Bank Hapoalim

Report on Risks –
Pillar 3 Disclosure and Additional
Information Regarding Risks
as at June 30, 2018

Q2

bank hapoalim

Contents

This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew version will prevail.

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A. Introduction

The information presented below in the Report on Risks, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations.

This publication of the Report on Risks serves as a supplement and expansion of information accompanying the financial reporting of Bank Hapoalim B.M. on the subjects of risk and capital management. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

A.1. Forward-looking information

Most of the information in this report 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 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. 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.

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.

A.2. Disclosure declaration

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the periodic financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks. Within the discussions of the condensed financial statements of the Bank, the Board of Directors of the Bank approved the publication of the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks.

A.3. Applicability of implementation

The applicability of implementation refers to the working framework for the capital measurement and adequacy of Bank Hapoalim.

In general, the capital requirements of the Bank are based on its consolidated financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Banking Supervision Department.

According to Israeli GAAP, subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial statements, but different consolidation rules sometimes apply for the purposes of the supervision of capital.

Pursuant to United States standards, a realization group held for sale should be classified as a discontinued operation if the sale constitutes a strategic change that will have a material effect on the activities and financial results of the entity. Accordingly, beginning with the financial statements for the second quarter of 2018, the Isracard Group will be presented as a "discontinued operation." In accordance with the directives of United States accounting standards, at the date of classification as a discontinued operation, the Bank classified all of the assets and liabilities in the balance sheet attributed to the operation as separate lines in the balance sheet. However, as at June 30, 2018, the Bank's capital requirements were calculated based on measurement of the risk-adjusted assets of the Isracard Group according to counterparty, as required in the Basel directives.

With the foregoing exception, as at June 30, 2018, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

There are no significant prohibitions or restrictions on the transfer of supervisory capital within the Group, with the exception of Bank Pozitif, for which any capital beyond the Pillar 1 requirements is not available at the level of the Group, and against which capital is therefore allocated within Pillar 2 calculations. With regard to the limits established in the Bank of Israel's permit for the acquisition of control of the Bank in connection with the distribution of retained earnings, see Note 24 to the Financial Statements for 2017 and Note 9 to the Condensed Financial Statements as at June 30, 2018.

For further details regarding the principal subsidiary and affiliated companies of the Bank, see Note 15C to the Financial Statements for 2017.

B. Review of risk management, principal supervisory ratios, and risk-adjusted assets

B.1. Risk assessment and management

The Bank's activity is accompanied by the following financial risks: credit risks (including concentration risk and counterparty risk), market risks (including exchange-rate risk and interest-rate risk in the banking book), investment risk (share and credit spread risk), and liquidity risk (including refinancing risk). Other non-financial risks are mainly compliance risk, legal risk, and operational risks. Additional risks to which the Bank is exposed are handled directly as part of the management of its business: reputational risk, competitive risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk.

The Bank has defined the following risks as material risks: credit risk, market risk, investment risk, compliance risk, operational risk, concentration risk, counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic risk, and regulatory and legislative risk.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with exposure significant for the Group. Risks are managed separately by each subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. The Bank manages the various risks while using hedges for some risks. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary.

The Chief Risk Officer (CRO) and the member of the Board of Management responsible for the Risk Management Area is Dr. A. Bachar, beginning May 29, 2018. Mr. T. Cohen served in this position until March 2018. From March to May 2018, Ms. R. Tal-Avrahami served as acting Chief Risk Officer.

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 and the Head of Retail Banking. The Head of Corporate Banking, beginning March 2018, is Mr. T. Cohen. Mr. J. Orbach served in this position until March 2018. The Head of Retail Banking is Mr. R. Stein.

Until May 2018, the member of the Board of Management responsible for managing market, investment, and liquidity risks was Mr. D. Koller, Head of Financial Markets and International Banking. Since May 29, 2018, the member of the Board of Management responsible for the Financial Markets and International Banking Area is Mr. Y. Antebi.

Legal risk was managed by Attorney I. Mazur until March 2018, and has been managed by Attorney Y. Almog, Chief Legal Advisor, since March 2018.

Technological 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, 2017.

Table B-1: Principal supervisory ratios

	On a consolidated basis, as at				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
	NIS millions/percent				
Available capital (in NIS millions)					
Principal supervisory ratios					
Common equity Tier 1 capital	**37,178**	36,637	36,582	36,347	36,245
Common equity Tier 1 capital before effect of transitional directives[(1)]	**36,645**	36,065	35,843	35,587	35,465
Tier 1 capital	**38,155**	37,614	37,803	37,568	37,466
Tier 1 capital before effect of transitional directives[(1)]	**36,645**	36,065	35,843	35,587	35,465
Total capital	**48,771**	46,630	47,531	47,927	47,839
Total capital before effect of transitional directives[(1)]	**40,479**	39,863	39,553	39,277	39,111
Risk-weighted assets (in NIS millions)					
Total risk-weighted assets (RWA)	**333,206**	331,539	324,772	322,689	319,225
Total risk-weighted assets (RWA) before effect of transitional directives[(1)]	**333,951**	332,337	325,616	323,586	320,175
Capital-adequacy ratios (in %) according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	**11.16%**	11.05%	11.26%	11.26%	11.35%
Common equity Tier 1 capital ratio before effect of transitional directives[(1)]	**10.97%**	10.85%	11.01%	11.00%	11.08%
Tier 1 capital ratio	**11.45%**	11.35%	11.64%	11.64%	11.74%
Tier 1 capital ratio before effect of transitional directives[(1)]	**10.97%**	10.85%	11.01%	11.00%	11.08%
Total capital ratio	**14.64%**	14.06%	14.64%	14.85%	14.99%
Total capital ratio before effect of transitional directives[(1)]	**12.12%**	11.99%	12.15%	12.14%	12.22%
Common equity Tier 1 capital ratio required by the Banking Supervision Department[(2)]	**10.23%**	10.23%	10.23%	10.23%	10.20%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department[(2)]	**0.93%**	0.82%	1.03%	1.03%	1.15%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures (in NIS millions)	**516,190**	509,845	513,037	510,009	509,345
Total exposures (in NIS millions) before effect of transitional directives[(1)]	**516,488**	510,164	513,370	510,363	509,720
Leverage ratio (in %)	**7.39%**	7.38%	7.37%	7.37%	7.36%
Leverage ratio before effect of transitional directives (%)[(1)]	**7.10%**	7.07%	6.98%	6.97%	6.96%

(1) Before the effect of the transitional directives, including the effect of the adoption of US GAAP on employee benefits, and before the effect of Efficiency Plan Adjustments.
(2) Including a capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements.

Table B-1: Principal supervisory ratios (continued)

	For the three months ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	**110,310**	108,592	111,047	115,275	116,466
Total net cash outflows	**89,479**	91,418	90,712	93,611	91,492
Liquidity coverage ratio (in %)	**123%**	119%	122%	123%	127%

B.2. 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, 2017.

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:

- **Macro-economic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy; significant changes in monetary policies and interest-rate curves; market volatility; changes in prices of financial assets in Israel and worldwide, and in real-estate prices; and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macro-economic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations.
- **Regulatory environment in Israel:** 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 June 30, 2018.
- **Regulatory environment overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally.

- **Compliance risk:** The continuing investigations of banks and the imposition of fines on banks around the world in connection with the violation of regulatory directives, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. For details regarding legal claims and investigations, see Note 10C and 10D to the Condensed Financial Statements as at June 30, 2018, concerning the investigation of the Bank Group's business with American clients and the FIFA investigation.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions and 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 Section 3.13 of the Report of the Board of Directors and Board of Management as at June 30, 2018.

C. Capital and leverage

C.1. Structure of supervisory capital and composition of capital

Capital measurement is based on the division of capital into Tier 1 capital (which includes common equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital.

For details regarding the structure of supervisory capital, the composition of capital, and limits on the structure of capital, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017.

C.1.a. Calculation of the capital ratio

Table C-1: Calculation of the ratio of capital to risk components

	June 30, 2018	June 30, 2017	December 31, 2017
		NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital(1)	**37,178**	36,245	36,582
Additional Tier 1 capital	**977**	1,221	1,221
Total Tier 1 capital(1)	**38,155**	37,466	37,803
Tier 2 capital	**10,616**	10,373	9,728
Total overall capital(1)	**48,771**	47,839	47,531
2. Weighted balances of risk-adjusted assets			
Credit risk(2)	**305,976**	290,746	295,986
Market risks	**3,212**	4,913	5,114
Operational risk	**24,018**	23,566	23,672
Total weighted balances of risk-adjusted assets(2)	**333,206**	319,225	324,772
		%	
3. Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components	**11.16%**	11.35%	11.26%
Ratio of Tier 1 capital to risk components	**11.45%**	11.74%	11.64%
Ratio of total capital to risk components	**14.64%**	14.99%	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)(4)	**10.23%**	10.20%	10.23%
Minimum total capital ratio required by the Banking Supervision Department(3)(4)	**13.73%**	13.70%	13.73%

(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 transitional directives and the Efficiency Plan Adjustments, see Note 9 to the Condensed Financial Statements.

(2) A total of NIS 745 million as at June 30, 2018, NIS 853 million as at December 31, 2017, and NIS 958 million as at June 30, 2017, 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) Upon completion of the separation from the Isracard Group, the risk-adjusted assets of the Bank are expected to decrease by approximately NIS 12 billion, in respect of exposures not under the responsibility of the Bank. This process is also expected to have effects on supervisory capital, which depend on the manner of separation.

(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.

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

	June 30, 2018	June 30, 2017	December 31, 2017
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	**8,135**	8,129	8,124
Retained earnings	**29,518**	27,897	28,465
Non-controlling interests in equity of consolidated subsidiaries	**43**	79	70
Unrealized profits from adjustments of securities available for sale to fair value	**93**	523	510
Other capital instruments	**(559)**	(339)	(531)
Amounts deducted from Tier 1 capital	**(52)**	(44)	(56)
Total common equity Tier 1 capital	**37,178**	36,245	36,582
Innovative hybrid instruments	**977**	1,221	1,221
Total Tier 1 capital	**38,155**	37,466	37,803
Tier 2 capital			
Hybrid capital instruments and subordinated notes	**104**	209	148
Collective allowances for credit losses before the effect of related tax	**3,825**	3,634	3,700
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,687**	6,530	5,880
Total Tier 2 capital	**10,616**	10,373	9,728
Total qualifying capital	**48,771**	47,839	47,531

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

Table C-3: Composition of supervisory capital, by components, with references to the supervisory balance sheet

		June 30, 2018		June 30, 2017		December 31, 2017		References to the supervisory balance sheet
		Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
		NIS millions						
	Common equity Tier I capital							
	Common equity Tier I capital – instruments and retained earnings							
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier I capital	**8,135**		8,129		8,124		1+2
2	Retained earnings, including dividends proposed or declared after the balance sheet date	**29,518**	**-**	27,897	1	28,465	1	3
3	Accumulated other comprehensive income and disclosed retained earnings	**(999)**	**-**	(502)	(67)	(631)	(96)	4A+4B
5	Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	**43**	**-**	79	23	70	18	5
6	Common equity Tier I capital before supervisory adjustments and deductions	**36,697**		35,603		36,028		
	Common equity Tier I capital – supervisory adjustments and deductions							
10	Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	**35**	**-**	32	8	30	8	6
11	Total accumulated other comprehensive income in respect of cash-flow hedges of items not presented in the balance sheet at fair value	**(1)**	**-**	(1)	-	(1)	-	7
14	Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	**5**	**-**	10	2	7	2	8

Table C-3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	June 30, 2018		June 30, 2017		December 31, 2017		References to the supervisory balance sheet
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions						
16 Investment in own ordinary shares held directly or indirectly (including commitments to purchase shares under contractual agreements)	**13**	**-**	3	1	20	5	
21 Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	**-**	**-**	-	-	2	1	
26 Additional supervisory adjustments and deductions established by the Banking Supervision Department	**(533)**	**-**	(686)	-	(612)	(1)	
26C Of which: additional supervisory adjustments to common equity Tier 1 capital	**(533)**	**-**	(686)	-	(612)	(1)	
26C Of which: in respect of the efficiency plan	**(533)**		(686)		(610)		
26C Of which: in respect of wage tax	**-**	**-**	-	-	(2)	(1)	
28 Total supervisory adjustments and deductions in common equity Tier 1 capital	**(481)**	**-**	(642)	11	(554)	15	
29 Common equity Tier 1 capital	**37,178**		36,245		36,582		
Additional Tier 1 capital							
Additional Tier 1 capital – instruments							
33 Additional Tier 1 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**977**		1,221		1,221		9
36 Additional Tier 1 capital before deductions	**977**		1,221		1,221		
Additional Tier 1 capital – deductions							
43 Total deductions from additional Tier 1 capital	**-**		-		-		
44 Additional Tier 1 capital	**977**		1,221		1,221		
45 Tier 1 capital	**38,155**		37,466		37,803		

Table C-3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

		June 30, 2018		June 30, 2017		December 31, 2017		References to the supervisory balance sheet
		Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
		NIS millions						
	Tier 2 capital							
	Tier 2 capital – instruments and provisions							
47	Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**104**		209		148		9
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,687**		6,530		5,880		
49	Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital	**4,869**		6,530		5,880		9
50	Collective allowances for credit losses before the effect of related tax	**3,825**		3,634		3,700		10
51	Tier 2 capital before deductions	**10,616**		10,373		9,728		
	Tier 2 capital – deductions							
57	Total supervisory adjustments to Tier 2 capital	**-**		-		-		
58	Tier 2 capital	**10,616**		10,373		9,728		
59	Total capital	**48,771**		47,839		47,531		
	Risk-weighted assets							
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**332,620**		318,712		324,295		
	Of which: credit risk assets	**305,390**		290,233		295,509		
	Of which: market risk assets	**3,212**		4,913		5,114		
	Of which: operational risk assets	**24,018**		23,566		23,672		
60	Total risk-weighted assets	**333,206**		319,225		324,772		

Table C-3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

		June 30, 2018		June 30, 2017		December 31, 2017		References to the supervisory balance sheet
		Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
		NIS millions/percent						
	Capital ratios and capital preservation cushions							
61	Common equity Tier 1 capital	**11.16%**		11.35%		11.26%		
62	Tier 1 capital	**11.45%**		11.74%		11.64%		
63	Total capital	**14.64%**		14.99%		14.64%		
	Minimum requirements established by the Banking Supervision Department							
69	The required minimum common equity Tier 1 capital ratio is 10%. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to this ratio	**10.23%**		10.20%		10.23%		
71	The required minimum total capital ratio is 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 this ratio	**13.73%**		13.70%		13.73%		
	Amounts below the deduction threshold (before risk weighting)							
72	Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**1,968**		1,003		2,310		
73	Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**862**		444		602		
75	Deferred tax assets arising from timing differences, below the deduction threshold	**3,504**		3,505		3,658		

Table C-3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

		June 30, 2018		June 30, 2017		December 31, 2017		References to the supervisory balance sheet
		Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
		NIS millions						
	Ceiling for inclusion of provisions in Tier 2							
76	Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	**3,905**		3,840		3,829		
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	**3,825**		3,634		3,700		
	Capital instruments not qualifying as supervisory capital, which are subject to the transitional directives							
82	Present ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives	**977**		1,221		1,221		
83	Amount deducted from additional Tier 1 capital due to the ceiling	**1,454**		1,198		1,188		
84	Present ceiling amount for instruments included in Tier 2 capital subject to the transitional directives	**6,102**		7,628		7,628		
85	Amount deducted from Tier 2 capital due to the ceiling	**-**		-		-		

Table C-4: Composition of the supervisory balance sheet, with references to the components of supervisory capital

	June 30, 2018*	June 30, 2017	December 31, 2017	References to components of supervisory capital
	Consolidated supervisory balance sheet			
	NIS millions			
Assets				
Cash and deposits with banks*	**83,274**	81,959	86,114	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(2)**	(4)	(3)	10
Securities*	**59,650**	70,499	65,442	
* Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation	**847**	1,003	1,057	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	**41**	-	-	
* Of which: other securities	**58,762**	69,496	64,385	
Securities borrowed or purchased under agreements to resell	**628**	429	684	
Credit to the public	**289,541**	276,836	282,507	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	**758**	302	457	
* Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation	**1,121**	-	1,253	
Allowance for credit losses*	**(3,894)**	(3,887)	(3,844)	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(3,269)**	(3,078)	(3,170)	10
* Of which: allowance for credit losses not included in supervisory capital	**(625)**	(809)	(674)	
Net credit to the public	**285,647**	272,949	278,663	
Credit to governments	**2,329**	2,243	2,292	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(3)**	(3)	(3)	10
Investment in equity-basis investees*	**113**	158	203	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	**63**	142	145	
Buildings and equipment	**3,330**	3,266	3,392	
Assets in respect of derivative instruments	**10,732**	12,766	12,013	
Other assets*	**5,663**	5,465	5,621	
* Of which: deferred tax assets**	**3,539**	3,545	3,699	
** Of which: deferred tax assets attributed to timing differences, over 10% of common equity Tier 1 capital	**-**	-	-	
** Of which: deferred tax assets excluding those attributed to timing differences	**35**	40	38	6
** Of which: other deferred tax assets	**3,504**	3,505	3,661	
* Of which: additional other assets	**2,124**	1,920	1,922	
Total assets	**451,366**	449,734	454,424	

* These balances include the activity of the credit-card companies, which is classified in the financial statements as a discontinued operation.

Table C-4: Composition of the supervisory balance sheet, with references to the components of supervisory capital (continued)

	June 30, 2018*	June 30, 2017	December 31, 2017	References to components of supervisory capital
	Consolidated supervisory balance sheet			
	NIS millions			
Liabilities and capital				
Deposits from the public	**345,817**	340,768	347,351	
Deposits from banks	**4,346**	4,329	4,149	
Deposits from the government	**297**	411	320	
Securities lent or sold under agreements to repurchase	**10**	620	367	
Bonds and subordinated notes*	**29,949**	30,736	29,058	
* Of which: subordinated notes not recognized as supervisory capital	**7,523**	8,167	7,571	
* Of which: subordinated notes recognized as supervisory capital**	**7,768**	7,960	7,249	
** Of which: qualifying as supervisory capital components	**1,818**	-	-	
** Of which: not qualifying as supervisory capital components and subject to transitional directives	**5,950**	7,960	7,249	9
Liabilities in respect of derivative instruments*	**9,939**	13,376	12,049	
* Of which: in respect of own credit risk	**5**	12	9	8
Other liabilities	**24,228**	23,865	25,126	
* Of which: collective allowance for credit losses included in Tier 2 capital	**551**	549	524	10
Total liabilities	**414,586**	414,105	418,420	
Shareholders' equity*	**36,654**	35,458	35,863	
* Of which: ordinary share capital and premium, retained earnings, other comprehensive loss, and capital reserves**	**36,654**	35,458	35,863	
** Of which: ordinary share capital	**1,334**	1,333	1,333	1
** Of which: premium on ordinary shares	**6,801**	6,796	6,791	2
** Of which: retained earnings	**29,518**	27,898	28,466	3
** Of which: accumulated other comprehensive loss***	**(1,030)**	(622)	(786)	4A
*** Of which: adjustments for presentation of securities available for sale at fair value	**93**	523	510	
*** Of which: net losses in respect of cash-flow hedges	**(1)**	(1)	(1)	7
*** Of which: net adjustments from translation, after hedge effects	**(47)**	(47)	(53)	
** Of which: capital reserves from a benefit due to share-based payment transactions	**31**	53	59	4B
Non-controlling interests*	**126**	171	141	
* Of which: non-controlling interests attributable to common equity Tier 1 capital	**43**	79	70	5
* Of which: non-controlling interests not attributable to supervisory capital	**83**	92	71	
Total capital	**36,780**	35,629	36,004	
Total liabilities and capital	**451,366**	449,734	454,424	

* These balances include the activity of the credit-card companies, which is classified in the financial statements as a discontinued operation.

Table C-5: Statement of changes in components of supervisory capital

	For the three months ended June 30, 2018				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at March 31, 2018	**36,637**	**977**	**37,614**	**9,016**	**46,630**
Changes in capital components					
Ordinary share capital	-	-	-	-	-
Premium on ordinary shares	**(13)**	-	**(13)**	-	**(13)**
Net profit for the period attributed to shareholders of the Bank	**920**	-	**920**	-	**920**
Dividend	**(251)**	-	**(251)**	-	**(251)**
Effect of adoption of accounting rules concerning employee benefits, included in retained earnings*	-	-	-	-	-
Unrealized losses from adjustments of securities available for sale to fair value	**(194)**	-	**(194)**	-	**(194)**
Unrealized gains in respect of cash-flow hedges	-	-	-	-	-
Translation adjustments of autonomous affiliated units overseas	**1**	-	**1**	-	**1**
Benefit due to share-based payment transactions	**(8)**	-	**(8)**	-	**(8)**
Proceeds on shares and amounts received in consideration for options to purchase shares	-	-	-	-	-
Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income*	**115**	-	**115**	-	**115**
Adjustments in respect of the effect of the efficiency plan	**(39)**	-	**(39)**	-	**(39)**
Non-controlling interests in share capital of consolidated subsidiaries*	**(6)**	-	**(6)**	-	**(6)**
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	**525**	-	**525**	-	**525**

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the three months ended June 30, 2018				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Change due to the effect of supervisory adjustments and deductions					
Goodwill and intangible assets	-	-	-	-	-
Deferred taxes, realization of which is based on the future profitability of the banking corporation*	**(5)**	-	**(5)**	-	**(5)**
Deferred tax assets attributed to timing differences (over 10% of common equity Tier I capital)*	-	-	-	-	-
Pension fund with defined benefits recorded in the balance sheet as an asset	-	-	-	-	-
Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value*	-	-	-	-	-
Increase in capital due to securitization exposures	-	-	-	-	-
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank*	**1**	-	**1**	-	**1**
Self investment in ordinary shares (held directly or indirectly)*	**(12)**	-	**(12)**	-	**(12)**
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	-
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	-	-	-	-	-
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	-	-	-	-	-
Threshold deduction – amount in excess of 15% of common equity Tier I capital	-	-	-	-	-
Others	-	-	-	-	-
Total change in supervisory adjustments and deductions	**(16)**	-	**(16)**	-	**(16)**
Decrease in supervisory capital instruments	-	-	-	**(255)**	**(255)**
Capital instruments issued	-	-	-	**1,818**	**1,818**
Change in collective allowances for credit losses before the effect of related tax	-	-	-	**37**	**37**
Other	-	-	-	-	-
Balance as at June 30, 2018	**37,178**	**977**	**38,155**	**10,616**	**48,771**

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the three months ended June 30, 2017				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at March 31, 2017	35,731	1,221	36,952	10,538	47,490
Changes in capital components					
Ordinary share capital	(1)	-	(1)	-	(1)
Premium on ordinary shares	(16)	-	(16)	-	(16)
Net profit for the period attributed to shareholders of the Bank	812	-	812	-	812
Dividend	(307)	-	(307)	-	(307)
Effect of adoption of accounting rules concerning employee benefits, included in retained earnings*	-	-	-	-	-
Unrealized profits from adjustments of securities available for sale to fair value	28	-	28	-	28
Unrealized gains in respect of cash-flow hedges	-	-	-	-	-
Translation adjustments of autonomous affiliated units overseas	-	-	-	-	-
Benefit due to share-based payment transactions	(22)	-	(22)	-	(22)
Proceeds on shares and amounts received in consideration for options to purchase shares	-	-	-	-	-
Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income*	44	-	44	-	44
Adjustments in respect of the effect of the efficiency plan	(38)	-	(38)	-	(38)
Non-controlling interests in share capital of consolidated subsidiaries*	(2)	-	(2)	-	(2)
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	498	-	498	-	498

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the three months ended June 30, 2017				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Change due to the effect of supervisory adjustments and deductions					
Goodwill and intangible assets	-	-	-	-	-
Deferred taxes, realization of which is based on the future profitability of the banking corporation*	(3)	-	(3)	-	(3)
Deferred tax assets attributed to timing differences (over 10% of common equity Tier I capital)*	-	-	-	-	-
Pension fund with defined benefits recorded in the balance sheet as an asset	-	-	-	-	-
Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value*	-	-	-	-	-
Increase in capital due to securitization exposures	-	-	-	-	-
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank*	(16)	-	(16)	-	(16)
Self investment in ordinary shares (held directly or indirectly)*	3	-	3	-	3
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	-
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	-	-	-	-	-
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	-	-	-	-	-
Threshold deduction – amount in excess of 15% of common equity Tier I capital	-	-	-	-	-
Others	-	-	-	-	-
Total change in supervisory adjustments and deductions	(16)	-	(16)	-	(16)
Decrease in supervisory capital instruments	-	-	-	(174)	(174)
Capital instruments issued	-	-	-	-	-
Change in collective allowances for credit losses before the effect of related tax	-	-	-	9	9
Other	-	-	-	-	-
Balance as at June 30, 2017	36,245	1,221	37,466	10,373	47,839

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the six months ended June 30, 2018				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at December 31, 2017	**36,582**	**1,221**	**37,803**	**9,728**	**47,531**
Changes in capital components					
Ordinary share capital	**1**	**-**	**1**	**-**	**1**
Premium on ordinary shares	**10**	**-**	**10**	**-**	**10**
Net profit for the period attributed to shareholders of the Bank	**1,548**	**-**	**1,548**	**-**	**1,548**
Dividend	**(496)**	**-**	**(496)**	**-**	**(496)**
Effect of adoption of accounting rules concerning employee benefits, included in retained earnings*	**1**	**-**	**1**	**-**	**1**
Unrealized losses from adjustments of securities available for sale to fair value	**(417)**	**-**	**(417)**	**-**	**(417)**
Unrealized gains in respect of cash-flow hedges	**-**	**-**	**-**	**-**	**-**
Translation adjustments of autonomous affiliated units overseas	**6**	**-**	**6**	**-**	**6**
Benefit due to share-based payment transactions	**(28)**	**-**	**(28)**	**-**	**(28)**
Proceeds on shares and amounts received in consideration for options to purchase shares	**-**	**-**	**-**	**-**	**-**
Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income*	**71**	**-**	**71**	**-**	**71**
Adjustments in respect of the effect of the efficiency plan	**(77)**	**-**	**(77)**	**-**	**(77)**
Non-controlling interests in share capital of consolidated subsidiaries*	**(27)**	**-**	**(27)**	**-**	**(27)**
Other	**-**	**-**	**-**	**-**	**-**
Total change before supervisory adjustments and deductions	**592**	**-**	**592**	**-**	**592**

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the six months ended June 30, 2018				
	Common equity Tier 1 capital	Additional Tier 1 capital	Total Tier 1 capital	Tier 2 capital	Total capital
	NIS millions				
Change due to the effect of supervisory adjustments and deductions					
Goodwill and intangible assets	-	-	-	-	-
Deferred taxes, realization of which is based on the future profitability of the banking corporation*	5	-	5	-	5
Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)*	-	-	-	-	-
Pension fund with defined benefits recorded in the balance sheet as an asset	-	-	-	-	-
Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value*	-	-	-	-	-
Increase in capital due to securitization exposures	-	-	-	-	-
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank*	(2)	-	(2)	-	(2)
Self investment in ordinary shares (held directly or indirectly)*	(7)	-	(7)	-	(7)
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	-
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	-	-	-	-	-
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	-	-	-	-	-
Threshold deduction – amount in excess of 15% of common equity Tier 1 capital	-	-	-	-	-
Others	-	-	-	-	-
Total change in supervisory adjustments and deductions	(4)	-	(4)	-	(4)
Decrease in supervisory capital instruments	-	(244)	(244)	(1,055)	(1,299)
Capital instruments issued	-	-	-	1,818	1,818
Change in collective allowances for credit losses before the effect of related tax	-	-	-	125	125
Other	-	-	-	-	-
Balance as at June 30, 2018	37,178	977	38,155	10,616	48,771

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the six months ended June 30, 2017				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at December 31, 2016	35,045	1,465	36,510	11,609	48,119
Changes in capital components					
Ordinary share capital	(1)	-	(1)	-	(1)
Premium on ordinary shares	(16)	-	(16)	-	(16)
Net profit for the period attributed to shareholders of the Bank	1,579	-	1,579	-	1,579
Dividend	(348)	-	(348)	-	(348)
Effect of adoption of accounting rules concerning employee benefits, included in retained earnings*	1	-	1	-	1
Unrealized profits from adjustments of securities available for sale to fair value	168	-	168	-	168
Unrealized gains in respect of cash-flow hedges	1	-	1	-	1
Translation adjustments of autonomous affiliated units overseas	(14)	-	(14)	-	(14)
Benefit due to share-based payment transactions	(21)	-	(21)	-	(21)
Proceeds on shares and amounts received in consideration for options to purchase shares	-	-	-	-	-
Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income*	(29)	-	(29)	-	(29)
Adjustments in respect of the effect of the efficiency plan	(76)	-	(76)	-	(76)
Non-controlling interests in share capital of consolidated subsidiaries*	(37)	-	(37)	-	(37)
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	1,207	-	1,207	-	1,207

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the six months ended June 30, 2017				
	Common equity Tier I capital	Additional Tier I capital	Total Tier I capital	Tier 2 capital	Total capital
	NIS millions				
Change due to the effect of supervisory adjustments and deductions					
Goodwill and intangible assets	-	-	-	-	-
Deferred taxes, realization of which is based on the future profitability of the banking corporation*	5	-	5	-	5
Deferred tax assets attributed to timing differences (over 10% of common equity Tier I capital)*	-	-	-	-	-
Pension fund with defined benefits recorded in the balance sheet as an asset	-	-	-	-	-
Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value*	-	-	-	-	-
Increase in capital due to securitization exposures	-	-	-	-	-
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank*	(1)	-	(1)	-	(1)
Self investment in ordinary shares (held directly or indirectly)*	3	-	3	-	3
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	-
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	-	-	-	-	-
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	-	-	-	-	-
Threshold deduction – amount in excess of 15% of common equity Tier I capital	-	-	-	-	-
Others	-	-	-	-	-
Total change in supervisory adjustments and deductions	7	-	7	-	7
Decrease in supervisory capital instruments	-	(244)	(244)	(1,243)	(1,487)
Capital instruments issued	-	-	-	-	-
Change in collective allowances for credit losses before the effect of related tax	-	-	-	7	7
Other	-	-	-	-	-
Balance as at June 30, 2017	36,245	1,221	37,466	10,373	47,839

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the year ended December 31, 2017				
	Common equity Tier 1 capital	Additional Tier 1 capital	Total Tier 1 capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at December 31, 2016	35,045	1,465	36,510	11,609	48,119
Changes in capital components					
Ordinary share capital	(1)	-	(1)	-	(1)
Premium on ordinary shares	(21)	-	(21)	-	(21)
Net profit for the period attributed to shareholders of the Bank	2,660	-	2,660	-	2,660
Dividend	(861)	-	(861)	-	(861)
Effect of adoption of accounting rules concerning employee benefits, included in retained earnings*	1	-	1	-	1
Unrealized profits from adjustments of securities available for sale to fair value	155	-	155	-	155
Unrealized gains in respect of cash-flow hedges	1	-	1	-	1
Translation adjustments of autonomous affiliated units overseas	(20)	-	(20)	-	(20)
Benefit due to share-based payment transactions	(15)	-	(15)	-	(15)
Proceeds on shares and amounts received in consideration for options to purchase shares	-	-	-	-	-
Effect of adoption of accounting rules concerning employee benefits, included in other comprehensive income*	(145)	-	(145)	-	(145)
Adjustments in respect of the effect of the efficiency plan	(152)	-	(152)	-	(152)
Non-controlling interests in share capital of consolidated subsidiaries*	(46)	-	(46)	-	(46)
Other	-	-	-	-	-
Total change before supervisory adjustments and deductions	1,556	-	1,556	-	1,556

* After adjustments, as required in the transitional directives in Directive 299.

Table C-5: Statement of changes in components of supervisory capital (continued)

	For the year ended December 31, 2017				
	Common equity Tier 1 capital	Additional Tier 1 capital	Total Tier 1 capital	Tier 2 capital	Total capital
	NIS millions				
Change due to the effect of supervisory adjustments and deductions					
Goodwill and intangible assets	-	-	-	-	-
Deferred taxes, realization of which is based on the future profitability of the banking corporation*	3	-	3	-	3
Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)*	-	-	-	-	-
Pension fund with defined benefits recorded in the balance sheet as an asset	-	-	-	-	-
Total accumulated other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value*	-	-	-	-	-
Increase in capital due to securitization exposures	-	-	-	-	-
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank*	(4)	-	(4)	-	(4)
Self investment in ordinary shares (held directly or indirectly)*	20	-	20	-	20
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	-
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	-	-	-	-	-
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	-	-	-	-	-
Threshold deduction – amount in excess of 15% of common equity Tier 1 capital	-	-	-	-	-
Others	-	-	-	-	-
Total change in supervisory adjustments and deductions	19	-	19	-	19
Decrease in supervisory capital instruments	-	(244)	(244)	(1,954)	(2,198)
Capital instruments issued	-	-	-	-	-
Change in collective allowances for credit losses before the effect of related tax	-	-	-	73	73
Other	-	-	-	-	-
Balance as at December 31, 2017	36,582	1,221	37,803	9,728	47,531

* After adjustments, as required in the transitional directives in Directive 299.

The changes in the components of supervisory capital in the second quarter of 2018 resulted primarily from net profit for the period, in the amount of NIS 920 million, and from the issuance of subordinated notes, in the amount of NIS 1,818 million, which were offset by dividend distribution in the amount of NIS 251 million; unrealized losses from securities available for sale, in the amount of NIS 194 million; and a decrease in supervisory capital instruments, in the amount of NIS 255 million.

The changes in the first half of 2018 resulted primarily from net profit for the period, in the amount of NIS 1,548 million, and from the issuance of subordinated notes, in the amount of NIS 1,818 million, which were offset by dividend distribution in the amount of NIS 496 million; unrealized losses from securities available for sale, in the amount of NIS 417 million; and a decrease in supervisory capital instruments, in the amount of NIS 1,299 million.

The changes in the components of supervisory capital in the second quarter of 2017 resulted primarily from net profit for the period, in the amount of NIS 812 million, which was offset by dividend distribution in the amount of NIS 307 million; unrealized profits from securities available for sale, in the amount of NIS 28 million; and a decrease in supervisory capital instruments, in the amount of NIS 174 million.

The changes in the first half of 2017 resulted primarily from net profit for the period, in the amount of NIS 1,579 million, which was offset by dividend distribution in the amount of NIS 348 million; unrealized profits from securities available for sale, in the amount of NIS 168 million; and a decrease in supervisory capital instruments, in the amount of NIS 1,487 million.

The changes in the components of supervisory capital in 2017 resulted primarily from net profit for the period, in the amount of NIS 2,660 million, which was offset by dividend distribution in the amount of NIS 861 million; unrealized profits from securities available for sale, in the amount of NIS 155 million; and a decrease in supervisory capital instruments, in the amount of NIS 2,198 million.

The data 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," allocated in equal parts over five years, beginning in 2017.

C.2. Capital adequacy

C.2.a. 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.

For more extensive information regarding the implementation of the Proper Conduct of Banking Business Directives and other requirements of the Banking Supervision Department concerning capital adequacy, and for more extensive information regarding capital adequacy management, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017.

C.2.b. 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%, beginning January 1, 2017. In addition, beginning January 1, 2015, a capital requirement was added to these minimum ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements. This requirement was implemented gradually, over eight quarters, up to January 1, 2017.

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 June 30, 2018, stand at 10.23% and 13.73%, respectively.

C.2.c. 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, accordingly, considers taking the actions necessary 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, 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%.

For additional information regarding the ICAAP and the capital-adequacy targets, see the Report on Risks as at December 31, 2017.

C.2.d. Implementation and effect of new regulatory directives regarding capital measurement and adequacy

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 capital-adequacy ratios, estimated at approximately 0.19% as at June 30, 2018, 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. In accordance with the additional letter, the Banking Supervision Department has extended the period for implementation of the efficiency plan until December 31, 2019.

Capital requirements in respect of debts secured by residential properties

On March 15, 2018, the Banking Supervision Department issued an update of Proper Conduct of Banking Business Directive 203 concerning debts secured by residential properties, pursuant to which loans fully secured by mortgages on residential properties at a financing rate higher than 60% would be weighted at a rate of 60%. The directive took effect on the date of its publication, and applies to loans secured by residential properties granted as of March 15, 2018.

Private offering of contingent convertible (CoCo) notes

The Bank issued two CoCo series, which constitute part of the Tier 2 capital of the Bank, in April and June 2018. For details regarding issues of bonds and subordinated notes by Hapoalim Hanpakot, see the section "Bonds and subordinated notes" in the Report of the Board of Directors and Board of Management as at June 30, 2018.

Buybacks of securities

In June 2018, the Bank completed the execution of a share buyback plan, within which one million ordinary shares of the Bank were acquired for the implementation of the equity compensation plans adopted by the Bank. The acquisition plan was executed according to the rules in the guidance provided by the Israel Securities Authority regarding "safe harbor" protection in buybacks, following the approval of the plan by the Board of Directors of the Bank, and in accordance with the approval granted to the Bank by the Banking Supervision Department. For further details, see the Immediate Report of the Bank dated May 24, 2018.

In July 2018, the Banking Supervision Department issued a draft update of Proper Conduct of Banking Business Directive 332, "Buybacks by Banking Corporations," according to which banks would be able to perform buybacks of securities 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 draft directive established conditions under which banking corporations would be permitted to perform buybacks of shares and convertibles into shares 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 5% of the issued and paid-up share capital of the banking corporation.
- The banking corporation shall act in accordance with the safe-haven protection mechanism published by the Israel Securities Authority, or another equivalent mechanism, to ensure that it has legal protection against allegations of the 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.

C.2.e. Measurement of risk exposures and capital requirements

The measurement of exposures to the various risks may change, according to the volume and quality of the portfolio, methodological and regulatory changes, and changes in exchange rates, among other factors, and depending on the definition of the exposure: financial reporting according to GAAP, with the necessary adjustments to the Proper Conduct of Banking Business Directives for the calculation of capital requirements; establishment of supervisory capital; or the Bank's internal exposure management needs. Risk exposures presented below are based on the rules defined for the calculation of the supervisory capital required in order to support these risks.

Table C-6: Information regarding risk components and regulatory capital requirements in respect of credit risk, market risk, and operational risk (as noted in Proper Conduct of Banking Business Directives 201-209)

	June 30, 2018		June 30, 2017		December 31, 2017	
	Risk-adjusted assets	Capital requirements[1]	Risk-adjusted assets	Capital requirements[1]	Risk-adjusted assets	Capital requirements[1]
	NIS millions					
Credit risk						
Sovereign debts	**1,426**	**196**	1,331	182	1,440	198
Debts of public-sector entities	**2,983**	**410**	2,835	388	3,171	435
Debts of banking corporations	**5,712**	**784**	6,152	843	6,505	893
Debts of corporations	**117,397**	**16,119**	115,758	15,859	112,952	15,508
Debts secured by commercial real estate	**54,305**	**7,456**	47,173	6,463	49,263	6,764
Retail exposures to individuals	**49,808**	**6,839**	48,635	6,663	49,767	6,833
Loans to small businesses	**8,099**	**1,112**	7,935	1,087	8,107	1,113
Housing loans	**43,300**	**5,945**	39,456	5,405	41,536	5,703
Securitization	**91**	**12**	87	12	87	12
Other assets	**19,137**	**2,628**	17,262	2,365	19,466	2,673
CVA risk	**3,718**	**510**	4,122	565	3,692	507
Total in respect of credit risk	**305,976**	**42,011**	290,746	39,832	295,986	40,639
Market risks	**3,212**	**441**	4,913	673	5,114	702
Operational risk	**24,018**	**3,298**	23,566	3,229	23,672	3,250
Total risk-adjusted assets in respect of the various risks	**333,206**	**45,750**	319,225	43,734	324,772	44,591
Common equity Tier 1 capital	**37,178**		36,245		36,582	
Tier 1 capital	**38,155**		37,466		37,803	
Total capital	**48,771**		47,839		47,531	

	%		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**11.16%**	11.35%	11.26%
Ratio of Tier 1 capital to risk-adjusted assets	**11.45%**	11.74%	11.64%
Ratio of total capital to risk-adjusted assets	**14.64%**	14.99%	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[2]	**10.23%**	10.20%	10.23%
Minimum total capital ratio required by the Banking Supervision Department[2]	**13.73%**	13.70%	13.73%

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.73% as at June 30, 2018; 13.73% as at December 31, 2017; and 13.7% as at June 30, 2017. 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).

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

Table C-7: Risk-adjusted assets by supervisory activity segment

	June 30, 2018									
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Activity abroad	Other	Total
	NIS millions									
Credit risk										
Activity in Israel	**84,624**	**2,093**	**63,121**	**42,763**	**67,045**	**7,896**	**13,393**	**-**	**5,387**	**286,322**
Activity abroad	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,654**	**-**	**19,654**
Total credit risk assets	**84,624**	**2,093**	**63,121**	**42,763**	**67,045**	**7,896**	**13,393**	**19,654**	**5,387**	**305,976**
Market risk	**-**	**-**	**-**	**-**	**-**	**-**	**3,212**	**-**	**-**	**3,212**
Operational risk	**7,106**	**458**	**5,698**	**1,708**	**2,352**	**389**	**4,468**	**1,001**	**838**	**24,018**
Total risk-adjusted assets	**91,730**	**2,551**	**68,819**	**44,471**	**69,397**	**8,285**	**21,073**	**20,655**	**6,225**	**333,206**
Discontinued operation	**(7,513)**	**(947)**	**(4,130)**	**(760)**	**(494)**	**(34)**	**-**	**-**	**13,878**	**-**
Total risk-adjusted assets after discontinued operation	**84,217**	**1,604**	**64,689**	**43,711**	**68,903**	**8,251**	**21,073**	**20,655**	**20,103**	**333,206**

	June 30, 2017*									
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Activity abroad	Other	Total
	NIS millions									
Credit risk										
Activity in Israel	83,456	2,324	65,826	37,335	60,898	5,983	13,331	-	1,696	270,849
Activity abroad	-	-	-	-	-	-	-	19,897	-	19,897
Total credit risk assets	83,456	2,324	65,826	37,335	60,898	5,983	13,331	19,897	1,696	290,746
Market risk	-	-	-	-	-	-	4,913	-	-	4,913
Operational risk	6,785	421	5,599	1,614	2,811	378	3,739	1,256	963	23,566
Total risk-adjusted assets	90,241	2,745	71,425	38,949	63,709	6,361	21,983	21,153	2,659	319,225
Discontinued operation	(8,157)	(930)	(4,373)	(752)	(729)	(59)	-	-	15,000	-
Total risk-adjusted assets after discontinued operation	82,084	1,815	67,052	38,197	62,980	6,302	21,983	21,153	17,659	319,225

* Reclassified.

Table C-7: Risk-adjusted assets by supervisory activity segment (continued)

	December 31, 2017*									
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Activity abroad	Other	Total
	NIS millions									
Credit risk										
Activity in Israel	86,006	2,074	66,540	38,968	59,071	6,418	13,935	-	3,581	276,593
Activity abroad	-	-	-	-	--	-	-	19,393	-	19,393
Total credit risk assets	86,006	2,074	66,540	38,968	59,071	6,418	13,935	19,393	3,581	295,986
Market risk	-	-	-	-	-	-	5,114	-	-	5,114
Operational risk	7,086	432	5,574	1,682	2,787	384	3,971	1,518	238	23,672
Total risk-adjusted assets	93,092	2,506	72,114	40,650	61,858	6,802	23,020	20,911	3,819	324,772
Discontinued operation	(8,458)	(958)	(4,695)	(777)	(688)	(39)	-	-	15,615	-
Total risk-adjusted assets after discontinued operation	84,634	1,548	67,419	39,873	61,170	6,763	23,020	20,911	19,434	324,772

* Reclassified.

C.2.d. Change in risk-weighted assets during the period

Table C-8: Statement of changes in risk-weighted assets during the period

	For the three months ended June 30, 2018			
	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at March 31, 2018	**303,068**	**4,692**	**23,779**	**331,539**
Changes in portfolio volume[1]	**2,219**	**(1,480)**	**239**	**978**
Changes in portfolio quality[2]	**13**	**-**	**-**	**13**
Changes in methodology and policy[3]	**(231)**	**-**	**-**	**(231)**
Sales[4]	**-**	**-**	**-**	**-**
Effect of changes in exchange rates	**907**	**-**	**-**	**907**
Balance as at June 30, 2018	**305,976**	**3,212**	**24,018**	**333,206**

	For the three months ended June 30, 2017			
	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at March 31, 2017	290,010	5,174	23,517	318,701
Changes in portfolio volume[1]	1,391	(261)	49	1,179
Changes in portfolio quality[2]	18	-	-	18
Changes in methodology and policy[3]	52	-	-	52
Sales[4]	-	-	-	-
Effect of changes in exchange rates	(725)	-	-	(725)
Balance as at June 30, 2017	290,746	4,913	23,566	319,225

(1) The category "changes in portfolio volume" refers to changes in the size of the portfolio, excluding changes resulting from change in the quality of the portfolio.
(2) The category "changes in portfolio quality" mainly refers to changes in the risk weight of transactions and customers resulting from changes in credit rating or classification.
(3) The category "changes in methodology and policy" mainly refers to the effect of changes in regulatory directives and changes in methodologies.
(4) The category "sales" includes the effect of sales of loans.

Table C-8: Statement of changes in risk-weighted assets during the period (continued)

	For the six months ended June 30, 2018			
	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at December 31, 2017	**295,986**	**5,114**	**23,672**	**324,772**
Changes in portfolio volume[1]	**8,830**	**(1,902)**	**346**	**7,274**
Changes in portfolio quality[2]	**119**	**-**	**-**	**119**
Changes in methodology and policy[3]	**(410)**	**-**	**-**	**(410)**
Sales[4]	**(101)**	**-**	**-**	**(101)**
Effect of changes in exchange rates	**1,552**	**-**	**-**	**1,552**
Balance as at June 30, 2018	**305,976**	**3,212**	**24,018**	**333,206**

	For the six months ended June 30, 2017			
	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at December 31, 2016	290,139	4,866	23,374	318,379
Changes in portfolio volume[1]	3,413	47	192	3,652
Changes in portfolio quality[2]	(61)	-	-	(61)
Changes in methodology and policy[3]	(84)	-	-	(84)
Sales[4]	(135)	-	-	(135)
Effect of changes in exchange rates	(2,526)	-	-	(2,526)
Balance as at June 30, 2017	290,746	4,913	23,566	319,225

	For the year ended December 31, 2017			
	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at December 31, 2016	290,139	4,866	23,374	318,379
Changes in portfolio volume[1]	8,373	248	298	8,919
Changes in portfolio quality[2]	(195)	-	-	(195)
Changes in methodology and policy[3]	(84)	-	-	(84)
Sales[4]	(186)	-	-	(186)
Effect of changes in exchange rates	(2,061)	-	-	(2,061)
Balance as at December 31, 2017	295,986	5,114	23,672	324,772

(1) The category "changes in portfolio volume" refers to changes in the size of the portfolio, excluding changes resulting from change in the quality of the portfolio.
(2) The category "changes in portfolio quality" mainly refers to changes in the risk weight of transactions and customers resulting from changes in credit rating or classification.
(3) The category "changes in methodology and policy" mainly refers to the effect of changes in regulatory directives and changes in methodologies.
(4) The category "sales" includes the effect of sales of loans.

C.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 C-9: Leverage ratio

	June 30, 2018	June 30, 2017	December 31, 2017
	NIS millions		
Consolidated data			
Tier 1 capital*	**38,155**	37,466	37,803
Total exposures*	**516,190**	509,345	513,037
	%		
Leverage ratio	**7.39%**	7.36%	7.37%
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 June 30, 2018, estimated at approximately 0.11%, is allocated in equal parts over five years, beginning in 2017.

Table C-10: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

	June 30, 2018	June 30, 2017	December 31, 2017
	NIS millions		
Total consolidated assets as per published financial statements	**451,366**	449,734	454,424
Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-	-
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement	**-**	-	-
Adjustments for derivative financial instruments(1)	**282**	(925)	(1,260)
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**61,525**	57,667	56,945
Other adjustments	**3,017**	2,869	2,928
Exposure for the purposes of the leverage ratio	**516,190**	509,345	513,037

(1) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table C-11: Leverage ratio disclosure

	June 30, 2018	June 30, 2017	December 31, 2017
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**443,058**	439,440	444,685
Asset amounts deducted in determining Tier 1 capital	**(35)**	(32)	(30)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**443,023**	439,408	444,655
Derivative exposures			
Replacement cost associated with all derivatives transactions(1)	**5,700**	7,535	5,922
Add-on amounts for potential future exposure associated with all derivatives transactions	**6,338**	5,887	6,438
Gross-up for collateral provided in respect of derivatives deducted from balance sheet assets pursuant to the Public Reporting Directives	**-**	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(1,152)**	(1,703)	(1,728)
Exempted central counterparty leg of client-cleared trade exposures	**-**	-	-
Adjusted effective notional amount of written credit derivatives	**128**	122	121
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**	-	-
Total derivative exposures	**11,014**	11,841	10,753
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**628**	429	684
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	**-**	-	-
Central counterparty credit risk exposure for securities financing transaction assets	**-**	-	-
Agent transaction exposures	**-**	-	-
Total securities financing transaction exposures	**628**	429	684
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**185,108**	171,082	173,291
Adjustments for conversion to credit equivalent amounts	**(123,583)**	(113,415)	(116,346)
Off-balance sheet items	**61,525**	57,667	56,945
Capital and total exposures			
Tier 1 capital	**38,155**	37,466	37,803
Total exposures	**516,190**	509,345	513,037
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**7.39%**	7.36%	7.37%

(1) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

D. 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.

For more extensive information regarding credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

D.1. Credit risk exposures

Table D-1: Segmentation of credit risk exposures by counterparty and by principal types of credit exposures, before allowance for credit losses[(1)]

	June 30, 2018											
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure[(2)]	Average gross credit exposure
	NIS millions											
Loans[(3)]	79,452	3,510	5,037	88,110	38,358	67,243	10,839	77,313	-	-	369,862	365,656
Bonds[(4)]	38,785	440	7,103	2,502	-	-	-	-	-	-	48,830	52,152
Derivatives[(5)]	61	1,379	3,074	8,004	250	30	28	-	-	-	12,826	13,100
Other off-balance sheet exposures	2	2,157	1,583	63,485	63,239	45,107	4,219	4,894	183	-	184,869	179,165
Other assets[(6)]	-	-	-	-	-	-	-	-	-	16,313	16,313	16,594
Total	118,300	7,486	16,797	162,101	101,847	112,380	15,086	82,207	183	16,313	632,700	626,667

	June 30, 2017											
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure[(2)]	Average gross credit exposure
	NIS millions											
Loans[(3)]	74,942	3,573	7,723	88,559	34,689	65,531	10,664	70,888	-	-	356,569	353,427
Bonds[(4)]	49,917	631	6,154	3,137	-	-	-	-	-	-	59,839	61,415
Derivatives[(5)]	179	1,828	3,228	9,080	148	28	12	-	-	-	14,503	12,558
Other off-balance sheet exposures	139	1,548	989	58,551	58,405	43,942	4,132	2,904	175	-	170,785	169,723
Other assets[(6)]	-	-	-	-	-	-	-	-	-	14,798	14,798	14,991
Total	125,177	7,580	18,094	159,327	93,242	109,501	14,808	73,792	175	14,798	616,494	612,114

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D-1: Segmentation of credit risk exposures by counterparty and by principal types of credit exposures, before allowance for credit losses[(1)] (continued)

	December 31, 2017											
	Sovereigns	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure[(2)]	Average gross credit exposure
	NIS millions											
Loans[(3)]	78,804	3,366	8,014	85,827	36,792	67,312	10,922	73,949	-	-	364,986	357,419
Bonds[(4)]	48,244	582	6,156	2,612	-	-	-	-	-	-	57,594	59,573
Derivatives[(5)]	165	1,969	2,992	7,638	132	25	10	-	-	-	12,931	12,838
Other off-balance sheet exposures	112	1,609	876	60,054	59,342	43,597	3,955	3,279	173	-	172,997	171,066
Other assets[(6)]	-	-	-	-	-	-	-	-	-	16,763	16,763	15,613
Total	127,325	7,526	18,038	156,131	96,266	110,934	14,887	77,228	173	16,763	625,271	616,509

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D-2: Total principal exposures to foreign countries[1]

Balance sheet exposure to foreign countries as at June 30, 2018 amounted to NIS 49.9 billion, compared with NIS 58.4 billion at the end of 2017.

Off-balance sheet exposure to foreign countries as at June 30, 2018 amounted to NIS 25.8 billion, compared with NIS 25.7 billion at the end of 2017.

The Bank operates in accordance with an ordered policy that sets limits and terms for the exposure to foreign countries.

	June 30, 2018		June 30, 2017		December 31, 2017	
	Total balance sheet exposure[2]	Total off-balance sheet exposure[2][3][4]	Total balance sheet exposure[2]	Total off-balance sheet exposure[2][3][4]	Total balance sheet exposure[2]	Total off-balance sheet exposure[2][3][4]
	NIS millions					
Country						
United States	**22,188**	**8,100**	23,449	7,680	30,809	7,610
Europe*	**14,463**	**15,008**	16,956	15,947	15,259	15,793
Others	**13,282**	**2,664**	13,019	2,615	12,379	2,342
Total exposures to foreign countries	**49,933**	**25,772**	53,424	26,242	58,447	25,745
Of which: total exposure to PIIGS (Portugal, Ireland, Italy, Greece, and Spain)	**237**	**239**	256	345	202	134
Of which: total exposure to LDCs	**1,565**	**465**	1,560	810	1,871	757

The line "total LDCs" includes the total exposure to countries defined as Less 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).

* 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.

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the purposes of the indebtedness of a borrower and of a group of borrowers.

(3) 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.

(4) The balance of the off-balance sheet exposure to foreign countries includes a total of NIS 12,426 million in respect of the acquisition of insurance for the portfolio of Sale Law guarantees from international reinsurers (December 31, 2017: NIS 13,705 million).

Table D-3: Segmentation of the portfolio by term to maturity and by principal type of credit exposure[(1)]

	June 30, 2018					
	Up to one year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	**176,924**	**75,813**	**117,125**	**-**	**-**	**369,862**
Bonds[(4)]	**12,395**	**26,505**	**9,930**	**-**	**-**	**48,830**
Derivatives[(5)]	**9,940**	**7,281**	**5,199**	**-**	**(9,594)**	**12,826**
Other off-balance sheet exposures	**36,069**	**144,115**	**4,685**	**-**	**-**	**184,869**
Other assets[(6)]	**2,879**	**-**	**-**	**13,434**	**-**	**16,313**
Total	**238,207**	**253,714**	**136,939**	**13,434**	**(9,594)**	**632,700**

	June 30, 2017					
	Up to one year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	170,450	77,230	108,889	-	-	356,569
Bonds[(4)]	23,512	28,959	7,368	-	-	59,839
Derivatives[(5)]	10,915	8,243	6,746	-	(11,401)	14,503
Other off-balance sheet exposures	35,890	129,303	5,592	-	-	170,785
Other assets[(6)]	2,893	-	-	11,905	-	14,798
Total	243,660	243,735	128,595	11,905	(11,401)	616,494

	December 31, 2017					
	Up to one year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[(2)]
	NIS millions					
Loans[(3)]	174,957	76,490	113,539	-	-	364,986
Bonds[(4)]	12,527	36,544	8,523	-	-	57,594
Derivatives[(5)]	8,836	9,086	6,184	-	(11,175)	12,931
Other off-balance sheet exposures	37,925	129,090	5,982	-	-	172,997
Other assets[(6)]	3,173	-	-	13,590	-	16,763
Total	237,418	251,210	134,228	13,590	(11,175)	625,271

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting). The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D-4: Amount of problematic credit risk, impaired credit risk, individual and collective allowances and provision for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector and by principal type of counterparty

	June 30, 2018					
	Total credit risk	Of which: problematic credit risk	Rate of problematic risk	Impaired credit risk	Provision (income) for credit losses	Net charge-offs
	NIS millions		%	NIS millions		
Sector						
Industry	**37,471**	**1,138**	**3.04%**	**427**	**(17)**	**(12)**
Construction and real estate – construction	**66,686**	**1,314**	**1.97%**	**717**	**8**	**(48)**
Construction and real estate – real-estate activities	**29,934**	**831**	**2.78%**	**367**	**(50)**	**(75)**
Commerce	**41,492**	**928**	**2.24%**	**277**	**(14)**	**59**
Financial services	**41,147**	**112**	**0.27%**	**53**	**1**	**(9)**
Private individuals – housing loans	**72,094**	**590**	**0.82%**	**-**	**11**	**3**
Private individuals – other	**87,015**	**1,154**	**1.33%**	**736**	**276**	**273**
Other sectors	**75,833**	**2,322**	**3.06%**	**1,018**	**157**	**107**
Total public	**451,672**	**8,389**	**1.86%**	**3,595**	**372**	**298**
Total banks	**34,210**	**-**	**-**	**-**	**(2)**	**-**
Total governments	**50,405**	**-**	**-**	**-**	**-**	**-**
Total	**536,287**	**8,389**	**1.56%**	**3,595**	**370**	**298**

	December 31, 2017					
	Total credit risk	Of which: problematic credit risk	Rate of problematic risk	Impaired credit risk	Provision (income) for credit losses	Net charge-offs
	NIS millions		%	NIS millions		
Sector						
Industry	37,013	1,080	2.9%	335	(117)	(69)
Construction and real estate – construction	62,382	1,119	1.8%	689	(192)	(133)
Construction and real estate – real-estate activities	28,029	588	2.1%	318	(232)	(99)
Commerce	39,761	1,651	4.2%	316	253	461
Financial services	40,926	109	0.3%	52	(260)	(190)
Private individuals – housing loans	68,072	597	0.9%	-	(14)	19
Private individuals – other	87,038	1,109	1.3%	774	649	481
Other sectors	72,238	2,035	2.8%	794	236	185
Total public	435,459	8,288	1.9%	3,278	323	655
Total banks	40,737	-	-	-	-	-
Total governments	57,019	-	-	-	-	-
Total	533,215	8,288	1.6%	3,278	323	655

Table D-5: Change in allowance for credit losses

	For the six months ended June 30, 2018					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
	NIS millions					
Allowance for credit losses at beginning of year (audited)	**2,986**	**333**	**940**	**4,259**	**7**	**4,266**
Provision for credit losses[1]	**70**	**11**	**227**	**308**	**(2)**	**306**
Charge-offs	**(362)**	**(4)**	**(374)**	**(740)**	**-**	**(740)**
Recoveries of debts charged off in previous years	**349**	**1**	**144**	**494**	**-**	**494**
Net charge-offs	**(13)**	**(3)**	**(230)**	**(246)**	**-**	**(246)**
Adjustments from translation of financial statements	**-**	**-**	**1**	**1**	**-**	**1**
Other						
Allowance for credit losses as at June 30, 2018[2] (unaudited)	**3,043**	**341**	**938**	**4,322**	**5**	**4,327**
(1) Of which: in respect of off-balance sheet credit instruments	**21**	**-**	**(15)**	**6**	**-**	**6**
(2) Of which: in respect of off-balance sheet credit instruments	**584**	**-**	**48**	**632**	**1**	**633**

	For the six months ended June 30, 2017					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
	NIS millions					
Allowance for credit losses at beginning of year (audited)	3,460	366	794	4,620	7	4,627
Provision for credit losses[1]	(32)	(5)	258	221	-	221
Charge-offs	(606)	(22)	(369)	(997)	-	(997)
Recoveries of debts charged off in previous years	368	1	154	523	-	523
Net charge-offs	(238)	(21)	(215)	(474)	-	(474)
Adjustments from translation of financial statements	-	-	-	-	-	-
Allowance for credit losses as at June 30, 2018[2] (unaudited)	3,190	340	837	4,367	7	4,374
(1) Of which: in respect of off-balance sheet credit instruments	(17)	-	12	(5)	-	(5)
(2) Of which: in respect of off-balance sheet credit instruments	605	-	48	653	-	653

D.3.a. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 97 billion as at June 30, 2018.

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

	Balance as at June 30, 2018			Balance as at December 31, 2017		
	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	**1,792**	**922**	**2,714**	1,681	917	2,598
Construction for industry	**293**	**132**	**425**	302	134	436
Housing construction	**15,230**	***32,528**	**47,758**	14,062	*29,954	44,016
Yield-generating properties	**22,462**	**5,962**	**28,424**	21,368	5,262	26,630
Other	**9,914**	**7,385**	**17,299**	9,371	7,360	16,731
Total construction and real-estate sectors	**49,691**	**46,929**	**96,620**	46,784	43,627	90,411

* Includes off-balance sheet credit risk in the amount of approximately NIS 12,426 million, in respect of which insurance was acquired from foreign insurers for the portfolio of Sale Law guarantees (December 31, 2017: NIS 13,705 million).

** Includes balances attributed to a discontinued operation. For further details, see Note 1E to the Condensed Financial Statements.

D.1.b. Credit risk in respect of exposures to borrowers and to groups of borrowers

Table D-7: Details of balances of balance sheet credit and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	June 30, 2018			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**3**	**806**	**4,073**	**4,879**
Construction and real estate – construction	**1**	**388**	**1,033**	**1,421**
Construction and real estate – real-estate activities	**1**	**639**	**707**	**1,346**
Electricity and water supply	**1**	**1,528**	**2,005**	**3,533**
Financial services	**5**	**4,782**	**2,930**	**7,712**
Total	**11**	**8,143**	**10,748**	**18,891**

	December 31, 2017			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	2	858	3,877	4,735
Construction and real estate – construction	1	431	902	1,333
Construction and real estate – real-estate activities	1	552	752	1,304
Electricity and water supply	1	1,540	1,677	3,217
Financial services	4	3,376	3,771	7,147
Total	9	6,757	10,979	17,736

Credit risk in respect of exposure to borrower groups

Table D-8: Details of 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)

	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	4,034	2,844	247	6,885	107	6,777	16.92%

(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.

D.1.c. Credit to private individuals (excluding housing)

Table D-9: Balance of credit to private individuals in Israel

	Balance as at		Change	
	June 30, 2018	December 31, 2017		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**3,712**	3,525	187	5.30%
Loans[1]	**30,802**	31,470	(668)	(2.12%)
Of which: bullet and balloon loans	**127**	147	(20)	(13.61%)
Credit for purchases of motor vehicles[2]	**4,644**	4,593	51	1.11%
Debtors in respect of credit-card activity	**5,473**	5,582	(109)	(1.95%)
Balance sheet credit risk attributed to a discontinued operation	**9,706**	9,485	221	2.33%
Total balance sheet credit risk	**54,337**	54,655	(318)	(0.58%)
Off-balance sheet				
Off-balance sheet credit risk	**20,196**	19,953	243	1.22%
Off-balance sheet credit risk attributed to a discontinued operation	**11,364**	11,110	254	2.29%
Total credit risk	**85,897**	85,718	179	0.21%

(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 D-10: Information regarding problematic debts in respect of private individuals in Israel

	Balance as at		Change	Percentage of total balance sheet credit risk As at	
	June 30, 2018	December 31, 2017		**June 30, 2018**	December 31, 2017
	NIS millions				
Problematic credit risk	**1,119**	1,073	4.29%	**2.06%**	1.96%
Of which: impaired credit risk	**701**	738	(5.01%)	**1.29%**	1.35%
Debts in arrears of more than 90 days	**111**	97	14.43%	**0.20%**	0.18%
Net charge-offs for the period[1]	**274**	479	[1]14.41%	**[1]1.01%**	0.88%
Allowance for credit losses	**1,074**	1,071	0.28%	**1.98%**	1.96%

(1) Calculated on an annualized basis.

In the first half of 2018, the balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by 1.7%. Total balance sheet credit risk decreased by 1.2% (excluding a balance in respect of a discontinued operation).

The percentage of problematic credit risk rose in the first half of 2018, while impaired credit risk decreased, due, among other factors, to the initial implementation of the automatic classification of debts lower than NIS 1 million as under special supervision in the first quarter of 2018, based on fixed criteria, which led to an increase in the balance of problematic debts in respect of private individuals.

The percentage of debts in arrears of over 90 days rose from 0.18% to 0.20%. The rate of net charge-offs was higher than in December 2017, indicating damage to the quality of this portfolio, which was also evident in 2017 and in 2016. The Bank has taken several measures to improve the quality of underwriting in credit to private individuals, and regularly monitors trends in this portfolio.

For further details, see the section "Credit risk" in the "Review of risks" in the Report of the Board of Directors and Board of Management as at June 30, 2018.

D.1.d. Risks in the housing loan portfolio

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

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate			
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Recorded debt balance in NIS millions	Rate of change during the period
June 30, 2018	**13,464**	**17.3%**	**29,573**	**38.0%**	**13,187**	**16.9%**	**21,246**	**27.3%**	**405**	**0.5%**	**77,875**	**4.5%**
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. Some 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, and a material change in housing prices. Data are reported on a monthly basis in an Area-level risk forum headed by the Head of Retail Banking, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

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

Housing loans are approved based on a hierarchy of authorizations reflecting the nature of the credit application and its inherent risk.

Housing credit risk is quantified and measured on several levels, including the level of the individual customer and the level of the overall credit portfolio of the Bank.

For that purpose, quantification and measurement processes have been developed and implemented, combining assessments by housing credit experts with statistical models. As part of the quantification of risk, a focused examination of repayment capability is performed, including a test of sensitivity to possible changes in repayment capability as a result of possible changes in the interest rate.

Table D-12: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed

	For the three months ended				
	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Characteristics					
Financing rate over 60%	**31.2%**	29.6%	28.5%	28.2%	26.6%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.1%**	-	-	-	-
Percentage with floating interest rates varying at a frequency of less than 5 years	**32.6%**	31.5%	31.2%	32.2%	31.5%
Percentage with floating rates	**60.1%**	58.1%	56.5%	57.5%	57.8%
Percentage of all-purpose loans	**5.7%**	6.2%	7.7%	6.3%	6.2%
Loans for investment purposes as a percentage of purchases of homes	**9.3%**	10.8%	10.3%	11.5%	11.5%
Principal planned for repayment after age 67 (excluding investments)	**7.0%**	7.1%	7.0%	6.6%	6.4%
Average new credit facility for purchases of homes, in NIS thousands	**755**	734	732	720	704
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.5**	23.9	23.6	23.7	23.9

Note that financing rates were calculated pursuant to Reporting Directive 876 of the Banking Supervision Department, "Report on Housing Loans."

The upward trend in the percentage of credit granted with a financing rate greater than 60% continued in the second quarter of 2018. The percentage of floating-rate loans also rose. The percentage of loans granted with payments higher than 40% of income rose slightly, but remains low.

Loans for investment purposes as a percentage of purchases of homes and the rate of all-purpose loans decreased; the percentage of principal scheduled for repayment after the age of 67 (excluding investments) decreased slightly. The average term to maturity of loans for purchases of homes (excluding bridge loans) has continued to increase.

D.1.e. Leveraged financing

Leveraged financing is managed and defined at the Bank in accordance with the directives of the Bank of Israel, and in particular, with Proper Conduct of Banking Business Directive 311 (Credit Risk Management), Proper Conduct of Banking Business Directive 323 (Limits on Financing of Equity Transactions), and Proper Conduct of Banking Business Directive 327 (Management of Leveraged Loans).

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 D-13: The Bank's exposures to leveraged financing, by economic sector of the borrower

	June 30, 2018			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**1**	**385**	**-**	**385**
Construction and real estate – real-estate activities	**2**	**714**	**430**	**1,144**
Mining and quarrying	**2**	**1,495**	**23**	**1,518**
Commerce	**2**	**651**	**98**	**749**
Industry	**1**	**219**	**-**	**219**
Total	**8**	**3,464**	**551**	**4,015**

	December 31, 2017			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	1	387	-	387
Construction and real estate – real-estate activities	1	551	467	1,018
Hotels, hospitality, and food services	1	-	200	200
Mining and quarrying	2	1,481	19	1,500
Commerce	2	602	340	942
Industry	1	208	-	208
Total	8	3,229	1,026	4,255

D.2. Credit risk mitigation: standardized approach disclosures

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

The following tables present details of gross credit exposure, after deducting the allowance for credit losses on an individual basis, by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

Table D-14: Amount of gross credit exposures before credit risk mitigation

	June 30, 2018										
	0%	2%(2)	20%	35%	50%	60%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions										
Sovereigns	**112,129**	**-**	**4,910**	**-**	**70**	**-**	**-**	**1,121**	**70**	**-**	**118,300**
Public sector	**-**	**-**	**474**	**-**	**7,012**	**-**	**-**	**-**	**-**	**-**	**7,486**
Banking corporations	**283**	**-**	**12,536**	**-**	**3,860**	**-**	**-**	**118**	**-**	**-**	**16,797**
Corporations	**-**	**1,857**	**1,132**	**-**	**2,403**	**-**	**-**	**155,497**	**894**	**-**	**161,783**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**101,224**	**507**	**-**	**101,731**
Retail to individuals	**-**	**-**	**-**	**-**	**-**	**-**	**111,731**	**99**	**399**	**-**	**112,229**
Small businesses	**-**	**-**	**-**	**-**	**-**	**-**	**14,926**	**48**	**52**	**-**	**15,026**
Housing loans	**-**	**-**	**-**	**27,622**	**20,445**	**1,481**	**24,667**	**7,753**	**239**	**-**	**82,207**
Securitization	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183**	**-**	**-**	**183**
Others	**2,965**	**-**	**-**	**-**	**-**	**-**	**-**	**8,486**	**794**	**4,068**	**16,313**
Total	**115,377**	**1,857**	**19,052**	**27,622**	**33,790**	**1,481**	**151,324**	**274,529**	**2,955**	**4,068**	**632,055**

	June 30, 2017									
	0%	2%(2)	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions									
Sovereigns	119,520	-	4,185	-	67	-	1,405	-	-	125,177
Public sector	-	-	1,141	-	6,439	-	-	-	-	7,580
Banking corporations	206	-	13,971	-	3,657	-	259	-	-	18,093
Corporations	-	3,168	1,270	-	1,721	-	152,214	596	-	158,969
Secured by commercial real estate	-	-	-	-	-	-	92,560	489	-	93,049
Retail to individuals	-	-	-	-	-	108,850	93	437	-	109,380
Small businesses	-	-	-	-	-	14,657	34	64	-	14,755
Housing loans	-	-	-	27,398	16,552	23,614	6,027	201	-	73,792
Securitization	-	-	-	-	-	-	175	-	-	175
Others	2,990	-	-	-	-	-	7,401	841	3,566	14,798
Total	122,716	3,168	20,567	27,398	28,436	147,121	260,168	2,628	3,566	615,768

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(2) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table D-14: Amount of gross credit exposures before credit risk mitigation (continued)

	December 31, 2017									
	0%	2%(2)	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions									
Sovereigns	121,255	-	4,689	-	41	-	1,339	-	-	127,324
Public sector	-	-	590	-	6,936	-	-	-	-	7,526
Banking corporations	337	-	13,309	-	3,939	-	453	-	-	18,038
Corporations	-	2,088	860	-	2,308	-	150,169	387	-	155,812
Secured by commercial real estate	-	-	-	-	-	-	95,695	450	-	96,145
Retail to individuals	-	-	-	-	-	110,258	94	437	-	110,789
Small businesses	-	-	-	-	-	14,732	31	62	-	14,825
Housing loans	-	-	-	27,339	18,475	24,830	6,350	234	-	77,228
Securitization	-	-	-	-	-	-	173	-	-	173
Others	3,293	-	-	-	-	-	8,725	824	3,921	16,763
Total	124,885	2,088	19,448	27,339	31,699	149,820	263,029	2,394	3,921	624,623

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

(2) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table D-15: Amount of net credit exposures after credit risk mitigation

	June 30, 2018											
	0%	2%(2)	20%	35%	50%	60%	75%	100%	150%	250%	Net credit exposure(1)	Net credit exposure after conversion to credit
	NIS millions											
Sovereigns	**112,129**	**-**	**4,910**	**-**	**70**	**-**	**-**	**391**	**12**	**-**	**117,512**	**117,510**
Public sector	**2,275**	**-**	**474**	**-**	**7,104**	**-**	**-**	**-**	**-**	**-**	**9,853**	**8,442**
Banking corporations	**283**	**-**	**15,450**	**-**	**16,027**	**-**	**-**	**113**	**-**	**-**	**31,873**	**20,893**
Corporations	**-**	**1,857**	**22,901**	**-**	**7,500**	**-**	**-**	**149,181**	**783**	**-**	**182,222**	**129,573**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,092**	**505**	**-**	**73,597**	**54,110**
Retail to individuals	**-**	**-**	**-**	**-**	**-**	**-**	**94,878**	**98**	**398**	**-**	**95,374**	**65,982**
Small businesses	**-**	**-**	**-**	**-**	**-**	**-**	**13,478**	**48**	**50**	**-**	**13,576**	**10,733**
Housing loans	**-**	**-**	**-**	**27,622**	**20,445**	**1,481**	**24,667**	**7,753**	**239**	**-**	**82,207**	**78,027**
Securitization	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183**	**-**	**-**	**183**	**91**
Others	**2,965**	**-**	**-**	**-**	**-**	**-**	**-**	**8,031**	**794**	**4,068**	**15,858**	**15,688**
Total	**117,652**	**1,857**	**43,735**	**27,622**	**51,146**	**1,481**	**133,023**	**238,890**	**2,781**	**4,068**	**622,255**	**501,049**

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table D-15: Amount of net credit exposures after credit risk mitigation (continued)

	June 30, 2017										
	0%	2%[2]	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[1]	Net credit exposure after conversion to credit
	NIS millions										
Sovereigns	119,440	-	4,185	-	67	-	474	-	-	124,166	124,096
Public sector	2,501	-	1,141	-	6,349	-	-	-	-	9,991	8,619
Banking corporations	206	-	16,920	-	14,801	-	175	-	-	32,102	22,576
Corporations	-	3,168	25,272	-	7,298	-	146,197	592	-	182,527	130,381
Secured by commercial real estate	-	-	-	-	-	-	61,367	485	-	61,852	46,999
Retail to individuals	-	-	-	-	-	93,206	93	435	-	93,734	64,382
Small businesses	-	-	-	-	-	13,233	33	64	-	13,330	10,507
Housing loans	-	-	-	27,398	16,552	23,614	6,027	201	-	73,792	71,269
Securitization	-	-	-	-	-	-	175	-	-	175	87
Others	2,990	-	-	-	-	-	7,401	841	3,566	14,798	14,588
Total	125,137	3,168	47,518	27,398	45,067	130,053	221,942	2,618	3,566	606,467	493,504

	December 31, 2017										
	0%	2%[2]	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[1]	Net credit exposure after conversion to credit
	NIS millions										
Sovereigns	121,219	-	4,689	-	41	-	494	-	-	126,443	126,387
Public sector	2,270	-	590	-	7,028	-	-	-	-	9,888	8,831
Banking corporations	337	-	16,012	-	15,789	-	444	-	-	32,582	22,567
Corporations	-	2,088	25,304	-	8,000	-	143,513	384	-	179,289	126,234
Secured by commercial real estate	-	-	-	-	-	-	64,040	446	-	64,486	49,096
Retail to individuals	-	-	-	-	-	94,008	94	436	-	94,538	65,892
Small businesses	-	-	-	-	-	13,307	31	61	-	13,399	10,739
Housing loans	-	-	-	27,339	18,475	24,830	6,350	234	-	77,228	74,560
Securitization	-	-	-	-	-	-	173	-	-	173	87
Others	3,293	-	-	-	-	-	8,725	824	3,921	16,763	16,565
Total	127,119	2,088	46,595	27,339	49,333	132,145	223,864	2,385	3,921	614,789	500,958

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table D-16: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by qualifying financial collateral, by counterparty

	June 30, 2018						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added(2)	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereigns	**118,300**	**(779)**	**-**	**(779)**	**-**	**(9)**	**117,512**
Public sector	**7,486**	**-**	**-**	**-**	**2,368**	**(1)**	**9,853**
Banking corporations	**16,797**	**(1,276)**	**-**	**(1,276)**	**16,930**	**(578)**	**31,873**
Corporations	**161,783**	**(1,612)**	**-**	**(1,612)**	**28,169**	**(6,118)**	**182,222**
Secured by commercial real estate	**101,731**	**(27,668)**	**-**	**(27,668)**	**-**	**(466)**	**73,597**
Retail to individuals	**112,229**	**(15,297)**	**-**	**(15,297)**	**-**	**(1,558)**	**95,374**
Small businesses	**15,026**	**(309)**	**-**	**(309)**	**-**	**(1,141)**	**13,576**
Housing loans	**82,207**	**-**	**-**	**-**	**-**	**-**	**82,207**
Securitization	**183**	**-**	**-**	**-**	**-**	**-**	**183**
Others	**16,313**	**-**	**-**	**-**	**-**	**(455)**	**15,858**
Total	**632,055**	**(46,941)**	**-**	**(46,941)**	**47,467**	**(10,326)**	**622,255**

	June 30, 2017						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added(2)	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereigns	125,177	(931)	-	(931)	-	(80)	124,166
Public sector	7,580	-	-	-	2,593	(182)	9,991
Banking corporations	18,093	(1,343)	-	(1,343)	16,034	(682)	32,102
Corporations	158,969	(1,927)	-	(1,927)	30,542	(5,057)	182,527
Secured by commercial real estate	93,049	(30,503)	-	(30,503)	-	(694)	61,852
Retail to individuals	109,380	(14,130)	-	(14,130)	-	(1,516)	93,734
Small businesses	14,755	(272)	-	(272)	-	(1,153)	13,330
Housing loans	73,792	-	-	-	-	-	73,792
Securitization	175	-	-	-	-	-	175
Others	14,798	-	-	-	-	-	14,798
Total	615,768	(49,106)	-	(49,106)	49,169	(9,364)	606,467

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Table D-16: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by qualifying financial collateral, by counterparty (continued)

	December 31, 2017						
	Gross credit exposure[(1)]	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added[(2)]	Exposure covered by financial collateral[(3)]	Net credit exposure[(4)]
	NIS millions						
Sovereigns	127,324	(831)	-	(831)	-	(50)	126,443
Public sector	7,526	-	-	-	2,362	-	9,888
Banking corporations	18,038	(1,278)	-	(1,278)	16,230	(408)	32,582
Corporations	155,812	(1,506)	-	(1,506)	31,639	(6,656)	179,289
Secured by commercial real estate	96,145	(31,069)	-	(31,069)	-	(590)	64,486
Retail to individuals	110,789	(14,664)	-	(14,664)	-	(1,587)	94,538
Small businesses	14,825	(284)	-	(284)	-	(1,142)	13,399
Housing loans	77,228	-	-	-	-	-	77,228
Securitization	173	-	-	-	-	-	173
Others	16,763	-	-	-	-	-	16,763
Total	624,623	(49,632)	-	(49,632)	50,231	(10,433)	614,789

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

E. Counterparty credit risks

Counterparty risk – The credit risk arising from transactions in derivative financial instruments is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. The market value of the transaction may be positive or negative for any of the parties to the transaction; the market value is not certain, and may change over time and according to movements in the underlying market factors.

For more extensive 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, 2017.

Table E-1: Details of credit exposures of the Bank arising from derivatives

	June 30, 2018					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives[(1)]	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**5,225**	**4,580**	**2,877**	**-**	**22**	**12,704**
Add-on values	**3,245**	**4,514**	**1,910**	**-**	**47**	**9,716**
Effect of netting agreements	**-**	**-**	**-**	**-**	**-**	**(9,594)**
Eligible collateral	**-**	**-**	**-**	**-**	**-**	**(1,070)**
Net credit exposure	**8,470**	**9,094**	**4,787**	**-**	**69**	**11,756**

	June 30, 2017					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives[(1)]	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	6,932	4,954	4,822	7	5	16,720
Add-on values	3,500	4,249	1,415	1	19	9,184
Effect of netting agreements	-	-	-	-	-	(11,401)
Eligible collateral	-	-	-	-	-	(1,542)
Net credit exposure	10,432	9,203	6,237	8	24	12,961

	December 31, 2017					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives[(1)]	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	6,739	4,348	3,041	-	12	14,140
Add-on values	3,687	4,330	1,912	1	36	9,966
Effect of netting agreements	-	-	-	-	-	(11,175)
Eligible collateral	-	-	-	-	-	(1,084)
Net credit exposure	10,426	8,678	4,953	1	48	11,847

(1) The data include the effects of the directive, "Capital Requirements in Respect of Exposure to Central Counterparties," which was implemented beginning January 1, 2017.

Table E-2: Details of face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio

	June 30, 2018		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	**50**	**128**	**178**

	June 30, 2017		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	50	122	172

	December 31, 2017		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	50	121	171

The Bank is not a party to CDS transactions originating in intermediary activities.

F. 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 particular portfolio, due to changes in prices, rates, spreads, and other market parameters.

The main risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves. Interest-rate risk in the banking book and investment risk (exposure to share prices and credit spreads) are described below, in separate sections.

For more extensive information regarding market risks and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

F.1. Market risk estimates

Table F-1: Risk estimates of trading activity (VaR)

	June 30, 2018	**Average in 2018**
	NIS millions	
Total trading in dealing rooms	**17**	**18**

	December 31, 2017	Average in 2017
	NIS millions	
Total trading in dealing rooms	9	16

Table F-2: Sensitivity of the Bank to changes in the exchange rates of foreign currencies with a significant volume of activity at the Bank and to the consumer price index

	June 30, 2018		December 31, 2017	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	**122.6**	**(3.7)**	100.4	(68.2)
EUR	**(6.9)**	**50.1**	(1.8)	(26.8)
	3% increase	3% decrease	3% increase	3% decrease
CPI	**198.0**	**(437.0)**	*238.76	*(590.12)

* Reclassified.

The table above presents an analysis of the sensitivity of the economic value of the Bank to changes in exchange rates, based on revaluation of all balance sheet and off-balance sheet instruments in the risk-management system, using prevalent models for revaluation of each instrument and representative rates as the baseline exchange rate. For the purposes of the calculation, the portfolio is revalued again at an exchange rate reflecting an increase/decrease at the presented rate, with no additional assumptions. Sensitivity to the consumer price index is calculated according to the exposure of the Bank to the index, as detailed in Note 14 to the Condensed Financial Statements as at June 30, 2018, plus the effect of the CPI floor on the expected accounting profit.

Table F-3: Capital requirements in respect of market risks

The Bank is required to maintain a minimum capital ratio in respect of market risks, on the basis of a standardized model defined by the Bank of Israel. The regulatory capital adequacy is calculated for interest-rate and share risks in the areas of trading alone, as defined above, and for currency risks in the banking book and in the trading book.

	June 30, 2018(1)			June 30, 2017(1)			December 31, 2017(1)		
	Specific risk	General risk	Total	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions								
Interest-rate risk	**1**	**299**	**300**	2	335	337	1	377	378
Share risk	**6**	**6**	**12**	7	7	14	9	9	18
Foreign currency exchange-rate risk	**-**	**84**	**84**	-	134	134	-	124	124
Option risk	**-**	**45**	**45**	-	188	188	-	182	182
Total	**7**	**434**	**441**	9	664	673	10	692	702

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.73% as at June 30, 2018; 13.73% as at December 31, 2017; and 13.7% as at June 30, 2017. The required minimum total capital ratio is 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 this ratio.

F.2. Interest-rate risk in the banking book

Interest-rate risk in the banking book refers to the potential effect of changes in the various interest-rate curves on the economic value of the Bank (i.e. change in the present value of assets and liabilities) and/or on net interest income (accounting income sensitivity). The risk emerges during the routine and proactive banking activity of the Bank, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of the investment portfolio. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more.

For additional information regarding interest-rate risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

Table F-4: Sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

	June 30, 2018			**Maximum in 2018**		**Minimum in 2018**	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario:							
Change in CPI-linked interest rate	**(435)**	**519**	**(47)**	**(485)**	**568**	**(345)**	**417**
Change in unlinked interest rate	**(72)**	**121**	**(9)**	**(208)**	**255**	**(38)**	**81**
Change in foreign-currency interest rates	**67**	**(72)**	**7**	**72**	**(75)**	**1**	**1**

	December 31, 2017			Maximum in 2017		Minimum in 2017	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario:							
Change in CPI-linked interest rate	(406)	477	(43)	(406)	476	(257)	315
Change in unlinked interest rate	(260)	311	(28)	(260)	311	(54)	92
Change in foreign-currency interest rates	-	3	-	(38)	41	-	2

The above table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by interest-rate curves that do not take into account the credit risk spread of the counterparty, with the use of internal models for some products. This differs from a fair-value calculation, which is based on factors including the discounting of expected cash flows by interest rates reflecting the risk levels, according to the accepted practice in financial statements, without the use of internal models for some products.

F.3. Share and credit spread risk: investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately). According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

For more extensive information regarding share and credit spread risk (investment risk) and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

Table F-5: Details of the Bank's investments in shares in the banking book

	June 30, 2018		June 30, 2017		December 31, 2017	
	Balance sheet value and fair value	Capital requirements[1]	Balance sheet value and fair value	Capital requirements[1]	Balance sheet value and fair value	Capital requirements[1]
	NIS millions					
Investments classified into the trading portfolio	**45**	**[2] 12**	53	[2] 14	67	[2] 18
Investments classified into the available-for-sale portfolio	**2,012**	**308**	2,243	337	2,159	326
Total investments in shares	**2,057**	**320**	2,296	351	2,226	344
Of which: traded on a stock exchange	**1,019**		1,432		1,378	
Privately held	**1,038**		864		848	
Unrealized gains included in supervisory capital	**155**		304		320	

(1) The capital requirements were calculated in accordance with the minimum total capital ratio required by the Banking Supervision Department, at 13.73% as at June 30, 2018; 13.73% as at December 31, 2017; and 13.7% as at June 30, 2017. The required minimum total capital ratio is 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 this ratio.
(2) Including capital allocation with respect to specific market risk and general market risk.

For details regarding investments of the Bank, see Note 5 to the Condensed Financial Statements as at June 30, 2018.

G. Liquidity 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. In light of the financing sources of the Bank, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period

	For the quarter ended June 30, 2018	
	Total unweighted value*	Total weighted value**
	NIS millions	
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**110,310**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**191,029**	**14,825**
Stable deposits	**62,303**	**3,115**
Less stable deposits	**91,848**	**10,604**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**36,878**	**1,106**
Unsecured wholesale financing, of which:	**109,736**	**70,465**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**1,703**	**426**
Non-operational deposits (all counterparties)	**107,730**	**69,736**
Unsecured debts	**303**	**303**
Secured wholesale financing	**14**	
Additional liquidity requirements, of which:	**110,460**	**25,396**
Outflows related to derivative exposure and other collateral requirements	**18,057**	**16,326**
Outflows related to loss of funding on debt products		
Credit and liquidity facilities	**92,403**	**9,070**
Other contractual funding obligations	**15,206**	**15,206**
Other contingent funding obligations	**58,194**	**1,952**
Total cash outflows		**127,844**
Cash inflows		
Secured lending (e.g. reverse repos)	**661**	**661**
Inflows from fully performing exposures	**28,933**	**21,818**
Other cash inflows	**20,624**	**15,886**
Total cash inflows	**50,218**	**38,365**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**110,310**
Total net cash outflows	**89,479**
Liquidity coverage ratio (%)	**123%**

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

	For the quarter ended June 30, 2017	
	Total unweighted value*	Total weighted value**
	NIS millions	
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		116,466
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	184,486	14,357
Stable deposits	59,988	2,999
Less stable deposits	89,900	10,330
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	34,598	1,028
Unsecured wholesale financing, of which:	115,334	73,860
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,664	416
Non-operational deposits (all counterparties)	113,376	73,150
Unsecured debts	294	294
Secured wholesale financing	48	-
Additional liquidity requirements, of which:	109,133	27,031
Outflows related to derivative exposure and other collateral requirements	20,150	18,450
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	88,983	8,581
Other contractual funding obligations	13,362	13,362
Other contingent funding obligations	56,720	1,896
Total cash outflows		130,506
Cash inflows		
Secured lending (e.g. reverse repos)	325	325
Inflows from fully performing exposures	28,937	21,629
Other cash inflows	21,222	17,060
Total cash inflows	50,484	39,014

	Total adjusted value***
Total high-quality liquid assets (HQLA)	116,466
Total net cash outflows	91,492
Liquidity coverage ratio (%)	127%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on three monthly observations, in accordance with the transitional directives.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on three monthly observations, in accordance with the transitional directives.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

Table G-1: Liquidity coverage ratio – limited banking corporation and consolidated subsidiaries, for the three-month period (continued)

	For the quarter ended December 31, 2017	
	Total unweighted value*	Total weighted value**
	NIS millions	
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		111,047
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	187,302	14,849
Stable deposits	60,226	3,011
Less stable deposits	91,948	10,784
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	35,128	1,054
Unsecured wholesale financing, of which:	114,678	76,553
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,623	406
Non-operational deposits (all counterparties)	112,889	75,981
Unsecured debts	166	166
Secured wholesale financing	56	-
Additional liquidity requirements, of which:	104,601	21,365
Outflows related to derivative exposure and other collateral requirements	14,230	12,507
Outflows related to loss of funding on debt products		
Credit and liquidity facilities	90,371	8,858
Other contractual funding obligations	15,020	15,020
Other contingent funding obligations	57,339	1,913
Total cash outflows		129,700
Cash inflows		
Secured lending (e.g. reverse repos)	688	688
Inflows from fully performing exposures	33,381	26,643
Other cash inflows	15,659	11,657
Total cash inflows	49,728	38,988

	Total adjusted value***
Total high-quality liquid assets (HQLA)	111,047
Total net cash outflows	90,712
Liquidity coverage ratio (%)	122%

* Unweighted values were calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on an average of daily observations.

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations.

*** Adjusted values were calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and a cap on inflows).

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

The average ratio during the quarter (the average of the daily observations) is 123%, consolidated, and 121% for the stand-alone banking corporation, while the minimum requirement is 100%. This ratio increased during the quarter, in comparison to the preceding quarter. The increase mainly resulted from an increase in deposits, a change in the mix of deposits, and issuance of long-term funding in the capital market. There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

The Bank is in compliance with all regulatory and internal liquidity limits. These include, among others, short-term models, such as the LCR and an internal thirty-day model; medium-term models, such as the NSFR-like internal model (financing sources stable for over a year divided by financing needs stable for over a year, as defined at the Bank, in the vein of the recommendations of the Basel Committee); and limits that refer to the long term. In accordance with Proper Conduct of Banking Business Directive 221, as at June 30, 2018, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable securities backed by sovereigns and central banks, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 109,399 million, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company – the Bank), according to need, and the Bank does not rely on these assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios.

For additional 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, 2017; the Annual Financial Statements for 2017; and the Condensed Financial Statements as at June 30, 2018.

Table G-2: Details of liquid assets, by level, as required in the Basel directives

	Balance as at June 30, 2018	**Average in the quarter ended June 30, 2018**
	NIS millions	
Level 1 assets	**108,279**	**109,490**
Level 2A assets	**874**	**626**
Level 2B assets	**246**	**194**
Total HQLA	**109,399**	**110,310**

	Balance as at June 30, 2017	Average in the quarter ended June 30, 2017
	NIS millions	
Level A assets	115,930	115,640
Level B1 assets	566	573
Level B2 assets	214	253
Total HQLA	116,710	116,466

	Balance as at December 31, 2017	Average in the quarter ended December 31, 2017
	NIS millions	
Level A assets	113,583	110,254
Level B1 assets	605	585
Level B2 assets	202	208
Total HQLA	114,390	111,047

A regulatory limit applies in Switzerland and in New York to the use of the liquidity reserve of these entities. The Bank's scenarios assume the use of liquidity of the subsidiaries / New York branch, taking the limits of each entity into consideration.

Table G-3: Pledged and unpledged available assets*

	Fair value balance as at June 30, 2018		
	Total balance in the balance sheet	Of which: pledged**	Of which: unpledged
	NIS millions		
Cash and deposits with banks	**83,261**	**936**	**82,325**
Israeli government bonds	**36,401**	**3,600**	**32,801**
Foreign government bonds	**10,907**	**167**	**10,740**
Bonds of financial institutions in Israel	**447**	**-**	**447**
Bonds of foreign financial institutions	**7,613**	**-**	**7,613**
Bonds of others in Israel	**219**	**-**	**219**
Bonds of foreign others	**2,006**	**42**	**1,964**
Shares of others	**2,057**	**-**	**2,057**
Total securities	**59,650**	**3,809**	**55,841**

* In addition, other assets in the amount of NIS 1,356 million are pledged.
** Includes surplus pledges.

	Fair value balance as at December 31, 2017		
	Total balance in the balance sheet	Of which: pledged**	Of which: unpledged
	NIS millions		
Cash and deposits with banks	86,093	1,063	85,030
Israeli government bonds	40,597	3,734	36,863
Foreign government bonds	13,168	183	12,985
Bonds of financial institutions in Israel	496	-	496
Bonds of foreign financial institutions	6,327	355	5,972
Bonds of others in Israel	402	-	402
Bonds of foreign others	2,226	41	2,185
Shares of others	2,226	-	2,226
Total securities	65,442	4,313	61,129

* In addition, other assets in the amount of NIS 577 million are pledged.
** Includes surplus pledges.

H. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, the Compliance Officer, and Anti-Money Laundering and Terrorism Financing Prevention, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

For additional information regarding operational risk and the management thereof, including information-technology risk, information security and cyber risks, cloud-computing risks, emergency preparedness, and insurance, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017, and the Annual Financial Statements for 2017.

I. 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, conduct risk, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), and taxation aspects relevant to products or services for customers.

Compliance risk also includes the risks arising from the investigations by United States authorities, as described in Notes 10C and 10D to the Condensed Financial Statements as at June 30, 2018.

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, 2017 and the Annual Financial Statements for 2017.

J. Legal risk

Risk to the Group's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Group, which may cause damage to the Group's profitability. The Group has a structure of internal and external legal counsel in order to contend with this risk.

For additional information regarding legal risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017; the Annual Financial Statements for 2017 and Note 26 to the Annual Financial Statements for 2017; and Note 10 to the Condensed Financial Statements as at June 30, 2018.

K. Reputational risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies.

For additional information regarding reputational risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017, and the Annual Financial Statements for 2017.

L. Regulatory and legislative risk

Regulatory risk is risk to the Group's income and/or capital arising from legislative processes and/or draft directives of various regulatory agencies that cause changes in the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

For additional information regarding regulatory and legislative risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017 and the Annual Financial Statements for 2017.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements as at June 30, 2018, and Section 3.14 of the Report of the Board of Management and Board of Directors as at June 30, 2018.

M. Economic risk

Risk factors in the economic environment are identified by the Economics Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees.

For additional information regarding economic risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017 and the Annual Financial Statements for 2017.

For details regarding conditions in the Israeli and global economy, see the section "Economic review" in the Report of the Board of Directors and Board of Management as at June 30, 2018.

N. Strategic risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

For additional information regarding strategic risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017 and the Annual Financial Statements for 2017.

O. Environmental risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage.

For additional information regarding environmental risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2017, and the Annual Financial Statements for 2017.

P. Addendums

P.1. Securitization exposures

The volume of the Bank's exposure in respect of securitization is approximately NIS 183 million, arising from liquidity lines.

The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at June 30, 2018, amounted to NIS 183 million (approximately USD 50 million), compared with NIS 173 million (approximately USD 50 million) at the end of 2017. No withdrawals were performed on any of these lines up to June 30, 2018.

The risk weight applied to the amount of the exposure is determined according to the highest risk weight assigned to a single exposure covered by the instrument.

Oded Eran	**Ari Pinto**	**Amir Bachar**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director Chief Risk Officer

Tel-Aviv, August 15, 2018