embedded derivatives in the amount of NIS 2 million.

Notes to the Condensed Financial Statements

as at March 31, 2019

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 March 31, 2019
	Interest income (expenses)
Profit (loss) from fair-value hedges	
Hedged items	191
Hedging derivatives	(191)

2. Items hedged in fair-value hedges

	Balance as at March 31, 2019	
	Book value	Cumulative fair-value adjustments that increased the book value
Securities	10,230	241

Notes to the Condensed Financial Statements

as at March 31, 2019

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

	March 31, 2019					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	366	5,380	1,372	48	3,080	10,246
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,735)	(1,267)	(20)	(1,142)	(7,164)
Credit risk mitigation in respect of cash collateral received	-	(390)	(57)	-	(295)	(742)
Net total assets in respect of derivative instruments	366	255	48	28	1,643	2,340
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	244	3,832	1,604	72	3,982	9,734
Off-balance sheet credit risk mitigation	-	(1,960)	(650)	(18)	(954)	(3,582)
Total gross credit risk in respect of derivative instruments	610	9,212	2,976	120	7,062	19,980
Balance sheet balance of liabilities in respect of derivative instruments ⁽²⁾	202	5,321	1,703	20	3,214	10,460
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,735)	(1,267)	(20)	(1,142)	(7,164)
Net total liabilities in respect of derivative instruments	202	586	436	-	2,072	3,296

(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 31 million (March 31, 2018: NIS 7 million; December 31, 2018: NIS 2 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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)

	March 31, 2018					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	56	5,661	1,594	57	4,905	12,273
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,130)	(1,364)	-	(1,031)	(7,525)
Credit risk mitigation in respect of cash collateral received	-	(404)	(48)	(53)	(697)	(1,202)
Net total assets in respect of derivative instruments	56	127	182	4	3,177	3,546
Off-balance sheet credit risk in respect of derivative instruments ⁽¹⁾	263	4,311	1,637	41	4,572	10,824
Off-balance sheet credit risk mitigation	-	(2,295)	(725)	-	(996)	(4,016)
Total gross credit risk in respect of derivative instruments	319	9,972	3,231	98	9,477	23,097
Balance sheet balance of liabilities in respect of derivative instruments ⁽²⁾	359	6,257	2,369	4	2,454	11,443
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,130)	(1,364)	-	(1,031)	(7,525)
Net total liabilities in respect of derivative instruments	359	1,127	1,005	4	1,423	3,918

(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 31 million (March 31, 2018: NIS 7 million; December 31, 2018: NIS 2 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
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 31 million (March 31, 2018: NIS 7 million; December 31, 2018: NIS 2 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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

NIS millions

E. Details of maturity dates (nominal value amounts)

	March 31, 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	2,432	6,425	11,472	6,681	27,010
Other	70,791	170,993	375,721	86,261	703,766
Foreign-currency contracts	147,659	93,331	22,255	15,491	278,736
Share-related contracts	31,860	10,057	1,666	-	43,583
Commodity and other contracts (including credit derivatives)	662	459	43	-	1,164
Total	253,404	281,265	411,157	108,433	1,054,259
	March 31, 2018				
	Unaudited				
Total	279,447	254,979	454,394	154,198	1,143,018
	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 fulfill 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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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.

The activity of the Isracard Group is classified as a “discontinued operation.” The balance sheet balances of assets and liabilities and results attributed to the discontinued operation are presented separately from the continued operations, under the “Other” segment.

Information regarding supervisory activity segments

	For the three months ended March 31, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	966	370	6
Interest expenses for externals	(66)	-	-
Net interest income:			
From externals	900	370	6
Inter-segmental	(83)	(204)	(1)
Total net interest income	817	166	5
Non-interest income:			
Non-interest financing income	1	-	-
Fees and other income	317	15	46
Total non-interest income	318	15	46
Total income	1,135	181	51
Provision (income) for credit losses	69	3	-
Operating and other expenses:			
For externals	890	56	45
Inter-segmental	(5)	-	-
Total operating and other expenses	885	56	45
Profit (loss) from continued operations before taxes	181	122	6
Provision for taxes (tax benefit) on profit (loss) from continued operations	66	46	2
Profit (loss) from continued operations after taxes	115	76	4
Net profit (loss) from continued operations	115	76	4
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	115	76	4
Loss attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	115	76	4

Notes to the Condensed Financial Statements

as at March 31, 2019

Unaudited
NIS millions

For the three months ended March 31, 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	
7	636	218	377	12	276	-	2,492	333	2,825
(56)	(48)	(24)	(96)	(59)	(88)	-	(437)	(111)	(548)
(49)	588	194	281	(47)	188	-	2,055	222	2,277
95	6	(5)	(28)	69	31	-	85	(85)	-
46	594	189	253	22	219	-	2,140	137	2,277
-	3	4	10	6	49	2	75	14	89
35	204	68	90	25	21	31	791	12	803
35	207	72	100	31	70	33	866	26	892
81	801	261	353	53	289	33	3,006	163	3,169
-	43	1	11	(1)	2	-	125	(4)	121
33	396	82	65	30	160	47	1,703	174	1,877
13	32	(3)	12	10	(50)	(5)	4	(4)	-
46	428	79	77	40	110	42	1,707	170	1,877
35	330	181	265	14	177	(9)	1,174	(3)	1,171
13	124	68	102	5	51	(2)	427	22	449
22	206	113	163	9	126	(7)	747	(25)	722
22	206	113	163	9	126	(7)	747	(25)	722
-	-	-	-	-	-	91	91	-	91
22	206	113	163	9	126	84	838	(25)	813
-	-	-	-	-	5	-	5	3	8
22	206	113	163	9	131	84	843	(22)	821

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2019		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	110,664	70,121	4,396
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	111,764	70,488	4,396
Balance of gross credit to the public at the end of the reported period	113,660	71,417	5,336
Balance of impaired debts	705	-	-
Balance of debts in arrears of more than 90 days	652	567	-
Average balance of liabilities ⁽¹⁾	135,166	-	-
Of which: average balance of deposits from the public ⁽¹⁾	135,163	-	-
Balance of deposits from the public at the end of the reported period	134,474	165	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	84,910	41,210	4,031
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	85,237	41,595	4,031
Average balance of assets under management ⁽¹⁾⁽³⁾	67,561	-	-
Segmentation of net interest income:			
Spread from credit granting activity	695	166	5
Spread from deposit taking activity	122	-	-
Other	-	-	-
Total net interest income	817	166	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.

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

Notes to the Condensed Financial Statements

as at March 31, 2019

Unaudited
NIS millions

For the three months ended March 31, 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	
809	62,958	29,183	59,800	1,511	147,904	15,251	428,080	34,038	462,118
-	-	-	-	-	103	-	103	-	103
818	63,659	29,563	60,437	1,158	-	15,108	282,507	16,361	298,868
884	65,259	30,408	58,052	1,494	-	15,152	284,909	17,117	302,026
-	1,169	239	588	-	-	55	2,756	284	3,040
-	202	-	-	-	-	-	854	22	876
32,810	62,978	20,833	35,678	45,645	51,909	17,211	402,230	21,886	424,116
32,810	62,821	20,685	35,132	45,422	-	575	332,608	18,945	351,553
33,316	62,413	20,027	37,749	47,284	-	575	335,838	18,969	354,807
1,316	70,160	41,829	77,429	5,475	21,140	16,047	318,306	21,839	340,145
1,350	71,356	41,992	76,604	4,606	20,297	16,736	318,178	21,513	339,691
45,702	36,104	15,696	74,060	554,008	63,432	2,870	859,433	1,063	860,496
4	518	168	231	7	584	-	2,207	251	2,458
42	76	21	22	13	(539)	-	(243)	(185)	(428)
-	-	-	-	2	174	-	176	71	247
46	594	189	253	22	219	-	2,140	137	2,277

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	916	311	6
Interest expenses for externals	(55)	-	-
Net interest income:			
From externals	861	311	6
Inter-segmental	(100)	(175)	-
Total net interest income	761	136	6
Non-interest income:			
Non-interest financing income	2	-	-
Fees and other income	334	16	52
Total non-interest income	336	16	52
Total income	1,097	152	58
Provision (income) for credit losses	127	5	-
Operating and other expenses:			
For externals	944	52	37
Inter-segmental	(75)	-	-
Total operating and other expenses	869	52	37
Profit (loss) from continued operations before taxes	101	95	21
Provision for taxes on profit from continued operations	36	34	7
Profit (loss) from continued operations after taxes	65	61	14
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	65	61	14
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	65	61	14
Loss attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	65	61	14

* Reclassified. For additional information, see [Note 28 to the Annual Financial Statements for 2018](#).

Notes to the Condensed Financial Statements

as at March 31, 2019

Unaudited
NIS millions

For the three months ended March 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	
8	615	194	347	11	198	-	2,289	239	2,528
(34)	(25)	(16)	(34)	(80)	(124)	-	(368)	(74)	(442)
(26)	590	178	313	(69)	74	-	1,921	165	2,086
60	(17)	(14)	(77)	90	94	-	36	(36)	-
34	573	164	236	21	168	-	1,957	129	2,086
-	2	4	8	7	191	-	214	14	228
40	208	66	85	36	24	30	823	25	848
40	210	70	93	43	215	30	1,037	39	1,076
74	783	234	329	64	383	30	2,994	168	3,162
-	74	6	(8)	2	-	-	201	15	216
31	316	75	71	26	183	70	1,716	249	1,965
14	104	1	6	12	(59)	(3)	-	-	-
45	420	76	77	38	124	67	1,716	249	1,965
29	289	152	260	24	259	(37)	1,077	(96)	981
10	104	55	103	10	101	9	428	16	444
19	185	97	157	14	158	(46)	649	(112)	537
-	-	-	-	-	4	-	4	-	4
19	185	97	157	14	162	(46)	653	(112)	541
-	-	-	-	-	-	77	77	-	77
19	185	97	157	14	162	31	730	(112)	618
-	-	-	-	-	3	-	3	7	10
19	185	97	157	14	165	31	733	(105)	628

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 12 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the three months ended March 31, 2018*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets ⁽¹⁾	108,345	64,242	6,273
Of which: investments in equity-basis investees ⁽¹⁾	-	-	-
Average balance of gross credit to the public ⁽¹⁾	109,440	64,584	6,273
Balance of gross credit to the public at the end of the reported period	110,921	65,754	6,278
Balance of impaired debts	690	-	-
Balance of debts in arrears of more than 90 days	668	587	-
Average balance of liabilities ⁽¹⁾	124,018	-	-
Of which: average balance of deposits from the public ⁽¹⁾	124,015	-	-
Balance of deposits from the public at the end of the reported period	125,659	-	-
Average balance of risk-adjusted assets ⁽¹⁾⁽²⁾	80,847	37,324	4,311
Balance of risk-adjusted assets at the end of the reported period ⁽²⁾	82,283	37,916	4,311
Average balance of assets under management ⁽¹⁾⁽³⁾	73,450	-	-
Segmentation of net interest income:			
Spread from credit granting activity	688	136	6
Spread from deposit taking activity	73	-	-
Other	-	-	-
Total net interest income	761	136	6

* Reclassified. For additional information, see [Note 28 to the Annual Financial Statements for 2018](#).

(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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Unaudited
NIS millions

For the three months ended March 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	
1,268	60,941	26,656	52,337	2,928	149,711	13,019	415,205	34,914	450,119
-	-	-	-	-	150	-	150	-	150
1,280	61,921	27,127	52,859	2,532	-	12,281	267,440	15,223	282,663
1,010	62,800	27,554	54,690	2,574	-	13,514	273,063	15,004	288,067
-	869	446	298	-	-	42	2,345	245	2,590
-	241	-	-	-	-	-	909	30	939
31,673	58,337	18,638	35,370	53,863	53,008	15,375	390,282	23,771	414,053
31,667	58,214	18,543	34,845	53,563	-	107	320,954	21,365	342,319
32,391	60,446	18,822	36,091	49,464	-	107	322,980	21,830	344,810
1,565	68,591	39,355	71,183	7,487	20,607	18,836	308,471	19,685	328,156
1,597	68,490	40,092	71,979	8,386	20,055	19,099	311,981	19,558	331,539
47,096	30,776	13,285	80,053	631,892	61,421	2,970	940,943	19,146	960,089
7	532	153	224	7	562	-	2,173	185	2,358
27	41	11	12	12	(380)	-	(204)	(92)	(296)
-	-	-	-	2	(14)	-	(12)	36	24
34	573	164	236	21	168	-	1,957	129	2,086

Notes to the Condensed Financial Statements

as at March 31, 2019

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 of the data were reclassified in order to properly reflect the changes, including reclassification in the assignment of customers to various segments.

Notes to the Condensed Financial Statements

as at March 31, 2019

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	882	1,645	56	900	-	10,607	1,065	11,672	
(186)	(156)	(100)	(217)	(396)	(1,029)	-	(2,403)	(363)	(2,766)	
(145)	2,451	782	1,428	(340)	(129)	-	8,204	702	8,906	
305	(143)	(74)	(422)	437	1,110	-	185	(185)	-	
160	2,308	708	1,006	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	994	1,383	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	729	1,381	118	1,879	(456)	5,324	(1,123)	4,201	
50	381	267	504	43	608	(65)	1,964	45	2,009	
90	669	462	877	75	1,271	(391)	3,360	(1,168)	2,192	
-	-	-	-	-	4	-	4	-	4	
90	669	462	877	75	1,275	(391)	3,364	(1,168)	2,196	
-	-	-	-	-	-	364	364	-	364	
90	669	462	877	75	1,275	(27)	3,728	(1,168)	2,560	
-	-	-	-	-	15	-	15	20	35	
90	669	462	877	75	1,290	(27)	3,743	(1,148)	2,595	

Notes to the Condensed Financial Statements

as at March 31, 2019

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 of the data were reclassified in order to properly reflect the changes, including reclassification in the assignment of customers to various segments.

(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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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	27,925	54,136	2,583	149,577	14,003	418,315	33,547	451,862	
-	-	-	-	-	120	-	120	-	120	
1,057	61,396	28,349	54,668	2,192	-	13,883	271,137	17,427	288,564	
921	64,672	29,882	59,059	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	41,026	75,245	7,296	20,258	18,362	312,783	20,575	333,358	
1,280	68,580	41,662	78,250	6,341	21,980	16,078	318,435	22,162	340,597	
47,462	35,128	15,217	81,507	629,141	63,990	2,870	947,304	19,021	966,325	
24	2,084	649	942	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	708	1,006	97	981	-	8,389	517	8,906	

Note 12A Segments of Activity Based on 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 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](#).

The activity of the Isracard Group is classified as a "discontinued operation." The balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity, the "Isracard Group," are presented separately from the continued operations, within the "Adjustments" segment.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 12A Segments of Activity Based on Management Approach (continued)

Unaudited
NIS millions

A. Information regarding activity segments

	For the three months ended March 31, 2019								Total
	Retail activity			Business activity			Financial management ⁽³⁾	Adjustments ⁽⁴⁾	
	Private customers ⁽¹⁾	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate	International activity			
Net interest income:									
From externals	456	382	415	275	442	200	103	4	2,277
Inter-segmental	268	32	(221)	(14)	(98)	(76)	109	-	
Non-interest financing income	2	1	-	3	19	13	37	14	89
Total net financing profit	726	415	194	264	363	137	249	18	2,366
Fees and other income	354	143	15	89	116	16	40	30	803
Total income	1,080	558	209	353	479	153	289	48	3,169
Provision (income) for credit losses	57	78	7	1	(20)	(4)	2	-	121
Operating and other expenses:									
From externals	883	233	112	123	149	172	142	63	1,877
Inter-segmental	41	61	(49)	(1)	(6)	1	(39)	(8)	-
Profit (loss) from continued operations before taxes	99	186	139	230	356	(16)	184	(7)	1,171
Provision for taxes (tax benefit) on profit (loss) from continued operations	38	71	52	87	135	17	54	(5)	449
Net profit (loss) from continued operations	61	115	87	143	221	(33)	130	(2)	722
Net profit from a discontinued operation	-	-	-	-	-	-	-	91	91
Net profit (loss):									
Before attribution to non-controlling interests	61	115	87	143	221	(33)	130	89	813
Attributed to non-controlling interests	-	-	-	-	-	3	5	-	8
Attributed to shareholders of the Bank	61	115	87	143	221	(30)	135	89	821
Net credit to the public at the end of the reported period	43,436	32,111	83,148	38,205	72,004	13,512	632	14,911	297,959
Deposits from the public at the end of the reported period	187,820	42,854	-	23,963	48,422	18,804	32,369	575	354,807

- (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 5,046 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 1,592 million.
- (3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within 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. The data also include balances attributed to a discontinued operation.

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

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

- (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 5,578 million.
- (2) The segment also includes the balances of credit-card activity which are part of continued operations, including a balance of credit to the public in the amount of NIS 1,176 million.
- (3) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within 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. The data also include balances attributed to a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Unaudited
NIS millions

For the three months ended March 31, 2018*								
Retail activity			Business activity		International activity	Financial management ⁽³⁾	Adjustments ⁽⁴⁾	Total
Private customers ⁽¹⁾	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate				
514	394	353	257	427	146	(6)	1	2,086
161	5	(193)	(15)	(90)	(29)	161	-	-
3	1	-	2	26	14	175	7	228
678	400	160	244	363	131	330	8	2,314
377	145	15	92	114	31	38	36	848
1,055	545	175	336	477	162	368	44	3,162
110	95	5	21	(30)	15	-	-	216
836	234	93	119	168	246	186	83	1,965
64	40	(33)	11	(14)	6	(56)	(18)	-
45	176	110	185	353	(105)	238	(21)	981
16	67	39	71	134	12	89	16	444
29	109	71	114	219	(117)	149	(37)	537
-	-	-	-	-	-	4	-	4
29	109	71	114	219	(117)	153	(37)	541
-	-	-	-	-	-	-	77	77
29	109	71	114	219	(117)	153	40	618
-	-	-	-	-	7	3	-	10
29	109	71	114	219	(110)	156	40	628
45,750	32,136	75,606	34,847	68,627	12,356	1,471	13,310	284,103
174,453	38,810	-	24,284	41,209	21,830	44,117	107	344,810

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:

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 of 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 within 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. The data also include balances attributed to a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Audited
NIS millions

For the year ended December 31, 2018*								
Retail activity			Business activity				Adjustments ⁽⁴⁾	Total
Private customers ⁽¹⁾	Small businesses ⁽²⁾	Housing loans	Commercial	Corporate	International activity	Financial management ⁽³⁾		
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 allocated, 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 three months ended March 31, 2019, and in the year ended December 31, 2018, were allocated 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 279 million and approximately NIS 731 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 14 million and approximately NIS 1,312 million, respectively; and net profit in the amount of approximately NIS 57 million and approximately NIS 290 million, respectively, would be recorded in the Adjustments Segment.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses

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 March 31, 2019					Total
	Credit to the public				Banks and governments	
	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⁾	51	3	65	119	2	121
Charge-offs	(167)	(2)	(188)	(357)	-	(357)
Recoveries of debts charged off in previous years	139	-	95	234	-	234
Net charge-offs	(28)	(2)	(93)	(123)	-	(123)
Allowance for credit losses as at March 31, 2019 ⁽²⁾ (unaudited)	3,076	369	876	4,321	11	4,332
(1) Of which: in respect of off-balance sheet credit instruments	(74)	-	2	(72)	-	(72)
(2) Of which: in respect of off-balance sheet credit instruments	458	-	37	495	1	496
	For the three months ended March 31, 2018**					Total
	Credit to the public				Banks and governments	
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	2,986	333	940	4,259	7	4,266
Provision for credit losses ⁽¹⁾	87	5	124	216	-	216
Charge-offs	(156)	(2)	(187)	(345)	-	(345)
Recoveries of debts charged off in previous years	189	-	75	264	-	264
Net charge-offs	33	(2)	(112)	(81)	-	(81)
Adjustments from translation of financial statements	-	-	1	1	-	1
Allowance for credit losses as at March 31, 2018 ⁽²⁾ (unaudited)	3,106	336	953	4,395	7	4,402
(1) Of which: in respect of off-balance sheet credit instruments	16	-	12	28	-	28
(2) Of which: in respect of off-balance sheet credit instruments	575	-	60	635	1	636

* 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").

** Comparative figures were restated in order to present a discontinued operation separately from continued operations. For further details, see [Note 1E](#) to the Condensed Financial Statements.

Notes to the Condensed Financial Statements

as at March 31, 2019

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*⁽³⁾

	March 31, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts*:						
Examined on an individual basis	132,037	-	965	133,002	23,340	156,342
Examined on a collective basis ⁽¹⁾	41,042	71,687	41,143	153,872	-	153,872
Total debts*	173,079	71,687	42,108	286,874	23,340	310,214
(1) Of which: allowance for which was calculated according to the extent of arrears	11,461	71,490	-	82,951	-	82,951
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	2,130	-	154	2,284	10	2,294
Examined on a collective basis ⁽²⁾	488	369	685	1,542	-	1,542
Total allowance for credit losses	2,618	369	839	3,826	10	3,836
(2) Of which: allowance for which was calculated according to the extent of arrears***	57	369	-	426	-	426

* 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 11,461 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2018: NIS 9,796 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 290 million (March 31, 2018: NIS 265 million; December 31, 2018: NIS 284 million).

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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*⁽³⁾ (continued)

	March 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	125,186	-	1,323	126,509	23,942	150,451
Examined on a collective basis ⁽¹⁾	37,716	66,209	44,119	148,044	-	148,044
Total debts*	162,902	66,209	45,442	274,553	23,942	298,495
(1) Of which: allowance for which was calculated according to the extent of arrears	9,796	65,996	-	75,792	-	75,792
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	2,043	-	207	2,250	6	2,256
Examined on a collective basis ⁽²⁾	488	336	686	1,510	-	1,510
Total allowance for credit losses	2,531	336	893	3,760	6	3,766
(2) Of which: allowance for which was calculated according to the extent of arrears***	63	336	-	399	-	399

* 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 11,461 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2018: NIS 9,796 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 290 million (March 31, 2018: NIS 265 million; December 31, 2018: NIS 284 million).

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾ (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 11,461 million, of commercial borrowers, or granted to purchasing groups in the process of construction (March 31, 2018: NIS 9,796 million; December 31, 2018: NIS 11,044 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 290 million (March 31, 2018: NIS 265 million; December 31, 2018: NIS 284 million).

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽⁶⁾

	March 31, 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	25,867	268	339	26,474	34	49
Construction and real estate – real-estate activities	19,293	331	251	19,875	16	45
Financial services	15,957	21	24	16,002	4	7
Commercial – other	87,075	1,974	1,350	90,399	145	227
Total commercial	148,192	2,594	1,964	152,750	199	328
Private individuals – housing loans ⁽⁵⁾	70,678	568	-	71,246	567	522
Private individuals – other	41,129	145	704	41,978	85	160
Total public – activity in Israel	259,999	3,307	2,668	265,974	851	1,010
Banks in Israel	184	-	-	184	-	-
Israeli government	897	-	-	897	-	-
Total activity in Israel	261,080	3,307	2,668	267,055	851	1,010

* 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 202 million (March 31, 2018: NIS 168 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 61 million (March 31, 2018: NIS 68 million; December 31, 2018: NIS 66 million).

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽⁵⁾ (continued)

	March 31, 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	7,347	208	115	7,670	3	52
Commercial – other	12,098	377	184	12,659	-	76
Total commercial	19,445	585	299	20,329	3	128
Private individuals	531	22	18	571	22	10
Total public – activity overseas	19,976	607	317	20,900	25	138
Banks overseas	20,870	-	-	20,870	-	-
Governments overseas	1,389	-	-	1,389	-	-
Total activity overseas	42,235	607	317	43,159	25	138
Total public	279,975	3,914	2,985	286,874	876	1,148
Total banks	21,054	-	-	21,054	-	-
Total governments	2,286	-	-	2,286	-	-
Total	303,315	3,914	2,985	310,214	876	1,148

* 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 202 million (March 31, 2018: NIS 168 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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⁽⁶⁾ (continued)**

	March 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	23,337	382	297	24,016	44	76
Construction and real estate – real-estate activities	18,645	193	263	19,101	37	61
Financial services	14,585	59	35	14,679	2	6
Commercial – other	83,321	2,673	1,012	87,006	157	223
Total commercial	139,888	3,307	1,607	144,802	240	366
Private individuals – housing loans ⁽⁵⁾	65,151	589	-	65,740	587	440
Private individuals – other	44,108	181	688	44,977	92	250
Total public – activity in Israel	249,147	4,077	2,295	255,519	919	1,056
Banks in Israel	73	-	-	73	-	-
Israeli government	1,140	-	-	1,140	-	-
Total activity in Israel	250,360	4,077	2,295	256,732	919	1,056

* 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 202 million (March 31, 2018: NIS 168 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 61 million (March 31, 2018: NIS 68 million; December 31, 2018: NIS 66 million).

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽⁵⁾ (continued)

	March 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	5,886	15	69	5,970	15	15
Commercial – other	11,800	185	145	12,130	1	18
Total commercial	17,686	200	214	18,100	16	33
Private individuals	891	4	39	934	4	9
Total public – activity overseas	18,577	204	253	19,034	20	42
Banks overseas	21,390	-	-	21,390	-	-
Governments overseas	1,339	-	-	1,339	-	-
Total activity overseas	41,306	204	253	41,763	20	42
Total public	267,724	4,281	2,548	274,553	939	1,098
Total banks	21,463	-	-	21,463	-	-
Total governments	2,479	-	-	2,479	-	-
Total	291,666	4,281	2,548	298,495	939	1,098

* 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 202 million (March 31, 2018: NIS 168 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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⁽⁶⁾ (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 202 million (March 31, 2018: NIS 168 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 61 million (March 31, 2018: NIS 68 million; December 31, 2018: NIS 66 million).

(6) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽⁵⁾ (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 202 million (March 31, 2018: NIS 168 million; December 31, 2018: NIS 227 million) were classified as unimpaired problematic debts.

(5) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾

	March 31, 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	215	54	124	339	2,982
Construction and real estate – real-estate activities	126	10	125	251	1,287
Financial services	4	1	20	24	318
Commercial – other	1,069	371	281	1,350	4,861
Total commercial	1,414	436	550	1,964	9,448
Private individuals – other	507	141	197	704	1,449
Total public – activity in Israel	1,921	577	747	2,668	10,897
Borrower activity overseas					
Public – commercial					
Construction and real estate	-	-	115	115	187
Commercial – other	84	47	100	184	434
Total commercial	84	47	215	299	621
Private individuals	18	17	-	18	20
Total public – activity overseas	102	64	215	317	641
Total public*	2,023	641	962	2,985	11,538
* Of which:					
Measured at the present value of cash flows	1,636	508	645	2,281	-
Debts in troubled debt restructuring	787	186	524	1,311	-

** 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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾ (continued)

	March 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	217	42	80	297	3,111
Construction and real estate – real-estate activities	203	15	60	263	1,508
Financial services	5	3	30	35	382
Commercial – other	706	233	306	1,012	4,689
Total commercial	1,131	293	476	1,607	9,690
Private individuals – other	507	169	181	688	1,413
Total public – activity in Israel	1,638	462	657	2,295	11,103
Borrower activity overseas					
Public – commercial					
Construction and real estate	-	-	69	69	173
Commercial – other	40	21	105	145	374
Total commercial	40	21	174	214	547
Private individuals	39	37	-	39	41
Total public – activity overseas	79	58	174	253	588
Total public*	1,717	520	831	2,548	11,691
* Of which:					
Measured at the present value of cash flows	1,261	399	482	1,743	-
Debts in troubled debt restructuring	806	199	450	1,256	-

** 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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾ (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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽²⁾

	For the three months ended March 31, 2019			For the three months ended March 31, 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	299	1	-	318	1	1
Construction and real estate – real-estate activities	268	1	-	268	1	-
Financial services	26	-	-	32	-	-
Commercial – other	1,217	3	2	1,033	3	1
Total commercial	1,810	5	2	1,651	5	2
Private individuals – other	696	11	3	721	12	3
Total public – activity in Israel	2,506	16	5	2,372	17	5
Borrower activity overseas						
Public – commercial						
Construction and real estate	101	-	-	42	-	-
Commercial – other	228	-	-	160	-	-
Total commercial	329	-	-	202	-	-
Private individuals	18	-	-	37	-	-
Total public – activity overseas	347	-	-	239	-	-
Total public	2,853	16	5	2,611	17	5

* 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 in the amount of NIS 73 million would have been recorded (March 31, 2018: NIS 57 million).

(2) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾

	March 31, 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	42	-	17	59
Construction and real estate – real-estate activities	67	-	31	98
Financial services	3	-	1	4
Commercial – other	333	-	105	438
Total commercial	445	-	154	599
Private individuals – other	296	-	355	651
Total public – activity in Israel	741	-	509	1,250
Borrower activity overseas				
Public – commercial				
Construction and real estate	11	-	-	11
Commercial – other	50	-	-	50
Total public – activity overseas	61	-	-	61
Total public	802	-	509	1,311

* 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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 15 million as at March 31, 2019 (March 31, 2018: NIS 24 million; December 31, 2018: NIS 5 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾ (continued)

	March 31, 2018			
	Recorded debt balance			Total ⁽²⁾
	Not accruing interest income	Accruing ⁽¹⁾ , in arrears of 30 to 89 days	Accruing ⁽¹⁾ , not in arrears	
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	26	-	19	45
Construction and real estate – real-estate activities	82	-	73	155
Financial services	4	-	1	5
Commercial – other	303	-	107	410
Total commercial	415	-	200	615
Private individuals – other	266	-	352	618
Total public – activity in Israel	681	-	552	1,233
Borrower activity overseas				
Public – commercial				
Commercial – other	-	22	-	22
Private individuals	-	-	1	1
Total public – activity overseas	-	22	1	23
Total public	681	22	553	1,256

* 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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 15 million as at March 31, 2019 (March 31, 2018: NIS 24 million; December 31, 2018: NIS 5 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽³⁾ (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.

(3) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 15 million as at March 31, 2019 (March 31, 2018: NIS 24 million; December 31, 2018: NIS 5 million).

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽¹⁾ (continued)

	Debts restructured					
	In the three months ended March 31, 2019			In the three months ended March 31, 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	89	11	10	62	9	7
Construction and real estate – real-estate activities	7	12	10	5	1	1
Financial services	3	-	-	3	4	4
Commercial – other	422	68	66	260	40	39
Total commercial	521	91	86	330	54	51
Private individuals – other	2,258	115	109	1,610	79	78
Total public – activity in Israel	2,779	206	195	1,940	133	129
Borrower activity overseas						
Public – commercial						
Construction and real estate	1	-	-	-	-	-
Private individuals	1	-	-	3	-	-
Total public – activity overseas	2	-	-	3	-	-
Total public	2,781	206	195	1,943	133	129

* 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) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽¹⁾ (continued)

	Failed restructured debts*			
	In the three months ended March 31, 2019		In the three months ended March 31, 2018	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	37	2	30	4
Construction and real estate – real-estate activities	3	5	2	-
Financial services	1	-	2	-
Commercial – other	152	11	139	10
Total commercial	193	18	173	14
Private individuals – other	775	16	806	19
Total public – activity in Israel	968	34	979	33
Borrower activity overseas				
Public – commercial				
Private individuals	4	-	3	-
Total public – activity overseas	4	-	3	-
Total public	972	34	982	33

* 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").

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

		March 31, 2019			Off-balance sheet credit risk
		Balance of housing loans - private individuals			
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	46,067	1,471	29,187	2,695
	Over 60%	24,988	443	17,000	1,950
Secondary lien or no lien		632	25	360	637
Total		71,687	1,939	46,547	5,282
		March 31, 2018			Off-balance sheet credit risk
		Balance of housing loans - private individuals			
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	42,521	1,683	26,805	***1,873
	Over 60%	23,061	321	16,036	***981
Secondary lien or no lien		627	28	366	***691
Total		66,209	2,032	43,207	***3,545
		December 31, 2018			Off-balance sheet credit risk
		Balance of housing loans - private individuals			
		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\(4\)](#).

Notes to the Condensed Financial Statements

as at March 31, 2019

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⁽¹⁾

	March 31		December 31	March 31		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	1,087	1,649	1,397	4	8	8
Credit guarantees	5,467	5,780	5,609	32	64	35
Guarantees to purchasers of homes	21,053	24,261	22,517	42	72	69
Guarantees and other commitments**	23,966	23,155	24,364	149	180	159
Unutilized credit-card credit facilities under the Bank’s responsibility	14,806	13,689	14,689	37	40	36
Unutilized revolving overdraft and other credit facilities in on-demand accounts**	40,082	38,724	41,403	91	102	94
Irrevocable commitments to grant credit approved but not yet drawn***	30,957	27,484	30,306	92	89	101
Commitments to issue guarantees	22,969	22,154	20,449	49	81	66
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	24,508	23,143	24,845	21	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 153 million (March 31, 2018: NIS 311 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."

(1) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

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 of the execution of the credit.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Guarantees⁽¹⁾ (continued)

March 31, 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	3,712	787	110	808	50	5,467
Guarantees to purchasers of homes	4,775	-	-	-	16,278	21,053
Guarantees and other commitments	9,867	6,176	3,393	4,530	-	23,966
Commitments to issue guarantees	8,414	13,112	1,378	65	-	22,969
Total	26,768	20,075	4,881	5,403	16,328	73,455

March 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
Unaudited						
Credit guarantees	4,067	913	217	500	83	5,780
Guarantees to purchasers of homes	4,843	-	-	-	19,418	24,261
Guarantees and other commitments	11,316	4,993	3,055	3,791	-	23,155
Commitments to issue guarantees	10,368	10,645	1,060	81	-	22,154
Total	30,594	16,551	4,332	4,372	19,501	75,350

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

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 14 Assets and Liabilities by Linkage Base⁽³⁾

Unaudited
NIS millions

	March 31, 2019						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	57,089	23	18,193	327	2,700	-	78,332
Securities	31,181	3,973	28,002	1,011	256	1,836	66,259
Securities borrowed or purchased under agreements to resell	714	-	-	-	-	-	714
Net credit to the public ⁽²⁾	207,029	46,646	21,731	4,270	2,288	1,084	283,048
Credit to governments	41	-	1,327	911	-	-	2,279
Investments in equity-basis investees	45	-	-	-	-	58	103
Buildings and equipment	-	-	-	-	-	3,077	3,077
Assets in respect of derivative instruments	5,315	769	3,146	180	135	701	10,246
Other assets	3,893	303	112	57	26	1,563	5,954
Assets attributed to a discontinued operation	14,993	58	64	43	-	608	15,766
Total assets	320,300	51,772	72,575	6,799	5,405	8,927	465,778
Liabilities							
Deposits from the public	248,005	12,697	78,632	10,552	3,223	1,123	354,232
Deposits from banks	1,307	124	1,500	340	57	-	3,328
Deposits from the government	263	2	93	-	-	-	358
Securities lent or sold under agreements to repurchase	-	-	-	-	5	-	5
Bonds and subordinated notes	1,477	27,862	325	10	21	-	29,695
Liabilities in respect of derivative instruments	5,454	799	3,175	175	154	672	10,429
Other liabilities	7,201	501	2,862	166	347	1,325	12,402
Liabilities attributed to a discontinued operation	16,395	66	238	12	-	47	16,758
Total liabilities	280,102	42,051	86,825	11,255	3,807	3,167	427,207
Surplus assets (liabilities)	40,198	9,721	(14,250)	(4,456)	1,598	5,760	38,571
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(18,306)	(380)	15,759	4,902	(1,975)	-	-
Options in the money, net (in terms of underlying asset)	1,598	-	(1,430)	(413)	245	-	-
Options out of the money, net (in terms of underlying asset)	546	-	(466)	(58)	(22)	-	-
Overall total	24,036	9,341	(387)	(25)	(154)	5,760	38,571
Options in the money, net (nominal present value)	935	-	(1,271)	(83)	419	-	-
Options out of the money, net (nominal present value)	3,225	-	(1,108)	(2,072)	(45)	-	-

* 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.

(3) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 14 Assets and Liabilities by Linkage Base⁽³⁾ (continued)

Unaudited
NIS millions

	March 31, 2018						
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	56,290	-	17,690	609	3,536	-	78,125
Securities	35,712	1,490	20,824	971	432	2,079	61,508
Securities borrowed or purchased under agreements to resell	608	-	-	-	-	-	608
Net credit to the public ⁽²⁾	197,922	45,091	20,844	4,021	1,948	967	270,793
Credit to governments	196	-	1,199	1,081	-	-	2,476
Investments in equity-basis investees	55	-	-	-	-	46	101
Buildings and equipment	-	-	-	-	-	3,044	3,044
Assets in respect of derivative instruments	6,538	929	3,015	690	367	734	12,273
Other assets	3,863	15	67	89	17	1,231	5,282
Assets attributed to a discontinued operation	13,366	68	111	38	-	402	13,985
Total assets	314,550	47,593	63,750	7,499	6,300	8,503	448,195
Liabilities							
Deposits from the public	238,461	14,956	74,383	12,427	3,498	978	344,703
Deposits from banks	1,447	124	1,033	432	66	-	3,102
Deposits from the government	207	5	173	-	-	-	385
Securities lent or sold under agreements to repurchase	-	-	-	-	6	-	6
Bonds and subordinated notes	3,009	22,699	373	11	122	-	26,214
Liabilities in respect of derivative instruments	6,019	1,132	2,840	537	182	726	11,436
Other liabilities	7,429	149	1,735	228	310	1,006	10,857
Liabilities attributed to a discontinued operation	14,852	79	280	27	-	38	15,276
Total liabilities	271,424	39,144	80,817	13,662	4,184	2,748	411,979
Surplus assets (liabilities)	43,126	8,449	(17,067)	(6,163)	2,116	5,755	36,216
Effect of hedging derivatives:							
Derivative instruments (excluding options)	856	-	5	-	(861)	-	-
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(23,635)	(331)	19,593	6,237	(1,864)	-	-
Options in the money, net (in terms of underlying asset)	2,591	-	(2,046)	(594)	49	-	-
Options out of the money, net (in terms of underlying asset)	(105)	-	(601)	541	165	-	-
Overall total	22,833	8,118	(116)	21	(395)	5,755	36,216
Options in the money, net (nominal present value)	3,817	-	(2,639)	(1,378)	200	-	-
Options out of the money, net (nominal present value)	(1,085)	-	(1,193)	1,651	627	-	-

* 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.

(3) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 14 Assets and Liabilities by Linkage Base⁽³⁾ (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.

(3) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

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. An increase of 1% in discounting interest rates of impaired debts would reduce their fair value by a total of NIS 10 million.

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 138 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.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments⁽²⁾

	March 31, 2019				Total
	Balance sheet balance	Fair value ⁽¹⁾			
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	78,332	3,015	-	75,317	78,332
Securities*	66,259	36,146	28,544	1,573	66,263
Securities borrowed or purchased under agreements to resell	714	-	-	714	714
Net credit to the public***	283,048	3,900	-	279,320	283,220
Credit to governments	2,279	-	-	2,283	2,283
Assets in respect of derivative instruments	10,246	674	5,780	3,792	10,246
Other financial assets	1,882	954	-	988	1,942
Assets attributed to a discontinued operation	15,015	41	-	14,957	14,998
Total financial assets	**457,775	44,730	34,324	378,944	457,998
Financial liabilities					
Deposits from the public***	354,232	6,047	-	349,618	355,665
Deposits from banks	3,328	-	-	3,346	3,346
Deposits from the government	358	-	-	371	371
Securities lent or sold under agreements to repurchase	5	-	-	6	6
Bonds and subordinated notes	29,695	27,890	2,021	508	30,419
Liabilities in respect of derivative instruments	10,429	674	5,447	4,308	10,429
Other financial liabilities	5,792	954	-	4,653	5,607
Liabilities attributed to a discontinued operation	16,545	-	-	16,505	16,505
Total financial liabilities	**420,384	35,565	7,468	379,315	422,348
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	113	113

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,101 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 83,024 million and in the amount of NIS 17,461 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 31 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.

(2) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

A. Balances and fair-value estimates of financial instruments⁽²⁾ (continued)

	March 31, 2018				
	Balance sheet balance	Fair value ⁽¹⁾			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	78,125	3,414	-	74,672	78,086
Securities*	61,508	39,188	20,725	1,599	61,512
Securities borrowed or purchased under agreements to resell	608	-	-	608	608
Net credit to the public***	270,793	5,129	-	266,825	271,954
Credit to governments	2,476	-	-	2,477	2,477
Assets in respect of derivative instruments	12,273	741	6,431	5,101	12,273
Other financial assets	1,314	629	-	696	1,325
Assets attributed to a discontinued operation	13,416	20	-	13,374	13,394
Total financial assets	**440,513	49,121	27,156	365,352	441,629
Financial liabilities					
Deposits from the public***	344,703	6,397	-	339,663	346,060
Deposits from banks	3,102	-	-	3,117	3,117
Deposits from the government	385	-	-	398	398
Securities lent or sold under agreements to repurchase	6	-	-	6	6
Bonds and subordinated notes	26,214	23,841	2,107	1,631	27,579
Liabilities in respect of derivative instruments	11,436	740	6,489	4,207	11,436
Other financial liabilities	4,123	629	-	4,258	4,887
Liabilities attributed to a discontinued operation	15,016	-	-	14,981	14,981
Total financial liabilities	**404,985	31,607	8,596	368,261	408,464

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 970 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 81,592 million and in the amount of NIS 18,469 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 7 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.

(2) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Audited
NIS millions

A. Balances and fair-value estimates of financial instruments⁽²⁾ (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	29,580	24,937	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	38,493	32,365	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

* 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.

(2) The data of the Isracard Group are stated as a discontinued operation, separately from the continued operations.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

B. Items measured at fair value on a recurring basis*

	March 31, 2019			Total fair value
	Fair value measurements using			
	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	29,135	3,837	-	32,972
Foreign government bonds	243	14,201	-	14,444
Bonds of financial institutions in Israel	118	-	-	118
Bonds of foreign financial institutions	247	7,682	185	8,114
Bonds of others in Israel	-	73	-	73
Bonds of foreign others	78	2,721	-	2,799
Total bonds available for sale	29,821	28,514	185	58,520
Investments in shares not held for trading	718	30	-	748
Securities held for trading				
Israeli government bonds	5,594	-	-	5,594
Foreign government bonds	3	-	-	3
Tradable shares	10	-	-	10
Total securities held for trading	5,607	-	-	5,607
Assets in respect of derivative instruments				
NIS-CPI contracts	-	257	137	394
Other interest contracts	-	3,466	2,434	5,900
Foreign-currency contracts	23	1,915	1,157	3,095
Share contracts	651	128	55	834
Commodity and other contracts	-	14	9	23
Credit in respect of inter-customer lending	3,957	-	-	3,957
Assets in respect of activity in the Maof market	954	-	-	954
Total assets	41,731	34,324	3,977	80,032

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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)

	March 31, 2019			Total fair value
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	158	70	228
Other interest contracts	-	3,871	2,360	6,231
Foreign-currency contracts	23	1,370	1,756	3,149
Share contracts	651	33	114	798
Commodity and other contracts	-	15	8	23
Liabilities in respect of embedded derivatives	-	7	24	31
Deposits in respect of inter-customer lending	3,957	-	-	3,957
Liabilities in respect of activity in the Maof market	954	-	-	954
Liabilities in respect of securities lending	2,090	-	-	2,090
Total liabilities	7,675	5,454	4,332	17,461

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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)

	March 31, 2018			Total fair value
	Fair value measurements using			
	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	27,864	4,122	-	31,986
Foreign government bonds	576	9,936	-	10,512
Bonds of financial institutions in Israel	44	-	-	44
Bonds of foreign financial institutions	431	5,152	214	5,797
Bonds of others in Israel	-	307	-	307
Bonds of foreign others	207	1,208	-	1,415
Tradable shares	1,074	-	-	1,074
Securities held for trading				
Israeli government bonds	8,876	-	-	8,876
Foreign government bonds	69	-	-	69
Bonds of foreign others	2	-	-	2
Tradable shares	44	-	-	44
Total securities measured at fair value	39,187	20,725	214	60,126
Assets in respect of derivative instruments				
NIS-CPI contracts	-	230	194	424
Other interest contracts	-	3,712	2,932	6,644
Foreign-currency contracts	45	2,465	1,767	4,277
Share contracts	696	22	195	913
Commodity and other contracts	-	2	13	15
Credit in respect of inter-customer lending	5,129	-	-	5,129
Assets in respect of activity in the Maof market	629	-	-	629
Total assets	45,686	27,156	5,315	78,157
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	263	85	348
Other interest contracts	-	4,153	2,624	6,777
Foreign-currency contracts	44	1,896	1,458	3,398
Share contracts	696	177	26	899
Commodity and other contracts	-	-	14	14
Liabilities in respect of embedded derivatives	-	6	1	7
Deposits in respect of inter-customer lending	5,129	-	-	5,129
Liabilities in respect of activity in the Maof market	629	-	-	629
Liabilities in respect of securities lending	1,268	-	-	1,268
Total liabilities	7,766	6,495	4,208	18,469

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

* Does not include the data of the Israrcad Group, which constitutes a discontinued operation.

Notes to the Condensed Financial Statements

as at March 31, 2019

Note 15 Balances and Fair-Value Estimates of Financial Instruments (continued)

Unaudited
NIS millions

C. Items measured at fair value on a nonrecurring basis

	March 31, 2019				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended March 31, 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	-	-	704	704	⁽¹⁾ (5)
Investments in shares	-	-	21	21	⁽²⁾ (7)
Total	-	-	725	725	(12)
	March 31, 2018				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended March 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	-	-	806	806	⁽¹⁾ 8
Investments in shares	-	-	-	-	⁽²⁾ -
Total	-	-	806	806	8

(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."

Notes to the Condensed Financial Statements

as at March 31, 2019

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			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2018
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
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."

Notes to the Condensed Financial Statements

as at March 31, 2019

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 March 31, 2019								Unrealized gains (losses) in respect of instruments held as at March 31, 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 March 31, 2019	
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	191	(6)	-	-	-	-	-	185	⁽²⁾⁽¹⁾ -
Net balances in respect of derivative instruments									
NIS-CPI contracts	54	14	-	-	(1)	-	-	67	⁽³⁾ 7
Other interest contracts	596	(517)	-	(10)	5	-	-	74	⁽³⁾⁽¹⁾ (302)
Foreign-currency contracts	404	(263)	-	61	(801)	-	-	(599)	⁽³⁾ (105)
Share contracts	62	(116)	-	(1)	(4)	-	-	(59)	⁽³⁾ (58)
Commodity and other contracts	40	(40)	-	-	1	-	-	1	⁽³⁾ (8)
Embedded derivatives	(14)	(12)	-	-	2	-	-	(24)	⁽³⁾ (4)
Total	1,333	(940)	-	50	(798)	-	-	(355)	(470)

(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."

Notes to the Condensed Financial Statements

as at March 31, 2019

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 March 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 March 31, 2018	Unrealized gains (losses) in respect of instruments held as at March 31, 2018
Assets									
Bonds available for sale									
Bonds of foreign financial institutions	212	-	2	-	-	-	-	214	⁽²⁾⁽¹⁾ 2
Net balances in respect of derivative instruments									
NIS-CPI contracts	103	2	-	-	4	-	-	109	⁽³⁾ 1
Other interest contracts	295	(14)	-	61	(34)	-	-	308	⁽³⁾⁽¹⁾ (13)
Foreign-currency contracts	(813)	1,025	-	5	92	-	-	309	⁽³⁾ 878
Share contracts	(3)	136	-	(1)	37	-	-	169	⁽³⁾ 164
Commodity and other contracts	(2)	-	-	-	1	-	-	(1)	⁽³⁾ -
Embedded derivatives	(29)	22	-	-	6	-	-	(1)	⁽³⁾ 23
Total	(237)	1,171	2	65	106	-	-	1,107	1,055

(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."

Notes to the Condensed Financial Statements

as at March 31, 2019

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, 2018	Unrealized gains (losses) in respect of instruments held as at 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		
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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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

March 31, 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	185	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	67	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.07%-6.71% (0.94%)
Other interest contracts	74	Interest-rate derivatives pricing model	Transaction counterparty risk	0.07%-17.25% (1.05%)
Foreign-currency contracts	(599)	Option pricing model	Transaction counterparty risk	0.66%-4.99% (0.90%)
Share contracts	(75)	Share derivatives pricing model	Transaction counterparty risk	
Share contracts ⁽¹⁾	16	Option pricing model	Quote from counterparty Dividend yield	36.14%-41.95% (36.58%)
			Unlinked NIS interest rate	0.11%-0.97% (0.17%)
Commodity and other contracts	1	Currency derivatives pricing model	Transaction counterparty risk	0.07%-16.15% (2.97%)
Embedded derivatives ⁽²⁾	(24)	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	21	Valuation		
Impaired credit the collection of which is contingent on collateral	704	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.

Notes to the Condensed Financial Statements

as at March 31, 2019

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)

	March 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	214	Quote from transaction counterparty		
Net balances in respect of derivative instruments				
NIS-CPI contracts	109	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.66%-2.99% (0.10%)
Other interest contracts	308	Interest-rate derivatives pricing model	Transaction counterparty risk	0.66%-4.59% (2.10%)
Foreign-currency contracts	309	Option pricing model	Transaction counterparty risk	0.66%-4.99% (0.90%)
Share contracts	159	Share derivatives pricing model	Transaction counterparty risk	0.66%-17.85% (4.65%)
Share contracts	9	Option pricing model	Quote from counterparty	
Share contracts ⁽¹⁾	1	Option pricing model	Standard deviation	36.14%-41.95% (36.58%)
			Dividend yield	
			Unlinked NIS interest rate	0.11%-0.97% (0.17%)
Commodity and other contracts	(1)	Currency derivatives pricing model	Transaction counterparty risk	0.44%-18.83% (0.98%)
Embedded derivatives ⁽²⁾	(1)	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	-	Valuation		
Impaired credit the collection of which is contingent on collateral	806	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		

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 credit-card companies will be separated from the two large banks (the Bank and Bank Leumi) within three years of January 2017. The Bank sold approximately 65.2% of the issued and paid-up capital of Isracard in April 2019. Due to the choice made 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 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 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 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. Draft regulations on this matter have not yet been published, but the Bank of Israel has issued a schedule to be implemented by the steering committee of the project.
- 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.
- 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.

Note 16 Regulatory Initiatives (continued)

- 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, on April 16, 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 on May 7, 2019. The Bank will record profit (before tax) from the sale of the shares, in its financial statements for the second quarter of 2019, in the amount of approximately NIS 27 million, and additional profit in respect of revaluation of the balance of the holding, according to the observed price of the shares. The transaction also includes agreements and understandings reached by the Bank and MasterCard regarding the existing relationship and collaboration between them, unrelated to the holding in ABS. In addition to the foregoing, on May 27, 2019, ABS published a prospectus for a sale offering of shares of ABS, which will allow, among other matters, the sale of the holdings of the Bank (and of other banks with holdings in ABS) exceeding 10% of the shares of ABS.

Parliamentary Inquiry Committee on Credit Allocation in the Economy

In July 2017, the Knesset resolved to establish a parliamentary inquiry committee, headed by MK 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 Bank submitted data to the committee pertaining to the performance of the Bank's credit portfolio, the mix of the portfolio over the years, and the way in which the Bank copes with customers experiencing financial difficulties. The heads of the Bank also answered the questions of the Members of Knesset. As part of its cooperation with the committee, in accordance with the guidance of its legal counsel regarding the Bank's duties of secrecy, the representatives of the Bank submitted additional documents to the committee, after the discussion, at the request of the Members of Knesset, to the extent possible. Additional documents pertaining to aggregate data and the policies and procedures of the Bank, in a manner that does not cause damage to the commercial assets of the Bank and to secrecy, were later submitted at the committee's request.

Note 16 Regulatory Initiatives (continued)

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, and that the committee should consist 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 November 2018, 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. Among other matters, it has been established that it will not be possible to use the system for the transfer of trust accounts, guardianship accounts, or accounts managed by an estate manager. It was further determined that the use of the system is intended for accounts in which the composition of account owners remains identical, whether the transfer is from the account of an individual to an individual, or from partners to partners. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system.

In April 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.

Payment services reform

The reform in payment services is the result of a report by the Interministerial Committee for Improvement of the Use of Advanced Means of Payment, which consisted of participants from the Ministry of Finance, the Bank of Israel, the Ministry of Justice, and more. The Payment Services Law, issued in January 2019, establishes directives requiring extensive preparations by the Bank within a period of one year, by January 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to traditional 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; the obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which the law dedicates an entire section.

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.

Note 16 Regulatory Initiatives (continued)

Material directives and initiatives in the first quarter of 2019

- Proper Conduct of Banking Business Directive 311, Credit Risk Management – In April 2019, the Bank of Israel issued an additional draft updating this directive. In the area of the protection of stability and risk management, a requirement was established to take into consideration the quality of corporate governance at a borrower company when granting credit. In the area of efficiency and simplification of processes, the directive equalizes the exemption from receiving financial statements in receivables discounting from local corporations (up to NIS 10 million) with the existing exemption for receivables discounting in export transactions.
- Proper Conduct of Banking Business Directive 353, Issuance of Guarantees – In April 2019, the Bank of Israel issued an additional draft updating the directive in order to allow the issuance of guarantees using computer-based means (waiving the requirement to issue a printed copy of a guarantee), taking note of the unique risks that result. This will enable banks to issue digital guarantee products.
- 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.
- Replacement of benchmark interest rates overseas – In February 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. The banks were also asked to perform a comprehensive risk analysis, both for the corporation and for 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.
- In February 2019, the Competition Authority issued a draft opinion on market power. Amendment 21 to the Restrictive Trade Practices Law states 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, which stated that a monopoly was anyone in control of more than 50% of the market). The draft opinion explains what constitutes significant market power, in the view of the Authority, and how its existence should be examined. The draft also states that several entities acting in one market may have the possibility of wielding shared market power. This statement raises concerns over the definition of the banking system as a whole.

Note 16 Regulatory Initiatives (continued)

- 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 will take effect in July this year.
- Amendment of competition laws – Amendment 21 to the Restrictive Trade Practices Law was published in January 2019. According to the amendment to the law, the Authority (which will henceforth be known as the Competition Authority) will be able to declare that a company is a monopoly even if its market share is lower than 50%, if it believes that the company possesses significant market power. In addition, the ceiling on monetary sanctions which the Authority is authorized to impose on corporations that break the law will rise from NIS 24 million to NIS 100 million.

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 concerning additional key reforms, see [the section "Principal subsidiary and affiliated companies," "Isracard Group," above](#), and [Note 35 to the Annual Financial Statements for 2018](#).

Note 17 Events After the Balance Sheet Date

Separation from the 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, for a total (gross) consideration of approximately NIS 1.76 billion, in a public sale offering, after the balance sheet date, on April 8, 2019.

According to the accounting principles applicable to the Bank with regard to the event of falling below a holding rate of 50% in a subsidiary, the Bank is expected to record net profit (after tax and expenses related to the sale offering) of approximately NIS 210 million, to be recognized in the second quarter of 2019, 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 date of the issuance. 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](#).

Immediately after the sale offering, the Bank will hold approximately 33% of the shares of Isracard. This investment will be accounted for using the equity method, as long as the Bank has material influence on Isracard.

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.

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices
as at March 31, 2019



Q1

Contents

5. Corporate governance	243
5.1. Internal audit	243
5.2. Other matters	243
6. Additional information regarding the business of the corporation and the management thereof	245
6.1. Segments of activity based on management approach	245
6.2. Ratings of the Bank	266
6.3. Social involvement and contribution to the community; social responsibility	267
7. Appendices	268
7.1. Material developments in income and expenses by quarter	268
7.2. Rates of interest income and expenses	271

List of Tables

Table 6-1: Results of operations and principal data of the Private Customer Segment	246
Table 6-2: Results of operations and principal data of the Small Business Segment	248
Table 6-3: Results of operations and principal data of the Housing Loan Segment	250
Table 6-4: Management approach activity segments – results of operations and principal data of the Commercial Segment	252
Table 6-5: Management approach activity segments – results of operations and principal data of the Corporate Segment	253
Table 6-6: Results of operations and principal data of the International Activity Segment	256
Table 6-7: Management approach activity segments – results of operations and principal data of the Financial Management Segment	258
Table 6-8: Ratings	266
Table 7-1: Quarterly developments in total net financing profit	268
Table 7-2: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter	269
Table 7-3: Details of fees and other income, by quarter	270
Table 7-4: Details of operating and other expenses, by quarter	270
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	271

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

On April 15, 2019, the CEO of the Bank, Mr. Ari Pinto, gave notice of his decision not to renew his employment contract as Chief Executive Officer of the Bank for another term, and of his intention to resign from this position on December 31, 2019, at the end of the period of his employment contract. On May 5, 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. The committee's recommendations will be presented to the Board of Directors of the Bank for a decision regarding the appointment of the CEO. On May 21, 2019, the search committee announced a request for anyone interested in applying for the position of CEO of the Bank to declare their candidacy in writing, by June 4, 2019, and stated that the committee may contact additional potential candidates on its own initiative, at its discretion, to ask them to consider applying for the position.

Mr. Gilad Bloch was appointed to the position of Corporate Secretary of the Bank, beginning February 1, 2019. Mr. Bloch replaced Ms. Ronit Shapira, who retired from the Bank.

On May 6, 2019, the Bank issued a preliminary notice of its intention to convene a general annual meeting of shareholders of the Bank. The agenda of the meeting is expected to include the following matters, among others: discussion of the Annual Financial Statements for 2018; appointment of an external auditor for the Bank; amendment of the Articles of the Bank; and appointment of five directors, including one external director pursuant to the Companies Law (who also meets the conditions for a qualified external director pursuant to Directive 301), two external directors pursuant to Directive 301, and two additional "other" directors. On May 26, 2019, the designated committee appointed by the Bank of Israel, pursuant to the Banking Licensing Law, submitted the names of the candidates that it proposes for service as directors to the general meeting. The Bank intends to convene the general meeting during July 2019.

In May 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000) 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 existing insurance policy – see [Standard 22 of the Annual Periodic Report of the Bank for 2018, p. 15](#)), in consideration for a total of approximately USD 200,000, in order to complete negotiations with insurers regarding renewal of the policy.

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. 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, granting credit 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 225 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 first quarter of 2019, the Bank opened a national pension advising and planning center in Ramat Gan, serving retiring customers of all banks, staffed by retirement-planning pension advisors.

Technological changes that may have a material impact on the segment

Bit application

1. As of the first quarter of 2019, the Bit application also serves as a platform for direct donations to non-profit organizations. This service was used by the non-profit organization Variety at its last donation drive, and will continue to serve additional organizations.
2. One-off money transfers – The continued technological and business innovations in the application have now made it possible to offer customers of all banks a new way to perform everyday payments, including to one-off recipients, in a unique, easily available, quick experience, using a QR code.

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.
- 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 will take effect with regard to checks (Section 5 of the law) on July 1, 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 March 31	
	2019	2018*
	NIS millions	
Total net interest income	724	675
Non-interest financing income	2	3
Total net financing profit	726	678
Fees and other income	354	377
Total income	1,080	1,055
Provision for credit losses	57	110
Total operating and other expenses	924	900
Profit from continued operations before taxes	99	45
Provision for taxes on profit from continued operations	38	16
Net profit attributed to shareholders of the Bank	61	29
Net credit to the public at the end of the reported period	43,436	45,750
Deposits from the public at the end of the reported period	187,820	174,453

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

Principal changes in net profit and balance sheet balances

In light of the classification of the Isracard Group as a discontinued operation, the segment also includes balances attributed to the credit-card activity of the Bank, which are part of continued operations. Comparative figures have been restated.

Net profit attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 61 million in the first quarter of 2019, compared with NIS 29 million in the same quarter 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 726 million in the first quarter of 2019, compared with NIS 678 million in the same quarter 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 354 million in the first quarter of 2019, compared with NIS 377 million in the same quarter last year. The decrease mainly resulted from a decrease in securities fees.

The provision for credit losses totaled NIS 57 million in the first quarter of 2019, compared with NIS 110 million in the same quarter last year. The decrease resulted from a decrease in the collective allowance, mainly due to a decrease in the volume of problematic debts.

Operating and other expenses of the segment totaled NIS 924 million in the first quarter of 2019, compared with NIS 900 million in the same quarter last year. The increase resulted from an increase in IT expenses and in fees, due to an increase in volumes of activity.

Net credit to the public totaled approximately NIS 43.4 billion as at March 31, 2019, compared with approximately NIS 44.1 billion as at December 31, 2018.

The balances also include credit to the public, previously reported within the Isracard Group Segment, which is part of the continued operations of the Bank, in the amount of NIS 5.0 billion as at March 31, 2019, similar to the balance as at December 31, 2018.

Deposits from the public totaled approximately NIS 187.8 billion as at March 31, 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.

Technological changes that may have a material impact on the segment

Biometric identification for log-in to the business application

Customers can now log in to the business application simply and easily, using a fingerprint or facial recognition (where supported by their devices), without having to remember a user name and password.

Customers register for the service within the application through a brief, one-time procedure in which their fingerprint is identified or their facial features are scanned by the camera of their mobile device.

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.

Table 6-2: Results of operations and principal data of the Small Business Segment

	For the three months ended March 31	
	2019	2018*
	NIS millions	
Total net interest income	414	399
Non-interest financing income	1	1
Total net financing profit	415	400
Fees and other income	143	145
Total income	558	545
Provision for credit losses	78	95
Total operating and other expenses	294	274
Profit from continued operations before taxes	186	176
Provision for taxes on profit from continued operations	71	67
Net profit attributed to shareholders of the Bank	115	109
Net credit to the public at the end of the reported period	32,111	32,136
Deposits from the public at the end of the reported period	42,854	38,810

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

Principal changes in net profit and balance sheet balances

In light of the classification of the Isracard Group as a discontinued operation, the segment also includes balances attributed to the credit-card activity of the Bank, which are part of continued operations. Comparative figures have been restated.

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 115 million in the first quarter of 2019, compared with NIS 109 million in the same quarter 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 415 million in the first quarter of 2019, compared with NIS 400 million in the same quarter 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. The provision for credit losses totaled NIS 78 million in the first quarter of 2019, compared with NIS 95 million in the same quarter last year. The decrease mainly resulted from a decrease in the provision recorded on a collective basis, due to a decrease in the volume of problematic debts and in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 294 million in the first quarter of 2019, compared with NIS 274 million in the same quarter last year. The increase resulted from an increase in IT expenses and in fees, due to an increase in volumes of activity.

Net credit to the public totaled approximately NIS 32.1 billion as at March 31, 2019, compared with approximately NIS 32.6 billion as at December 31, 2018.

The balances also include credit to the public previously reported within the Isracard Group Segment which is part of the continued operations of the Bank Group, in the amount of approximately NIS 1.6 billion as at March 31, 2019, compared with approximately NIS 1.5 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 42.9 billion as at March 31, 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.

- **Banking Law (Service to Customers) (Amendment 31) (Deferral of Housing Loan Payments due to Death)** – Published in the Official Gazette of the Israeli Government on January 7, 2019. 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. The bank is obligated to give notice of the possibility of requesting a deferral, when it becomes aware of the death of a borrower. The amendment applies to housing-loan contracts signed beginning six months from the date of publication.
- **Update of questions and answers for Proper Conduct of Banking Business Directive 451** – On April 8, 2019, the Bank of Israel issued an update of the questions and answers for Directive 451, including guidelines regarding the classification of a loan designated for a family member. A loan with a lien on a residence intended for assistance to a family member for the purposes of a business shall be classified as a general-purpose loan with a lien on a residential property, and shall be subject to the restrictions in Directive 451.

Table 6-3: Results of operations and principal data of the Housing Loan Segment

	For the three months ended March 31	
	2019	2018
	NIS millions	
Total net interest income	194	160
Fees and other income	15	15
Total income	209	175
Provision for credit losses	7	5
Total operating and other expenses	63	60
Profit from continued operations before taxes	139	110
Provision for taxes on profit from continued operations	52	39
Net profit attributed to shareholders of the Bank	87	71
Net credit to the public at the end of the reported period	83,148	75,606

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 87 million in the first quarter of 2019, compared with NIS 71 million in the same quarter last year. The increase resulted from an increase in net financing profit, due to an increase in volumes of credit and in financial spreads on credit. Credit to the public totaled approximately NIS 83.1 billion as at March 31, 2019, compared with approximately NIS 81.5 billion as at December 31, 2018.

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 located throughout Israel, and through service centers, which provide operational services for the accounts of the segment's customers. As part of the Bank's strategic drive to deepen its activity with commercial clients experiencing growth, and to expand the services offered to these clients, the Commercial Banking Division began to implement a structural change and a change in its operational approach in the second half of 2017. Within these changes, several new business centers were established, and operational activities from the business branches were centralized in a number of national service centers. This process will support the growth of the Commercial Segment, with the aim of providing better, more adapted service to customers.

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.

In the first quarter of 2019, customers of the segment were influenced by the positive trend in activity in Israel, particularly the strong condition of households, the considerable increase in incoming tourism, and financing costs, which remained low. In the housing market, a certain increase was apparent in purchases of new homes in the first two months of the year; prices of homes have stabilized over the last year.

Most of the growth in this segment stemmed from the construction and real-estate sector and from the commerce sector. More extensive activity with these customers is part of the Bank's strategy.

Table 6-4: Management approach activity segments – results of operations and principal data of the Commercial Segment

	For the three months ended March 31	
	2019	2018*
	NIS millions	
Total net interest income	261	242
Non-interest financing income	3	2
Total net financing profit	264	244
Fees and other income	89	92
Total income	353	336
Provision for credit losses	1	21
Total operating and other expenses	122	130
Profit from continued operations before taxes	230	185
Provision for taxes on profit from continued operations	87	71
Net profit attributed to shareholders of the Bank	143	114
Net credit to the public at the end of the reported period	38,205	34,847
Deposits from the public at the end of the reported period	23,963	24,284

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 143 million in the first quarter of 2019, compared with NIS 114 million in the same quarter last year. The increase resulted from an increase in net financing profit and from a decrease in the provision for credit losses.

Net financing profit totaled NIS 264 million in the first quarter of 2019, compared with NIS 244 million in the same quarter 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.

The Commercial Segment recorded a provision for credit losses in the amount of NIS 1 million in the first quarter of 2019, compared with a provision in the amount of NIS 21 million in the same quarter last year. The decrease resulted from a decrease in the collective provision, mainly in respect of sound credit. This decrease was partly offset by a decrease in income from recovery of charged-off debts.

Net credit to the public totaled approximately NIS 38.2 billion as at March 31, 2019, compared with approximately NIS 37.5 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 24.0 billion as at March 31, 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. Another unit is responsible for the digital interface between business clients and the Bank.

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 March 31	
	2019	2018*
	NIS millions	
Total net interest income	344	337
Non-interest financing income	19	26
Total net financing profit	363	363
Fees and other income	116	114
Total income	479	477
Income for credit losses	(20)	(30)
Total operating and other expenses	143	154
Profit from continued operations before taxes	356	353
Provision for taxes on profit from continued operations	135	134
Net profit attributed to shareholders of the Bank	221	219
Net credit to the public at the end of the reported period	72,004	68,627
Deposits from the public at the end of the reported period	48,422	41,209

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 221 million in the first quarter of 2019, compared with NIS 219 million in the same quarter last year.

Income in respect of credit losses totaled NIS 20 million in the first quarter of 2019, compared with income in the amount of NIS 30 million in the same quarter last year. The decrease mainly resulted from an increase in the provision recorded on an individual basis. The increase in the provision was partly offset by a decrease in the collective allowance in respect of sound credit.

Net credit to the public totaled approximately NIS 72.0 billion as at March 31, 2019, compared with approximately NIS 71.9 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 48.4 billion as at March 31, 2019, compared with approximately NIS 44.2 billion as at December 31, 2018.

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 sector 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; New Jersey; Miami; and Toronto, Canada.

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.

On April 11, 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 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 15, 2019, the name of the company has been changed to:

- Hapoalim (Switzerland) Ltd.
- Hapoalim (Switzerland) Ltd., Luxembourg Branch.

Banque Hapoalim (Luxembourg) S.A. (Banque Hapoalim Luxembourg)

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to companies with an affinity to Israel operating in Europe. In light of the recent changes in the volume of international activity, and due to the regulatory risks, the Bank is examining the continuation of this activity.

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.

The Bank has decided to act to discontinue the activity of Bank Pozitif, through the sale of its assets or by other means, and at this stage is acting to reduce the portfolio.

Global Private Banking Center in Tel Aviv

Provides foreign residents with private-banking services and products.

Table 6-6: Results of operations and principal data of the International Activity Segment

	For the three months ended March 31	
	2019	2018
	NIS millions	
Total net interest income	124	117
Non-interest financing income	13	14
Total net financing profit	137	131
Fees and other income	16	31
Total income	153	162
Provision (income) for credit losses	(4)	15
Total operating and other expenses	173	252
Loss from continued operations before taxes	(16)	(105)
Provision for taxes (tax benefit) on profit (loss) from continued operations	17	12
Net profit (loss):		
Before attribution to non-controlling interests	(33)	(117)
Attributed to non-controlling interests	3	7
Net loss attributed to shareholders of the Bank	(30)	(110)
Net credit to the public at the end of the reported period	13,512	12,356
Deposits from the public at the end of the reported period	18,804	21,830

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 30 million in the first quarter of 2019, compared with NIS 110 million in the same quarter 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 at Hapoalim Switzerland in the same quarter last year. In addition, profits of business activity in the United States increased.

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

- Net profit of the New York branch totaled approximately NIS 35 million in the first quarter of 2019, compared with net profit in the amount of NIS 24 million in the same quarter 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 credit balances and in financial spreads.
- The loss of Hapoalim Switzerland totaled approximately NIS 59 million in the first quarter of 2019, compared with a loss in the amount of approximately NIS 121 million in the same quarter 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 quarter last year.
- The loss of the Bank Pozitif Group totaled approximately NIS 6 million in the first quarter of 2019, compared with approximately NIS 17 million in the same quarter last year. The decrease in loss mainly resulted from a significant allowance for credit losses in the same quarter last year.

Total credit to the public in international activity amounted to approximately NIS 13.5 billion as at March 31, 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 12.7 billion as at March 31, 2019, compared with approximately NIS 13.1 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 11.2 billion, of which a total of approximately NIS 5.0 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 0.3 billion as at March 31, 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.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.5 billion as at March 31, 2019, similar to the balance as at December 31, 2018.

Total deposits from the public in international activity amounted to approximately NIS 18.8 billion as at March 31, 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 18.2 billion as at March 31, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 6.9 billion as at December 31, 2018, compared with approximately NIS 6.8 billion as at December 31, 2018. The balance of brokered CD deposits from the public totaled approximately NIS 11.2 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 0.7 billion as at March 31, 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.

Table 6-7: Management approach activity segments – results of operations and principal data of the Financial Management Segment⁽¹⁾

	For the three months ended March 31	
	2019	2018*
	NIS millions	
Total net interest income	212	155
Non-interest financing income	37	175
Total net financing profit	249	330
Fees and other income	40	38
Total income	289	368
Provision for credit losses	2	-
Total operating and other expenses	103	130
Profit from continued operations before taxes	184	238
Provision for taxes on profit from continued operations	54	89
Profit from continued operations after taxes	130	149
The Bank's share in profits of equity-basis investees, after taxes	-	4
Net profit (loss):		
Before attribution to non-controlling interests	130	153
Attributed to non-controlling interests	5	3
Net profit attributed to shareholders of the Bank	135	156
Net credit to the public at the end of the reported period	632	1,471
Deposits from the public at the end of the reported period	32,369	44,117

* Reclassified. For additional information, see [Note 28A to the Annual Financial Statements for 2018](#).

(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented within 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 135 million in the first quarter of 2019, compared with NIS 156 million in the same quarter last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit of the segment totaled NIS 249 million in the first quarter of 2019, compared with NIS 330 million in the same quarter last year. The decrease mainly resulted from a decrease in profit from investment in bonds, and from a change in the differences 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. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items. This decrease was partly offset by an increase in profit from investment in shares.

Net credit to the public totaled approximately NIS 0.6 billion as at March 31, 2019, compared with approximately NIS 0.8 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 32.4 billion as at March 31, 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 clients 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; see below.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Other Segment totaled NIS 89 million in the first quarter of 2019, compared with profit in the amount of NIS 40 million in the same quarter last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 2 million in the first quarter of 2019, compared with a loss in the amount of NIS 37 million in the same quarter 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 quarter last year. This decrease was partly offset by an increase in the legal expenses related to this investigation.

In addition, the Other Segment includes net profit attributed to a discontinued operation, in the amount of NIS 91 million in the first quarter of 2019, compared with NIS 77 million in the same quarter last year.

The balance sheet balances of credit-card activity included in this segment include credit to the public, which constitutes part of the discontinued operation, in the amount of approximately NIS 14.9 billion as at March 31, 2019, compared with NIS 14.4 billion as at December 31, 2018.

Isracard Group – discontinued operation

General information

The activity of the Isracard Group is classified as a “discontinued operation.” The balance sheet balances of assets and liabilities and results attributed to the discontinued operation, which, prior to this classification, were presented in a separate segment of activity, the “Isracard Group,” are presented separately from the continued operations, within the “Adjustments” segment. For further details, see [Note 1E](#) to the Condensed Financial Statements.

Currently, the Bank Group's principal activities in the area of credit cards are conducted through companies operating in the area of means of payment under a single managerial and operational umbrella, referred to hereinafter as the “Isracard Group.” The core activity of the Isracard Group is the issuance and clearing of Isracard credit cards, a private brand under its ownership, as well as of MasterCard, Visa, and American Express cards, under licensing agreements.

Credit-card issuance

The number of cards issued by the Isracard Group as at March 31, 2019 is 5.2 million, similar to the number of cards as at December 31, 2018.

The volume of activity in Isracard Group cards reached NIS 39.2 billion in the first quarter of 2019, compared with NIS 37.3 billion in the same quarter last year.

Credit-card clearing

In agreements signed for the purpose of providing clearing services, the clearing credit-card company undertakes a commitment to the merchant, subject to fulfillment of the terms of the agreement, to settle the debits to the merchant undertaken by holders of the cards which it clears when purchasing goods or services from the merchant. The Isracard Group also offers merchants a range of additional financial services, such as loans and advances (advancement of payments in respect of transactions executed), advance payments, and sale-slips discounting, as well as marketing and operational services, including options for payment in installments, flexible crediting dates, targeted information, and sales promotion campaigns. Customers of the Isracard Group in the area of credit-card clearing are numerous diverse merchants that have entered into agreements with it, including various government agencies, as well as companies that provide discounting services to merchants.

Credit-card clearing is characterized by a very high level of competition. Competition in the area of clearing is focused on recruiting new merchants for clearing agreements and retaining existing merchant customers of the company. Another aspect of this competition is reflected in the development of financial and operational products and services for merchants.

In addition to the Bank Group, the two credit-card companies controlled by banks listed above operate in the area of clearing in Israel.

Regulatory changes

Isracard, CAL, and MAX are parties to an arrangement approved by the Restrictive Trade Practices Tribunal in 2012 concerning mutual clearing of Visa and MasterCard cards. From July 1, 2014 to the end of the period of the arrangement (December 31, 2018), the average issuer fee will stand at 0.7%. Within this arrangement, an outline was established for gradual reduction of the rate of the interchange fee. On February 25, 2018, the Bank of Israel released the final outline for the reduction of the interchange fee. The interchange fee in deferred debit transactions will be reduced according to the following trajectory: a decrease in the interchange fee from 0.7% to 0.6% beginning January 1, 2019, and a decrease in the interchange fee from 0.6% to 0.575% beginning January 1, 2020. Terms of exemption from approval of a restrictive arrangement – As part of the arrangement, a request for an exemption from approval of a restrictive arrangement was submitted to the Antitrust Commissioner in March 2012 with regard to an operational arrangement regulating the operation of the common interface of the company, MAX, and CAL, concerning the implementation of the arrangement between them (the agreement is updated from time to time by the parties). On April 25, 2018, the Supervisor of Competition issued a ruling regarding the granting of an exemption, with conditions, from approval of a restrictive arrangement, until December 31, 2023, with regard to the aforesaid operational agreement. Among other matters, the exemption addresses the requirement for credit-card companies to add to the arrangement, equitably and at no cost, any issuer, clearer, or entity acting on their behalf with activity relevant to the arrangement that asks to join the arrangement; to make all information necessary for the purpose of joining the arrangement and acting in accordance with the arrangement available to them; and to perform reasonable adjustments, as necessary, in such a manner as to enable new players to join the arrangement and act in accordance with its directives. In addition, the company, Leumi Card, and CAL are prohibited from taking actions that may impede the entry of new competitors in the fields of issuance or clearing, or the penetration of means of payment that are alternatives to credit cards, such as debit cards, all as detailed in the terms of the exemption. The exemption also includes a directive pursuant to which, beginning July 1, 2021, monetary transfers between issuers and clearers in respect of transactions executed with a single payment shall be performed no later than one day after the date of transmission of the transaction by the business ("daily crediting").

In November 2018, the Banking Supervision Department issued an amendment of Proper Conduct of Banking Business Directive 470, "Charge Cards." The draft amendment states, among other matters, that a credit-card company is permitted to send an issuance contract to a customer by any means of delivery customarily used at the company, rather than only by mail, in accordance with the rules detailed in the draft.

Implementation of the use of the EMV security standard – In June 2015, the Banking Supervision Department issued a directive on implementation of the EMV security standard in both issuance and clearing, which has also been embedded in Proper Conduct of Banking Business Directive 470 and in additional guidelines. Among other matters, the directive and the guidelines subsequently provided by the Banking Supervision Department, which include amendments to Proper Conduct of Banking Business Directive 472, address schedules for the issuance of cards that support the EMV standard and for the connection of terminals that support the standard to the new charge-card system, as well as for inception of a mechanism for redirecting liability from the issuer to the clearer. The application of the liability shift mechanism was scheduled for January 1, 2019. In November 2018, the Banking Supervision Department issued an amendment to Directive 472, according to which directive regarding the liability shift mechanism, at small businesses whose annual turnover with clearers in 2018 did not exceed NIS 5 million, would take effect on January 1, 2020. In December 2018, the Banking Supervision Department issued a draft for comments from the public of an amendment to Directive 472 according to which the directive regarding the liability shift mechanism at fuel-station businesses would take effect on January 1, 2022.

Regulatory initiatives

Bills and proposed legislation

Money Laundering Prohibition Order – The Money Laundering Prohibition Order (Duties of Identification, Reporting, and Record Keeping of Credit Service Providers for the Prevention of Money Laundering and Financing of Terrorism) was published in the Official Gazette of the Israeli Government on March 14, 2018. The order regulates the duties pertaining to the prohibition of money laundering and financing of terrorism of an entity required to receive a license to grant credit, pursuant to Chapter C of the Law for Supervision of Financial Services (Regulated Financial Services), 2016 (the “Supervision of Regulated Financial Services Law”), which is an entity listed in the third addendum to the Money Laundering Prohibition Law, and of a provider of discounting services and an aggregator as a provider of credit services. This order took effect on March 15, 2018. On May 23, 2018, the Ministry of Finance issued a draft amendment of the aforesaid order, which, among other matters, expands the directives applicable to the activity of an aggregator as a provider of credit services, such that they also apply to the activity of an aggregator as a provider of a service in a financial asset.

Fair Credit Law – An amendment to the Non-Bank Loan Regularization Law, 1993, was published in the Official Gazette of the Israeli Government in August 2017. Pursuant to the amendment, the name of the law will change to the Fair Credit Law. Among other matters, the amendment establishes a uniform maximum interest-rate limit for loans to private individuals, applicable to all entities subject to the amendment, including banks and credit-card companies; the amendment also establishes various directives with regard to contractual engagements in loan agreements and agreements for credit facilities (including with regard to duties of disclosure to the customer), directives concerning arrears interest, and more.

Pursuant to the Non-Bank Loan Regularization Law (Amendment 5) (Amendment), 2018, published in the Official Gazette of the Israeli Government in November 2018, the inception of the law, scheduled for November 9, 2018, was postponed until the earlier of six (6) months from the date of publication of regulations on this subject, or 27 months from the inception date of the law, all as detailed in the law. In addition, in February 2019, the Non-Bank Loan Regulation (Exception of Types of Credit Transactions from the Application of the Law and Exception of Expenses from the Definition of an "Addition") Regulations, 2019, were published in the Official Gazette of the Israeli Government, pursuant to which types of credit transactions would be excepted from the application of the law, and expenses would be excepted from the definition of an addition, all as detailed in the regulations. In general, the regulations will take effect on August 25, 2019.

Regulation of payment services – (1) The Payment Services Law, 2019, was published in the Official Gazette of the Israeli Government on January 9, 2019. Among other matters, the law regulates various aspects of the relationships between a payment service provider (the issuer of a charge card) and a payer (the charge-card holder), and between a payment service provider (the clearer) and a beneficiary (the business), during the use of means of payment. This includes the determination that fund transfers from a clearer to a business should be immediate, or at another reasonable date agreed upon by the clearer and the business; the establishment of general directives concerning the execution of payment orders and the relevant liability arrangements; and directives concerning criminal penalties and monetary sanctions for the violation of certain sections of the law. Under the law, matters mentioned in the Charge Cards Law will be regulated by the Payment Services Law, and the Charge Cards Law will be rescinded upon the inception of the law. In general, the inception date of the Payment Services Law is one year from the date of its publication. It will also apply, in general, to means of payment issued before the inception date and to debiting authorizations granted before the inception date, all as detailed in the law. (2) In August 2018, the Ministry of Finance issued the Memorandum of Law for Supervision of Financial Services (Regulated Financial Services) (Amendment) (Provision of Payment Services), 2018, which is aimed at regulating another area within the Law for Supervision of Financial Services (Regulated Financial Services), 2016, addressing the regulation of all payment service provision activities. As noted in the explanatory materials of the memorandum of law, these services include administration of a payment account that allows the transfer of payments for products and services, issuance of means of payment, clearing of payment transactions, and provision of automated teller machine services. According to the explanatory materials, the regulation is expected to encourage competition by allowing non-bank players to enter the market and develop alongside the existing banking players. Note that the memorandum does not include the regulation of payment initiation services, which, according to the explanatory materials of the memorandum of law, will be completed later. Pursuant to the memorandum, among other matters (including through indirect amendments to the Banking Licensing Law):

(a) No person shall engage in the provision of payment services (including issuance and clearing of means of payment, all as defined in the memorandum) unless they hold the appropriate license, or they are one of the entities exempt from the obligation to obtain a license (including a clearer, as defined in the memorandum and according to the conditions therein). (b) The holder of a license to provide payment services shall not engage in an occupation other than payment services, and shall not control a corporation engaged in providing payment services, or hold more than 10% of the means of control of such a corporation, unless they have notified the Supervisor of this intention, in writing, and the Supervisor has not given notice of an objection, within the timeframe and under the conditions specified in the memorandum. In the period from the inception date of the law (one year from the date of its publication; in this Section 21 – the "Inception Date") until two years have elapsed from the Inception Date (in this Section 21 – the "Transitional Period"), the holder of a license to provide payment services shall not engage in an occupation that is not a payment service, and shall not control a corporation engaged in an occupation that is not a payment service, or hold more than 10% of the means of control of such a corporation, except with the approval of the Supervisor and in accordance with the terms of the approval (all of the foregoing terms, as defined in the memorandum). (c) A clearer shall not engage in an occupation other than clearing of payment transactions or the provision of payment services, and shall not control a corporation engaged in an occupation other than clearing or the provision of payment services, as noted, or hold more than 10% of the means of control of such a corporation, unless the clearer has notified the Governor of this intention, in writing, and the Governor has not given notice of an objection, within the timeframe and under the conditions specified in the memorandum. During the Transitional Period, a clearer shall not engage in an occupation other than clearing of payment transactions or the provision of payment services, and shall not control a corporation engaged in an occupation other than clearing or the provision of payment services, as noted, or hold more than 10% of the means of control of such a corporation, except with the approval of the Governor and in accordance with the terms of the approval. In addition, during the aforesaid Transitional Period, a clearer shall be permitted to control or hold means of control in a corporation engaged in occupations not permitted to clearers, as noted above, provided that the Supervisor has determined in directives that this occupation is one of the types of occupations in which a corporation controlled by a clearer is permitted to engage; in this regard, the Supervisor is authorized to establish different directives for different types of clearers, under the conditions specified in the memorandum (all of the terms above, as defined in the memorandum). In addition, the memorandum includes directives that are included in other laws, such as with regard to a hosted clearer and the obligation of an issuer with an extensive volume of activity to contract with a clearer for cross-clearing of transactions in the charge cards that it issues, under the conditions specified in the memorandum.

An amendment to the Banking (Licensing) Law was published in August 2011, pursuant to which, among other matters, entities engaged in clearing charge cards are required to receive a clearing license. Entities engaged in clearing activity at the inception date of the law were granted reliefs in this matter. Additional limits were also established, such as a requirement for an issuer with an extensive volume of activity, an issuer who issued ten percent or more of the number of charge cards issued in Israel, or an issuer of charge cards used to execute at least ten percent of the sum of transactions executed in Israel (as defined by law) to enter into contractual engagements with any clearer for cross-clearing, unless the refusal to enter into the contractual engagement was due to reasonable causes. In this context, note that the Banking (Licensing) Law authorized the Minister of Finance or the Supervisor of Banks (as relevant) to also consider additional corporations to be part of the clearer/issuer with an extensive volume of activity (a corporation in which the clearer/issuer is an interested party, a corporation that controls the clearer/issuer, and/or a corporation in which the controlling shareholder of the clearer/issuer is an interested party). For example, it might be decided that Poalim Express was part of Isracard, for the purposes of its status as a clearer/issuer with an extensive volume of activity, and accordingly, the restrictions applicable to Isracard in this context would also apply to Poalim Express. With regard to this matter, in July 2017, the Ministry of Finance notified Poalim Express that, given that the fees it collects from merchants in local transactions, in a brand with exclusive clearing and issuance, would decrease, in an incremental trajectory, with a maximum fee of 2.95% by the end of December 2017, a maximum fee of 2.45% by the end of December 2018, a maximum fee of 2.10% by the end of December 2019, and stabilization of the maximum fee for merchants at 1.99% at the end of June 2020, at that time the Minister of Finance did not find it necessary to exercise his authority pursuant to Section 36M(a) of the Banking (Licensing) Law, or to support bills the significance of which is identical to the exercise of such authority, or that intervene directly and specifically in the brand fee beyond the aforesaid trajectory. For details 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.

Additional activities

In addition to activities related to the issuance and clearing of credit cards, as described above, the Isracard Group has the following additional activities: check settlement guaranteeing and check discounting; granting of consumer credit other than through credit cards; direct sale-slips discounting; and factoring, including factoring for purchasing.

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	P-1	Positive	April 2019
	S&P	AA-	A-1+	Stable	February 2019
	Fitch Ratings	A+	F1+	Stable	March 2019
Bank Hapoalim					
	Moody's	A2	P-1	Stable	March 2019
	S&P	A-	A-2	Positive	November 2018
	Fitch Ratings	A	F1	Stable	May 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 2018
	Midroog	Aaa	P-1	Stable	December 2018

* In May 2019, Fitch Ratings gave notice that the short-term rating of Bank Hapoalim had been added to a positive watch list, within an update of short-term rating scales for several dozen banks.

In April 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 first 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 quarter of 2019 was expressed in a cumulative financial expenditure of approximately NIS 7 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			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Interest income	2,825	2,975	2,895	3,274	2,528
Interest expenses	(548)	(685)	(667)	(972)	(442)
Net interest income	2,277	2,290	2,228	2,302	2,086
Non-interest financing income	89	450	406	361	228
Total reported financing profit	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	(23)	73	9	30	68
Profit from investments in shares	155	160	167	27	49
Gains (losses) in respect of loans sold	-	(2)	-	40	18
Adjustments to fair value of derivative instruments ⁽¹⁾	(97)	(35)	96	41	(38)
Financing income (expenses) from tax hedging of investments overseas ⁽²⁾	(65)	17	6	55	(5)
Total income from regular financing activity ⁽³⁾	2,396	2,527	2,356	2,470	2,222

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

- (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 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**⁽¹⁾

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
NIS millions					
Individual provision for credit losses	230	293	167	222	153
Decrease in individual allowance for credit losses and recovery of charged off debts	(200)	(217)	(289)	(228)	(256)
Net individual provision (income) for credit losses	30	76	(122)	(6)	(103)
Net provision in respect of the collective allowance for credit losses and net charge-offs	91	113	240	96	319
Total provision (income) for credit losses*	121	189	118	90	216
* Of which:					
Net provision (income) for credit losses in respect of commercial credit risk	51	81	(37)	(17)	87
Net provision (income) for credit losses in respect of housing credit risk	3	9	20	6	5
Net provision for credit losses in respect of other private credit risk	65	95	135	103	124
Net provision (income) for credit losses in respect of risk of credit to banks and governments	2	4	-	(2)	-
Total provision (income) for credit losses	121	189	118	90	216
Provision as a percentage of total credit to the public***:					
Percentage of individual provision (income) for credit losses	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****	0.45%	0.57%	0.59%	0.46%	0.69%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	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	0.17%	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	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.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Table 7-3: Details of fees and other income, by quarter⁽¹⁾

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Fees					
Account management fees	218	231	230	227	232
Securities activity	174	196	174	182	189
Credit cards, net	63	64	81	70	67
Credit handling	54	45	47	76	55
Financing transaction fees	116	114	*115	*111	*110
Other fees	160	176	175	178	173
Total fees	785	826	*822	*844	*826
Other income	18	45	13	25	22
Total fee income and other income	803	871	*835	*869	*848

* Reclassified.

(1) Does not include the data of the Isracard Group, which constitutes a discontinued operation.

Table 7-4: Details of operating and other expenses, by quarter*

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
	NIS millions				
Salary expenses					
Wages	942	938	890	952	960
Bonuses and share-based compensation	101	33	130	110	84
Total wages	1,043	971	1,020	1,062	1,044
Maintenance and depreciation of buildings and equipment	314	349	341	343	343
Others⁽¹⁾⁽²⁾⁽³⁾	520	1,657	623	629	578
Total	1,877	2,977	1,984	2,034	1,965

* Does not include the data of the Isracard Group, which constitutes a discontinued operation.

(1) In the third quarter of 2018, includes a total of NIS 30 million in respect of the discontinuation of private-banking activity at Bank Hapoalim Switzerland.

(2) In the first quarter of 2019, includes an expense in the amount of NIS 123 million in respect of legal expenses in connection with the investigation of the Bank Group's business with American clients and the investigation concerning FIFA (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 first quarter of 2019, includes income in the amount of NIS 71 million in respect of expenses in connection with the investigation of the Bank Group's business with American clients and the investigation concerning FIFA (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 March 31					
	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	265,415	2,316	3.54%	252,782	2,172	3.48%
Outside Israel	16,981	232	5.58%	14,702	170	4.71%
Total	282,396	⁽⁴⁾ 2,548	3.66%	267,484	⁽⁴⁾ 2,342	3.55%
Credit to governments:						
In Israel	2,205	17	3.12%	2,775	16	2.33%
Outside Israel	-	-	-	-	-	-
Total	2,205	17	3.12%	2,775	16	2.33%
Deposits with banks:						
In Israel	5,147	38	2.99%	6,522	36	2.23%
Outside Israel	271	(4)	(5.77%)	440	(1)	(0.91%)
Total	5,418	34	2.53%	6,962	35	2.03%
Deposits with central banks:						
In Israel	48,276	29	0.24%	43,299	11	0.10%
Outside Israel	10,377	69	2.69%	10,759	38	1.42%
Total	58,653	98	0.67%	54,058	49	0.36%
Securities borrowed or purchased under agreements to resell:						
In Israel	738	-	-	593	-	-
Outside Israel	-	-	-	-	-	-
Total	738	-	-	593	-	-

* 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 129 million were included in interest income in the three-month period ended March 31, 2019 (March 31, 2018: NIS 131 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 March 31					
	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	50,795	182	1.44%	51,254	130	1.02%
Outside Israel	3,776	30	3.22%	4,964	26	2.11%
Total	54,571	212	1.56%	56,218	156	1.11%
Bonds held for trading ⁽³⁾ :						
In Israel	5,185	6	0.46%	6,716	3	0.18%
Outside Israel	37	-	-	72	-	-
Total	5,222	6	0.46%	6,788	3	0.18%
Other assets:						
In Israel	1,194	-	-	289	-	-
Outside Israel	1	-	-	-	-	-
Total	1,195	-	-	289	-	-
Total interest-bearing assets	410,398	2,915	2.87%	395,167	2,601	2.66%
Non-interest-bearing debtors in respect of credit cards						
	16,472	-	-	15,179	-	-
Other non-interest-bearing assets ⁽⁴⁾	35,248	-	-	39,773	-	-
Total assets	462,118	-	-	450,119	-	-
Total interest-bearing assets attributed to activities outside Israel						
	31,443	327	4.23%	30,937	233	3.05%

* 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 (63) million for the three months ended March 31, 2019 (March 31, 2018: NIS 98 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 March 31					
	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	198,382	329	0.67%	198,452	230	0.46%
On demand	91,641	50	0.22%	85,473	24	0.11%
Fixed term	106,741	279	1.05%	112,979	206	0.73%
Outside Israel	16,487	99	2.42%	14,356	58	1.63%
On demand	3,534	18	2.05%	4,207	12	1.15%
Fixed term	12,953	81	2.52%	10,149	46	1.83%
Total	214,869	428	0.80%	212,808	288	0.54%
Deposits from the government:						
In Israel	164	2	4.97%	209	1	1.93%
Outside Israel	-	-	-	-	-	-
Total	164	2	4.97%	209	1	1.93%
Deposits from central banks:						
In Israel						
Outside Israel	628	4	2.57%	267	1	-
Total	628	4	2.57%	267	1	-
Deposits from banks:						
In Israel	3,897	2	0.21%	3,138	1	0.13%
Outside Israel	268	2	3.02%	324	5	6.32%
Total	4,165	4	0.38%	3,462	6	0.70%
Securities lent or sold under agreements to repurchase:						
In Israel	-	-	-	-	-	-
Outside Israel	3	-	-	187	(1)	(2.12%)
Total	3	-	-	187	(1)	(2.12%)

* 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 March 31					
	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	29,329	110	1.51%	27,867	138	2.00%
Outside Israel	364	3	3.34%	794	10	5.13%
Total	29,693	113	1.53%	28,661	148	2.08%
Other liabilities:						
In Israel	1,034	(1)	(0.39%)	797	-	-
Outside Israel	8	-	-	2	-	-
Total	1,042	(1)	(0.38%)	799	-	-
Total interest-bearing liabilities	250,564	550	0.88%	246,393	443	0.72%
Non-interest-bearing deposits from the public	136,684	-	-	129,511	-	-
Non-interest-bearing creditors in respect of credit cards	15,355	-	-	14,394	-	-
Other non-interest-bearing liabilities ⁽³⁾	21,513	-	-	23,755	-	-
Total liabilities	424,116	-	-	414,053	-	-
Total capital means	38,002	-	-	36,066	-	-
Total liabilities and capital means	462,118	-	-	450,119	-	-
Interest spread	-	-	1.99%	-	-	1.94%
Net return on interest-bearing assets ⁽⁴⁾						
In Israel	378,955	2,146	2.28%	364,230	1,998	2.21%
Outside Israel	31,443	219	2.82%	30,937	160	2.08%
Total	410,398	2,365	2.33%	395,167	2,158	2.20%
Total interest-bearing liabilities attributed to activities outside Israel	17,758	108	2.45%	15,930	73	1.85%

* 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 March 31					
	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	285,442	2,055	2.91%	278,110	1,922	2.79%
Total interest-bearing liabilities	150,990	(145)	(0.38%)	153,524	(124)	(0.32%)
Interest spread	-	-	2.53%	-	-	2.47%
Israeli currency CPI-linked						
Total interest-bearing assets	49,583	215	1.75%	45,709	201	1.77%
Total interest-bearing liabilities	40,867	(96)	(0.94%)	38,942	(127)	(1.31%)
Interest spread	-	-	0.81%	-	-	0.46%
Foreign currency (includes Israeli currency linked to foreign currency)						
Total interest-bearing assets	43,930	318	2.93%	40,411	245	2.45%
Total interest-bearing liabilities	40,949	(201)	(1.98%)	37,997	(119)	(1.26%)
Interest spread	-	-	0.95%	-	-	1.19%
Total activity in Israel						
Total interest-bearing assets	378,955	2,588	2.76%	364,230	2,368	2.63%
Total interest-bearing liabilities	232,806	(442)	(0.76%)	230,463	(370)	(0.64%)
Interest spread	-	-	2.00%	-	-	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)

	Three months ended March 31, 2019, versus three months ended March 31, 2018		
	Increase (decrease) due to change ⁽²⁾		Net change
	Quantity	Price	
	NIS millions		
C. Analysis of changes in interest income and expenses			
Interest-bearing assets			
Credit to the public:			
In Israel	110	34	144
Outside Israel	31	31	62
Total	141	65	206
Other interest-bearing assets:			
In Israel	5	71	76
Outside Israel	(12)	44	32
Total	(7)	115	108
Total interest income	134	180	314
Interest-bearing liabilities			
Deposits from the public:			
In Israel	-	99	99
Outside Israel	13	28	41
Total	13	127	140
Other interest-bearing liabilities:			
In Israel	8	(35)	(27)
Outside Israel	(2)	(4)	(6)
Total	6	(39)	(33)
Total interest expenses	19	88	107
Total interest income less interest expenses	115	92	207

* 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 defined in the Volck

A

Accounting policies 3, 7, 86, 93, 105, 106, 107, 108, 109

C

Collective allowance for credit losses 27, 65, 66, 72, 267

Credit risk 7, 8, 9, 14, 15, 27, 32, 33, 42, 44, 45, 47, 59, 61, 62, 63, 65, 66, 67, 68, 69, 70, 71, 72, 73, 76, 77, 78, 79, 80, 81, 82, 93, 107, 124, 125, 126, 137, 161, 162, 163, 165, 212, 213, 214, 216, 233, 245, 267, 275

Credit to the public 8, 13, 14, 26, 27, 31, 47, 48, 49, 50, 51, 52, 53, 54, 55, 58, 62, 63, 64, 65, 66, 67, 68, 69, 72, 73, 93, 98, 103, 107, 108, 110, 123, 124, 125, 126, 189, 193, 197, 200, 201, 203, 209, 210, 211, 212, 214, 215, 216, 244, 245, 246, 247, 248, 249, 250, 251, 252, 254, 255, 256, 257, 267, 269, 274, 276

D

Deposits from the public 14, 31, 35, 47, 48, 49, 50, 51, 53, 54, 55, 93, 98, 104, 107, 110, 127, 189, 193, 197, 200, 201, 203, 209, 210, 211, 214, 215, 216, 244, 245, 246, 247, 250, 251, 252, 254, 255, 256, 257, 271, 272, 274

Derivatives 12, 24, 25, 33, 37, 51, 61, 71, 73, 74, 99, 106, 143, 154, 155, 156, 157, 158, 159, 160, 164, 209, 210, 211, 218, 219, 220, 223, 224, 225, 226, 227, 228, 255, 256, 275, 276

Dividend 14, 37, 38, 39, 56, 57, 99, 100, 101, 104, 111, 136, 152, 209, 226, 227, 228

E

Employee benefits 30, 93, 102, 113, 114, 115, 128, 129, 130, 131, 132, 133, 134, 135

Environmental risk 15, 60, 86

F

Fair value 9, 24, 25, 30, 35, 37, 43, 51, 61, 83, 84, 97, 98, 102, 105, 106, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 128, 130, 133, 147, 157, 158, 159, 161, 162, 163, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 256, 266, 270

Fees 8, 12, 13, 14, 23, 27, 28, 29, 47, 48, 49, 51, 54, 55, 96, 108, 149, 187, 191, 195, 200, 201, 203, 212, 213, 239, 242, 244, 245, 246, 247, 248, 250, 251, 254, 256, 263, 268, 269

Foreign countries 8, 34, 71

H

Hedge 30, 97, 106, 113

Housing loans 8, 27, 31, 32, 39, 42, 44, 54, 55, 62, 67, 68, 69, 74, 75, 107, 123, 124, 125, 137, 141, 187, 189, 191, 193, 195, 197, 200, 201, 203, 213, 247, 248, 267

I

Impaired debts 13, 63, 64, 72, 123, 124, 125, 189, 193, 197, 212, 213, 269

Impairment 105, 111, 118, 120, 122

Individual allowance for credit losses 27, 72, 267

Interest-rate risk 15, 39, 59, 82, 84

L

Legal proceedings 23, 148

Leverage 8, 12, 37, 40, 45, 93, 107, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145

Leveraged financing 9, 80, 81

Liquidity 7, 9, 12, 15, 39, 59, 60, 71, 85, 93, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 164, 165, 255

Liquidity risk 15, 59, 85, 165

M

Management approach activity segments 239, 250, 251, 256

Market risk 7, 8, 15, 39, 45, 59, 82, 165

Money laundering 21, 153, 252, 260

O

Operational risk 8, 15, 39, 42, 44, 45, 59, 60, 85, 137, 165

Other assets 44, 67, 68, 69, 72, 98, 102, 123, 124, 125, 209, 210, 211, 270

Other risks 7, 15, 59, 85

P

Provision for impairment 111

R

Refinancing risk 7, 12, 85

Remuneration 132, 135, 136, 241

Reputational risk 15, 59

Risk-adjusted assets 12, 38, 40, 41, 42, 43, 44, 58, 137, 140, 141, 142, 143, 189, 193, 197

Risk management policy 85

S

Securities 8, 11, 12, 14, 24, 28, 30, 31, 33, 34, 35, 36, 41, 43, 49, 51, 59, 67, 68, 69, 72, 73, 86, 93, 97, 98, 102, 103, 104, 105, 110, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 142, 143, 146, 160, 189, 193, 197, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 223, 224, 225, 231, 232, 245, 255, 268, 269, 271, 276, 278

Securitization 44, 111, 278

Share-based payment 99, 100, 101, 102

Share capital 37, 41, 43, 99, 100, 101, 142

Strum Committee 229, 244, 263

Supervisory activity segments 7, 8, 46, 47, 48, 54, 55, 93, 187, 189, 191, 193, 195, 197, 199, 200, 201, 203, 256

T

Trading book 34, 85