

# **Bank Hapoalim**

Condensed Quarterly Financial Statements  
as at September 30, 2020



Q3  
20



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



# **Bank Hapoalim**

Report of the Board of Directors  
and Board of Management  
as at September 30, 2020



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# Report of the Board of Directors and Board of Management

as at September 30, 2020

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# Report of the Board of Directors and Board of Management

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## 1. General review, objectives, and strategy

At the meeting of the Board of Directors held on November 18, 2020, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries as at September 30, 2020.

### 1.1. Forward-looking information

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

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

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

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## 1.2. Condensed financial information

As detailed below, the financial results in the first nine months of 2020 were primarily influenced by the spread of the coronavirus, which caused sharp contraction of global economic activity, worsening of the condition of the economy and of borrowers, and increased volatility in the markets, among other effects.

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
<b>Main performance indicators</b>					
Return of net profit on equity attributed to shareholders of the Bank <sup>(1)</sup>	<b>8.78%</b>	7.63%	<b>4.01%</b>	8.43%	4.62%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items <sup>(1)(2)</sup>	<b>8.78%</b>	8.30%	<b>4.54%</b>	8.40%	7.13%
Return of net profit from continued operations on equity attributed to shareholders of the Bank <sup>(1)</sup>	<b>8.78%</b>	7.46%	<b>4.39%</b>	7.52%	3.86%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items <sup>(1)(3)</sup>	<b>8.78%</b>	8.13%	<b>4.54%</b>	7.97%	6.72%
Return on average assets <sup>(1)</sup>	<b>0.64%</b>	0.65%	<b>0.31%</b>	0.71%	0.39%
Ratio of income to average assets <sup>(1)</sup>	<b>2.00%</b>	2.07%	<b>2.02%</b>	2.15%	2.17%
Ratio of fees to average assets <sup>(1)</sup>	<b>0.59%</b>	0.72%	<b>0.64%</b>	0.70%	0.71%
Efficiency ratio – cost-income ratio from continued operations	<b>56.06%</b>	62.20%	<b>56.85%</b>	59.58%	66.44%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations <sup>(3)</sup>	<b>56.06%</b>	61.01%	<b>56.55%</b>	58.49%	58.13%
Financing margin from regular activity <sup>(1)(4)</sup>	<b>1.93%</b>	2.23%	<b>2.04%</b>	2.28%	2.26%
Liquidity coverage ratio <sup>(5)</sup>	<b>132%</b>	124%	<b>132%</b>	124%	121%
	As at September 30		December 31		
	2020	2019	2019		
Ratio of common equity Tier 1 capital to risk components <sup>(6)</sup>	<b>11.53%</b>	11.87%	11.53%		
Ratio of total capital to risk components <sup>(6)</sup>	<b>14.74%</b>	15.16%	14.64%		
Leverage ratio <sup>(6)</sup>	<b>6.92%</b>	7.92%	7.61%		

(1) Calculated on an annualized basis.

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

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

(4) Financing profit from regular activity (see [the Report of the Board of Directors and Board of Management, in Section 2.2](#), "Material developments in income, expenses, and comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

(5) For additional information, see [the section "Liquidity and refinancing risk,"](#) below.

(6) For additional information, see [the section "Capital, capital adequacy, and leverage,"](#) below.

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
<b>Main credit quality indicators</b>					
Allowance for credit losses as a percentage of credit to the public	<b>2.07%</b>	1.35%	<b>2.07%</b>	1.35%	1.58%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	<b>1.65%</b>	1.29%	<b>1.65%</b>	1.29%	1.80%
Net charge-offs as a percentage of average credit to the public <sup>(1)</sup>	<b>(0.03%)</b>	0.01%	<b>0.18%</b>	0.10%	0.12%
Provision for credit losses as a percentage of average credit to the public <sup>(1)</sup>	<b>0.26%</b>	(0.05%)	<b>0.95%</b>	0.18%	0.44%
NIS millions					
<b>Main profit and loss data</b>					
Net profit attributed to shareholders of the Bank	<b>816</b>	736	<b>1,141</b>	2,428	1,799
Net profit attributed to shareholders of the Bank excluding extraordinary items <sup>(2)</sup>	<b>816</b>	798	<b>1,290</b>	2,419	2,778
Net profit from continued operations attributed to shareholders of the Bank	<b>816</b>	720	<b>1,250</b>	2,170	1,503
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items <sup>(3)</sup>	<b>816</b>	782	<b>1,290</b>	2,298	2,619
Net interest income	<b>2,201</b>	2,283	<b>6,559</b>	7,026	9,319
Provision (income) for credit losses	<b>193</b>	(40)	<b>2,130</b>	400	1,276
Net financing profit*	<b>2,536</b>	2,341	<b>7,393</b>	7,339	9,878
Non-interest income	<b>1,101</b>	884	<b>3,280</b>	2,775	3,889
Of which: fees	<b>755</b>	815	<b>2,364</b>	2,404	3,240
Operating and other expenses	<b>1,851</b>	1,970	<b>5,593</b>	5,839	8,776
Of which: salaries and related expenses	<b>988</b>	**1,033	<b>2,913</b>	**3,119	**4,108
Total income	<b>3,302</b>	3,167	<b>9,839</b>	9,801	13,208
<b>Additional data</b>					
Net profit per share attributed to shareholders of the Bank (in NIS)	<b>0.61</b>	0.55	<b>0.86</b>	1.82	1.13
Total dividend per share (in agorot) <sup>(4)</sup>	-	74.90	<sup>(5)</sup> <b>53.94</b>	74.90	74.90

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

\*\* Reclassified.

(1) Calculated on an annualized basis.

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

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

(4) According to the date of declaration.

(5) Paid as a dividend in kind, in shares; calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91).

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

	September 30		December 31
	2020	2019	2019
	NIS millions		
Main balance sheet data			
Total assets	513,686	453,347	463,688
Of which: Cash and deposits with banks	128,421	72,517	88,122
Securities	67,835	65,592	59,486
Net credit to the public	292,845	291,007	292,940
Net problematic credit risk	9,252	7,761	8,787
Net impaired balance sheet debts	2,643	2,295	3,034
Credit to the public not accruing interest income (NPL)	3,482	2,401	3,867
Total liabilities	474,688	414,086	425,467
Of which: Deposits from the public	417,005	348,027	361,645
Deposits from banks	3,280	3,178	3,520
Bonds and subordinated notes	24,724	28,337	26,853
Shareholders' equity	38,971	39,218	38,181
Additional data			
Share price at end of period (in NIS)	18.3	26.7	28.7

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

The Bank performs comprehensive examinations to assess the risks to which it is exposed and to estimate the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, investment risk, operational risk (including IT risk and cyber risk), counterparty risk, interest-rate risk in the banking book, liquidity risk, reputational risk, strategic and competitive risk, regulatory risk, and compliance risk. Other risks to which the Bank is exposed are handled directly as part of the management of its business: legal risk, economic risk, and environmental risk. The spread of the coronavirus is an event with material macro-economic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the event and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself. For additional information, see [the section "Effect of the crisis of the spread of the coronavirus"](#) and [the section "Review of risks," below; the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020; and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.](#)

## 1.4. Objectives and business strategy

In late 2019, the Board of Management and Board of Directors of the Bank approved updates to the strategic plan; within this process, the objectives and business strategy for 2020-2022 were established. The objectives and business strategy were determined based on an examination of changes in the global economy, changes in the business environment in Israel, regulatory processes, and the intensification of the competitive environment in which the Bank operates, in all areas of its activity.

The strategic plan has been updated according to the key trends affecting the banking industry, including customers' growing willingness to consume simple financial services through digital channels, regulatory measures aimed at increasing competition in the banking system, significant investments in fintech companies, and the entry of significant technological players into activity with customers in the financial arena.

In addition to these changes, the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. The Bank adopted the Basel scenarios as a methodology for the analysis of the future competitive environment and for the selection of the most probable reference scenario for the banking industry in Israel. In view of the differences between the competitive environments of the private customer segment and the business customer segment, the Bank estimates that different scenarios are likely to materialize in the different segments of activity.

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

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

### Objectives

The strategic plan focuses on seven overarching objectives:

1. Increase return on equity.
2. Retain market share in key markets.
3. Maintain the profitability level of key products.
4. Improve operational efficiency.
5. Increase customers' digital-banking activity.
6. Strengthen customer loyalty.
7. Reinforce employee commitment and motivation.

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For more extensive information regarding the strategy of the Bank and its expression in the various areas of the Bank's activity, see [the section "Objectives and business strategy" in the Report of the Board of Directors and Board of Management for 2019](#).

The coronavirus has spread rapidly around the world since early 2020; in response, many governments, including the government of Israel, have taken defensive measures such as restriction of international travel, quarantines, reduction of congregation, and restrictions of the activity of businesses. The measures taken by the government also have an extensive impact on the Bank's engagement with its customers, on its business with them, and on the resulting risks.

The Board of Management and Board of Directors of the Bank held strategic discussions during the second quarter in view of the spread of the coronavirus. The Board of Management and Board of Directors resolved to continue the implementation of the strategic plan approved in late 2019, while updating work plans for 2020 with the aim of accelerating the implementation of processes to support the activity of the Bank during this period, including expansion of the range of banking services available for consumption by customers of the Bank through various channels, without the need to visit a branch in person; expansion of the range of channels for communication with the Bank, with a focus on continued development of digital solutions; transition to reception by scheduled appointment in the branch network; development of infrastructures enabling the employees of the Bank to work remotely; and acceleration of the implementation of the efficiency plan reported on January 8, 2020.

The Bank is acting in accordance with the instructions, while adapting its distribution systems to the delivery of banking services within the restrictions that have been imposed and in compliance with the directives of the Ministry of Health.

For additional information regarding the impacts of the coronavirus outbreak, see [Section 2.1.3](#).

In view of the normalization of relations between the State of Israel and the United Arab Emirates, the Bank has begun to build infrastructure for a financial relationship; as part of this process, the Bank signed documents of understandings with the two largest banks in the UAE, and initial business activities between the banks have been launched.

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

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



## 2. Explanation and analysis of results and business position

### 2.1. Trends, events, developments, and material changes

#### 2.1.1. Economic and financial review

##### Developments in the global economy

Global economic activity showed improvement during the third quarter, as a result of the easing of lockdown policies in most countries. In many countries, retail sales returned to pre-crisis levels, along with manufacturing activity. However, the service sector, which is more sensitive to the restrictions on congregating, is struggling to recover. The United States economy grew at an annualized rate of 33.1% in the third quarter of 2020; the Eurozone economies grew at an average annualized rate of 66.1% in this quarter. Despite the substantial improvement, the global level of activity is still lower than it was before the crisis. In September 2020, a sharp increase emerged in new coronavirus cases worldwide. Many countries have tightened restrictions on movement and commerce, which are expected to weigh on activity data for the fourth quarter.

The global public expenditure has grown considerably; many countries have introduced assistance programs beyond those granted during the first wave of the pandemic. Government budget deficits and debts continued to expand rapidly. Monetary policy globally remained highly expansionary. After lowering interest rates to near zero in the first quarter of 2020, central banks stepped up their purchases of financial assets, including corporate bonds.

In the United States, the Democratic Party candidate Joe Biden won the presidential election held on November 3, 2020. The Democratic Party succeeded in retaining its majority in the House of Representatives, while the struggle for a Senate majority is still undecided at this writing.

##### Economic activity in Israel

In May 2020, the government began to gradually lift restrictions on the opening of businesses, and economic activity took a leap forward relative to the period of the lockdown. The inability to take vacations overseas increased demand for products and services from food to hotel stays. Some economic indicators, such as credit-card purchases, showed increases even in comparison to the pre-coronavirus period. Purchases of new homes also rose, following stagnation during the lockdown. The broad unemployment rate, which includes employees on unpaid leave, decreased gradually, to approximately 11%. As the economy reopened, daily new coronavirus cases began to rise, and in mid-September 2020, ahead of the Jewish holidays, the government decided to close down a large swath of activities again, including commerce (other than food and pharmacies). Economic activity declined again, workers were placed on unpaid leave, and the broad unemployment rate rose to approximately 19% in the second half of September 2020. It may be estimated that the damage to the economy during the second lockdown is less severe than in the first lockdown, likely due to the fact that it coincided with the holiday period, as well as to the adaptation of the business sector and of households to remote work and online shopping. The Bank of Israel has extended the period for deferral of household loan payments, including mortgages, until the end of this year. Households and businesses can also continue to apply for loan payment deferrals until the end of the year.

# Report of the Board of Directors and Board of Management

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## **Fiscal and monetary policy**

The coronavirus crisis has exacted a heavy cost in terms of the state budget. The budget deficit in the first nine months of the year soared to NIS 102.4 billion, compared with a deficit of NIS 31.1 billion in the same period last year. The budget deficit in the last four quarters has reached 9.1% of GDP, and estimates indicate it will continue to rise, to approximately 13% of GDP by the end of the year. Since the crisis began, the government has spent NIS 43.2 billion on coping with the coronavirus. Concurrently, state tax revenues have fallen by 4%. The government is operating without an approved state budget for the year 2020; the budget is not expected to be presented for government approval until close to the end of the year. The level of political uncertainty is high, and it is not yet clear whether a budget proposal for 2021 will be presented at the same time. The high deficit has obliged the government to increase capital raising in the markets. Year-to-date, a total of NIS 202.6 billion has been raised, of which NIS 66.8 billion overseas.

The Bank of Israel lowered the interest rate to 0.1% on April 6, 2020, and adopted additional monetary tools to increase liquidity in the financial markets and the supply of credit. By the end of September 2020, the Bank of Israel had purchased government bonds in the amount of NIS 36.4 billion. On July 6, 2020, the Bank of Israel announced a plan to purchase corporate bonds rated A- or higher for NIS 15 billion. As of the end of September, NIS 2.1 billion in these bonds have been acquired. In its interest-rate decision of October 2020, the Bank of Israel expanded the bond purchase quota by an additional NIS 35 billion. The Bank of Israel also launched a loan program for commercial banks at a negative interest rate of 0.1%, against loans to be granted by the banks to small businesses and microbusinesses at a maximum interest rate of Prime plus 1.3%.

## **Inflation and exchange rates**

The “known” consumer price index rose by 0.1% in the third quarter. The price index for September decreased by 0.1%. The consumer price index decreased by 0.7% in the twelve months ended in September. Excluding the effect of energy prices, the index fell by 0.3%. The recession and lockdowns led to a decline in demand for various products and services, reflected in almost all of the major index items. Some of the index items are not being measured due to the crisis, which may have affected the inflation measurement. The financial markets are reflecting a forecast for near-zero inflation in the coming year.

The shekel appreciated by 0.7% against the US dollar in the third quarter, but depreciated by 0.6% against the currency basket. The economic recession and the aviation closures have led to an increase in the surplus in the current account of the balance of payments, creating currency appreciation pressures. The Bank of Israel acquired foreign currency at a volume of USD 3.7 billion during the quarter, and USD 14.4 billion since the beginning of this year.

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## Financial and capital markets

The turmoil in global markets in March 2020 led to sharp declines in global equity markets, but most of these markets have since recovered. Markets in the United States have fully recouped the decline. The S&P 500 index rose by 8.5% in the third quarter, ending the third quarter 4.1% higher than at the beginning of the year. Stock indices in Europe and Tel Aviv rose slightly, but remained substantially below pre-crisis levels. The Europe Stoxx 600 index remained unchanged in the third quarter. The TA-125 index rose by 1.5%, and was 17% lower at the end of the third quarter than at the beginning of the year. Risk spreads of corporate bonds, which expanded sharply in the first quarter, began to fall in the second quarter and continued to decrease in the third quarter. Daily turnovers in shares and convertibles in Tel Aviv, which rose considerably in the first half, were more moderate in the third quarter, but still higher than the average for 2019.

Monetary policies worldwide remained highly expansionary, including bond purchases by central banks in many countries. As a result of this intervention, long-term bond yields remained very low. In the United States, yields of ten-year government bonds remained at an average level of approximately 0.7% at the end of the third quarter. Ten-year government bond yields in Israel were also stable, standing at 0.75% at the end of the third quarter.

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

	For the three months ended September 30		For the nine months ended September 30		For the year 2019
	2020	2019	2020	2019	
Rate of increase (decrease) in "known" CPI	<b>0.1%</b>	(0.7%)	<b>(0.6%)</b>	0.5%	0.3%
Rate of increase (decrease) in USD exchange rate	<b>(0.7%)</b>	(2.4%)	<b>(0.4%)</b>	(7.1%)	(7.8%)
Rate of increase (decrease) in CHF exchange rate	<b>2.3%</b>	(4.2%)	<b>4.2%</b>	(7.9%)	(6.1%)
Rate of increase (decrease) in EUR exchange rate	<b>3.7%</b>	(6.3%)	<b>3.8%</b>	(11.3%)	(9.6%)
Rate of decrease in TRY exchange rate	<b>(12.6%)</b>	(0.4%)	<b>(23.7%)</b>	(13.0%)	(18.0%)

Data regarding the Bank of Israel interest rate

	<b>September 30, 2020</b>	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Interest rate at end of period	<b>0.10%</b>	0.10%	0.25%	0.25%	0.25%

## 2.1.2. 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, 2019, and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020.

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

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA were investigated by the authorities in the United States; in the first quarter, resolutions between the Bank Group and the DOJ and additional United States authorities were approved and announced, which brought these investigations to conclusion. For details, see [Note 10D and 10E](#) to the Condensed Financial Statements.
- **Macroeconomic 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, while taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. The Bank is evaluating and examining its strategic plan in view of the changes in the macroeconomic environment.

**The crisis of the spread of the coronavirus** has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. For details, see [the section "Economic and financial review,"](#) above, [and the section "Effect of the crisis of the spread of the coronavirus,"](#) below.

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- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, and specifically the separation of the Bank from the 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 all of the effects of these changes on the Bank.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats and attempted attacks. The cyber defense units have developed a response in order to reduce the risks, as detailed in the section "Operational risk," below.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect in April 2019, bank account switching, and open API, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2020-2022, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.

For details regarding legal proceedings, see [Note 10 to the Condensed Financial Statements](#).

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.

### 2.1.3. Effect of the crisis of the spread of the coronavirus

The coronavirus spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. During the second quarter, as the pace of the spread of the virus slowed, economies began to gradually reopen, in Israel and globally. Towards the end of the second quarter and during the third quarter, the spread of the virus reaccelerated in Israel, leading the government to apply various defensive measures again. In mid-September 2020, ahead of the Jewish holidays, the government decided to close down a large swath of activities again, including commerce (other than essential businesses). Economic activity declined again, workers were placed on unpaid leave, and the broad unemployment rate rose to approximately 19% in the second half of September, through the date of approval of the financial statements. It may be estimated that the damage to the economy during the second lockdown is less severe than in the first lockdown, likely due to the fact that it coincided with the holiday period, as well as to the adaptation of the business sector and of households to remote work and online shopping. The spread of the coronavirus and the defensive measures to combat it have caused material damage to regular economic activity, as well as high volatility in financial asset prices, in Israel and globally. Real activity and financial-market trends are both influenced by fiscal and monetary policies during this period. The Ministry of Finance is compensating households and businesses for the damage to income, and the Bank of Israel is purchasing government and corporate bonds on the markets. The support of the policies of the Ministry of Finance and the Bank of Israel for the economy and the markets has mitigated the damage in the short term; however, the long-term impact is less clear.

The crisis of the spread of the coronavirus has caused material worsening of activity in the economy in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – also has the effect of reducing the future financing income and interest income of the Bank. This adds to the risk of decreases in prices of tradable assets and changes in bond spreads, which have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

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The Bank has established a dedicated committee of the Board of Management to address the financial crisis in the context of the crisis of the spread of the coronavirus, headed by the CEO of the Bank. The committee, as well as the Board of Management Committee on Risk Management and Compliance, reviews various scenarios for the progression of the crisis and its financial effects on the Bank; the effects of the crisis on credit risks and counterparty credit risks in respect of customers, banks, and others; and its effects on liquidity, the investment portfolio, the dealing room, and more. These matters are also frequently discussed by the Board of Directors of the Bank. The Bank also established working committees that updated some of its strategic plans, specifically recommending acceleration of work plans in various areas. The outline for the update and the plans were approved by the Board of Directors.

Accordingly, as part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank. In the baseline scenario, the Bank assumes that certain restrictions on economic activity will remain in place at least until the end of 2020. GDP contracted sharply in the first two quarters of 2020; current indicators for the third quarter point to recovery in growth, which according to the scenario is expected to be arrested in the fourth quarter. In the baseline scenario of the Bank, GDP contracts by approximately 5.5% in the full year of 2020, while the quarterly unemployment rate (including unpaid leave) stands at approximately 14% in the fourth quarter. The Bank of Israel interest rate remains at 0.1% throughout 2020 in this scenario. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

On the operational level, and on the level of business continuity, the Bank has applied a series of processes and measures, including remote work, reducing and/or splitting unit personnel, changes in the manner of operation of branches and in activity with customers, deferral of mortgage and loan payments, and more, in accordance with the instructions of the government and of the Ministry of Health, and the changes in regulation by the Bank of Israel, in particular Temporary Proper Conduct of Banking Business Directive 250 of the Banking Supervision Department, which is updated from time to time. In general, the operational risks, including cyber risks, related to the crisis and its effects have been analyzed, and controls and appropriate measures to minimize risk are being considered and implemented accordingly. However, the changing ways of operating due to the crisis of the spread of the coronavirus entail a certain increase in operational risk, in the broad sense, such as technological risks and cyber risks, fraud and embezzlement risks, malfunctions due to high pressure of banking activity or staff shortages, non-availability of external suppliers, and more. Modes of activity are changing frequently, according to the severity of the spread of the coronavirus and the government guidelines in this area.

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In view of the crisis of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order, for a period of six months, which was extended by six additional months in September 2020, until March 31, 2021. The minimum common equity Tier 1 capital ratio and the minimum total capital ratio required of the Bank by the Banking Supervision Department, on a consolidated basis, as at September 30, 2020, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the temporary order). The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the temporary order (i.e., until March 31, 2023), provided that the capital ratios of the Bank do not fall below the capital ratios at the end of the validity period of the temporary order, or the capital ratios applicable to the Bank prior to the temporary order, whichever is lower. In the statement issued by the Supervisor of Banks in connection with the temporary order, she asked boards of directors of banks, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements to increase credit, rather than for distribution. Following the statement of the Supervisor of Banks, in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved, on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%, and further resolved that, taking into consideration the existing distribution policy of the Bank, in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the temporary order and of the policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank would continue to refrain from performing distributions from ongoing earnings. On November 15, the Bank of Israel issued a circular updating Proper Conduct of Banking Business Directive 250 with regard to the reduction of the leverage ratio. For further details regarding the directives of the Supervisor of Banks, capital-adequacy targets, and dividends, see [the section "Capital, capital adequacy, and leverage"](#) in the Report of the Board of Directors and Board of Management.

The common equity Tier 1 capital ratio as at September 30, 2020, stands at 11.53%, while the leverage ratio has decreased to 6.92%, compared with a common equity Tier 1 capital ratio of 11.53% and a leverage ratio of 7.61% on December 31, 2019, mainly due to the effects of the coronavirus crisis, including an increase in customers' business credit needs and an increase in the allowance for credit losses; the decrease in capital resulting from the distribution of the remaining shares of Isracard as a dividend in kind to shareholders; and additional effects, as detailed in Section 2.3.2 of the Report of the Board of Directors and Board of Management.

From the beginning of 2020 to September 30, 2020, the Bank recorded an increase in the provision for credit losses in a total amount of approximately NIS 2,130 million, mostly due to the crisis of the spread of the coronavirus, primarily consisting of an increase in the collective allowance in the amount of approximately NIS 1,562 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses due to the coronavirus outbreak crisis in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus known at that time. For details regarding the scenarios and the effect thereof on credit risk, and regarding the exposure and credit risk by economic sector, see [the section, "Credit risk,"](#) below. In this context, note that due to the coronavirus crisis, of the total debts in deferral of payments, loan payments (principal and/or interest) in the amount of approximately NIS 1,998 million were deferred as at September 30, 2020, as detailed in the section "Credit risk," below.



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The crisis of the spread of the coronavirus has led to an increase in the risk of activity with foreign banks, including an increase in credit risks and settlement risks with such banks. The Bank is examining this risk and managing it continually; see [the section "Credit risk,"](#) below.

The volatility in the financial markets in the first quarter led to an increase in risk estimates of the activity of the dealing room of the Bank and of its customers. The calmer markets beginning in the second quarter resulted in decreases in most of these risk estimates. Market and liquidity risk indicators also point to calming relative to the end of the first quarter. However, in the absence of a medical solution to COVID-19, the conditions that led to the financial and economic crisis still prevail, and may cause further worsening of the Israeli and global economy, possibly weighing on the markets in the future. The average consolidated liquidity ratio of the Bank was 132% in the quarter ended September 30, 2020.

While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets have since recovered. The value of the share portfolio and the bond portfolio rose by approximately NIS 247 million during the third quarter, further to the upward trend of the second quarter, in which this value increased by approximately NIS 871 million. These increases offset the declines of the first quarter (NIS 705 million). In the first and second quarters, the effect of the changes in the value of the share portfolio and the bond portfolio on capital was mitigated by the allocation to capital of offsetting effects, mainly arising from the closure of the credit spreads used to determine the discount rate of employee benefit liabilities. For details regarding the effect on market risks, see [the section "Market risks,"](#) below.

As noted, at this stage it is not possible to assess the full effects of the crisis of the spread of the coronavirus on the Bank or the extent thereof, due to uncertainty regarding the duration of the crisis of the spread of the virus, the measures to be taken to stop its spread, and the severity of such measures, as well as uncertainty regarding the consequent impacts on economic activity, capital-market trends, and various financial measures to be applied by governments, central banks, and regulators in this area (see [Section B.4 in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks for 2019](#)). For further details, see [the sections concerning risk below](#).

The estimates of the Bank regarding the possible effects of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in the Securities Law, 1968, which is based, among other matters, on information and publications of third parties, and on estimates available to the Bank at this time. Such estimates are uncertain, and may materialize in a manner materially different from the foregoing statements, depending, among other matters, on the extent of the spread of the virus, the response of the governments and the central banks, and the duration of the crisis.

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## 2.1.4. External auditors

Ziv Haft (BDO), CPA (Isr.) and Somekh Chaikin (KPMG), CPA (Isr.) serve as the joint auditors of the Bank. The firm Haft & Haft, which merged into Ziv Haft in 2000, began serving as the external auditor of the Bank in 1921. Somekh Chaikin began serving as an auditor of the Bank in 1998.

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.

The external auditors have emphasized the section in Note 10B(b) concerning exposure to class-action suits filed against the Bank Group, and Notes 10D and 10E concerning the conclusion of the investigation of the Bank Group's business with American customers and regarding FIFA.

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

As detailed below, the financial results, beginning in the month of March 2020, were influenced by the spread of the coronavirus, which caused sharp contraction of global economic activity, worsening of the condition of the economy and of borrowers, and increased volatility in the markets, among other effects.

Net profit attributed to shareholders of the Bank totaled NIS 1,141 million in the first nine months of 2020, compared with profit in the amount of NIS 2,428 million in the same period last year.

Net return on equity attributed to shareholders of the Bank was approximately 4.0% in the first nine months of 2020, compared with approximately 8.4% in the same period last year.

Net profit from continued operations attributed to shareholders of the Bank totaled NIS 1,250 million in the first nine months of 2020, compared with profit in the amount of NIS 2,170 million in the same period last year.

Net return on equity from continued operations attributed to shareholders of the Bank was approximately 4.4% in the first nine months of 2020, compared with approximately 7.5% in the same period last year.

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**Table 2-2: Condensed statement of profit and loss**

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2020	2019		2020	2019	
	NIS millions			NIS millions		
Interest income	2,607	2,593	0.5%	7,681	9,148	(16.0%)
Interest expenses	(406)	(310)	31.0%	(1,122)	(2,122)	(47.1%)
Net interest income	2,201	2,283	(3.6%)	6,559	7,026	(6.6%)
Non-interest financing income	335	58		834	313	
Net financing profit*	2,536	2,341	8.3%	7,393	7,339	0.7%
Provision (income) for credit losses	193	(40)		2,130	400	
Net financing profit after provision for credit losses	2,343	2,381	(1.6%)	5,263	6,939	(24.2%)
Fees and other income	766	826	(7.3%)	2,446	2,462	(0.6%)
Operating and other expenses	1,851	1,970	(6.0%)	5,593	5,839	(4.2%)
Profit from continued operations before taxes	1,258	1,237	1.7%	2,116	3,562	(40.6%)
Provision for taxes on profit from continued operations	449	523	(14.1%)	885	1,413	(37.4%)
Profit from continued operations after taxes	809	714	13.3%	1,231	2,149	(42.7%)
The Bank's share in profits of equity-basis investees, after taxes	5	3		7	7	
Net profit from continued operations	814	717	13.5%	1,238	2,156	(42.6%)
Net profit (loss) from a discontinued operation	-	16		(109)	258	
Net profit						
Before attribution to non-controlling interests	814	733	11.1%	1,129	2,414	(53.2%)
Loss attributed to non-controlling interests	2	3	(33.3%)	12	14	(14.3%)
Attributed to shareholders of the Bank	816	736	10.9%	1,141	2,428	(53.0%)
Return of net profit	8.8%	7.6%	15.1%	4.0%	8.4%	(52.4%)

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

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## 2.2.1. Developments in income and expenses

### Net financing profit

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

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**Table 2-3: Composition of net financing profit**

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2020	2019		2020	2019	
	NIS millions			NIS millions		
Interest income	<b>2,607</b>	2,593	0.54%	<b>7,681</b>	9,148	(16.04%)
Interest expenses	<b>(406)</b>	(310)	30.97%	<b>(1,122)</b>	(2,122)	(47.13%)
Net interest income	<b>2,201</b>	2,283	(3.59%)	<b>6,559</b>	7,026	(6.65%)
Non-interest financing income	<b>335</b>	58		<b>834</b>	313	
Total reported financing profit	<b>2,536</b>	2,341	8.33%	<b>7,393</b>	7,339	0.74%
Excluding effects not from regular activity:						
Income from realization and adjustments to fair value of bonds	<b>34</b>	169	(79.88%)	<b>156</b>	222	(29.73%)
Profit from investments in shares	<b>86</b>	12		<b>-</b>	262	
Adjustment to fair value of investment in affiliate	<b>6</b>	(63)		<b>(1)</b>	(63)	
Gains in respect of loans sold	<b>21</b>	-		<b>21</b>	1	
Adjustments to fair value of derivative instruments <sup>(1)</sup>	<b>56</b>	(136)		<b>38</b>	(310)	
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items <sup>(2)</sup>	<b>(3)</b>	(28)	(89.29%)	<b>36</b>	(128)	
Total effects not from regular activity	<b>200</b>	(46)		<b>250</b>	(16)	
Total income from regular financing activity <sup>(3)</sup>	<b>2,336</b>	2,387	(2.14%)	<b>7,143</b>	7,355	(2.88%)

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

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

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.

Of which in respect of the effects of changes in the CPI: income in the amount of NIS 15 million in the third quarter of 2020, compared with an expense in the amount of NIS 76 million in the third quarter of 2019; an expense in the amount of NIS 91 million in the first nine months of 2020, compared with income in the amount of NIS 49 million in the first nine months of 2019.

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Income from regular financing activity totaled NIS 7,143 million in the first nine months of 2020, compared with a total of NIS 7,355 million in the same period last year. The decrease resulted from a decrease in financial spreads of deposits, mainly due to a decrease in the dollar interest rate, and from a decrease in income from linkage differentials, due to changes in the rate of the known CPI between the periods. The volume of consumer retail credit also decreased. However, income from the activity of the dealing room increased, due to an increase in the volume of transactions as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus, and the volume of housing credit increased.

Total reported financing income amounted to NIS 7,393 million in the first nine months of 2020, compared with a total of NIS 7,339 million in the same period last year. The increase resulted from a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, as a result of a negative accrual fair value gap in the same period last year due to a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. A provision for impairment was also recorded at an affiliate in the same period last year. By contrast, a decrease in profit occurred due to a decrease in income from regular financing activity, as noted above, and profit from investment in shares decreased, as a result of the crisis of the spread of the coronavirus. In addition, profits from investment in bonds decreased.

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

	For the three months ended September 30				For the nine months ended September 30			
	2020		2019		2020		2019	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS millions/percent							
Interest income	<b>2,607</b>	<b>2.28%</b>	2,593	2.57%	<b>7,681</b>	<b>2.32%</b>	9,148	3.02%
Interest expenses	<b>(406)</b>	<b>0.63%</b>	(310)	0.52%	<b>(1,122)</b>	<b>0.60%</b>	(2,122)	1.16%
Net interest income	<b>2,201</b>	<b>1.65%</b>	2,283	2.05%	<b>6,559</b>	<b>1.72%</b>	7,026	1.86%
Net interest income as a percentage of the balance of interest-bearing assets		<b>1.92%</b>		2.26%		<b>1.98%</b>		2.32%

Interest income and expenses decreased in the first nine months of 2020, compared with the same period last year, as a result of a decrease in the dollar interest rate and a decrease in linkage differentials, due to changes in the rate of increase of the known CPI between the periods.

An analysis of the changes in interest income and expenses, in a comparison of the first nine months of 2020 to the same period last year, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 376 million, and changes in interest rates caused a decrease in the amount of approximately NIS 843 million in net interest income.

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**The provision for credit losses** totaled NIS 2,130 million in the first nine months of 2020, compared with a total of NIS 400 million in the same period last year. Most of the increase in the provision for credit losses resulted from the effects of changes in the macroeconomic environment, due to the effects of the coronavirus crisis and the uncertainty caused by its effect on the condition of the economy and of borrowers. This increase is added to a provision for credit losses in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the coronavirus outbreak), in view of the impacts of the spread of the virus, as noted above.

In view of the high uncertainty, the Bank expects credit losses to grow; however, at this stage it is difficult to determine to what extent, or when, due to factors including the processes and measures applied by the government and the Bank of Israel, which may assist the economy in emerging from the crisis more quickly, but if they are unsuccessful, will only postpone the realization of credit risks. As an advance measure in confronting the effect of the crisis, the Bank decided to increase its collective allowance in the first nine months of 2020, in order to reflect the potential increase in individual credit losses and in automatic charge-offs which have not yet been expressed.

The net individual provision totaled NIS 256 million in the first nine months of 2020, compared with income in the amount of NIS 107 million in the same period last year. The increase resulted from both an increase in the gross individual provision and a decrease in recovery volumes during the period.

The net collective provision totaled NIS 1,874 million in the first nine months of 2020, compared with a provision in the amount of NIS 507 million in the same period last year. The increase in the collective provision mainly resulted from an increase in allowance rates in the various sectors of the economy, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was mainly apparent in the economic sector of private individuals; the real-estate activity sector; the commerce sectors; and the hotels, hospitality, and food services sector. The increase in the net collective provision also resulted from an increase in the amount of approximately NIS 279 million in the provision for credit losses in respect of housing loans.

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

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

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	NIS millions			
Individual provision for credit losses	139	155	817	653
Decrease in individual allowance for credit losses and recovery of charged off debts	(288)	(306)	(561)	(760)
Net individual provision (income) for credit losses	(149)	(151)	256	(107)
Net provision in respect of the collective allowance for credit losses and net charge-offs	342	111	1,874	507
Total provision (income) for credit losses*	193	(40)	2,130	400
* Of which:				
Net provision (income) for credit losses in respect of commercial credit risk	65	(100)	1,343	203
Net provision for credit losses in respect of housing credit risk	22	4	298	19
Net provision for credit losses in respect of other private credit risk	105	59	488	178
Net provision (income) for credit losses in respect of risk of credit to banks and governments	1	(3)	1	-
Total provision (income) for credit losses	193	(40)	2,130	400
	%			
Provision as a percentage of total credit to the public:***				
Percentage of individual provision (income) for credit losses	0.19%	0.21%	0.37%	0.30%
Gross provision (income) for credit losses as a percentage of the average recorded balance of credit to the public****	0.64%	0.36%	1.20%	0.53%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	0.26%	(0.05%)	0.95%	0.18%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	(0.03%)	0.01%	0.18%	0.10%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	(1.36%)	0.50%	8.79%	7.48%

\*\* Including in respect of housing loans examined according to the extent of arrears.

\*\*\* Annualized.

\*\*\*\* The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.



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**Fees and other income** totaled NIS 2,446 million in the first nine months of 2020, compared with NIS 2,462 million in the same period last year. Income from fees was influenced by the effects of the spread of the coronavirus, beginning in March. Income from account-management fees and income from credit cards decreased in the first nine months of 2020. By contrast, securities activity increased, mainly in the first quarter, as a result of the volatility in the capital markets and the increase in transaction turnovers. Other income increased in comparison to the same period last year, as a result of asset sale profits.

**Table 2-6: Details of fees and other income**

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2020	2019		2020	2019	
	NIS millions			NIS millions		
<b>Fees</b>						
Account management fees	191	222	(14.0%)	585	652	(10.3%)
Securities activity	183	173	5.8%	603	521	15.7%
Credit cards, net	67	85	(21.2%)	197	236	(16.5%)
Credit handling	43	46	(6.5%)	155	146	6.2%
Financing transaction fees	128	122	4.9%	376	357	5.3%
Other fees	143	167	(14.4%)	448	492	(8.9%)
Total operating fees	755	815	(7.4%)	2,364	2,404	(1.7%)
<b>Total others</b>	11	11	0.0%	82	58	41.4%
Total operating income and other income	766	826	(7.3%)	2,446	2,462	(0.6%)

**Operating and other expenses** totaled NIS 5,593 million in the first nine months of 2020, compared with NIS 5,839 million in the same period last year, a decrease of approximately 4.2%.

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

	For the three months ended September 30		Change	For the nine months ended September 30		Change
	2020	2019		2020	2019	
	NIS millions			NIS millions		
Salary expenses						
Wages	942	*904	4.2%	2,810	*2,762	1.7%
Bonuses and share-based compensation	46	*129	(64.3%)	103	*357	(71.1%)
Total wages	988	*1,033	(4.4%)	2,913	*3,119	(6.6%)
Maintenance and depreciation of buildings and equipment						
	336	351	(4.3%)	978	989	(1.1%)
Other expenses	527	*586	(10.1%)	1,702	*1,731	(1.7%)
Total operating and other expenses	1,851	1,970	(6.0%)	5,593	5,839	(4.2%)

\* Reclassified.

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**Salary expenses** totaled NIS 2,913 million in the first nine months of 2020, compared with NIS 3,119 million in the same period last year, a decrease of 6.6%. The decrease in salary expenses resulted from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first nine months of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the same period of 2019, due to an increase in the share price of the Bank.

Up to this point, no material changes affecting salary expenses have been performed in employees' terms of employment and benefits, despite the spread of the coronavirus. Concurrently, in view of the effects of the spread of the coronavirus, the Bank decided to accelerate the implementation of the efficiency plan it reported on January 8, 2020. For further details, see [Note 8E](#) below.

**Expenses for maintenance and depreciation of buildings and equipment** totaled NIS 978 million in the first nine months of 2020, compared with NIS 989 million in the same period last year. The 1.1% decrease mainly resulted from a decrease in building maintenance expenses.

**Other expenses** totaled NIS 1,702 million in the first nine months of 2020, compared with NIS 1,731 million in the same period last year. The decrease mainly resulted from legal expenses in respect of the investigation of the Bank Group's business with American customers, provisions for legal claims, and marketing and advertising expenses. This decrease was offset by an increase in expenses for exchange-rate differences from revaluation of the provision for the investigation of the Bank Group's business with American customers, versus income in the same period last year.

**The provision for taxes on profit from continued operations** totaled NIS 885 million in the first nine months of 2020, compared with a total of NIS 1,413 million in the same period last year.

The provision for taxes of the Bank in the first nine months of 2020 was mainly affected by losses at subsidiaries for which no deferred taxes were included; taxes in respect of previous years, due to recovery of charged-off debts; and unrecognized expenses, mainly in respect of revaluation of the provision for the American investigation, in respect of which revaluation income was recorded in the same period last year.

**Net profit (loss) from a discontinued operation** amounted to a loss of NIS 109 million in the first nine months of 2020, compared with profit in the amount of NIS 258 million in the same period last year. The loss in the first nine months of 2020 resulted from the recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and in net profit from the sale of approximately 65% of the shares of Isracard in the second quarter of 2019, in the amount of NIS 137 million, were included in the same period last year.

**Non-controlling interests' share in net results of consolidated companies** totaled a share in loss in the amount of NIS 12 million in the first nine months of 2020, compared with a share in loss in the amount of NIS 14 million in the same period last year.

**Net profit attributed to shareholders of the Bank** totaled NIS 1,141 million in the first nine months of 2020, compared with a total of NIS 2,428 million in the same period last year.

**Basic net profit per share of par value NIS 1** amounted to NIS 0.86 in the first nine months of 2020, compared with NIS 1.82 in the same period last year.

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## 2.2.2. Developments in comprehensive income

Table 2-8: Comprehensive income

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
	NIS millions			
Net profit before attribution to non-controlling interests	<b>814</b>	733	<b>1,129</b>	2,414
Loss attributed to non-controlling interests	<b>2</b>	3	<b>12</b>	14
Net profit attributed to shareholders of the Bank	<b>816</b>	736	<b>1,141</b>	2,428
Other comprehensive income (loss) before taxes:				
Net adjustments in respect of bonds available for sale at fair value	<b>121</b>	128	<b>265</b>	581
Adjustments of employee benefit liabilities*	<b>72</b>	(183)	<b>283</b>	(267)
Other comprehensive income (loss) before taxes	<b>193</b>	(55)	<b>548</b>	314
Effect of related tax	<b>(66)</b>	32	<b>(190)</b>	(78)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	<b>127</b>	(23)	<b>358</b>	236
Net of other comprehensive loss attributed to non-controlling interests	<b>1</b>	-	<b>1</b>	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	<b>128</b>	(23)	<b>359</b>	236
Comprehensive income before attribution to non-controlling interests	<b>941</b>	710	<b>1,487</b>	2,650
Comprehensive loss attributed to non-controlling interests	<b>3</b>	3	<b>13</b>	14
Comprehensive income attributed to shareholders of the Bank	<b>944</b>	713	<b>1,500</b>	2,664

\* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

**Comprehensive income** totaled NIS 1,500 million in the first nine months of 2020, compared with a total of NIS 2,664 million in the same period last year. Beyond the decrease in net profit, comprehensive income was influenced by an increase in adjustments of employee benefit liabilities, due to an increase in corporate bond spreads used to discount actuarial liabilities for employee benefits, versus a decrease in these adjustments in the same period last year, due to a decrease in the long-term shekel interest rate. By contrast, a decrease occurred in adjustments of bonds available for sale, mainly as a result of a more moderate increase in prices of government bonds, primarily due to the continued downward trend in the long-term dollar interest rate, compared with a more significant increase in bond values in the same period last year, as a result of a decrease in the long-term shekel interest rate.

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

The consolidated balance sheet as at September 30, 2020, totaled NIS 513.7 billion, compared with NIS 463.7 billion at the end of 2019. The increase mainly resulted from an increase in deposits with banks and in investments in securities.

**Table 2-9: Developments in principal balance sheet items**

	Balance as at			Change vs.	
	September 30, 2020	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
	NIS millions				
Total assets	<b>513,686</b>	499,280	463,688	2.9%	10.8%
Net credit to the public	<b>292,845</b>	293,700	292,940	(0.3%)	(0.0%)
Cash and deposits with banks	<b>128,421</b>	113,033	88,122	13.6%	45.7%
Securities	<b>67,835</b>	66,513	59,486	2.0%	14.0%
Investment constituting a discontinued operation*	-	-	849		(100.0%)
Deposits from the public	<b>417,005</b>	400,816	361,645	4.0%	15.3%
Bonds and subordinated notes	<b>24,724</b>	25,196	26,853	(1.9%)	(7.9%)
Shareholders' equity	<b>38,971</b>	38,024	38,181	2.5%	2.1%

\* From the second quarter of 2019 to March 9, 2020, when the remaining holding in Isracard shares was distributed as a dividend in kind, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an investment constituting a discontinued operation. For further details, see [Note 1E](#) to the Condensed Financial Statements.

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## 2.3.1. Structure and development of assets and liabilities

### Credit to the public

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

	As at		Change
	September 30, 2020	December 31, 2019	
	NIS millions		
Private individuals – housing loans	96,312	89,256	7.9%
Private individuals – other	33,741	37,944	(11.1%)
Construction and real estate	55,960	53,833	4.0%
Commerce	25,017	26,176	(4.4%)
Industry	15,263	15,998	(4.6%)
Financial services	18,781	22,058	(14.9%)
Other	47,771	47,675	0.2%
Total	292,845	292,940	(0.0%)

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

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## Problematic debts

Table 2-11: Problematic credit risk<sup>(1)</sup>

	September 30, 2020			December 31, 2019		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	<b>4,161</b>	<b>710</b>	<b>4,871</b>	4,442	861	5,303
Substandard credit risk <sup>(2)</sup>	<b>2,344</b>	<b>252</b>	<b>2,596</b>	1,476	270	1,746
Credit risk under special supervision	<b>3,606</b>	<b>670</b>	<b>4,276</b>	3,240	597	3,837
Total problematic credit risk*	<b>10,111</b>	<b>1,632</b>	<b>11,743</b>	9,158	1,728	10,886
Net problematic credit risk	<b>7,781</b>	<b>1,471</b>	<b>9,252</b>	7,144	1,643	8,787
* Of which, unimpaired debts in arrears of 90 days or more <sup>(2)</sup>	<b>790</b>	<b>-</b>	<b>790</b>	913	<b>-</b>	913

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

(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) to the Condensed Financial Statements.

### Note:

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

For further information regarding the analysis of the credit portfolio and problematic credit risk, including the scenarios and sensitivity analyses tested, see [the chapter "Credit risk," Section 3.2.1, "Analysis of credit quality and problematic credit risk,"](#) in the "Review of risks," in the Report of the Board of Directors and Board of Management.

## Off-balance sheet credit

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

	Balance as at		Change
	September 30, 2020	December 31, 2019	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	834	816	2.2%
Guarantees and other commitments*,**	51,047	51,134	(0.2%)
Unutilized credit-card credit facilities under the Bank's responsibility	15,814	15,640	1.1%
Unutilized revolving overdraft and other credit facilities in on-demand accounts*	48,302	44,695	8.1%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	63,275	58,323	8.5%

\* Includes off-balance sheet credit risk in the amount of approximately NIS 13,982 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 13,797 million).

\*\* Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 73 million (December 31, 2019: NIS 94 million).

## Securities

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

Investments in securities totaled approximately NIS 67.8 billion as at September 30, 2020, compared with approximately NIS 59.5 billion at the end of 2019, an increase of approximately 14.0%, which mainly resulted from net purchases of government bonds, primarily of the government of Israel.

The volume of the share portfolio of the Bank increased by a total of approximately NIS 277 million during the first nine months of 2020, mainly due to an increase in non-tradable investments.

A loss in the amount of approximately NIS 1 million was recorded in respect of the share portfolio of the Bank in the first nine months of 2020, of which a loss in the amount of approximately NIS 122 million in the first quarter, due to a decrease in the market value of the shares in the capital market, as a result of the crisis of the spread of the coronavirus. The loss was offset by profit in the amount of approximately NIS 121 million in the second and third quarters, due to the recovery in the markets.

The Bank's portfolio of bonds available for sale posted gains of NIS 413 million in the first nine months of 2020. A decrease in value of approximately NIS 583 million was recorded in the first quarter (of which, a decrease in value of approximately NIS 434 million in foreign corporate and financial bonds). In the second and third quarters, due to the market recovery, the value of the portfolio of bonds available for sale increased by a total of approximately NIS 996 million (of which, an increase in value of approximately NIS 459 million in foreign corporate and financial bonds, and an increase of approximately NIS 537 million in government bonds). The changes in the value of the portfolio of bonds available for sale were allocated to the capital reserve.

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

**Table 2-13: Securities balances**

	Trading book		Available for sale*		Held to maturity		Total	
	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities
NIS millions/percent								
<b>September 30, 2020</b>								
Israeli government bonds	<b>8,121</b>	<b>12.0%</b>	<b>38,202</b>	<b>56.3%</b>	-	-	<b>46,323</b>	<b>68.3%</b>
US government bonds	-	-	<b>8,414</b>	<b>12.4%</b>	-	-	<b>8,414</b>	<b>12.4%</b>
Government bonds – other foreign countries	<b>2</b>	<b>0.0%</b>	<b>1,004</b>	<b>1.5%</b>	-	-	<b>1,006</b>	<b>1.5%</b>
Total government bonds	<b>8,123</b>	<b>12.0%</b>	<b>47,620</b>	<b>70.2%</b>	-	-	<b>55,743</b>	<b>82.0%</b>
Corporate bonds – Israel	-	-	-	-	<b>424</b>	<b>0.6%</b>	<b>424</b>	<b>0.6%</b>
Corporate bonds – foreign countries	-	-	<b>9,618</b>	<b>14.2%</b>	-	-	<b>9,618</b>	<b>14.2%</b>
Total corporate bonds	-	-	<b>9,618</b>	<b>14.2%</b>	<b>424</b>	<b>0.6%</b>	<b>10,042</b>	<b>14.8%</b>
Shares	<b>2</b>	<b>0.0%</b>	<b>*2,048</b>	<b>3.0%</b>	-	-	<b>2,050</b>	<b>3.0%</b>
Total securities	<b>8,125</b>	<b>12.0%</b>	<b>59,286</b>	<b>87.4%</b>	<b>424</b>	<b>0.6%</b>	<b>67,835</b>	<b>100.0%</b>
<b>December 31, 2019</b>								
Israeli government bonds	6,602	11.1%	33,417	56.2%	-	-	40,019	67.3%
US government bonds	-	-	7,730	13.0%	-	-	7,730	13.0%
Government bonds – other foreign countries	3	0.0%	378	0.6%	-	-	381	0.6%
Total government bonds	6,605	11.1%	41,525	69.8%	-	-	48,130	80.9%
Corporate bonds – Israel	-	-	-	-	299	0.5%	299	0.5%
Corporate bonds – foreign countries	-	-	9,284	15.6%	-	-	9,284	15.6%
Total corporate bonds	-	-	9,284	15.6%	299	0.5%	9,583	16.1%
Shares	2	0.0%	*1,771	3.0%	-	-	1,773	3.0%
Total securities	6,607	11.1%	52,580	88.4%	299	0.5%	59,486	100.0%

\* Shares not held for trading.



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

	<b>September 30, 2020</b>		December 31, 2019	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	<b>751</b>	<b>7.5%</b>	540	5.6%
Industry	<b>1,235</b>	<b>12.3%</b>	700	7.3%
Electricity and water	<b>432</b>	<b>4.3%</b>	387	4.0%
Information and communications	<b>531</b>	<b>5.3%</b>	313	3.3%
Banks and financial institutions	<b>5,937</b>	<b>59.1%</b>	7,129	74.4%
Commerce	<b>455</b>	<b>4.5%</b>	259	2.7%
Others	<b>701</b>	<b>7.0%</b>	255	2.7%
Total corporate bonds	<b>10,042</b>	<b>100.0%</b>	9,583	100.0%

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

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

## Deposits

**Table 2-15: Developments in balances of deposits**

	Balance as at		Change
	<b>September 30, 2020</b>	December 31, 2019	
	NIS millions		
Deposits from the public	<b>417,005</b>	361,645	15.31%
Deposits from banks	<b>3,280</b>	3,520	(6.82%)
Deposits from the government	<b>391</b>	685	(42.92%)
Total	<b>420,676</b>	365,850	14.99%

The balance of deposits totaled approximately NIS 421 billion as at September 30, 2020, compared with a total of approximately NIS 366 billion at the end of 2019. The substantial increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus.

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## Off-balance sheet activity in securities held by the public

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

	Balance as at		Change
	September 30, 2020	December 31, 2019	
	NIS millions		
Securities <sup>(1)</sup>	592,964	723,227	(18.01%)
Mutual fund assets <sup>(2)</sup>	73,250	92,980	(21.22%)

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

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

Most of the decrease in securities resulted from market declines and from customer redemptions in mutual, provident, and pension funds, as well as from the transfer of assets of material customers of a wholly-owned subsidiary of the Bank, the activity of which was discontinued. See [the Corporate Governance Report, in the chapter, "Segments of activity based on management approach," Section 6.1.8, "Adjustments."](#)

**Bonds and subordinated notes** totaled NIS 24.7 billion as at September 30, 2020, compared with NIS 26.9 billion at the end of 2019, a decrease of approximately 79%, which resulted from maturities of bonds and subordinated notes in a total amount of approximately NIS 4 billion, offset by the issuance of subordinated notes in the amount of approximately NIS 1.8 billion and the issuance of bonds in the amount of approximately NIS 0.6 billion.

**Table 2-17: Details of bonds and subordinated notes**

	September 30, 2020		December 31, 2019	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	12,415	10,086	12,818	11,066
Bonds	12,309	12,289	14,035	13,861
Total bonds and subordinated notes	24,724	22,375	26,853	24,927

In May 2020, the Bank issued a series of subordinated notes in the amount of approximately NIS 1.06 billion through Hapoalim Hanpakot (a wholly owned subsidiary that serves as the funding arm of the Bank). The aforesaid subordinated notes constitute part of the Tier 2 capital of the Bank; they are linked to the consumer price index and bear annual interest at a rate of 2.59%, maturing in 2031, with an option for early redemption at the initiative of the Bank (and with the approval of the Banking Supervision Department) in 2026.

In July 2020, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million.

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In August 2020, the Bank issued a series of CPI-linked subordinated notes (Series E), bearing annual interest at a rate of 2.97%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2031 (with the option of early maturity, at the initiative of the Bank and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through forced conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank. In August 2020, the Bank issued bonds (Series 36) to the public through Hapoalim Hanpakot, via expansion of a traded series. The bonds are linked to the consumer price index (principal and interest), as published on November 15, 2018, in respect of the month of October 2018, with no index floor, with principal in a total amount of approximately NIS 574 million, in consideration for a total of approximately NIS 631 million. The bond principal matures in eleven annual payments, on December 2 of each of the years from 2020 to 2030 (inclusive). The bonds bear annual interest at a fixed rate of 1.75%.

**Table 2-18: Derivative instruments**

	September 30, 2020			December 31, 2019		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	<b>6,777</b>	<b>8,165</b>	<b>385,259</b>	6,375	7,105	532,142
Currency contracts	<b>3,975</b>	<b>3,419</b>	<b>339,613</b>	3,762	3,982	312,037
Share-related contracts	<b>969</b>	<b>956</b>	<b>87,977</b>	991	991	51,920
Commodity and service contracts (including credit derivatives)	<b>52</b>	<b>52</b>	<b>370</b>	15	15	1,667
Total	<b>11,773</b>	<b>12,592</b>	<b>813,219</b>	11,143	12,093	897,766

## 2.3.2. Capital, capital adequacy, and leverage

### (1) Capital

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

The issued and paid-up share capital of the Bank, as at September 30, 2020, is NIS 1,335,898,103 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 1,479,008 ordinary shares purchased by the Bank ("Treasury Shares").

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

## Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution. In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. The foregoing notwithstanding, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval from the Banking Supervision Department for such distribution, up to the amount thus approved. For details regarding the capital-adequacy target of the Bank, see [the section "Capital adequacy,"](#) below. Pursuant to the terms of the subordinated notes, if interest payments in respect of these notes are deferred, the Bank shall not pay dividends to its shareholders until all of the deferred interest payments are paid in full. In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see [Note 10D](#) to the Condensed Financial Statements), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See [also Note 24 to the Annual Financial Statements for 2019](#). As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020. In view of the notification of the Supervisor of Banks of March 29, 2020, and the temporary order established (see [Section 2 concerning capital adequacy](#), below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

**Table 2-19: Details of dividends paid**

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
February 2, 2020	March 9, 2020	*53.937	**720
September 24, 2019	October 23, 2019	74.897	1,000

\* Calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91). Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank.

\*\* Paid as a dividend in kind, in shares. The amount noted is based on the price of the Isracard share on the stock exchange on March 8, 2020.

## (2) Capital adequacy

### The Bank's approach to capital-adequacy assessment

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

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

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

### Basel 3 directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 30% and 20%, respectively, in 2019 and 2020.

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### Capital-adequacy target

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% 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 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months, until March 31, 2021. The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order (i.e., until March 31, 2023), provided that the capital ratios of the Bank do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at September 30, 2020, and for the duration of the period of the Temporary Order, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

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## Planning and management of capital by the Bank

Capital planning at the Bank is based on the work plan of the Bank and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Bank also routinely monitors actual results as compared to planning, and the gaps between results and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Bank is to maintain capital adequacy at a level higher than the minimum ratio required by the Banking Supervision Department, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Bank 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.

## 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.

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 ("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 a letter dated December 16, 2019, the Banking Supervision Department extended the period for implementation of the efficiency plan until December 31, 2021.

The Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments. Such relocation, if executed, would enable the Bank to vacate properties it presently uses for these units.

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 plan is being allocated in equal installments over five years, beginning in 2017, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

The effect of the reliefs in respect of the efficiency plans on the ratio of common equity Tier 1 capital to risk components is estimated at approximately 0.16% as at September 30, 2020.

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## Issuance of subordinated notes with a loss-absorption mechanism

In May 2020, the Bank issued a series of subordinated notes with a principal write-off mechanism, through Hapoalim Hanpakot, in the amount of approximately NIS 1.06 billion, which constitute part of the Tier 2 capital of the Bank. In August 2020, the Bank issued a series of subordinated notes with a mechanism for conversion into shares, in the amount of approximately NIS 0.7 billion, which constitute part of the Tier 2 capital of the Bank. For details regarding the issues, see [Note 9J](#) to the Condensed Financial Statements.

## Early redemption of capital notes in Tier 2 capital

In July 2020, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million. Following the decision regarding partial early redemption, as announced on June 16, 2020, the amount redeemed is not recognized in supervisory capital, beginning with the financial statements as at June 30, 2020.

## The subsidiary of the Bank in Turkey

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

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

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at September 30, 2020, is an additional decrease of approximately 0.04%.

Within the Bank's strategic plan, a decision has been made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In June 2020 (and again in November 2020), the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif (see [Section 2.6.3](#), "Principal companies," below), in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 172 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.



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### Leases

The effect of the implementation of the accounting standard concerning leases, at the adoption date of the standard, January 1, 2020, is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio and a decrease of approximately 0.05% in the total capital ratio. For further details, see [Note 1C](#).

### Guarantees with reduced conversion factors

In September 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 203.

Pursuant to the circular, the Banking Supervision Department has established reduced conversion factors for certain guarantees granted within project finance for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions.

The conversion factors will be identical to conversion factors for Sale Law guarantees, i.e. 10% if the residence has been transferred to the tenant, and 30% if the residence has not yet been transferred to the tenant.

The Bank is preparing to implement this directive; the effect is not expected to be material.

### Effect of the implementation of accounting rules concerning estimated credit losses on supervisory capital

Banking corporations are required to allocate the effect of the initial implementation of accounting rules concerning estimated credit losses to retained earnings on January 1, 2022. In October 2020, the Banking Supervision Department issued a draft circular pursuant to which, if the initial implementation causes a decrease in the common equity Tier 1 capital of a banking corporation, net of tax effect, the banking corporation is permitted to include this decrease over the course of three years.

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

	September 30, 2020	September 30, 2019	December 31, 2019
	NIS millions		
<b>1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions</b>			
Common equity Tier 1 capital <sup>(1)</sup>	<b>39,202</b>	39,528	38,795
Additional Tier 1 capital	<b>488</b>	733	733
Total Tier 1 capital <sup>(1)</sup>	<b>39,690</b>	40,261	39,528
Tier 2 capital	<b>10,432</b>	10,197	9,707
Total overall capital <sup>(1)</sup>	<b>50,122</b>	50,458	49,235
<b>2. Weighted balances of risk-adjusted assets</b>			
Credit risk <sup>(2)</sup>	<b>313,134</b>	306,194	309,303
Market risks	<b>3,541</b>	3,044	3,528
Operational risk	<b>23,286</b>	23,684	23,556
Total weighted balances of risk-adjusted assets <sup>(2)</sup>	<b>339,961</b>	332,922	336,387
	%		
<b>3. Ratio of capital to risk components</b>			
Ratio of common equity Tier 1 capital to risk components	<b>11.53%</b>	11.87%	11.53%
Ratio of Tier 1 capital to risk components	<b>11.67%</b>	12.09%	11.75%
Ratio of total capital to risk components	<b>14.74%</b>	15.16%	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department <sup>(3)</sup>	<b>9.26%</b>	10.26%	10.27%
Minimum total capital ratio required by the Banking Supervision Department <sup>(3)</sup>	<b>12.76%</b>	13.76%	13.77%

(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 plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the adjustments in respect of the efficiency plans, see [Note 9i](#) to the Condensed Financial Statements.

(2) A total of NIS 658 million as at September 30, 2020, NIS 883 million as at December 31, 2019, and NIS 480 million as at September 30, 2019, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.

(3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see above in this section). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

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## (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. On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations will maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 5.5%. Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order.

Table 2-21: Leverage ratio

	September 30, 2020	September 30, 2019	December 31, 2019
	NIS millions		
Consolidated data			
Tier 1 capital*	39,690	40,261	39,528
Total exposures*	573,323	508,609	519,648
	%		
Leverage ratio	6.92%	7.92%	7.61%
Minimum leverage ratio required by the Banking Supervision Department**			
	6.00%	6.00%	6.00%

\* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section "Improving operational efficiency,"](#) above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at September 30, 2020, estimated at approximately 0.09%, is allocated in equal parts over five years, beginning at the inception date thereof.

\*\* According to the circular of the Banking Supervision Department, the minimum leverage ratio is expected to be 5.5% during the period of the Temporary Order. For further details, see [the section "Leverage ratio,"](#) above.

The decrease in the leverage ratio as at September 30, 2020, mainly resulted from an increase in total exposures, due to factors including an increase in customers' credit needs, as a result of the worsening of the economic environment while coping with the coronavirus crisis.

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

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

For the definitions of the supervisory segments and for details regarding the main points of the guidelines, estimates, and reporting principles, see [Note 28 to the Annual Financial Statements for 2019](#).

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**Table 2-22: Results of operations and principal data of the supervisory activity segments**

	For the three months ended September 30, 2020										Total
	Activity in Israel									Activity overseas	
	Households <sup>(1)</sup>	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Total net financing profit	735	14	495	194	287	23	693	-	2,441	95	2,536
Fees and other income	293	33	199	64	104	20	20	26	759	7	766
Total income	1,028	47	694	258	391	43	713	26	3,200	102	3,302
Provision (income) for credit losses	127	-	89	(7)	(58)	-	1	-	152	41	193
Operating and other expenses	912	46	424	80	78	42	112	22	1,716	135	1,851
Profit (loss) from continued operations before taxes	(11)	1	181	185	371	1	600	4	1,332	(74)	1,258
Provision for taxes (tax benefit) on profit (loss) from continued operations	(3)	(1)	57	64	149	-	201	(1)	466	(17)	449
Net profit (loss) from continued operations	(8)	2	124	121	222	1	404	5	871	(57)	814
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(8)	2	124	121	222	1	409	5	876	(60)	816
Balance of gross credit to the public at the end of the reported period	131,219	617	52,451	30,629	68,578	993	-	-	284,487	14,534	299,021
Balance of deposits from the public at the end of the reported period	156,148	34,971	75,872	26,506	47,431	58,730	-	-	399,658	17,347	417,005

(1) Includes housing loans in the amount of NIS 14.5 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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**Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)**

	For the three months ended September 30, 2019*										Total
	Activity in Israel									Activity overseas	
	Households <sup>(1)</sup>	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Total net financing profit	842	43	571	198	286	25	242	-	2,207	134	2,341
Fees and other income	339	35	206	71	98	19	19	20	807	19	826
Total income	1,181	78	777	269	384	44	261	20	3,014	153	3,167
Provision (income) for credit losses	76	-	49	(51)	(129)	1	(2)	-	(56)	16	(40)
Operating and other expenses	937	49	438	85	82	42	108	71	1,812	158	1,970
Profit (loss) from continued operations before taxes	168	29	290	235	431	1	155	(51)	1,258	(21)	1,237
Provision for taxes (tax benefit) on profit (loss) from continued operations	60	13	108	89	153	2	82	(18)	489	34	523
Net profit (loss) from continued operations	108	16	182	146	278	(1)	76	(33)	772	(55)	717
Net profit from a discontinued operation	-	-	-	-	-	-	-	16	16	-	16
Net profit (loss) attributed to shareholders of the Bank	108	16	182	146	278	(1)	76	(17)	788	(52)	736
Balance of gross credit to the public at the end of the reported period	127,079	718	54,013	30,117	66,143	1,605	-	-	279,675	15,305	294,980
Balance of deposits from the public at the end of the reported period	136,052	31,355	58,421	21,338	39,059	44,455	-	-	330,680	17,347	348,027

\* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) Includes housing loans in the amount of NIS 12.2 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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as at September 30, 2020

**Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)**

	For the nine months ended September 30, 2020										Total
	Activity in Israel									Activity overseas	
	Households <sup>(1)</sup>	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	2,286	64	1,542	578	891	95	1,615	1	7,072	321	7,393
Fees and other income	920	110	609	201	307	69	85	119	2,420	26	2,446
Total income	3,206	174	2,151	779	1,198	164	1,700	120	9,492	347	9,839
Provision for credit losses	784	2	545	167	479	4	1	-	1,982	148	2,130
Operating and other expenses	2,689	136	1,246	236	230	121	322	162	5,142	451	5,593
Profit (loss) from continued operations before taxes	(267)	36	360	376	489	39	1,377	(42)	2,368	(252)	2,116
Provision for taxes (tax benefit) on profit (loss) from continued operations	(85)	11	135	142	191	18	501	3	916	(31)	885
Net profit (loss) from continued operations	(182)	25	225	234	298	21	883	(45)	1,459	(221)	1,238
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)	-	(109)
Net profit (loss) attributed to shareholders of the Bank	(182)	25	225	234	298	21	892	(154)	1,359	(218)	1,141
Balance of gross credit to the public at the end of the reported period	131,219	617	52,451	30,629	68,578	993	-	-	284,487	14,534	299,021
Balance of deposits from the public at the end of the reported period	156,148	34,971	75,872	26,506	47,431	58,730	-	-	399,658	17,347	417,005

(1) Includes housing loans in the amount of NIS 14.5 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Report of the Board of Directors and Board of Management

as at September 30, 2020

**Table 2-22: Results of operations and principal data of the supervisory activity segments (continued)**

	For the nine months ended September 30, 2019*										Total
	Activity in Israel									Activity overseas	
	Households <sup>(1)</sup>	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	2,532	135	1,710	579	841	76	1,068	3	6,944	395	7,339
Fees and other income	987	102	612	209	286	71	61	89	2,417	45	2,462
Total income	3,519	237	2,322	788	1,127	147	1,129	92	9,361	440	9,801
Provision (income) for credit losses	207	-	182	(58)	30	4	1	-	366	34	400
Operating and other expenses	2,722	139	1,273	247	239	120	326	190	5,256	583	5,839
Profit (loss) from continued operations before taxes	590	98	867	599	858	23	802	(98)	3,739	(177)	3,562
Provision for taxes (tax benefit) on profit (loss) from continued operations	206	35	310	218	303	9	306	(28)	1,359	54	1,413
Net profit (loss) from continued operations	384	63	557	381	555	14	503	(70)	2,387	(231)	2,156
Net profit from a discontinued operation	-	-	-	-	-	-	-	258	258	-	258
Net profit (loss) attributed to shareholders of the Bank	384	63	557	381	555	14	507	188	2,649	(221)	2,428
Balance of gross credit to the public at the end of the reported period	127,079	718	54,013	30,117	66,143	1,605	-	-	279,675	15,305	294,980
Balance of deposits from the public at the end of the reported period	136,052	31,355	58,421	21,338	39,059	44,455	-	-	330,680	17,347	348,027

\* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) Includes housing loans in the amount of NIS 12.2 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.



## Principal changes in net profit and balance sheet balances

### Household Segment

The loss attributed to shareholders of the Bank in the Household Segment totaled NIS 182 million in the first nine months of 2020, compared with net profit in the amount of NIS 384 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses and a decrease in net financing profit.

Net financing profit totaled NIS 2,286 million in the first nine months of 2020, compared with NIS 2,532 million in the same period last year. The decrease resulted from a decrease in credit volumes and in financial spreads of credit, and in financial spreads of deposits, as a result of a decrease in the dollar interest rate. By contrast, an increase occurred as a result of an increase in the volume of housing credit.

Fees and other income totaled NIS 920 million in the first nine months of 2020, compared with NIS 987 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in securities activity fees.

The provision for credit losses totaled NIS 784 million in the first nine months of 2020, compared with NIS 207 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, including allowances in respect of housing loans, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 2,689 million in the first nine months of 2020, compared with NIS 2,722 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first nine months of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the same period of 2019, due to an increase in the share price of the Bank. By contrast, expenses increased due to a change in the Bank's estimate with regard to the balance of a contingent liability.

Credit to the public totaled approximately NIS 131 billion as at September 30, 2020 (of which: housing credit in the amount of approximately NIS 97 billion, consumer credit in the amount of approximately NIS 29 billion, and credit cards in the amount of approximately NIS 5 billion), compared with approximately NIS 128 billion as at December 31, 2019 (of which: housing credit in the amount of approximately NIS 89 billion, consumer credit in the amount of NIS 34 billion, and credit cards in the amount of approximately NIS 5 billion).

Deposits from the public totaled approximately NIS 156.1 billion as at September 30, 2020, compared with approximately NIS 134.4 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus.

## Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 25 million in the first nine months of 2020, compared with net profit in the amount of NIS 63 million in the same period last year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 64 million in the first nine months of 2020, compared with NIS 135 million in the same period last year. The decrease mainly resulted from a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

Fees and other income totaled NIS 110 million in the first nine months of 2020, compared with NIS 102 million in the same period last year. The increase mainly resulted from an increase in securities activity fees.

Credit to the public totaled approximately NIS 0.6 billion as at September 30, 2020, similar to December 31, 2019.

Deposits from the public totaled approximately NIS 35.0 billion as at September 30, 2020, compared with approximately NIS 31.2 billion as at December 31, 2019.

## Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 225 million in the first nine months of 2020, compared with NIS 557 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses and from a decrease in net financing profit.

Net financing profit totaled NIS 1,542 million in the first nine months of 2020, compared with NIS 1,710 million in the same period last year. The decrease mainly resulted from a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

Fees and other income totaled NIS 609 million in the first nine months of 2020, compared with NIS 612 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees, partly offset by securities activity fees.

The provision for credit losses totaled NIS 545 million in the first nine months of 2020, compared with NIS 182 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 1,246 million in the first nine months of 2020, compared with NIS 1,273 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first nine months of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the same period of 2019, due to an increase in the share price of the Bank.

Credit to the public totaled approximately NIS 52.5 billion as at September 30, 2020, compared with approximately NIS 54.8 billion as at December 31, 2019.

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Deposits from the public totaled approximately NIS 75.9 billion as at September 30, 2020, compared with approximately NIS 61.5 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

## Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-Sized Business Segment totaled NIS 234 million in the first nine months of 2020, compared with NIS 381 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses.

The provision for credit losses totaled NIS 167 million in the first nine months of 2020, compared with income in the amount of NIS 58 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. The increase also resulted from an increase in the collective allowance in respect of problematic debts, and from a decrease in recovery of charged-off debts.

Credit to the public totaled approximately NIS 30.6 billion as at September 30, 2020, compared with approximately NIS 29.6 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 26.5 billion as at September 30, 2020, compared with approximately NIS 24.5 billion as at December 31, 2019.

## Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 298 million in the first nine months of 2020, compared with NIS 555 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit and by an increase in fees.

Net financing profit totaled NIS 891 million in the first nine months of 2020, compared with NIS 841 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market, and from an increase in the volume of credit and deposits.

Fees and other income totaled NIS 307 million in the first nine months of 2020, compared with NIS 286 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions and from securities activity fees.

The provision for credit losses totaled NIS 479 million in the first nine months of 2020, compared with a provision in the amount of NIS 30 million in the same period last year. Most of the increase resulted from an increase in the collective allowance in respect of problematic debts, and from a decrease in recovery of charged-off debts.

Credit to the public totaled approximately NIS 68.6 billion as at September 30, 2020, compared with approximately NIS 67.9 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 47.4 billion as at September 30, 2020, compared with approximately NIS 45.0 billion as at December 31, 2019.

## **Institutional Entity Segment**

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 21 million in the first nine months of 2020, compared with NIS 14 million in the same period last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 95 million in the first nine months of 2020, compared with NIS 76 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the markets.

Fees and other income totaled NIS 69 million in the first nine months of 2020, compared with NIS 71 million in the same period last year. The decrease mainly resulted from a decrease in operations and trust fees of institutional entities, partly offset by an increase in securities activity fees.

Credit to the public totaled approximately NIS 1.0 billion as at September 30, 2020, compared with approximately NIS 1.2 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 58.7 billion as at September 30, 2020, compared with approximately NIS 48.8 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

## **Financial Management Segment**

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 892 million in the first nine months of 2020, compared with NIS 507 million in the same period last year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 1,615 million in the first nine months of 2020, compared with NIS 1,068 million in the same period last year. The increase resulted from a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, as a result of a negative accrual fair value gap in the same period last year due to a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. Income from the activity of the dealing room also increased, due to an increase in the volume of transactions, as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus. By contrast, profit from investment in shares decreased, due to the crisis of the spread of the coronavirus, and profits from investment in bonds decreased. In addition, income from linkage differentials decreased due to changes in the rate of increase of the known CPI between the periods.

Fees and other income totaled NIS 85 million in the first nine months of 2020, compared with NIS 61 million in the same period last year. The increase mainly resulted from an increase in syndication fees.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see [the section "Credit risk"](#) in the Review of Risks, below.

## **Other Segment (activity in Israel)**

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 154 million in the first nine months of 2020, compared with net profit in the amount of NIS 188 million in the same period last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 45 million in the first nine months of 2020, compared with a loss in the amount of NIS 70 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses in connection with the American investigation and profit from the sale of assets. This increase was partly offset by an expense for revaluation of the liability in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year, in which the dollar exchange rate fell.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in the first nine months of 2020, compared with profit in the amount of approximately NIS 258 million in the same period last year. The loss from a discontinued operation in the first nine months of 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and profit from the sale of 65% of the shares of Isracard were included in the same period last year.

## **International Activity Segment**

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 218 million in the first nine months of 2020, compared with a loss in the amount of NIS 221 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses, partly offset by expenses recorded in respect of revaluation of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year.

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

- The loss of the New York branch totaled approximately NIS 42 million in the first nine months of 2020, compared with profit of approximately NIS 105 million in the same period last year. The loss mainly resulted from an increase in the provision for credit losses, due to an increase in the rate of the collective allowance, as a result of the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and from a decrease in net financing profit, due to the reduction of the Federal Reserve interest rate.
- The loss of Hapoalim Switzerland totaled approximately NIS 168 million in the first nine months of 2020, compared with a loss in the amount of approximately NIS 222 million in the same period last year. The decrease in loss resulted from a decrease in legal expenses attributed to the investigation of the Bank Group's business with American customers. However, expenses were recorded in the first nine months of 2020 in respect of revaluation of the provision for the American investigation, versus income recorded in the same period last year. In addition, a loss was recorded in the same period last year in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.

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- In 2020, loss from impairment was recognized in respect of the investment in Pozitif, in the amount of NIS 30 million, and the Bank stated the amount of its investment in Bank Pozitif at a total of NIS 3 million. In the same period last year, loss from impairment in the amount of approximately NIS 63 million was recognized.

Total credit to the public in international activity amounted to approximately NIS 14.5 billion as at September 30, 2020, compared with approximately NIS 15.6 billion as at December 31, 2019. The decrease resulted from the transfer of most of the existing credit portfolio of Banque Hapoalim Luxembourg to Israel.

- Credit to the public at the New York branch totaled approximately NIS 14.0 billion as at September 30, 2020, similar to the balance as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11.5 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.2 billion as at December 31, 2019, of which a total of approximately NIS 4.8 billion in respect of syndication transactions.
- As at September 30, 2020, balances of credit to the public in the amount of approximately NIS 0.1 billion remained at Banque Hapoalim Luxembourg, compared with approximately NIS 1.4 billion as at December 31, 2019, following the transfer of most of the existing credit portfolio to Israel.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at September 30, 2020, similar to the balance at the end of 2019.

Total deposits from the public in international activity amounted to approximately NIS 17.3 billion as at September 30, 2020, compared with approximately NIS 16.2 billion as at December 31, 2019.

- The balance of deposits from the public at the New York branch totaled approximately NIS 17.3 billion as at September 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 7.4 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 9.7 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

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

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

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units by which they are served, which is performed in accordance with various criteria established by the Board of Management of the Bank. For details regarding the criteria used in this classification and the rules for the distribution of the results of operations among the segments, see [Note 28A to the Annual Financial Statements for 2019](#).

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**Table 2-23: Results of operations and principal data of the segments of activity based on management approach**

	For the three months ended September 30, 2020								
	Retail activity			Business activity			Financial Adjustments <sup>(2)</sup> management <sup>(1)</sup>	Total	
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity			
	NIS millions								
Total net financing profit	531	331	253	275	388	86	662	10	2,536
Fees and other income	343	135	16	99	117	11	27	18	766
Total income	874	466	269	374	505	97	689	28	3,302
Provision (income) for credit losses	107	56	22	15	(49)	42	-	-	193
Operating and other expenses	904	312	74	127	159	136	117	22	1,851
Profit (loss) from continued operations before taxes	(137)	98	173	232	395	(81)	572	6	1,258
Provision for taxes (tax benefit) on profit (loss) from continued operations	(46)	35	60	78	141	(17)	199	(1)	449
Net profit (loss) from continued operations	(91)	63	113	154	254	(64)	378	7	814
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(91)	63	113	154	254	(67)	383	7	816
Net credit to the public at the end of the reported period	37,264	30,745	96,365	41,279	72,709	12,760	1,723	-	292,845
Deposits from the public at the end of the reported period	217,181	55,850	-	29,469	53,619	17,103	43,783	-	417,005

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

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

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**Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)**

	For the three months ended September 30, 2019*								Total
	Retail activity			Business activity		International activity management	Financial Adjustments <sup>(2)</sup>		
	Private customers	Small businesses <sup>(2)</sup>	Housing loans	Commercial	Corporate				
NIS millions									
Total net financing profit	706	401	214	282	377	118	241	2	2,341
Fees and other income	384	144	16	97	116	23	31	15	826
Total income	1,090	545	230	379	493	141	272	17	3,167
Provision (income) for credit losses	58	68	6	15	(201)	16	(2)	-	(40)
Operating and other expenses	962	317	73	129	158	161	109	61	1,970
Profit (loss) from continued operations before taxes	70	160	151	235	536	(36)	165	(44)	1,237
Provision for taxes (tax benefit) on profit (loss) from continued operations	26	55	52	84	193	29	90	(6)	523
Net profit (loss) from continued operations	44	105	99	151	343	(65)	78	(38)	717
Net profit from a discontinued operation	-	-	-	-	-	-	-	16	16
Net profit (loss) attributed to shareholders of the Bank	44	105	99	151	343	(62)	78	(22)	736
Net credit to the public at the end of the reported period	42,313	31,132	87,316	39,997	76,306	12,690	1,253	-	291,007
Deposits from the public at the end of the reported period	187,013	43,826	-	23,493	48,719	15,910	29,066	-	348,027

\* Reclassified.

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

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.



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**Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)**

	For the nine months ended September 30, 2020								Total
	Retail activity			Business activity		International activity management <sup>(1)</sup>	Financial Adjustments <sup>(2)</sup>		
	Private customers	Small businesses	Housing loans	Commercial	Corporate				
NIS millions									
Net financing profit	1,741	1,045	728	831	1,160	291	1,567	30	7,393
Fees and other income	1,087	411	43	287	384	38	79	117	2,446
Total income	2,828	1,456	771	1,118	1,544	329	1,646	147	9,839
Provision (income) for credit losses	531	355	298	313	480	149	4	-	2,130
Operating and other expenses	2,664	920	227	366	460	456	339	161	5,593
Profit (loss) from continued operations before taxes	(367)	181	246	439	604	(276)	1,303	(14)	2,116
Provision for taxes (tax benefit) on profit (loss) from continued operations	(125)	68	90	165	227	(37)	483	14	885
Net profit (loss) from continued operations	(242)	113	156	274	377	(239)	827	(28)	1,238
Loss from a discontinued operation	-	-	-	-	-	-	-	(109)	(109)
Net profit (loss) attributed to shareholders of the Bank	(242)	113	156	274	377	(236)	836	(137)	1,141
Net credit to the public at the end of the reported period	37,264	30,745	96,365	41,279	72,709	12,760	1,723	-	292,845
Deposits from the public at the end of the reported period	217,181	55,850	-	29,469	53,619	17,103	43,783	-	417,005

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

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers.

# Report of the Board of Directors and Board of Management

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**Table 2-23: Results of operations and principal data of the segments of activity based on management approach (continued)**

	For the nine months ended September 30, 2019*								Total
	Retail activity			Business activity		International activity management <sup>(1)</sup>	Financial Adjustments <sup>(2)</sup>		
	Private customers	Small businesses	Housing loans	Commercial	Corporate				
	NIS millions								
Net financing profit	2,156	1,223	612	821	1,103	353	1,038	33	7,339
Fees and other income	1,121	432	46	277	349	57	104	76	2,462
Total income	3,277	1,655	658	1,098	1,452	410	1,142	109	9,801
Provision (income) for credit losses	180	235	25	29	(105)	34	2	-	400
Operating and other expenses	2,759	923	218	382	456	587	314	200	5,839
Profit (loss) from continued operations before taxes	338	497	415	687	1,101	(211)	826	(91)	3,562
Provision for taxes (tax benefit) on profit (loss) from continued operations	122	179	145	249	397	44	299	(22)	1,413
Net profit (loss) from continued operations	216	318	270	438	704	(255)	534	(69)	2,156
Net profit from a discontinued operation	-	-	-	-	-	-	-	258	258
Net profit (loss) attributed to shareholders of the Bank	216	318	270	438	704	(245)	538	189	2,428
Net credit to the public at the end of the reported period	42,313	31,132	87,316	39,997	76,306	12,690	1,253	-	291,007
Deposits from the public at the end of the reported period	187,013	43,826	-	23,493	48,719	15,910	29,066	-	348,027

\* Reclassified.

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

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

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

## 2.6. Principal companies

### 2.6.1. Isracard Group

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), in April 2019, the Bank sold 65.2% of the capital of Isracard in a public sale offering.

Until the end of the first quarter of 2019, the Bank included its 98.2% share of the profits of Isracard. After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which was accounted for using the equity method.

On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see [Note 8C\(3\) to the Annual Financial Statements for 2019](#).

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see [Note 8C\(2\) to the Annual Financial Statements for 2019](#). The Bank included a provision against this liability in the reported period.

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

A subsidiary (wholly owned by the Bank) incorporated in Switzerland, which was mainly engaged in the provision of private-banking services through branches in Zurich and Luxembourg; In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland.

The Bank is acting to return its bank license and withdraw the company from the supervisory authority of FINMA.

The loss of Hapoalim Switzerland totaled CHF 39 million in the first nine months of 2020, compared with a loss in the amount of CHF 86 million in the same period last year.

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

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

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

The Bank Group currently operates in Turkey through Bank Pozitif, held at a rate of 69.83% by the Bank, which operates and specializes in corporate banking. Deposit taking is subject to local regulation, and is permitted up to the amount of credit of each borrower.

Economic conditions in Turkey have worsened due to the coronavirus pandemic; with the deterioration of the political situation in the country, this has increased the risk of a balance of payments crisis. The Turkish lira lost about 40% of its value against the dollar from the beginning of the year to the end of October, and Turkey's foreign-currency reserves were nearly depleted in the attempt to protect its currency. Trying to halt the depreciation, the central bank in Turkey raised the interest rate from 8.25% to 10.25%.

In view of the economic and political situation in Turkey, and within the strategic plan of the Bank, a decision was made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

The Bank engaged a Turkish investment bank to assist in finding potential buyers; the sale process has been greatly slowed amid the coronavirus pandemic.

In addition, the minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. The general manager of the bank resigned in July 2020. Due to the various disagreements, the Bank is conducting ongoing dialogue with the minority shareholder with regard to the conduct of Bank Pozitif and the activity of its board of directors. Within this dialogue, various alternatives are under discussion with respect to the division of the expected consideration from the sale of Bank Pozitif.

Following a proposal received by the Bank for the acquisition of Bank Pozitif, taking into consideration the discussions of the various alternatives with the minority shareholder, as noted, the Bank adjusted the fair value of the expected consideration, stated the value of the investment in capital at a total of approximately NIS 3 million in the second quarter of 2020 (compared with NIS 33 million as at December 31, 2019), and recorded a provision for impairment in the amount of NIS 30 million. The Bank has received an additional proposal better than the proposal mentioned above, and is conducting concurrent negotiations with the offeror. At this stage, the Bank is unable to estimate the probability of realization of the proposals, taking into consideration, among other matters, the economic conditions in Turkey, the circumstances of Bank Pozitif, and past experience.

It is also noted that in January 2019, the Bank of Israel instructed the Bank to raise the weighting rates of risk-adjusted assets in its calculation of the consolidated capital ratio in respect of the activity of Bank Pozitif, beginning in 2020. For details, see [the section "Capital and capital adequacy,"](#) above.

With regard to the deduction of the credit line facility from supervisory capital, see [Section 2.3.2, "Capital, capital adequacy, and leverage."](#)

The balance of credit to the public totaled TRY 724 million (approximately NIS 321 million) as at September 30, 2020, compared with a balance of TRY 641 million (approximately NIS 372 million) at the end of 2019.

The business results of the Bank Pozitif Group amounted to a loss of approximately TRY 40 million in the first nine months of 2020, compared with profit in the amount of approximately TRY 2 million in the same period last year.

The Bank's total investment in Bank Pozitif as at September 30, 2020, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 107 million (NIS 3 million in capital and NIS 104 million in credit lines granted to Bank Pozitif), compared with approximately NIS 154 million (NIS 33 million in capital and NIS 121 million in loans, as noted) at the end of 2019.

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

### 3. Review of risks

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

Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019, and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020.

#### 3.1. General description of risks and risk management

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

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

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

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

The principal members of the Board of Management responsible for managing credit risks are the Head of Corporate Banking, Mr. T. Cohen, and the Head of Retail Banking, Ms. D. Raviv.

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

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

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

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

For details and more extensive information regarding risk management governance, including the control approach, the responsible parties, and the committees of the Board of Directors and Board of Management relevant to risk management, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

## 3.2. Credit risk

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

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

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

The credit risk arising from transactions in derivative financial instruments is defined as counterparty risk, which is the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. For information regarding counterparty credit risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020](#).

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

## Effect of the crisis of the spread of the coronavirus

The spread of the virus, as well as the coping measures applied by governments in Israel and worldwide, have caused significant damage to business activity in Israel and globally, encompassing most sectors of the economy, although the damage is more explicit and clear in certain areas, such as aviation, tourism, commerce in shopping centers, restaurants, events, entertainment and leisure, and energy. The ability to cope with the economic damage depends on many factors that are insufficiently clear at this stage, including the pace of the return to routine functioning in the various sectors, the ability of businesses and households to contend with the crisis through changes in processes and finding alternative solutions, the support of the government, the recovery of global trade, and more. Exceptions are areas in which demand has grown, while conditions have not led to substantial damage to business, such as pharmacies and commerce in food. The percentage of job seekers has risen sharply as a result of the crisis. The effects of the crisis are also creating significant economic uncertainty among households.

The Bank is acting to support its customers during this period, taking into consideration the effects of the crisis on credit risk. Towards that end, the Bank has taken several measures, detailed in Section 2.1.3 above.

In view of the high uncertainty, the Bank estimates that actual credit losses may grow; however, at this stage it is difficult to determine to what extent, or when, due to factors including the processes and measures applied by the government and the Bank of Israel, which may assist the economy in emerging from the crisis more quickly, but if they are unsuccessful, will only postpone the realization of credit risks.

Within the preparations of the Bank for the outcomes of the coronavirus crisis, and in order to assess its possible effects, various internal scenarios are examined with regard to the progression of a series of economic parameters, which are used by the Bank to estimate the effects on the Bank. In particular, the Bank examines the potential impacts of the crisis on the credit portfolio, also as a supporting tool for examination of the adequacy of credit losses. It is emphasized that such scenarios are applied using different approaches practiced at each bank, which depend on the risk-management methods and internal approach of the banking corporation; different banking corporations may therefore arrive at estimates that vary, sometimes materially, according to the different scenarios applied by each banking corporation, based on its approach, and estimates may vary among banking corporations even given the same set of assumptions. In the baseline scenario used by the Bank to challenge the collective allowance, the Bank assumed that routine economic activity would not resume until mid-2021 at the earliest. As a result of the restrictions due to the coronavirus, GDP contracts again in the fourth quarter of 2020, with an average annual decrease of 5.5% for the full year of 2020. Growth recovers gradually in 2021, to an annual rate of 4.4%. GDP at the end of 2021 is similar to the pre-crisis level.

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The unemployment rate (using a broad definition including unpaid leave) stands at 14% in the fourth quarter of 2020, and falls to 10% by June 2021. Housing prices fall moderately until June 2021. The Bank of Israel interest rate remains at 0.1% in the coming four quarters in this scenario. This quarter, the Bank again decided to update its collective allowance, which totals approximately NIS 5.3 billion at the date of the financial statements, to create a higher collective allowance serving as a safety cushion against the possible future materialization of individual credit losses and automatic charge-offs, i.e. recognition of higher credit losses in the first three quarters of 2020, by increasing the collective allowance against possible future materialization of individual losses and automatic charge-offs. According to the scenario applied by the Bank, at a non-negligible degree of probability, if the data of the scenario materialize, and if the effect of the data in the scenario on portfolio quality is as predicted by the models and assumptions, the level of possible credit losses of the Bank in the coming year may decrease by NIS 0.3 billion, or increase by NIS 0.2 billion, relative to the provision for credit losses forecast for the coming year in the baseline scenario.

It is emphasized that given the high uncertainty and the difficulty of fully identifying the credit losses, due to factors including the deferral of borrowers' payments, as described above, the prediction of credit losses in the midst of the crisis is the outcome of assumptions and evaluations, the reasonableness of which is extremely difficult to determine at this stage.

The main parameters included in the scenario which the Bank estimates will influence the level of expected credit losses, and which are subject to significant uncertainty, are the unemployment rate and the GDP growth rate.

Future actions by the government also affect the estimate of expected credit losses; to the extent that government assistance is granted to businesses and to private individuals, credit losses are expected to decrease further. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

As the change in the allowance for credit losses mainly results from the increase in the collective allowance to reflect the forecast for future growth in credit losses, the change is not significantly apparent in credit portfolio quality indicators that are primarily influenced by the present condition of the portfolio, with the exception of a certain increase in the percentage of problematic debt, possibly also as a result of the deferral of borrowers' payments and government support, as described above.

As described above, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full effects of the crisis and the extent of such effects on the Bank. It is emphasized that different assumptions could have given rise to different results, possibly materially, than those described above, and may lead to varying results among the different banking corporations. The estimates of the Bank regarding the possible ramifications of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in Section 1.1 above. These estimates are uncertain, and may materialize in a manner materially different than described above.



## 3.2.1. Analysis of credit quality and problematic credit risk

### Changes in terms of debts within measures to cope with the crisis of the spread of the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Bank of Israel has issued emphases for addressing debts the terms of which have been changed. Pursuant to the circular, it has been determined that changes in the terms of loans do not automatically lead to classification of the loans as troubled debt restructuring when short-term changes in payments are performed, due to the crisis of the spread of the coronavirus, for borrowers who were not previously in arrears. It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.

Stabilization of borrowers who are not in arrears on their existing loans and who are sound borrowers confronting financial or operational problems in the short term due to the crisis of the spread of the coronavirus, in general, is not considered troubled debt restructuring, particularly when the following conditions are fulfilled:

- The change was performed due to the crisis of the spread of the coronavirus.
- The borrower was not in arrears when the changes were implemented.
- The change is for a short period.

With regard to the establishment of the state of arrears, debts that were not previously in arrears and are granted a deferral due to the crisis of the spread of the coronavirus are not classified as debts in arrears as a result of the deferral. When deferral of payments is performed for debts that were in arrears prior to the deferral, the state of arrears should be frozen during the period of deferral of payments, except if the debt has been classified as impaired or charged off. It is possible that without the suspension of the count of days of arrears with respect to deferred payments, as noted above, the balance of debts in arrears would be higher. The deferral of payments, as noted above, for loans that were not in arrears of thirty days or more at the date of deferral of the payments, does not require the loans to be classified as debts in troubled debt restructuring. With regard to housing loans, on July 13, 2020, an additional deferral of payments was granted for housing loans that were not in arrears, due to the coronavirus event; in general, the deferral does not require the housing loans to be classified as debts in troubled debt restructuring, even if the cumulative deferral exceeds six months.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) to the Condensed Financial Statements.

The Bank offers its customers tools, credit products, and additional products aimed at coping with the crisis. For additional details, see [the section, "Segments of activity based on management approach"](#) in the Corporate Governance Report.

Details are presented below regarding the balance of debts the terms of which were changed beginning in March 2020, as part of the measures to cope with the coronavirus, which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department, as noted above.

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**Table 3-1: Details regarding the balance of debts the terms of which have been changed<sup>(1)</sup> in the course of coping with the crisis of the spread of the coronavirus, which are not classified as troubled debt restructuring**

	Debts in payment deferral at report date <sup>(1)(2)</sup>		
	Recorded debt balance	Number of loans	Amount of deferred payments
	NIS millions		
Large businesses	2,996	158	126
Mid-sized businesses	1,240	167	71
Small businesses and microbusinesses	3,814	20,075	762
Private individuals excluding housing	2,912	69,096	506
Housing loans	7,404	13,654	162
Total – Israel	18,366	103,150	1,627
Activity overseas	3,005	43	371
<b>Total as at September 30, 2020</b>	<b>21,371</b>	<b>103,193</b>	<b>1,998</b>

(1) Near the date of publication, the balance of credit in respect of which payments were deferred totaled approximately NIS 19,115 million; the balance of actual deferred payments totaled approximately NIS 1,813 million.

(2) Of which: deferrals granted other than within a lateral program in the amount of NIS 7,016 million.

(3) The payment deferral period is the cumulative period of deferrals granted to a debt, from the beginning of the efforts to cope with the coronavirus, not including deferrals to which the borrower is entitled under any law.

(4) Of which: impaired debts not accruing interest income in the amount of NIS 110 million.

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Further details regarding recorded debt balance of debts in payment deferral						Further details regarding debts in payment deferral by duration of deferral <sup>(5)</sup>		Debts for which the payment deferral period has ended at the report date	
Problematic debts	Non-problematic debts					Debts deferred by more than 3 months, up to 6 months	Debts deferred by more than 6 months	Recorded debt balance	Of which: in arrears of 30 days or more
	Debts not at credit execution rating	Debts at credit execution rating in arrears of 30 days or more	Debts at credit execution rating not in arrears	non-problematic debts	Total				
NIS millions									
715	141	-	2,140		2,281	1,944	18	625	-
178	1	-	1,061		1,062	732	62	948	-
139	945	-	2,730		3,675	1,167	2,201	4,967	28
113	804	1	1,994		2,799	838	1,812	2,001	32
55	677	140	6,532		7,349	4,151	2,663	13,427	372
1,200	2,568	141	14,457		17,166	8,832	6,756	21,968	432
306	123	-	2,576		2,699	1,241	1,703	-	-
<sup>(4)</sup> 1,506	2,691	141	17,033		19,865	10,073	8,459	21,968	432

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## State-backed loans

In view of the coronavirus outbreak, the State resolved on the establishment of a dedicated loan fund, primarily to assist small, mid-sized, and large businesses experiencing cash-flow difficulties as a result of the outbreak. The terms of the loans were determined by the Ministry of Finance, and are uniform for all types of borrowers:

- Interest rate – zero for the first year (paid to the bank by the State); Prime + 1.5% from the second year forward.
- Period – up to five years, including a grace period of up to twelve months.
- Customer collateral – up to 5% of the amount of the loan approved.
- Loan amounts:
  - General track – the lower of 30% of the annual revenue of the customer or NIS 20 million.
  - Amplified track – the lower of 30% of the annual revenue of the customer or NIS 10 million.

Thus far, approximately 77% of the state-backed credit has been granted to small businesses and microbusinesses, and approximately 23% to mid-sized and large businesses. The risk of this credit is determined by the State at the following rates: up to 85% in specific credit, and no more than 15% for the overall portfolio in the general track; and up to 95% in specific credit, and no more than 60% for the overall portfolio in the amplified track launched on June 21, 2020. The amplified track consists of businesses substantially hurt by the spread of the coronavirus, which demonstrated a decrease in revenue of more than 50% in April to July 2020 compared with the same months last year, and which do not have the independent ability to cope with the cash-flow damages.

**Table 3-2: Details regarding the recorded debt balance of state-backed loans within the effort to cope with the coronavirus**

	<b>September 30, 2020</b>	June 30, 2020
	NIS millions	
Small businesses and microbusinesses	<b>3,721</b>	2,942
Mid-sized businesses	<b>895</b>	685
Large businesses	<b>234</b>	149
Total	<b>4,850</b>	3,776

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**Table 3-3: Analysis of credit quality, problematic credit risk, and nonperforming assets of the public<sup>(1)</sup>**

	Balance as at September 30, 2020				Balance as at December 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
NIS millions								
<b>Credit risk at credit execution rating<sup>(1)</sup></b>								
Balance sheet credit risk	<b>160,942</b>	<b>93,827</b>	<b>30,221</b>	<b>284,990</b>	166,592	87,802	35,659	290,053
Off-balance sheet credit risk	<b>121,632</b>	<b>6,568</b>	<b>21,538</b>	<b>149,738</b>	112,184	7,259	21,009	140,452
Total credit risk at credit execution rating	<b>282,574</b>	<b>100,395</b>	<b>51,759</b>	<b>434,728</b>	278,776	95,061	56,668	430,505
<b>Credit risk not at credit execution rating</b>								
a. Non-problematic – balance sheet	<b>8,347</b>	<b>2,509</b>	<b>3,670</b>	<b>14,526</b>	3,343	1,198	2,133	6,674
b. Total problematic <sup>(2)</sup>	<b>8,549</b>	<b>714</b>	<b>848</b>	<b>10,111</b>	7,550	702	906	9,158
1) Special supervision	<b>3,574</b>	<b>-</b>	<b>32</b>	<b>3,606</b>	3,192	-	48	3,240
2) Substandard	<b>1,591</b>	<b>713</b>	<b>40</b>	<b>2,344</b>	680	700	96	1,476
3) Impaired	<b>3,384</b>	<b>1</b>	<b>776</b>	<b>4,161</b>	3,678	2	762	4,442
Total balance sheet credit risk not at credit execution rating	<b>16,896</b>	<b>3,223</b>	<b>4,518</b>	<b>24,637</b>	10,893	1,900	3,039	15,832
Off-balance sheet credit risk not at credit execution rating	<b>3,635</b>	<b>40</b>	<b>183</b>	<b>3,858</b>	2,931	8	89	3,028
Total credit risk not at credit execution rating	<b>20,531</b>	<b>3,263</b>	<b>4,701</b>	<b>28,495</b>	13,824	1,908	3,128	18,860
Of which, unimpaired debts in arrears of 90 days or more <sup>(3)</sup>	<b>38</b>	<b>713</b>	<b>39</b>	<b>790</b>	121	699	93	913
Total overall credit risk of the public	<b>303,105</b>	<b>103,658</b>	<b>56,460</b>	<b>463,223</b>	292,600	96,969	59,796	449,365
<b>Additional information regarding total nonperforming assets</b>								
a. Impaired debts not accruing interest income	<b>3,118</b>	<b>1</b>	<b>363</b>	<b>3,482</b>	3,487	2	378	3,867
b. Assets received upon settlement of debts	<b>33</b>	<b>-</b>	<b>-</b>	<b>33</b>	34	-	-	34
Total nonperforming assets of the public	<b>3,151</b>	<b>1</b>	<b>363</b>	<b>3,515</b>	3,521	2	378	3,901

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

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

(3) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

**Note:**

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

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In order to reflect the effect of the crisis, the Bank performed processes to increase the severity of internal ratings, based on estimates of the extent of the impact of the crisis on various segments, combined with additional parameters. As a result, a significant increase is apparent in balances of credit not at credit execution rating in the data for September 30, 2020, as compared with the data for December 31, 2019. The internal rating severity processes were updated, and are expected to continue to be updated, according to the estimates of the Bank regarding the effects of the crisis.

**Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance**

	For the nine months ended September 30, 2020		
	Commercial	Private	Total
	NIS millions		
<b>Change in balance of impaired debts in respect of credit to the public</b>			
Balance of impaired debts at beginning of year	<b>3,678</b>	<b>764</b>	<b>4,442</b>
Debts classified as impaired during the period	<b>549</b>	<b>285</b>	<b>834</b>
Debts returned to unimpaired classification	<b>(4)</b>	<b>(3)</b>	<b>(7)</b>
Impaired debts charged off	<b>(336)</b>	<b>(146)</b>	<b>(482)</b>
Impaired debts repaid	<b>(528)</b>	<b>(123)</b>	<b>(651)</b>
Balance of impaired debts at end of period	<b>3,359</b>	<b>777</b>	<b>4,136</b>
<b>Change in balance in troubled debt restructuring</b>			
Balance in troubled debt restructuring at beginning of year	<b>667</b>	<b>707</b>	<b>1,374</b>
Restructured during the period	<b>1,760</b>	<b>260</b>	<b>2,020</b>
Debts in restructuring charged off	<b>(145)</b>	<b>(131)</b>	<b>(276)</b>
Debts in restructuring restored to unimpaired classification or repaid	<b>(264)</b>	<b>(109)</b>	<b>(373)</b>
Balance in troubled debt restructuring at end of period	<b>2,018</b>	<b>727</b>	<b>2,745</b>
<b>Change in balance sheet allowance for credit losses in respect of impaired debts</b>			
Allowance for credit losses in respect of impaired debts at beginning of year	<b>1,272</b>	<b>136</b>	<b>1,408</b>
Provision for credit losses – increase in allowance	<b>587</b>	<b>179</b>	<b>766</b>
Provision for credit losses – reduction of allowance	<b>(135)</b>	<b>(39)</b>	<b>(174)</b>
Recoveries of debts charged off in previous years	<b>(291)</b>	<b>(96)</b>	<b>(387)</b>
Allocated to profit and loss – allowance for credit losses	<b>161</b>	<b>44</b>	<b>205</b>
Charge-offs during the period	<b>(336)</b>	<b>(146)</b>	<b>(482)</b>
Recovery of charged-off debts	<b>291</b>	<b>96</b>	<b>387</b>
Other	<b>-</b>	<b>-</b>	<b>-</b>
Allowance for credit losses in respect of impaired debts at end of period	<b>1,388</b>	<b>130</b>	<b>1,518</b>

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**Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance (continued)**

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

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**Table 3-5: Credit risk indicators**

	As at	
	September 30, 2020	December 31, 2019
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	<b>1.38%</b>	1.49%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	<b>0.26%</b>	0.31%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	<b>2.07%</b>	1.58%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	<b>1.79%</b>	1.27%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	<b>149.32%</b>	105.97%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	<b>125.38%</b>	87.90%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	<b>2.54%</b>	2.42%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	<b>0.95%</b>	0.44%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	<b>0.18%</b>	0.12%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	<b>8.79%</b>	7.48%

\* Before deduction of the allowance for credit losses.

\*\* Includes allowance for credit losses in respect of off-balance sheet credit instruments.



## Portfolio quality analysis

The following indicators increased (worsened) in the first nine months of 2020, compared with the end of 2019:

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

The following indicators decreased (improved) during this period:

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

The main indicator pointing to worsening of the portfolio quality which is not a result of the increase in the collective allowance is a certain increase in the percentage of problematic debt. Other than this indicator, the effect of the spread of the coronavirus is not yet substantially evident in portfolio quality, but the impacts of the crisis may lead to a significant increase in future credit losses, which are expressed by the Bank through the collective allowance. Note that there is a great deal of uncertainty regarding the ramifications of the crisis, in view of its continuation in Israel and overseas, in terms of the economic damage caused by additional measures that may be necessary to contain the spread of the virus, as well as the success of government support measures.

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

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## 3.2.2. Classification and analysis of credit risk by economic sector

Table 3-6: Credit risk by economic sector

	September 30, 2020						
					Credit losses <sup>(4)</sup>		
	Total credit risk <sup>(1)</sup>	Of which: credit execution rating <sup>(5)</sup>	Of which: problematic credit risk <sup>(6)</sup>	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	32,348	30,922	961	373	102	53	380
Construction and real estate – construction	70,253	67,921	621	473	44	(2)	570
Construction and real estate – real-estate activities	27,735	25,089	1,133	242	104	(93)	594
Commerce	36,561	33,645	1,244	422	277	126	957
Financial services	38,476	38,025	195	30	56	9	247
Other business services	14,469	13,352	121	101	88	49	186
Public and community services	7,765	7,319	71	40	32	8	81
Other sectors	41,849	36,644	3,348	1,771	392	30	1,636
Total commercial	269,456	252,917	7,694	3,452	1,095	180	4,651
Private individuals – housing loans	103,153	99,915	695	1	296	6	733
Private individuals – other	56,234	51,538	849	777	487	194	1,078
Total public – activity in Israel	428,843	404,370	9,238	4,230	1,878	380	6,462
Total banks in Israel	2,710	2,710	-	-	-	-	-
Israeli government	48,385	48,385	-	-	-	-	-
Total activity in Israel	479,938	455,465	9,238	4,230	1,878	380	6,462
Total public – activity overseas	34,380	30,358	2,505	611	251	27	503
Banks and governments overseas	41,640	40,952	-	-	1	-	9
Total activity overseas	76,020	71,310	2,505	611	252	27	512
Total activity in Israel and overseas	555,958	526,775	11,743	4,841	2,130	407	6,974

(1) Balance sheet credit risk and off-balance sheet credit risk<sup>(3)</sup>, including in respect of derivative instruments. Includes debts<sup>(2)</sup>, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 318,505, 65,785, 437, 11,774, and 159,457 million, respectively.

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

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

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

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

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

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**Table 3-6: Credit risk by economic sector (continued)**

	September 30, 2019						
					Credit losses <sup>(4)</sup>		
	Total credit risk* <sup>(1)</sup>	Of which: credit execution rating* <sup>(5)</sup>	Of which: problematic credit risk* <sup>(6)</sup>	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses*	Net charge-offs	Allowance for credit losses*
	NIS millions						
Industry	31,045	29,446	1,179	359	21	18	346
Construction and real estate – construction	63,980	62,047	922	536	(192)	(116)	468
Construction and real estate – real-estate activities	24,523	23,301	1,069	222	7	(110)	393
Commerce	34,710	32,327	933	414	117	89	798
Financial services	40,420	40,124	37	15	60	(8)	210
Other business services	13,005	12,201	136	110	59	38	149
Public and community services	7,428	7,179	44	22	18	12	57
Other sectors	42,465	39,023	1,930	545	123	41	606
Total commercial	257,576	245,648	6,250	2,223	213	(36)	3,027
Private individuals – housing loans	93,165	90,511	662	-	19	4	436
Private individuals – other	61,174	56,258	871	744	180	249	820
Total public – activity in Israel	411,915	392,417	7,783	2,967	412	217	4,283
Total banks in Israel	3,242	3,242	-	-	-	-	-
Israeli government	44,431	44,431	-	-	-	-	-
Total activity in Israel	459,588	440,090	7,783	2,967	412	217	4,283
Total public – activity overseas	34,293	32,108	1,291	500	(12)	6	212
Banks and governments overseas	44,172	44,172	-	-	-	-	9
Total activity overseas	78,465	76,280	1,291	500	(12)	6	221
Total activity in Israel and overseas	538,053	516,370	9,074	3,467	400	223	4,504

\* Reclassified. Housing loans granted to individuals in an economic sector other than “private individuals” were reclassified from the commercial economic sectors to the sector “private individuals – housing loans.”

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

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

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

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

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

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

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**Table 3-6: Credit risk by economic sector (continued)**

	December 31, 2019						
					Credit losses <sup>(4)</sup>		
	Total credit risk <sup>(1)</sup>	Of which: credit execution rating <sup>(5)</sup>	Of which: problematic credit risk <sup>(6)</sup>	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions						
Industry	31,029	29,736	915	405	26	33	333
Construction and real estate – construction	67,577	65,812	951	603	(125)	(100)	523
Construction and real estate – real-estate activities	24,702	23,390	1,214	305	13	(112)	402
Commerce	35,380	33,746	953	539	157	120	806
Financial services	38,346	38,001	138	30	19	(38)	200
Other business services	13,297	12,775	130	112	65	50	148
Public and community services	7,582	7,403	70	22	21	15	57
Other sectors	42,600	38,004	3,621	1,858	768	42	1,243
Total commercial	260,513	248,867	7,992	3,874	944	10	3,712
Private individuals – housing loans	96,480	94,590	696	2	31	9	443
Private individuals – other	59,540	56,420	904	760	193	297	785
Total public – activity in Israel	416,533	399,877	9,592	4,636	1,168	316	4,940
Banks in Israel	2,905	2,905	-	-	-	-	-
Israeli government	41,585	41,585	-	-	-	-	-
Total activity in Israel	461,023	444,367	9,592	4,636	1,168	316	4,940
Total public – activity overseas	32,832	30,628	1,294	661	109	36	303
Banks and governments overseas	41,733	41,733	-	-	(1)	-	8
Total activity overseas	74,565	72,361	1,294	661	108	36	311
Total activity in Israel and overseas	535,588	516,728	10,886	5,297	1,276	352	5,251

(1) Balance sheet credit risk and off-balance sheet credit risk<sup>(3)</sup>, including in respect of derivative instruments. Includes debts<sup>(2)</sup>, bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 317,689, 57,713, 471, 11,143, and 148,572 million, respectively.

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

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

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

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

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

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## 3.2.3. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 106 billion as at September 30, 2020.

**Table 3-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal area of activity**

	Balance as at September 30, 2020			Balance as at December 31, 2019		
	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	<b>3,080</b>	<b>1,932</b>	<b>5,012</b>	3,566	2,484	6,050
Construction for industry	<b>365</b>	<b>93</b>	<b>458</b>	421	99	520
Housing construction	<b>18,348</b>	<b>*30,973</b>	<b>49,321</b>	17,960	*28,208	46,168
Yield-generating properties	<b>25,514</b>	<b>5,432</b>	<b>30,946</b>	22,866	4,945	27,811
Other	<b>9,964</b>	<b>10,254</b>	<b>20,218</b>	9,946	10,498	20,444
Total construction and real-estate sectors	<b>57,271</b>	<b>48,684</b>	<b>105,955</b>	54,759	46,234	100,993

\* Includes off-balance sheet credit risk in the amount of approximately NIS 3,755 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 3,589 million).

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## 3.2.4. Credit exposure to foreign countries

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

**Table 3-8: Principal exposures to foreign countries<sup>(1)</sup>**

Country	September 30, 2020			December 31, 2019		
	Exposure					
	Balance sheet	Off-balance sheet <sup>(3)(2)</sup>	Total	Balance sheet	Off-balance sheet <sup>(3)(2)</sup>	Total
	NIS millions					
United States	22,940	6,321	29,261	22,900	6,557	29,457
Switzerland	1,225	1,271	2,496	3,626	1,097	4,723
England	8,847	4,259	13,106	7,951	2,985	10,936
Germany	1,077	1,519	2,596	1,165	1,463	2,628
France	2,505	1,269	3,774	1,995	1,512	3,507
Others	11,313	2,335	13,648	11,204	1,689	12,893
Total exposures to foreign countries	47,907	16,974	64,881	48,841	15,303	64,144
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	142	75	217	144	385	529
Of which: total exposure to LDCs	1,386	142	1,528	1,364	187	1,551
Of which: total exposure to countries with liquidity problems*	346	-	346	8	-	8

The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.

Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

\* The list of countries with liquidity problems is based on several criteria established by the Bank. The spread of the coronavirus has raised risk premiums in the financial markets, notably in the emerging markets. Accordingly, and due to developments in capital and other markets, additional countries were placed on the list of countries with liquidity problems during the period of the report, including Turkey, the country of operations of Bank Pozitif, which is held by the Bank. It is emphasized that the addition of a country to the list does not necessarily represent a worsening update of the list

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

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive 313.

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

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## 3.2.5. Credit exposure to foreign financial institutions

Table 3-9: Exposure of the Bank Group to foreign financial institutions<sup>(1)</sup>

	September 30, 2020			December 31, 2019		
	Balance sheet credit risk <sup>(2)</sup>	Present off-balance sheet credit risk <sup>(3)</sup>	Total present credit risk	Balance sheet credit risk <sup>(2)</sup>	Present off-balance sheet credit risk <sup>(3)</sup>	Total present credit risk
NIS millions						
<b>External credit rating<sup>(5)</sup></b>						
AAA to AA-	3,133	2,466	5,599	4,032	2,949	6,981
A+ to A-	16,011	2,506	18,517	13,911	1,709	15,620
BBB+ to BBB-	736	34	770	867	139	1,006
BB+ to B-	2	16	18	12	22	34
Lower than B-	3	4	7	-	-	-
Unrated	493	112	605	312	74	386
Total present credit exposures to foreign financial institutions*	20,378	5,138	25,516	19,134	4,893	24,027
Of which: problematic credit risk <sup>(4)</sup>	-	-	-	-	-	-
Of which: balance of impaired debts	-	-	-	-	-	-
Individual allowance for credit losses	-	-	-	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	20,378	5,138	25,516	19,134	4,893	24,027
Collective allowance for credit losses	6	1	7	4	1	5

\* The balances include the exposure of the Bank Group to financial institutions in the following countries:  
Spain – Total exposure of approximately NIS 64 million, of which a total of NIS 42 million rated A-, a total of NIS 16 million rated BBB+, and a total of NIS 6 million rated BBB- (total exposure at the end of 2019 was approximately NIS 163 million, rated A-).

Italy – Total exposure of approximately NIS 18 million, of which a total of NIS 17 million rated BBB- and the remaining amount of NIS 1 million rated BB (total exposure at the end of 2019 was approximately NIS 83 million, of which a total of NIS 76 million rated BBB and the remaining amount of NIS 7 million rated BBB-).

There is no exposure to financial institutions in Ireland, Greece, or Portugal.

- (1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities. However, credit exposure to foreign financial institutions backed by government guarantees is not included.
- (2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
- (3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
- (4) Credit risk that is impaired, substandard, or under special supervision.
- (5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch.

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The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 25.5 billion on September 30, 2020, an increase of approximately NIS 1.5 billion, compared with approximately NIS 24.0 billion at the end of 2019. This increase resulted from an increase in balance sheet exposure in the amount of approximately NIS 1.3 billion, and an increase in off-balance sheet exposure in the amount of approximately NIS 0.2 billion. Approximately 94.5% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 81.62% in banks and bank holding companies, 17.36% in insurance companies, and 1.02% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (64.16%) and in the United States (24.1%).

Due to the concerns over the negative effects of the coronavirus pandemic on the global economy and on the financial results of financial institutions worldwide, increases were recorded in the first quarter of 2020 in the spreads and CDS prices of most of the foreign financial institutions with which the Bank has activity. Concurrently, the rating agencies (Fitch, S&P, and Moody's) also changed their rating outlooks for many of these institutions to Negative, and lowered long-term credit ratings for a few of the institutions. This trend moderated during the second and third quarters, so that spreads and CDS prices approached pre-crisis levels. The Bank continues to monitor the financial institutions frequently and regularly, and, as necessary, acts to reduce all of the relevant risks, including credit risk and settlement risk.

The data on "banks and governments overseas" in the disclosure of credit risk by economic sector, in the section "Review of risks" and in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020 (hereinafter: the disclosure by economic sector), includes exposures in respect of banks overseas and does not include other financial institutions, which are primarily presented within the financial services sector. This sector also includes central banks, whereas the table above does not include exposure in respect of central banks.

In the disclosure by economic sector, "total credit risk" includes balance sheet and off-balance sheet balances in respect of derivatives, whereas the table above includes only balance sheet balances in respect of derivatives.

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



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## 3.2.6. Risks in the housing loan portfolio

Table 3-10: Risks in the housing loan portfolio

	Balance as at		
	September 30, 2020	September 30, 2019	December 31, 2019
	NIS millions		
<b>Credit balances</b>			
Loans from Bank funds	97,103	87,757	89,777
Loans from Finance Ministry funds*	1,092	1,210	1,173
Grants from Finance Ministry funds*	164	115	123
Total	98,359	89,082	91,073
	For the nine months ended	For the year ended	
	September 30, 2020	September 30, 2019	December 31, 2019
	NIS millions		
<b>Execution of housing loans</b>			
<b>Loans from Finance Ministry funds</b>			
Loans	87	98	124
Grants	45	32	42
Total from Finance Ministry funds	132	130	166
Total loans from Bank funds	15,228	13,596	18,159
Total new loans	15,360	13,726	18,325
Old loans refinanced from Bank funds	1,590	787	1,235
Total loans extended	16,950	14,513	19,560

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

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**Table 3-11: Development of amounts in arrears in housing loans and allowance for credit losses**

	Recorded debt balance	Amount over 90 days in arrears, of total problematic debts	Rate of arrears	Allowance for credit losses in respect of housing loans (including allowance based on the extent of arrears)	Rate of allowance for credit losses in respect of housing loans	Problematic debt	Rate of problematic debt
NIS millions/percent							
<b>September 30, 2020</b>	<b>97,103</b>	<b>129</b>	<b>0.13%</b>	<b>738</b>	<b>0.76%</b>	<b>714</b>	<b>0.74%</b>
December 31, 2019	89,777	109	0.12%	446	0.50%	702	0.78%

In the first nine months of 2020, the rate of amounts in arrears increased marginally, and the rate of problematic debt decreased slightly, compared with the end of 2019. By contrast, the rate of the collective allowance for credit losses in respect of housing loans rose sharply. This increase was influenced by a proactive increase in the collective allowance, to reflect the potential effects of the crisis on future credit losses. According to the guidelines of the Bank of Israel, deferral does not cause the loan to be considered a loan in arrears; if the borrower is already in arrears, the level of arrears is frozen until the end of the deferral.

## Development of housing credit balances

**Table 3-12: 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		Recorded debt balance in NIS millions	Rate of change during the period
	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 %		
<b>September 30, 2020</b>	<b>20,442</b>	<b>21.1%</b>	<b>37,623</b>	<b>38.7%</b>	<b>13,684</b>	<b>14.1%</b>	<b>25,133</b>	<b>25.9%</b>	<b>221</b>	<b>0.2%</b>	<b>97,103</b>	<b>8.2%</b>
December 31, 2019	17,301	19.3%	34,565	38.5%	13,811	15.4%	23,834	26.5%	266	0.3%	89,777	10.2%
December 31, 2018	14,503	17.8%	31,060	38.1%	13,539	16.6%	21,984	27.0%	368	0.5%	81,454	9.3%

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## 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.

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 Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, the rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

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

Data are reported on a monthly basis in a divisional 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, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place (life insurance and building insurance).

**Table 3-13: Developments in housing credit balances, last five quarters**

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
	NIS millions				
Balances at end of period	<b>97,103</b>	94,615	92,536	89,777	87,757
Change in balances	<b>2.6%</b>	2.2%	3.1%	2.3%	2.3%
Execution of new loans	<b>5,285</b>	4,363	5,712	4,729	4,843

## Housing loan data – percentage of total new loans executed

Table 3-14: Characteristics of housing credit granted by the Bank

	For the three months ended				
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
<b>Characteristics</b>					
Financing rate over 60%	<b>43.3%</b>	40.7%	39.7%	40.2%	37.7%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	<b>0.0%</b>	0.0%	0.1%	0.0%	0.1%
Percentage with floating interest rates varying at a frequency of less than 5 years	<b>32.8%</b>	33.1%	32.0%	30.8%	32.7%
Percentage with floating rates	<b>58.4%</b>	58.7%	58.4%	58.1%	59.9%
Percentage of all-purpose loans	<b>5.1%</b>	5.2%	4.9%	5.7%	5.6%
Loans for investment purposes as a percentage of total purchases of homes	<b>6.9%</b>	7.9%	8.6%	9.2%	9.2%
Principal planned for repayment after age 67 (excluding investments)	<b>8.1%</b>	8.0%	7.9%	7.4%	7.1%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	<b>24.6</b>	24.7	24.3	24.3	24.1

The upward trend in balances of housing loans continued in the reported quarter.

The growth rate in the third quarter does not reflect deceleration of activity, and resembles the growth rate of the period preceding the crisis.

Data on housing loans granted in the third quarter point to an increase (worsening) in the indicator of the percentage of credit granted with a financing rate greater than 60%.

The following indicators were stable:

- The percentage of loans with payment to income ratios greater than 40%.
- The percentage of loans with floating interest rates, particularly the percentage of loans with interest rates varying at a frequency of less than 5 years (slight decrease).
- The percentage of execution of all-purpose loans (slight decrease).
- The average term to maturity of loans for purchases of homes (excluding bridge loans).
- The percentage of principal scheduled for repayment after the age of 67 (slight increase).

The indicator of loans for investment purposes as a percentage of total purchases of homes decreased.

Note that the increase in financing rates greater than 60% is influenced by the volume of mortgages in Mechir Lamishtaken ("Tenant Price") program projects and by the downward trend in the proportion of loans for investment purposes (which are limited to a financing rate of up to 50%).

## 3.2.7. Credit to private customers (excluding housing)

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

Private customers in the Retail Banking Division are offered, among other things, online credit in the form of Instant Credit. The maximum amount of the loan that a customer can receive and the terms of the loan are determined based on various criteria, according to data regarding the customer and the customer's accounts. The Bank's growth plan with regard to banking products, including in the area of credit, is based on aspects of growth potential as well as risk aspects, including the expected growth of the economy, customers' repayment capability, the expected volume of repayments, and more. The Bank routinely monitors credit execution and risk.

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

**Table 3-15: Balance of credit to private individuals in Israel**

	Balance as at		Change	
	September 30, 2020	December 31, 2019		
	NIS millions			
<b>Balance sheet</b>				
Negative balance in current accounts	<b>2,853</b>	3,216	(363)	(11.29%)
Loans <sup>(1)</sup>	<b>24,413</b>	26,996	(2,583)	(9.57%)
Of which: bullet and balloon loans	<b>59</b>	78	(19)	(24.36%)
Credit for purchases of motor vehicles <sup>(2)</sup>	<b>3,091</b>	3,511	(420)	(11.96%)
Debtors in respect of credit-card activity	<b>4,376</b>	4,958	(582)	(11.74%)
Total balance sheet credit risk	<b>34,733</b>	38,681	(3,948)	(10.21%)
<b>Off-balance sheet</b>				
Off-balance sheet credit risk	<b>21,713</b>	21,092	621	2.94%
Total credit risk	<b>56,446</b>	59,773	(3,327)	(5.57%)

(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.

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**Table 3-16: Distribution of risk of balance sheet credit to private individuals in Israel, by average income<sup>(1)</sup> and loan size**

	September 30, 2020				December 31, 2019			
	Account income			Total	Account income			Total
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions							
Credit per borrower in NIS thousands								
Up to 20	1,483	933	1,011	3,427	1,645	960	982	3,587
20 to 40	1,534	832	916	3,282	1,710	879	1,024	3,613
40 to 80	3,299	2,367	1,899	7,565	3,721	2,415	2,052	8,188
80 to 150	3,146	4,371	3,760	11,277	3,626	4,782	4,140	12,548
150 to 300	713	2,385	4,833	7,931	812	2,805	5,749	9,366
Over 300	136	122	993	1,251	67	154	1,158	1,379
Total	10,311	11,010	13,412	34,733	11,581	11,995	15,105	38,681

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

**Table 3-17: Distribution of risk of balance sheet credit to private individuals in Israel, by borrowers' financial asset portfolio balance**

	September 30, 2020	December 31, 2019
Balance sheet credit risk		
NIS millions		
<b>Size of financial asset portfolio, in NIS thousands</b>		
Up to 10	18,858	22,491
10 to 50	6,485	6,574
50 to 200	4,993	4,999
200 to 500	2,175	2,219
Over 500	2,222	2,398
Total	34,733	38,681

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**Table 3-18: Distribution of risk of balance sheet credit to private individuals in Israel, by type of interest and remaining repayment period**

	September 30, 2020			December 31, 2019		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
NIS millions						
<b>Repayment period</b>						
Up to one year	<b>2,774</b>	<b>4,844</b>	<b>7,618</b>	3,066	5,440	8,506
1 to 3 years	<b>7,355</b>	<b>77</b>	<b>7,432</b>	7,473	84	7,557
3 to 5 years	<b>12,454</b>	<b>113</b>	<b>12,567</b>	13,649	115	13,764
Over 5 years	<b>7,001</b>	<b>115</b>	<b>7,116</b>	8,732	122	8,854
Total	<b>29,584</b>	<b>5,149</b>	<b>34,733</b>	32,920	5,761	38,681

**Table 3-19: Information regarding problematic debts in respect of private individuals in Israel**

	Balance as at		Change	Percentage of total balance sheet credit risk As at	
	September 30, 2020	December 31, 2019		September 30, 2020	December 31, 2019
	NIS millions				
Problematic credit risk	849	905	(6.2%)	2.4%	2.3%
Of which: impaired credit risk	777	760	2.2%	2.2%	2.0%
Debts in arrears of more than 90 days	39	93	(58.1%)	0.1%	0.2%
Net charge-offs for the period	194	297	<sup>(1)</sup> (12.9%)	0.7%	<sup>(1)</sup> 0.8%
Allowance for credit losses	1,078	785	37.3%	3.1%	2.0%

(1) Calculated on an annualized basis.

In the first nine months of 2020, the balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, continued to decrease, by approximately 9.8%. Total balance sheet credit risk decreased by approximately 10.2%.

The balance of debts in arrears of more than ninety days decreased sharply in the first nine months of the year, by 58.1%. This decrease was influenced by the option to defer payments, among other factors. The problematic credit risk balance decreased by 6.2%, but rose as a percentage of total balance sheet credit risk, due to a decrease in the volume of the portfolio. Net charge-offs for the period decreased by 12.9% in annualized terms, influenced, among other matters, by the option to defer payments with suspension of the state of arrears during the payment deferral period.

The following indicators increased:

- The balance of impaired credit risk increased by 2.2%.
- The allowance for credit losses rose sharply, by 37.3%, influenced by the increase in the collective allowance.

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Data for the first nine months of 2020 indicate a significant decrease in the balance of debts in arrears of more than ninety days, the problematic credit risk balance, and net charge-offs for the period (in annualized terms), versus an increase in the impaired credit balance and a sharp increase in the allowance for credit losses. Other than a certain increase in impaired credit risk, and the effect of the collective allowance on the allowance for credit losses, the impacts of the spread of the coronavirus have not yet been reflected; a more substantial effect on portfolio quality indicators is expected in the future. The extent of this effect depends on the extent of the actual damage to employers and the ability of the economy to recover rapidly. If the damage to borrowers' wages, and particularly the increase in unemployment, are significant, credit losses may increase significantly. Government measures to support the unemployed and accelerate economic recovery may serve as a moderating factor. To the extent that such measures are successful, the effect of the crisis on the quality of this exposure portfolio will be more moderate.

## 3.2.8. Leveraged financing

**Table 3-20: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower**

	September 30, 2020			
	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	3	508	1,014	1,522
Construction and real estate – real-estate activities	1	435	-	435
Mining and quarrying*	2	279	-	279
Industry	1	422	-	422
Other business services	1	90	176	266
Total	8	1,734	1,190	2,924

\* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 733 million.

	December 31, 2019			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
	NIS millions			
<b>Economic sector of the borrower</b>				
Construction and real estate – real-estate activities	1	103	110	213
Mining and quarrying*	2	498	-	498
Electricity and water*	1	-	266	266
Information and communications	1	235	9	244
Commerce	1	338	83	421
Industry	2	633	-	633
Total	8	1,807	468	2,275

\* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 591 million.



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## 3.2.9. Credit risk in respect of exposure to major borrowers

Table 3-21: Balances of balance sheet credit risk and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	September 30, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
Economic sector				
Industry	2	42	3,980	4,022
Construction and real estate – construction	1	198	1,068	1,266
Electricity and water supply	1	599	1,590	2,189
Financial services	5	6,796	7,009	13,805
Total	9	7,635	13,647	21,282
	December 31, 2019			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
Economic sector				
Industry	2	26	4,012	4,038
Electricity and water supply	1	1,419	1,261	2,680
Hotels, hospitality, and food services	1	941	261	1,202
Financial services	6	9,225	6,320	15,545
Total	10	11,611	11,854	23,465

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## 3.2.10. Credit risk in respect of exposure to borrower groups

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

**Table 3-22: Credit risk balances<sup>(1)</sup> for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at September 30, 2020**

	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments <sup>(2)</sup>	Gross indebtedness <sup>(3)</sup>	Deductions <sup>(4)</sup>	Net indebtedness <sup>(1)</sup>	Percentage of regulatory capital
NIS millions							
Borrower group A	<b>2,373</b>	<b>4,496</b>	<b>-</b>	<b>6,873</b>	<b>-</b>	<b>6,873</b>	<b>17.72%</b>
Borrower group B	<b>2,673</b>	<b>3,327</b>	<b>173</b>	<b>6,001</b>	<b>7</b>	<b>5,993</b>	<b>15.45%</b>

(1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.

(3) This amount includes third-party guarantees outside the group.

(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

## 3.3. Market risk

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

During the first quarter of 2020, as a result of the effects of the coronavirus outbreak crisis, the level of volatility of risk factors in the financial markets increased, including exchange rates, basis spreads, share prices, and bond prices. In addition, interest rates of central banks decreased. The volatility subsided during the second quarter, and stock and corporate bond indices recovered; in general, this continued into the third quarter. As a result of the calmer markets, decreases were recorded in some market and investment risk estimates of activity in the trading book, the banking book, and the investment portfolio of the Bank, and of the customers of the Bank with activity in derivatives. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – and the changes in yield curves in the market affect the reduction of the future financing income and interest income of the Bank, as well as the fair value and economic value, as detailed in the tables below. For further details, see [the section "Economic and financial review"](#) and [the section "Effect of the spread of the coronavirus,"](#) above.

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## 3.3.1. Interest-rate risk

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

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

Table 3-23: Adjusted net fair value\* of the financial instruments of the Bank and its consolidated companies

	September 30, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value*	<b>33,259</b>	<b>(106)</b>	<b>33,153</b>	32,183	382	32,565
Of which: banking book	<b>32,414</b>	<b>(66)</b>	<b>32,348</b>	32,307	(295)	32,012

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

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

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**Table 3-24: Effect of scenarios of changes in interest rates on the adjusted net fair value\* of the Bank and its consolidated companies**

	September 30, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
NIS millions						
<b>Parallel changes</b>						
1% parallel increase	(455)	32	(423)	56	89	145
Of which: banking book	(486)	45	(441)	35	106	141
1% parallel decrease	552	(19)	533	(19)	(96)	(115)
Of which: banking book	583	(25)	558	2	(105)	(103)
<b>Non-parallel changes</b>						
Steepening <sup>(1)</sup>	(551)	(163)	(714)	(339)	(138)	(477)
Flattening <sup>(2)</sup>	445	135	580	369	129	498
Increase in short-term interest rate	183	71	254	309	84	393
Decrease in short-term interest rate	(232)	(79)	(311)	(340)	(89)	(429)

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

(1) Steepening – decrease in the short-term interest rate and increase in the long-term interest rate.

(2) Flattening – increase in the short-term interest rate and decrease in the long-term interest rate.

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

**Table 3-25: Effect of scenarios of changes in interest rates on interest income**

	September 30, 2020			December 31, 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
NIS millions						
1% parallel increase	985	198	1,183	924	327	1,251
Of which: banking book	985	178	1,163	924	323	1,247
1% parallel decrease	(419)	(363)	(782)	(746)	(406)	(1,152)
Of which: banking book	(419)	(345)	(764)	(746)	(395)	(1,141)

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Income sensitivity in the table above was calculated by changing interest-rate curves, using assumptions regarding changes in deposit spreads; assumptions of transfer of monies from current accounts to deposits in the case of an increase in the interest rate, versus stability of balances in the case of a decrease in the interest rate; and assumption of interest-rate floors, such that the various interest-rate curves fall to zero. In the foreign-currency segment, the interest-rate curve falls to the lower of zero or the existing negative interest rate. In some of the scenarios, the theoretical loss in the event of a negative interest rate (below the floor) may be higher. The sensitivity of the trading book was calculated using the MTM approach. The decrease in the sensitivity of interest to a decrease in the interest rate resulted from the decrease in the interest rates of the central banks, which brought interest rates closer to the interest-rate floor, combined with certain changes in the position and in assumptions regarding curves.

For details and more extensive information regarding market risks, including interest-rate risk, exchange-rate risk, and investment risk (share and credit spread risk), see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#), and [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at June 30, 2020](#).

## 3.3.2. Exchange-rate risk

Currency risks (also known as linkage-base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole.

**Table 3-26: Sensitivity to changes in the exchange rates of foreign currencies with a significant volume of activity and to changes in the consumer price index**

	September 30, 2020		December 31, 2019	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	<b>(75)</b>	<b>107</b>	189	68
EUR	<b>58</b>	<b>(52)</b>	45	26
	3% increase	3% decrease	3% increase	3% decrease
Consumer price index*	<b>275</b>	<b>(391)</b>	220	(347)

\* Sensitivity data for 2019 were updated due to the reclassification of the balance of employee liabilities in respect of employee benefits from the unlinked segment to the CPI-linked segment. As a result, sensitivity to a 3% change in the CPI at the end of 2019 changed by approximately NIS 135 million.

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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 using 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, plus the effect of the CPI floor on the expected accounting profit.

### 3.4. Liquidity and refinancing risk

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

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

Table 3-27: Liquidity coverage ratio

	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the three months ended December 31, 2019
	%		
<b>a. Consolidated data</b>			
Liquidity coverage ratio	<b>132%</b>	124%	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	<b>100%</b>	100%	100%
<b>b. Bank data</b>			
Liquidity coverage ratio	<b>131%</b>	124%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	<b>100%</b>	100%	100%

No material changes have occurred in liquidity risk management policy and in resource raising policy since the beginning of this year.

Liquidity pressures were observed in the foreign-currency market in Israel in March, due to the spread of the coronavirus. These pressures subsided towards the end of that month. Within the management of liquidity risk, the Bank took actions contributing to maintaining and improving its liquidity ratio, in addition to the increase arising from the change in the composition of deposits, which included an increase in retail deposits towards the end of the first quarter. No liquidity pressures were observed in the second and third quarters, and the Bank continued to maintain adequate liquidity ratios, which actually rose during this period. The increase in the LCR resulted from factors including the continued growth in retail deposits.

For more extensive information regarding liquidity risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#); [the Annual Financial Statements for 2019](#); and [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020](#).

### 3.5. 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, and the Chief Compliance Officer, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

In view of the spread of the coronavirus, the Bank applied a series of processes and measures, including those described below in the sections on information security and cyber risks and emergency preparedness. In general, the operational risks related to the crisis and its effects have been analyzed, and the estimate is that this way of working may increase exposure to operational risks. Appropriate controls and measures to minimize risk are being considered and implemented. However, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full future effects of the crisis of the spread of the coronavirus on the development of operational risk at the Bank.

## 3.5.1. Information security and cyber risks

Cyber risk is the risk of damage, including disruption, disturbance, shutdown of operations, theft of property, collection of intelligence, or damage to reputation or the confidence of the public, as a result of a cyber event. Cyber activity is conducted as required in the directives of the Bank of Israel, including Proper Conduct of Banking Business Directive 361, "Cyber Defense Management"; Proper Conduct of Banking Business Directive 363, "Supply Chain"; the Protection of Privacy Law, 1981; and other laws, as relevant, with the aim of protecting the information-technology system and minimizing risks. Information security and cyber risks at the Bank are managed by the Information Security and Cyber Defense Unit in the Information Technology Division.

The sophistication and severity of cyber attacks on the global financial sector have escalated in recent years. Technological development trends such as cloud computing, openness to external interfaces, and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks. The banking sector in Israel, including the Bank, regularly experiences cyber attacks, such as DDoS (distributed denial of service – attacks designed to shut down a computer system by overloading its resources), phishing (attempts to steal sensitive information through impersonation on the Internet), etc. No material cyber events with an effect on the financial statements were discovered at the Bank in the first three quarters of 2020. Note that the quantity of phishing attempts and the intensity of DDoS attacks faced by the Bank have grown in recent months; however, as stated, there has been no significant damage.

The Bank is investing extensive resources (both human and technological) in strengthening its information security and cyber defense system, in order to cope with the development of these threats. The Bank's defense framework consists of layers of protection using advanced technologies. The Bank operates cyber defense processes in order to minimize the risk of penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of its databases. Concurrently, the Bank operates processes to discover and identify cyber events, at all times, including the operation of the Information Security Event Center. The Bank also prepares to contain cyber events and minimize the damage to the assets of the Bank and its customers. The Bank continually works to identify targets to defend, threats, risks, and the effectiveness of defenses, and to build work plans for improvement of the defensive framework accordingly.

The Bank routinely updates its risk assessment in view of insights from cyber events in Israel and worldwide relevant to the systems and business of the Bank. The Bank also accords high importance to maintaining an organizational culture of risk management, and therefore takes various actions (such as lectures, messaging, and exercises at various levels) to raise employee awareness of cyber risks.

The Cyber Risk Management Unit in the Risk Management Division establishes indices and methodologies for the evaluation of the maturity of defenses, analyzes the business implications of cyber scenarios, challenges the defense system, and examines developments in the area of cyber risk relevant to the technological and business systems of the Bank.



The Bank has updated its cyber risk estimate, in accordance with the development of threats during the period of the spread of the coronavirus, and is taking comprehensive action to reduce this risk, particularly in view of the change in the form of work at the Bank and the significant transition of employees to remote work. The cyber defense units have developed a response aimed at reducing the risk of remote work, and in addition, have instructed employees and suppliers on ways of reducing the risk, including by raising awareness of the new and developing cyber risks. Preparedness has also been increased with respect to possible phishing and fraud against customers through exploitation of the crisis and the fears of the public.

### **3.5.2. Emergency preparedness**

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the Bank of Israel's Directive 355, "Business Continuity Management"; Directive 357, "Information Technology Management"; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on globally prevalent methodologies. This process is updated routinely, and presented for approval on an annual basis. The action plan involves all divisions of the Bank, through divisional business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management (BCM) Department, which reports to the Head of Business Continuity of the Bank and to the Head of the Emergency Committee of the Bank (the Head of Finance).

The business continuity policy has also been adopted by the subsidiaries in Israel and globally, and at the Bank's overseas branches, in congruence with the corporate-governance policy and the guidelines of the Bank of Israel. In addition, the Bank holds periodic emergency drills covering operational scenarios as well as complex business scenarios, with the participation of the various units, from branches, regional managements, units, and divisions to the Board of Management of the Bank. The Bank has a remote central IT site, to ensure the availability and protection of its information systems and of the information itself. The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

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As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios, including a pandemic scenario. The Bank operated in an emergency format beginning in the late first quarter, due to the spread of the coronavirus. The work schedule at the Bank was reduced relative to ordinary conditions, while the operation of critical business services continued, with no material change in employees' terms of employment and benefits. In May, the Bank resumed full work schedules, with work methods adapted for the changing circumstances. The emergency format was reapplied at the end of the third quarter. Throughout this period, the Bank has acted on all levels in accordance with the emergency regulations for the reduction of the spread of the coronavirus, the instructions of the Ministry of Health, the regulatory reliefs and instructions of the Bank of Israel, and other binding regulations, in order to ensure the continued delivery of service to its customers through the various channels. The Bank's emergency plans have been activated during this period, in order to reduce the probability of extensive contagion, including splitting of essential units among different buildings or floors, and/or transition to working in homogeneous shifts, to the extent possible. Remote work (work from home) capabilities have also been enhanced. Sanitizing, hygiene, and protective materials have been distributed at all of the buildings of the Bank; the required distance is maintained between employees in all spaces; and employees who come to the office in person submit health declarations. Managers have been designated as Coronavirus Supervisors, charged with implementation of all instructions that are in effect. The instructions are continuously communicated to managers and employees. Ongoing monitoring and communication are maintained with employees who are in isolation or sick, and a system for assistance and information for employees has been established. Branches provide service via appointments scheduled in advance, with adherence to the instructions regarding the reception of the public, according to the binding emergency directives and hygiene guidelines. Extensive ongoing communication with the customers of the Bank is conducted through the various channels, in order to provide updates regarding the routine operation of the branch network; the application of eased requirements regarding connection or identification of customers on the direct channels in order to facilitate service, including with regard to the delivery of credit cards and checkbooks to customers; and the application of eased requirements permitted by regulators. The Bank is in contact with its essential suppliers to ensure continued and continuous service, as well as with its subsidiaries in Israel and overseas and its overseas branches, and with its various partners in the banking system and in financial services. The Bank of Israel receives reports at the frequency it determines, or upon exceptional events, according to the instructions. The work schedule is updated from time to time, according to instructions and various developments.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed contingency plans are in place. Stress scenarios are reviewed and discussed periodically by the Committee on Stress Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; note that a charter for the establishment of such a committee is also part of the contingency plans.

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During the quarter ended on September 30, 2020, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting, including the potential effects of the coronavirus event on the financial reporting systems and on the system of disclosure controls.

For additional information regarding operational risk and the management thereof, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

### 3.6. Compliance risk

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

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

Compliance risk also encompasses risk related to the activity of the Bank with banks located in the Palestinian Authority, which requires the fulfillment of various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services.

In January 2018, the Bank received signed letters of immunity and indemnity from the Attorney General and the Ministry of Finance. The letter of immunity protects the Bank, its officers, and its employees from indictment in Israel for certain offenses related to money laundering and the prevention of terrorism financing in relation to services granted, or to be granted, by the Bank to Palestinian banks from March 28, 2016, to May 31, 2019 (the "Immunity and Indemnity Period"). Further to the letter of immunity, in January 2018, the Bank received a letter from the Supervisor of Banks in which she gave notice that no enforcement measures would be taken in all matters related to actions of the Bank in connection with the provision of correspondent services to which the letter of immunity applies.

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In the letter of indemnity, the State of Israel made a commitment to indemnify the Bank, in an amount up to NIS 1.5 billion, for expenses (liability according to a verdict and legal expenses) borne by the Bank, within civil proceedings or criminal proceedings that do not end in a conviction, prosecuted against the Bank or an officer or employee thereof in connection with the provision of the correspondent services during the Immunity and Indemnity Period. The immunity and indemnity commitments granted to the Bank, as noted, are subject to reservations stated therein and to conditions that the Bank must fulfill.

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019, extending the indemnity period until February 28, 2021 (and May 31, 2021 at the latest). Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). An updated letter was also issued by the Attorney General extending the immunity period until May 31, 2021.

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, 2019](#).

### 3.7. Other risks

For details and more extensive information regarding legal risk, reputational risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk, see [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020](#), and [the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019](#).

### 3.8. Severity of risk factors

The risk factors and the Board of Management's estimates regarding the severity of the risk of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high). For details, see [the Report on Risks for 2019](#).

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Table 3-28: Severity of risk factors

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

\* The level of credit risk was raised to Medium-High in the first quarter of 2020, in light of the crisis of the spread of the coronavirus and its present and possible future effects on economic conditions.

\*\* Following the approval of the resolutions with the United States authorities regarding the tax investigation and the FIFA investigation (see [Note 10D and 10E](#) to the Condensed Financial Statements, including with regard to the Bank's obligations pursuant to the resolutions), the level of compliance risk was returned to Medium in the first quarter of 2020 (from the previous level of Medium-High). This also includes the risk to which the Bank is exposed as a result of the aforesaid resolutions.

However, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full future effects of the crisis of the spread of the coronavirus on the severity of all of the risk factors. The estimates of the Bank regarding the possible ramifications of the crisis and its impact on the markets constitute forward-looking information, as defined in the section, "Forward-looking information." These estimates are uncertain, and may materialize in a manner materially different than described above.

### **3.9. Effect of the discontinuation of publication of the LIBOR interest rate**

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel. Accordingly, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

## 4. Critical accounting policies and estimates; controls and procedures

### 4.1. Critical accounting policies and estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Annual Financial Statements as at December 31, 2019. In implementing the accounting principles, the Board of Management of the Bank uses various assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

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

The management estimates and principal assumptions used in the implementation of the Group's accounting policies are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2019.

### Allowance for credit losses

As part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are examined to estimate the impacts on the Bank.

For details regarding the scenarios and the effect thereof on credit risk, and regarding the exposure and credit risk by economic sector, see [the section, "Credit risk,"](#) above.

### 4.2. Controls and procedures

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

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

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

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

The Bank is updating the documentation of the material control processes for 2020, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examining the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year. The main part of this process is being carried out during the second half of the year, as planned. During the third quarter of 2020, the sample for testing of the effectiveness of key controls that may potentially be affected by the coronavirus crisis was expanded.

### **Evaluation of controls and procedures concerning disclosure**

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at September 30, 2020. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

### **Changes in internal control**

During the quarter ended on September 30, 2020, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

**Reuven Krupik**

Chairman of the Board of Directors

**Dov Kotler**

President and Chief Executive Officer

Tel-Aviv, November 18, 2020



## Declarations of Internal Control Over Financial Reporting

as at September 30, 2020

### CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on September 30, 2020 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
  - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
  - B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
  - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
  - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
  - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
  - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

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

**Dov Kotler**

President and Chief Executive Officer

Tel-Aviv, November 18, 2020

## Declarations of Internal Control Over Financial Reporting

as at September 30, 2020

### Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended on September 30, 2020 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
  - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
  - B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and with regard to the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
  - C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
  - D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control over financial reporting:
  - A. Any significant deficiencies or material weaknesses in the establishment or application of internal control over financial reporting that could reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
  - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

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

**Ofer Levy**

Senior Deputy Managing Director,  
Chief Accountant

Tel-Aviv, November 18, 2020

# **Bank Hapoalim**

Condensed Financial Statements  
as at September 30, 2020



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

### **Introduction**

We have reviewed the accompanying financial information of Bank Hapoalim B.M. and its subsidiaries (hereinafter - "the Bank") comprising of the condensed consolidated interim balance sheet as of September 30, 2020 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the nine and three month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim reporting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with Standard on Review Engagements Israel 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

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

### **Emphasis of a Matter**

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

### **Somekh Chaikin**

Certified Public Accountants (Isr)

### **Ziv Haft**

Certified Public Accountants (Isr)

Tel Aviv, November 18, 2020





# Condensed Financial Statements

as at September 30, 2020

## Condensed Consolidated Statement of Profit and Loss for the periods ended September 30, 2020

NIS millions

	Note	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
		2020	2019	2020	2019	2019
		Unaudited				Audited
Interest income	2	<b>2,607</b>	2,593	<b>7,681</b>	9,148	11,920
Interest expenses	2	<b>(406)</b>	(310)	<b>(1,122)</b>	(2,122)	(2,601)
Net interest income		<b>2,201</b>	2,283	<b>6,559</b>	7,026	9,319
Provision (income) for credit losses	6(2)	<b>193</b>	(40)	<b>2,130</b>	400	1,276
Net interest income after provision for credit losses		<b>2,008</b>	2,323	<b>4,429</b>	6,626	8,043
<b>Non-interest income</b>						
Non-interest financing income	3	<b>335</b>	58	<b>834</b>	313	559
Fees		<b>755</b>	815	<b>2,364</b>	2,404	3,240
Other income		<b>11</b>	11	<b>82</b>	58	90
Total non-interest income		<b>1,101</b>	884	<b>3,280</b>	2,775	3,889
<b>Operating and other expenses</b>						
Salaries and related expenses		<b>988</b>	*1,033	<b>2,913</b>	*3,119	*4,108
Maintenance and depreciation of buildings and equipment		<b>336</b>	351	<b>978</b>	989	1,334
Other expenses		<b>527</b>	*586	<b>1,702</b>	*1,731	*3,334
Total operating and other expenses		<b>1,851</b>	1,970	<b>5,593</b>	5,839	8,776
Profit from continued operations before taxes		<b>1,258</b>	1,237	<b>2,116</b>	3,562	3,156
Provision for taxes on profit from continued operations		<b>449</b>	523	<b>885</b>	1,413	1,681
Profit from continued operations after taxes		<b>809</b>	714	<b>1,231</b>	2,149	1,475
The Bank's share in profits of equity-basis investees, after taxes		<b>5</b>	3	<b>7</b>	7	11
Net profit from continued operations		<b>814</b>	717	<b>1,238</b>	2,156	1,486
Net profit (loss) from a discontinued operation	1E	-	16	<b>(109)</b>	258	296
<b>Net profit</b>						
Before attribution to non-controlling interests		<b>814</b>	733	<b>1,129</b>	2,414	1,782
Loss attributed to non-controlling interests		<b>2</b>	3	<b>12</b>	14	17
Attributed to shareholders of the Bank		<b>816</b>	736	<b>1,141</b>	2,428	1,799
<b>Earnings per ordinary share in NIS</b>						
<b>Basic earnings</b>						
Net profit attributed to shareholders of the Bank		<b>0.61</b>	0.55	<b>0.86</b>	1.82	1.35
Net profit attributed to shareholders of the Bank from continued operations		<b>0.61</b>	0.54	<b>0.94</b>	1.63	1.13
<b>Diluted earnings</b>						
Net profit attributed to shareholders of the Bank		<b>0.61</b>	0.55	<b>0.86</b>	1.81	1.35
Net profit attributed to shareholders of the Bank from continued operations		<b>0.61</b>	0.54	<b>0.94</b>	1.62	1.13

\* Reclassified.

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

**Reuven Krupik**  
Chairman of the  
Board of Directors

**Dov Kotler**  
President and  
Chief Executive Officer

**Ofer Levy**  
Senior Deputy Managing Director,  
Chief Accountant

Tel Aviv, November 18, 2020

## Condensed Financial Statements

as at September 30, 2020

### Condensed Consolidated Statement of Comprehensive Income for the periods ended September 30, 2020

NIS millions

	Note	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
		2020	2019	2020	2019	2019
		Unaudited				Audited
Net profit before attribution to non-controlling interests		<b>814</b>	733	<b>1,129</b>	2,414	1,782
Net loss attributed to non-controlling interests		<b>2</b>	3	<b>12</b>	14	17
Net profit attributed to shareholders of the Bank		<b>816</b>	736	<b>1,141</b>	2,428	1,799
Other comprehensive income (loss) before taxes:	4					
Net adjustments in respect of bonds available for sale at fair value		<b>121</b>	128	<b>265</b>	581	581
Adjustments of employee benefit liabilities*		<b>72</b>	(183)	<b>283</b>	(267)	(876)
Other comprehensive income (loss) before taxes		<b>193</b>	(55)	<b>548</b>	314	(295)
Effect of related tax		<b>(66)</b>	32	<b>(190)</b>	(78)	119
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes		<b>127</b>	(23)	<b>358</b>	236	(176)
Net of other comprehensive loss attributed to non-controlling interests		<b>1</b>	-	<b>1</b>	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		<b>128</b>	(23)	<b>359</b>	236	(176)
Comprehensive income before attribution to non-controlling interests		<b>941</b>	710	<b>1,487</b>	2,650	1,606
Comprehensive loss attributed to non-controlling interests		<b>3</b>	3	<b>13</b>	14	17
Comprehensive income attributed to shareholders of the Bank		<b>944</b>	713	<b>1,500</b>	2,664	1,623

\* Mainly reflects adjustments in respect of actuarial estimates at the end of the period, and deduction of amounts previously recorded in other comprehensive income.

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Consolidated Balance Sheet as at September 30, 2020

NIS millions

		September 30		December 31
	Note	2020	2019	2019
		Unaudited		Audited
<b>Assets</b>				
Cash and deposits with banks		<b>128,421</b>	72,517	88,122
Securities <sup>(1)(2)</sup>	5	<b>67,835</b>	65,592	59,486
Securities borrowed or purchased under agreements to resell		<b>437</b>	529	471
Credit to the public		<b>299,021</b>	294,980	297,647
Allowance for credit losses		<b>(6,176)</b>	(3,973)	(4,707)
Net credit to the public	6,13	<b>292,845</b>	291,007	292,940
Credit to governments		<b>2,573</b>	2,062	1,971
Investments in equity-basis investees		<b>377</b>	107	192
Buildings and equipment		<b>3,227</b>	3,051	3,233
Assets in respect of derivative instruments	11	<b>11,773</b>	12,692	11,143
Other assets <sup>(1)</sup>		<b>6,198</b>	4,961	5,281
Investment constituting a discontinued operation <sup>(3)</sup>	1E	-	829	849
Total assets		<b>513,686</b>	453,347	463,688
<b>Liabilities and capital</b>				
Deposits from the public	7	<b>417,005</b>	348,027	361,645
Deposits from banks		<b>3,280</b>	3,178	3,520
Deposits from the government		<b>391</b>	485	685
Securities lent or sold under agreements to repurchase		<b>6</b>	10	3
Bonds and subordinated notes		<b>24,724</b>	28,337	26,853
Liabilities in respect of derivative instruments	11	<b>12,553</b>	13,728	12,050
Other liabilities (of which: 789; 523; 537, respectively, allowance for credit losses in respect of off-balance sheet credit instruments) <sup>(1)</sup>		<b>16,729</b>	20,321	20,711
Total liabilities		<b>474,688</b>	414,086	425,467
Shareholders' equity	9	<b>38,971</b>	39,218	38,181
Non-controlling interests		<b>27</b>	43	40
Total capital		<b>38,998</b>	39,261	38,221
Total liabilities and capital		<b>513,686</b>	453,347	463,688

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

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

(3) From the second quarter of 2019 to its distribution as a dividend in kind during the first quarter of 2020, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an "investment constituting a discontinued operation."

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Statement of Changes in Equity for the periods ended September 30, 2020

Unaudited  
NIS millions

	For the three months ended September 30, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at June 30, 2020	<b>8,183</b>	<b>11</b>	<b>8,194</b>	<b>(1,121)</b>	<b>30,951</b>	<b>38,024</b>	<b>30</b>	<b>38,054</b>
Net profit (loss) for the period	-	-	-	-	<b>816</b>	<b>816</b>	<b>(2)</b>	<b>814</b>
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	<b>3</b>	<b>3</b>	-	-	<b>3</b>	-	<b>3</b>
Net other comprehensive income (loss) after tax effect	-	-	-	<b>128</b>	-	<b>128</b>	<b>(1)</b>	<b>127</b>
Balance as at September 30, 2020	<b>8,183</b>	<b>14</b>	<b>8,197</b>	<b>(993)</b>	<b>31,767</b>	<b>38,971</b>	<b>27</b>	<b>38,998</b>

\* Excluding a balance of 1,479,008 treasury shares.

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Statement of Changes in Equity for the periods ended September 30, 2020 (continued)

Unaudited  
NIS millions

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

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

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Statement of Changes in Equity for the periods ended September 30, 2020 (continued)

Unaudited  
NIS millions

	For the nine months ended September 30, 2020							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2020	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221
Net profit (loss) for the period	-	-	-	-	1,141	1,141	(12)	1,129
Dividends	-	-	-	-	(720)	(720)	-	(720)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	10	10	-	-	10	-	10
Exercise of equity compensation into shares	16	(16)	-	-	-	-	-	-
Net other comprehensive income after tax effect	-	-	-	359	-	359	(1)	358
Balance as at September 30, 2020	8,183	14	8,197	(993)	31,767	38,971	27	38,998

\* Excluding a balance of 1,479,008 treasury shares.

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Statement of Changes in Equity for the periods ended September 30, 2020 (continued)

Unaudited  
NIS millions

	For the nine months ended September 30, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656
Cumulative effect of initial implementation of US GAAP <sup>(1)</sup>	-	-	-	18	(18)	-	-	-
Adjusted balance as at January 1, 2020, after initial implementation	8,135	38	8,173	(1,176)	30,547	37,544	112	37,656
Net profit (loss) for the period	-	-	-	-	2,428	2,428	(14)	2,414
Dividends	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	10	10	-	-	10	-	10
Exercise of equity compensation into shares	32	(32)	-	-	-	-	-	-
Control of subsidiaries	-	-	-	-	-	-	(39)	(39)
Net other comprehensive income after tax effect	-	-	-	236	-	236	-	236
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(16)	(16)
Balance as at September 30, 2019	8,167	16	8,183	(940)	31,975	39,218	43	39,261

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

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

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Statement of Changes in Equity for the periods ended September 30, 2020 (continued)

Audited  
NIS millions

	For the year ended December 31, 2019							
	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656
Cumulative effect of initial implementation of US GAAP <sup>(1)</sup>	-	-	-	18	(18)	-	-	-
Adjusted balance as at January 1, 2019, after initial implementation	8,135	38	8,173	(1,176)	30,547	37,544	112	37,656
Net profit (loss) for the year	-	-	-	-	1,799	1,799	(17)	1,782
Dividends	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	14	14	-	-	14	-	14
Exercise of equity compensation into shares	32	(32)	-	-	-	-	-	-
Subtraction of non-controlling interests due to loss of control of subsidiaries	-	-	-	-	-	-	(39)	(39)
Net other comprehensive loss after tax effect	-	-	-	(176)	-	(176)	-	(176)
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(16)	(16)
Balance as at December 31, 2019	8,167	20	8,187	(1,352)	31,346	38,181	40	38,221

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

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

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



# Condensed Financial Statements

as at September 30, 2020

## Condensed Consolidated Statement of Cash Flows for the periods ended September 30, 2020

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
<b>Cash flows from (for) operating activity</b>					
Net profit for the period	814	733	1,129	2,414	1,782
<b>Adjustments necessary to present cash flows from operating activity</b>					
The Bank's share in profits of equity-basis investees	(5)	(3)	(7)	(7)	(11)
Depreciation of buildings and equipment	133	142	393	384	520
Amortizations	5	5	14	16	21
Provision (income) for credit losses	193	(40)	2,130	400	1,276
Gain from sale of bonds available for sale and shares not held for trading	(67)	(162)	(123)	(377)	(421)
Realized and unrealized gain from adjustments to fair value of securities held for trading	(51)	(16)	(28)	(93)	(140)
Gain (loss) from realization and impairment of affiliates (including discontinued operation)	6	63	(130)	(74)	(81)
Gain from realization of buildings and equipment	(1)	-	(52)	(4)	(4)
Change in benefit due to share-based payment transactions	(2)	29	(275)	(5)	64
Net change in liabilities in respect of employee benefits	(51)	(17)	(235)	(506)	(483)
Deferred taxes, net	9	65	(275)	(32)	(21)
Gain from sale of credit portfolios	(21)	-	(21)	(1)	(9)
Adjustments in respect of exchange-rate differences	61	545	509	1,427	1,527
Accumulation differentials included in investing and financing activities	35	114	(1,371)	8,108	7,956
<b>Net change in current assets</b>					
Assets in respect of derivative instruments	1,290	(3,117)	(630)	(2,158)	(609)
Securities held for trading	(1,280)	(134)	(1,509)	(1,055)	(259)
Other assets	377	*588	(672)	*810	*872
<b>Net change in current liabilities</b>					
Liabilities in respect of derivative instruments	(1,787)	3,448	503	4,052	2,374
Other liabilities	(89)	*133	(3,331)	*(7,362)	*(6,842)
Net cash from (for) operating activity	(431)	2,376	(3,981)	5,937	7,512

\* Reclassified.

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Consolidated Statement of Cash Flows for the periods ended September 30, 2020 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
<b>Cash flows for investing activity</b>					
Deposits with banks	(185)	(224)	962	315	7
Credit to the public	2,748	(338)	5,221	743	(7)
Credit to governments	(25)	83	(602)	366	457
Securities borrowed or purchased under agreements to resell	(197)	(203)	34	179	237
Acquisition of bonds held to maturity	(80)	-	(155)	(15)	(15)
Proceeds from redemption of bonds held to maturity	34	-	40	119	126
Acquisition of bonds available for sale and shares not held for trading	(5,165)	(17,720)	(39,434)	(52,729)	(56,555)
Proceeds from sale of bonds available for sale and shares not held for trading	4,917	21,089	25,120	38,429	43,958
Proceeds from redemption of bonds available for sale	406	2,225	8,903	6,079	9,671
Acquisition of credit portfolios	(2,083)	(2,015)	(7,028)	(5,721)	(7,804)
Proceeds from sale of credit portfolios	45	-	45	68	113
Investment in equity-basis investees	(156)	-	(177)	-	(136)
Proceeds from realization of investment in deconsolidated subsidiary (Appendix A)	-	-	-	1,356	1,356
Acquisition of buildings and equipment	(157)	(140)	(403)	(383)	(642)
Proceeds from realization of buildings and equipment	3	-	67	7	(52)
Net cash from (for) investing activity	105	2,757	(7,407)	(11,187)	(9,286)

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Consolidated Statement of Cash Flows for the periods ended September 30, 2020 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
<b>Cash flows from (for) financing activity</b>					
Deposits from banks	(138)	144	(240)	(100)	242
Deposits from the public	16,189	(4,085)	55,360	(3,740)	9,878
Deposits from the government	(33)	163	(294)	277	477
Securities lent or sold under agreements to repurchase	2	(9)	3	10	3
Issuance of bonds and subordinated notes	1,323	-	2,372	3,540	3,539
Redemption of bonds and subordinated notes	(1,753)	(1,424)	(4,043)	(4,929)	(6,161)
Dividend paid to shareholders of the Bank	-	-	-	-	(1,000)
Dividend paid to minority interests in consolidated companies	-	-	-	*(16)	*(16)
Net cash from (for) financing activity	15,590	(5,211)	53,158	(4,958)	6,962
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	15,264	(78)	41,770	(10,208)	5,188
Net of the decrease in cash and cash equivalents attributed to a discontinued operation	-	-	-	(8)	(8)
Increase (decrease) in cash	15,264	(78)	41,770	(10,200)	5,196
Balance of cash from continued operations at beginning of period	111,944	71,213	85,886	82,217	82,217
Effect of changes in exchange rates on cash balances	(61)	(545)	(509)	(1,427)	(1,527)
Balance of cash from continued operations at end of period	127,147	70,590	127,147	70,590	85,886
<b>Interest and taxes paid and/or received</b>					
Interest received	2,532	3,166	8,100	9,705	13,120
Interest paid	(637)	(1,414)	(2,217)	(2,669)	(3,330)
Dividends received	2	3	5	14	17
Income tax paid	(526)	(456)	(1,816)	(1,536)	(2,285)
Income tax received	-	(1)	446	296	373

\* Reclassified.

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

## Condensed Financial Statements

as at September 30, 2020

### Condensed Consolidated Statement of Cash Flows for the periods ended September 30, 2020 (continued)

NIS millions

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
<b>Appendix A – Proceeds from realization of investments in formerly consolidated subsidiaries</b>					
Cash subtracted	-	-	-	178	178
Assets (excluding cash)	-	-	-	23,415	23,415
Liabilities	-	-	-	(21,339)	(21,339)
Assets and liabilities subtracted	-	-	-	2,254	2,254
Assets and liabilities attributed to non-controlling interests	-	-	-	(39)	(39)
Investment in equity-basis investee – Isracard	-	-	-	(891)	(891)
Total consideration received from realization of investments in formerly consolidated subsidiaries	-	-	-	1,324	1,324
Capital gain from realization of investments in formerly consolidated subsidiary	-	-	-	210	210
Proceeds received from realization of investment	-	-	-	1,534	1,534
Cash subtracted	-	-	-	(178)	(178)
Cash flow from realization of investment in deconsolidated subsidiary	-	-	-	1,356	1,356

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

### **Note 1 Significant Accounting Policies**

#### **A. General information**

The Condensed Financial Statements as at September 30, 2020 were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) concerning interim financial reporting and in accordance with the directives and guidelines of the Supervisor of Banks. The accounting principles used in the preparation of these condensed financial statements were implemented consistently with the accounting principles used in the preparation of the audited financial statements as at December 31, 2019, with the exceptions noted in Section C below.

The Condensed Financial Statements do not include all of the information required in the aforesaid Annual Financial Statements; these reports should be perused in conjunction with the Annual Financial Statements as at December 31, 2019, and the accompanying Notes.

The Condensed Financial Statements were approved for publication by the Board of Directors of the Bank on November 18, 2020.

#### **B. Use of estimates**

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

The judgment and management estimates used in the implementation of the Bank's accounting policies, and the principal assumptions used in evaluations involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements as at December 31, 2019. The estimates and the underlying assumptions are reviewed routinely.

As part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects with respect to the allowance for credit losses, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank.

Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

**Note 1 Significant Accounting Policies (continued)****C. First-time implementation of accounting standards, updates of accounting standards, and directives of the Banking Supervision Department****(1) Leases**

A circular on the subject, "Reporting by banking corporations and credit-card companies in Israel according to US GAAP regarding leases" was issued on July 1, 2018. The circular adopts ASU 2016-02 (ASC 842). The main objective of the new rules is to fully reflect, in the financial statements, the level of leverage created by long-term lease contracts. The principal change in the update refers to accounting for operating lease transactions by lessees, requiring recognition in the balance sheet of an asset and liability in respect of an operating lease. The accounting treatment applicable to lessors remains essentially unchanged. The following are the main points of the changes in the accounting in the financial statements of the Bank following the implementation of these rules, with respect to transactions in which the Bank is the lessee in an operating lease:

1. Operating lease liabilities and usage right assets are recognized at the beginning of the lease based on the present value of the future lease payments over the period of the lease, discounted by the incremental interest rate of the Bank. Lease payments include: fixed leasing payments (net of incentives paid to the lessee), variable leasing payments due to linkage to an index or rate, penalty payments due to cancellation of the lease, and amounts expected to be paid by the lessee to the lessor in respect of the guaranteed residual value. The lease period is the period stated in the contract, and includes extension options exercise of which by the Bank is reasonably certain, or a cancellation option reasonably certain not to be exercised by the Bank. The lease period is determined at the beginning of the lease, and subsequently when circumstances arise that necessitate reassessment. Usage right assets are adjusted for initial direct costs and advance leasing payments, net of leasing incentives received.
2. Liabilities in respect of an operating lease are stated within other liabilities, and the related usage right assets are stated within other assets. Expenses in respect of an operating lease are recognized on a straight-line basis over the period of the lease, and reported in other expenses (within operating and other expenses). Variable leasing payments are recognized as incurred, together with operating lease expenses.
3. With regard to leases where the original lease period is less than one year, the Bank has chosen to apply the exception to the standard, such that they are not recognized as an asset and liability in the balance sheet.
4. When possible, pursuant to the standard, the Bank has chosen the policy in which, in real-estate leases, management fees do not constitute part of the leasing payments, and therefore do not constitute part of the asset and liability in respect of the lease. In addition, value-added tax does not constitute part of the leasing payments, and therefore does not constitute part of the asset or liability.

The new directives were implemented beginning January 1, 2020, via adjusted retrospective implementation. Pursuant to the relief permitted by the standard, the Bank chose to maintain prior determinations with regard to the classification of existing leases.

## Note 1 Significant Accounting Policies (continued)

The implementation of the new directives led to an increase in the amount of approximately NIS 1.1 billion in the balance of usage right assets, and to a parallel increase in the balance of liabilities in respect of leases, at the initial implementation date. In addition, at the initial implementation date, the implementation of the new directives led to a decrease in the rate of common equity Tier 1 capital and of total capital, by approximately 0.04% and approximately 0.05%, respectively.

### (2) Instructions of the Banking Supervision Department on coping with the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Banking Supervision Department issued supervision emphases regarding changes in the terms of loans, on April 21, 2020, and October 11, 2020, main points of which are described below:

- a. Short-term changes (up to six months cumulatively) – With regard to the treatment of debts the terms of which have been changed, it has been determined that debts should not be assigned a troubled debt restructuring classification when short-term changes in payments are performed, due to the coronavirus, for borrowers who were not previously in arrears. It has been clarified that additional changes in loans should be examined on a cumulative basis, to determine whether the additional change constitutes troubled debt restructuring. If the cumulative changes in the terms of the loan are related to the coronavirus, and the borrower is not in arrears, it is possible to continue to assume that the borrower is not in financial difficulties, and the change in the terms of the loan is not considered troubled debt restructuring. Similarly, with regard to housing loans for which a minimal allowance is to be calculated according to the method of the extent of arrears, the deferral of principal or interest payments for a short period on such a loan which was not a problematic debt prior to the deferral does not generally require classification of the debt as a debt in troubled debt restructuring.
- b. With regard to the establishment of the state of arrears, debts that were not previously in arrears and are granted a deferral, as noted, shall not be considered debts in arrears during the deferral period. In addition, when such deferral of payments is performed for debts that were in arrears prior to the deferral, the status of the arrears shall be frozen during the period of deferral of payments (except if the debt has been classified as impaired or charged off). It has also been determined that borrowers are not considered borrowers in arrears if the arrears are of less than thirty days at the date of implementation of the changes.
- c. During the period of such short-term arrangements, these loans, in general, shall not be reported as impaired debts not accruing interest. If new information is accumulated indicating a decrease in the probability of repayment of a specific loan, or indicating that a specific loan will not be repaid, the bank should act in accordance with the Public Reporting Directives on this subject.

## Note 1 Significant Accounting Policies (continued)

- d. Deferral of payments on a loan executed up to December 31, 2020, within a lateral payment deferral program – In general, for a loan that was not in arrears of thirty days or more at the date of deferral of the payments, there is no requirement to classify the loan as a debt in troubled debt restructuring, even if the cumulative deferral exceeds six months. However, there is a requirement to determine whether the credit quality has worsened and to examine the appropriate classification, according to the directives of the Banking Supervision Department. With regard to small debts, the examination can be performed at the level of a group of debts with similar risk attributes, such as the cumulative duration of the deferral, repayment capability, and value of collateral. Similarly, with regard to housing loans that were not problematic at the date of deferral of the payments, as noted above, it has been clarified that when an additional deferral of payments is granted, cumulatively resulting in a deferral of more than six months, if new information has accumulated indicating a decrease in the probability of repayment of such loans, the bank must exercise discretion and consider whether it is necessary to classify the loans as problematic debt. Banks are permitted to perform this examination at the level of a group of debts with similar attributes, and are not obligated to perform the examination at the level of the individual loan. Such attributes may include, for example, the duration of the deferral granted, relative to the original period of the credit, and indications at the bank regarding the value of the collateral and the repayment capability of the borrower in reference to the amount of the loan.
- e. Housing loans granted during the period of the crisis will not be subject to the additional capital requirement of 1 percentage point.

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

Subject	Main points	Inception date and transitional directives	Effect on the Bank
ASU 2016-13, "Financial Instruments – Credit Losses"	The main objective of this update is to provide more useful information regarding expected credit losses on financial instruments and commitments to grant credit, while strengthening the anti-cyclical behavior of the allowance for credit losses and strengthening the connection between the method of managing credit risks and the reflection of these risks in the financial statements. Towards that end, the amendments in this update replace the method of allowance for credit losses based on incurred losses with a method that reflects expected credit losses over the life of the credit and requires consideration of a broader range of forward-looking information to reflect reasonable forecasts of future economic events. The new rules for the calculation of the allowance for credit losses will apply to credit (including housing loans), bonds held to maturity, and certain off-balance sheet credit exposures. In addition, the manner in which impairments of bonds in the available-for-sale portfolio are recorded will change, and the disclosure of the effect of the date of granting of the credit on the credit quality of the credit portfolio will be expanded.	January 1, 2022. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date. Pursuant to the draft directives of the Banking Supervision Department, at the initial implementation date the banking corporation is permitted to add the decrease recorded at the initial implementation date back to common equity Tier 1 capital over the course of three years; 75% on January 1 of the first year of implementation, 50% in the second year, and 25% in the third year.	The Bank is preparing to implement this standard.



**Note 1 Significant Accounting Policies (continued)****Discontinuation of publication of the LIBOR interest rate**

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel. Accordingly, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the substitution of the interest rates. The Bank will continue to monitor the international publications and to act with the aim of reducing the risks arising from the interest-rate substitution process.

On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

Details of the contract balances affected by the LIBOR interest rate:

	<b>Total transactions as at September 30, 2020</b>		Of which: transactions continuing beyond 2021	
	Amount in NIS millions	Number of transactions	Amount in NIS millions	Number of transactions
Loans	<b>21,624</b>	<b>5,729</b>	13,595	4,968
Deposits	<b>2,143</b>	<b>322</b>	896	117
Derivatives (gross) – par value	<b>146,917</b>	<b>1,895</b>	92,253	1,313

In addition, there are unutilized credit facilities, most of which are for periods not exceeding one year.

## Note 1 Significant Accounting Policies (continued)

### E. Discontinued operation

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), in April 2019, the Bank sold 65.2% of the capital of Isracard in a public sale offering. After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which was accounted for using the equity method. On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

For further information regarding the argument of the Tax Assessment Officer that in the sale of a subsidiary classified as a dealer for the purposes of value-added tax ("VAT"), profit tax should be applied to distributable profits exempt from corporate tax, in connection with the sale of the Isracard Group, see [Note 8C\(3\) to the Annual Financial Statements for 2019](#).

For further information regarding VAT assessments referring, among other matters, to the payment of VAT for foreign-currency fees collected from customers of the Bank, and to the obligation of the Bank to the payment of VAT on fees collected on its behalf, see [Note 8C\(2\) to the Annual Financial Statements for 2019](#). The Bank included a provision against this liability in the reported period.

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 2 Interest Income and Expenses

Unaudited  
NIS millions

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
<b>A. Interest income</b>				
From credit to the public	2,438	2,293	7,065	8,036
From credit to governments	12	15	40	51
From deposits with banks	15	93	98	298
From deposits with the Bank of Israel and from cash	23	25	75	80
From bonds	119	167	403	683
Total interest income	2,607	2,593	7,681	9,148
<b>B. Interest expenses</b>				
On deposits from the public	(249)	(327)	(840)	(1,406)
On deposits from the government	(2)	(2)	(4)	(5)
On deposits from banks	(2)	(4)	(9)	(19)
On securities lent or sold under agreements to repurchase	-	(1)	-	(1)
On bonds and subordinated notes	(154)	23	(270)	(687)
On other liabilities	1	1	1	(4)
Total interest expenses	(406)	(310)	(1,122)	(2,122)
Total net interest income	2,201	2,283	6,559	7,026
<b>C. Details of net effect of hedging derivative instruments on interest income and expenses*</b>				
Interest income	(51)	(6)	(105)	(2)
Interest expenses	7	4	13	4
<b>D. Details of interest income (expenses) from bonds on a cumulative basis</b>				
Held to maturity	4	2	10	9
Available for sale	107	168	369	645
Held for trading	8	(3)	24	29
Total included in interest income	119	167	403	683

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 3 Non-Interest Financing Income

Unaudited  
NIS millions

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
<b>1. From activity in derivative instruments</b>				
Total from activity in derivative instruments <sup>(1)</sup>	169	*(661)	485	*(1,679)
<b>2. From investment in bonds</b>				
Gains from sale of bonds available for sale	41	136	176	256
Losses from sale of bonds available for sale <sup>(2)</sup>	(2)	(4)	(29)	(11)
Total from investment in bonds	39	132	147	245
<b>3. Net exchange-rate differences</b>	(84)	530	(278)	1,384
<b>4. Gains (losses) from investment in shares</b>				
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading <sup>(3)(4)</sup>	84	10	(5)	248
Dividend from shares not held for trading	2	3	5	14
Adjustment to fair value of investment in affiliate <sup>(5)</sup>	6	(63)	(1)	(63)
Total from investment in shares	92	(50)	(1)	199
<b>5. Net gains (losses) in respect of securitization transactions</b>	-	-	-	-
<b>6. Net gains in respect of loans sold</b>	21	-	21	1
Total non-interest financing income (expenses) in respect of non-trading activities	237	*(49)	374	*150

\* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

(1) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

(2) Including a provision for impairment in the amount of approximately NIS 2 million and approximately NIS 2 million for the three-month and nine-month periods ended September 30, 2020, respectively (approximately NIS 0 million and approximately NIS 0 million for the three-month and nine-month periods ended September 30, 2019, respectively).

(3) Including a provision for impairment in the amount of approximately NIS 0 million and approximately NIS 4 million for the three-month and nine-month periods ended September 30, 2020, respectively (approximately NIS 7 million and approximately NIS 16 million for the three-month and nine-month periods ended September 30, 2019, respectively).

(4) Including gains and losses from measurement at fair value of shares with readily determinable fair value, and upward or downward adjustments of shares without readily determinable fair value.

(5) Provision for impairment in respect of the Bank's investments in Bank Pozitif.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
Net income in respect of derivative instruments held for trading	<b>103</b>	**71	<b>451</b>	**186
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading <sup>(1)</sup>	<b>(5)</b>	37	<b>9</b>	(23)
Net realized and unrealized losses from adjustments to fair value of shares held for trading	-	(1)	-	-
Total non-interest financing income in respect of trading activities***	<b>98</b>	**107	<b>460</b>	**163
Total non-interest financing income	<b>335</b>	58	<b>834</b>	313
Details of non-interest financing income in respect of trading activities, by risk exposure:				
Interest rate exposure	<b>45</b>	**40	<b>153</b>	**(6)
Foreign currency exposure	<b>50</b>	**64	<b>294</b>	**160
Share exposure	<b>3</b>	**3	<b>13</b>	**9
Total	<b>98</b>	**107	<b>460</b>	**163

\* Includes exchange-rate differences arising from trading activity.

\*\* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

\*\*\* With regard to interest income from investment in bonds held for trading, see [Note 2](#).

(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS (17) million and approximately NIS 114 million for the three-month and nine-month periods ended September 30, 2020, respectively (approximately NIS 133 million and approximately NIS 68 million for the three-month and nine-month periods ended September 30, 2019, respectively).

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 4 Accumulated Other Comprehensive Income (Loss)

Unaudited  
NIS millions

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

- Changes in accumulated other comprehensive income (loss) for the three-month periods ended September 30, 2020 and 2019

	Other comprehensive income (loss) before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits	Total		
Balance as at June 30, 2020	<b>343</b>	<b>(38)</b>	<b>(1,423)</b>	<b>(1,118)</b>	<b>3</b>	<b>(1,121)</b>
Net change during the period	<b>79</b>	<b>-</b>	<b>48</b>	<b>127</b>	<b>(1)</b>	<b>128</b>
Balance as at September 30, 2020	<b>422</b>	<b>(38)</b>	<b>(1,375)</b>	<b>(991)</b>	<b>2</b>	<b>(993)</b>
Balance as at June 30, 2019	164	(38)	(1,040)	(914)	3	(917)
Net change during the period	98	-	(121)	(23)	-	(23)
Balance as at September 30, 2019	262	(38)	(1,161)	(937)	3	(940)

- Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2020 and 2019

	Other comprehensive income (loss) before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2020	<b>250</b>	<b>(38)</b>	<b>(1,561)</b>	<b>(1,349)</b>	<b>3</b>	<b>(1,352)</b>
Net change during the period	<b>172</b>	<b>-</b>	<b>186</b>	<b>358</b>	<b>(1)</b>	<b>359</b>
Balance as at September 30, 2020	<b>422</b>	<b>(38)</b>	<b>(1,375)</b>	<b>(991)</b>	<b>2</b>	<b>(993)</b>
Balance as at January 1, 2019	(160)	(38)	(993)	(1,191)	3	(1,194)
Cumulative effect of initial implementation of US GAAP <sup>(1)</sup>	18	-	-	18	-	18
Adjusted balance as at January 1, 2019, after initial implementation	(142)	(38)	(993)	(1,173)	3	(1,176)
Net change during the period	404	-	(168)	236	-	236
Balance as at September 30, 2019	262	(38)	(1,161)	(937)	3	(940)

\* Net gains (losses) in respect of net hedging of investments in foreign currency.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

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

#### 3. Changes in accumulated other comprehensive income (loss) in 2019

	Other comprehensive income (loss) before attribution to non-controlling interests				Other comprehensive income (loss) attributed to non-controlling interests	Other comprehensive income (loss) attributed to shareholders of the Bank
	Adjustments for presentation of bonds available for sale at fair value	Net adjustments from translation after hedge effects*	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2019	(160)	(38)	(993)	(1,191)	3	(1,194)
Cumulative effect of initial implementation of US GAAP <sup>(1)</sup>	18	-	-	18	-	18
Adjusted balance as at January 1, 2019, after initial implementation	(142)	(38)	(993)	(1,173)	3	(1,176)
Net change during the year	392	-	(568)	(176)	-	(176)
Balance as at December 31, 2019	250	(38)	(1,561)	(1,349)	3	(1,352)

\* Net gains (losses) in respect of net hedging of investments in foreign currency.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

- Changes in accumulated other comprehensive income (loss) for the three-month periods ended September 30, 2020 and 2019

	For the three months ended					
	September 30, 2020			September 30, 2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
<b>Changes in components of other comprehensive income (loss) before attribution to non-controlling interests</b>						
<b>Adjustments for presentation of bonds available for sale at fair value</b>						
Net unrealized gains from adjustments to fair value	160	(53)	107	260	(77)	183
Gains in respect of bonds available for sale reclassified to the statement of profit and loss <sup>(1)</sup>	(39)	11	(28)	(132)	47	(85)
Net change during the period	121	(42)	79	128	(30)	98
<b>Employee benefits</b>						
Net actuarial profit (loss) during the period	34	(12)	22	(212)	72	(140)
Net losses reclassified to the statement of profit and loss <sup>(2)</sup>	38	(12)	26	29	(10)	19
Net change during the period	72	(24)	48	(183)	62	(121)
Total net change during the period	193	(66)	127	(55)	32	(23)
<b>Changes in components of other comprehensive loss attributed to non-controlling interests</b>						
Total net change during the period	(1)	-	(1)	-	-	-
<b>Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank</b>						
Total net change during the period	194	(66)	128	(55)	32	(23)

- The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).
- The amount before tax is reported in the statement of profit and loss, under the item "other expenses."



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

2. Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2020 and 2019

	For the nine months ended					
	September 30, 2020			September 30, 2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
<b>Changes in components of other comprehensive income (loss) before attribution to non-controlling interests</b>						
<b>Adjustments for presentation of bonds available for sale at fair value</b>						
Net unrealized gains from adjustments to fair value	412	(139)	273	823	(259)	564
Gains in respect of bonds available for sale reclassified to the statement of profit and loss <sup>(1)</sup>	(147)	46	(101)	(242)	82	(160)
Net change during the period	265	(93)	172	581	(177)	404
<b>Employee benefits</b>						
Net actuarial profit (loss) during the period	173	(60)	113	(353)	128	(225)
Net losses reclassified to the statement of profit and loss <sup>(2)</sup>	110	(37)	73	86	(29)	57
Net change during the period	283	(97)	186	(267)	99	(168)
Total net change during the period	548	(190)	358	314	(78)	236
<b>Changes in components of other comprehensive loss attributed to non-controlling interests</b>						
Total net change during the period	(1)	-	(1)	-	-	-
<b>Changes in components of other comprehensive income attributed to shareholders of the Bank</b>						
Total net change during the period	549	(190)	359	314	(78)	236

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

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

#### 3. Changes in accumulated other comprehensive income (loss) in 2019

	For the year ended December 31, 2019		
	Before tax	Tax effect	After tax
<b>Changes in components of other comprehensive income (loss) before attribution to non-controlling interests</b>			
<b>Adjustments for presentation of bonds available for sale at fair value</b>			
Net unrealized gains from adjustments to fair value	834	(275)	559
Gains in respect of securities available for sale reclassified to the statement of profit and loss <sup>(1)</sup>	(253)	86	(167)
Net change during the year	581	(189)	392
<b>Employee benefits</b>			
Net actuarial loss for the year	(993)	348	(645)
Net losses reclassified to the statement of profit and loss <sup>(2)</sup>	117	(40)	77
Net change during the year	(876)	308	(568)
Total net change during the year	(295)	119	(176)
<b>Changes in components of other comprehensive income (loss) attributed to non-controlling interests</b>			
Total net change during the year	-	-	-
<b>Changes in components of other comprehensive loss attributed to shareholders of the Bank</b>			
Total net change during the year	(295)	119	(176)

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see [Note 3 – Non-Interest Financing Income](#).

(2) The amount before tax is reported in the statement of profit and loss, under the item "other expenses."

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities

Unaudited  
NIS millions

	September 30, 2020				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	424	424	8	-	432
Total bonds held to maturity	424	424	8	-	432
	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	38,202	37,886	333	(17)	38,202
Foreign governments	9,418	9,226	206	(14)	9,418
Foreign financial institutions	5,513	5,439	90	(16)	5,513
Foreign others	4,105	4,061	60	(16)	4,105
Total bonds and debentures available for sale	57,238	56,612	(1)689	(1)(63)	57,238
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	2,048	1,921	(2)160	(2)(33)	2,048
Of which: shares without readily determinable fair value	1,201	1,201	-	-	1,201
Total securities not held for trading	59,710	58,957	857	(96)	59,718

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

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

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

### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities (continued)

Unaudited  
NIS millions

	September 30, 2020				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
<b>4) Securities held for trading</b>					
<b>Bonds and debentures</b>					
Israeli government	8,121	8,054	77	(10)	8,121
Foreign governments	2	2	-	-	2
Total bonds and debentures held for trading	8,123	8,056	77	(10)	**8,123
<b>Shares</b>					
Others	2	2	-	-	2
Total securities held for trading	8,125	8,058	<sup>(1)</sup> 77	<sup>(1)</sup> (10)	8,125
Total securities <sup>(2)</sup>	67,835	67,015	934	(106)	67,843

	September 30, 2020					
	Less than 12 months			12 months or more		
	Fair value	Unrealized losses	Total	Fair value	Unrealized losses	Total
		0-20% 20-40%			0-20% 20-40%	

### 5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position

<b>Bonds and debentures</b>							
Israeli government	3,024	(16)	-	(16)	559	(1)	(1)
Foreign governments	191	(1)	-	(1)	713	(13)	(13)
Foreign financial institutions	912	(16)	-	(16)	-	-	-
Foreign others	967	(11)	-	(11)	135	(5)	(5)
Total bonds and debentures available for sale	5,094	(44)	-	(44)	1,407	(19)	(19)

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

\*\* Of which, securities in the amount of NIS 3,358 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

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

(2) Of which: securities in the amount of approximately NIS 2.6 billion were pledged to lenders.

#### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities (continued)

Unaudited  
NIS millions

	September 30, 2019				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	306	306	5	-	311
Total bonds held to maturity	306	306	5	-	311
	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	35,370	35,130	250	(10)	35,370
Foreign governments	11,324	11,283	70	(29)	11,324
Foreign financial institutions	7,034	6,954	87	(7)	7,034
Foreign others	2,468	2,469	15	(16)	2,468
Total bonds and debentures available for sale	56,196	55,836	<sup>(1)</sup> 422	<sup>(1)</sup> (62)	56,196
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	1,680	1,592	<sup>(2)</sup> 98	<sup>(2)</sup> (10)	1,680
Of which: shares without readily determinable fair value	1,073	1,073	-	-	1,073
Total securities not held for trading	58,182	57,734	525	(72)	58,187

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

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

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

### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities (continued)

Unaudited  
NIS millions

	September 30, 2019				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
<b>4) Securities held for trading</b>					
<b>Bonds and debentures</b>					
Israeli government	7,402	7,329	75	(2)	7,402
Foreign governments	3	3	-	-	3
Total bonds and debentures held for trading	7,405	7,332	75	(2)	**7,405
<b>Shares</b>					
Others	5	2	3	-	5
Total securities held for trading	7,410	7,334	<sup>(1)</sup> 78	<sup>(1)</sup> (2)	7,410
Total securities <sup>(2)</sup>	65,592	65,068	603	(74)	65,597

	Less than 12 months			12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses	
		0-20%	20-40%			0-20%	20-40%

### 5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position

<b>Bonds and debentures</b>								
Israeli government	2,535	(10)	-	(10)	-	-	-	-
Foreign governments	1,243	(5)	-	(5)	2,184	(24)	-	(24)
Foreign financial institutions	595	(5)	-	(5)	399	(2)	-	(2)
Foreign others	846	(8)	-	(8)	320	(8)	-	(8)
Total bonds and debentures available for sale	5,219	(28)	-	(28)	2,903	(34)	-	(34)

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

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

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

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

### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities (continued)

Audited  
NIS millions

	December 31, 2019				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	299	299	4	-	303
Total bonds held to maturity	299	299	4	-	303
	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	33,417	33,155	264	(2)	33,417
Foreign governments	8,108	8,146	23	(61)	8,108
Foreign financial institutions	6,830	6,722	108	-	6,830
Foreign others	2,454	2,426	31	(3)	2,454
Total bonds and debentures available for sale	50,809	50,449	<sup>(1)</sup> 426	<sup>(1)</sup> (66)	50,809
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	1,771	1,626	<sup>(2)</sup> 150	<sup>(2)</sup> (5)	1,771
Of which: shares without readily determinable fair value	1,021	1,021	-	-	1,021
Total securities not held for trading	52,879	52,374	580	(71)	52,883

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

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

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

### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 5 Securities (continued)

Audited  
NIS millions

	December 31, 2019				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
<b>4) Securities held for trading</b>					
<b>Bonds and debentures</b>					
Israeli government	6,602	6,533	69	-	6,602
Foreign governments	3	3	-	-	3
Total bonds and debentures held for trading	6,605	6,536	69	-	**6,605
<b>Shares</b>					
Others	2	2	-	-	2
Total securities held for trading	6,607	6,538	<sup>(1)</sup> 69	<sup>(1)</sup> -	6,607
Total securities <sup>(2)</sup>	59,486	58,912	649	(71)	59,490

	Less than 12 months			12 months or more		
	Fair value	Unrealized losses		Fair value	Unrealized losses	
		0-20%	20-40%		0-20%	20-40%

## 5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position

<b>Bonds and debentures</b>								
Israeli government	567	(2)	-	(2)	-	-	-	-
Foreign governments	3,244	(39)	-	(39)	2,005	(22)	-	(22)
Foreign others	97	(2)	-	(2)	319	(1)	-	(1)
Total bonds and debentures available for sale	3,908	(43)	-	(43)	2,324	(23)	-	(23)

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

\*\* Of which, securities in the amount of NIS 1,702 million are classified as securities held for trading because the Bank chose to measure them according to the fair-value option, despite the fact that they were not acquired for trading purposes.

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

(2) Of which: securities in the amount of approximately NIS 2.6 billion were pledged to lenders.

### Notes

A. For details of the results of activity in investments in bonds and in shares, see [Note 2 and Note 3](#).

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



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

	September 30, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	143,075	1	874	143,950	19,484	163,434
Debts examined on a collective basis <sup>(1)</sup>	24,159	97,049	33,863	155,071	-	155,071
(1) Of which: allowance calculated based on the extent of arrears	53	96,904	-	96,957	-	96,957
Total <sup>(2)</sup>	167,234	97,050	34,737	299,021	19,484	318,505
(2) Of which:						
Debts in restructuring	2,018	-	727	2,745	-	2,745
Other impaired debts	1,341	1	49	1,391	-	1,391
Total impaired debts	3,359	1	776	4,136	-	4,136
Debts in arrears of 90 days or more	38	713	39	790	-	790
Other problematic debts	5,040	-	33	5,073	-	5,073
Total problematic debts	8,437	714	848	9,999	-	9,999
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	3,941	-	133	4,074	9	4,083
In respect of debts examined on a collective basis <sup>(3)</sup>	501	738	863	2,102	-	2,102
(3) Of which: allowance calculated based on the extent of arrears***	-	738	-	738	-	738
Total allowance for credit losses <sup>(4)</sup>	4,442	738	996	6,176	9	6,185
(4) Of which: allowance in respect of impaired debts	1,388	-	130	1,518	-	1,518

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 53 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

\*\*\* Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 594 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

	September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial** <sup>(5)</sup>	Housing <sup>(5)</sup>	Other private	Total		
<b>Recorded debt balance</b>						
Debts examined on an individual basis	143,610	-	889	144,499	17,953	162,452
Debts examined on a collective basis <sup>(1)</sup>	23,489	87,683	39,309	150,481	-	150,481
(1) Of which: allowance calculated based on the extent of arrears	74	87,516	-	87,590	-	87,590
Total <sup>(2)</sup>	167,099	87,683	40,198	294,980	17,953	312,933
(2) Of which:						
Debts in restructuring	663	-	685	1,348	-	1,348
Other impaired debts	1,557	-	60	1,617	-	1,617
Total impaired debts	2,220	-	745	2,965	-	2,965
Debts in arrears of 90 days or more	121	648	72	841	-	841
Other problematic debts	3,412	-	55	3,467	-	3,467
Total problematic debts	5,753	648	872	7,273	-	7,273
<b>Allowance for credit losses in respect of debts</b>						
In respect of debts examined on an individual basis	2,343	-	133	2,476	8	2,484
In respect of debts examined on a collective basis <sup>(3)</sup>	409	439	649	1,497	-	1,497
(3) Of which: allowance calculated based on the extent of arrears***	2	439	-	441	-	441
Total allowance for credit losses <sup>(4)</sup>	2,752	439	782	3,973	8	3,981
(4) Of which: allowance in respect of impaired debts	539	-	131	670	-	670

(5) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 74 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

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

	December 31, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
<b>Recorded debt balance</b>						
Debts examined on an individual basis	144,239	2	862	145,103	20,042	165,145
Debts examined on a collective basis <sup>(1)</sup>	25,011	89,700	37,833	152,544	-	152,544
(1) Of which: according to the extent of arrears	75	89,533	-	89,608	-	89,608
Total <sup>(2)</sup>	169,250	89,702	38,695	297,647	20,042	317,689
(2) Of which:						
Debts in restructuring	667	-	707	1,374	-	1,374
Other impaired debts	3,011	2	55	3,068	-	3,068
Total impaired debts	3,678	2	762	4,442	-	4,442
Debts in arrears of 90 days or more	121	699	93	913	-	913
Other problematic debts	3,715	1	51	3,767	-	3,767
Total problematic debts	7,514	702	906	9,122	-	9,122
<b>Allowance for credit losses in respect of debts*</b>						
In respect of debts examined on an individual basis	2,951	-	136	3,087	7	3,094
In respect of debts examined on a collective basis <sup>(3)</sup>	559	446	615	1,620	-	1,620
(3) Of which: allowance calculated based on the extent of arrears***	-	446	-	446	-	446
Total allowance for credit losses <sup>(4)</sup>	3,510	446	751	4,707	7	4,714
(4) Of which: allowance in respect of impaired debts	1,272	-	136	1,408	-	1,408

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 75 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

\*\*\* Includes the allowance in excess of the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 314 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### 2. Change in allowance for credit losses

	For the three months ended September 30, 2020					Total
	Credit to the public			Banks and governments		
	Commercial	Housing	Other private		Total	
Allowance for credit losses as at June 30, 2020	5,033	717	1,002	6,752	8	6,760
Provision for credit losses <sup>(1)</sup>	65	22	105	192	1	193
Charge-offs	(146)	(4)	(120)	(270)	-	(270)
Recoveries of debts charged off in previous years	194	3	94	291	-	291
Net charge-offs	48	(1)	(26)	21	-	21
Allowance for credit losses as at September 30, 2020 <sup>(2)</sup>	5,146	738	1,081	6,965	9	6,974
(1) Of which: in respect of off-balance sheet credit instruments	13	-	14	27	-	27
(2) Of which: in respect of off-balance sheet credit instruments	704	-	85	789	-	789
	For the three months ended September 30, 2019					Total
	Credit to the public			Banks and governments		
	Commercial*	Housing*	Other private		Total	
Allowance for credit losses as at June 30, 2019	3,260	437	843	4,540	12	4,552
Provision (income) for credit losses <sup>(1)</sup>	(100)	4	59	(37)	(3)	(40)
Charge-offs	(177)	(2)	(159)	(338)	-	(338)
Recoveries of debts charged off in previous years	249	-	84	333	-	333
Net charge-offs	72	(2)	(75)	(5)	-	(5)
Other	(2)	-	(1)	(3)	-	(3)
Allowance for credit losses as at September 30, 2019 <sup>(2)</sup>	3,230	439	826	4,495	9	4,504
(1) Of which: in respect of off-balance sheet credit instruments	(8)	-	2	(6)	-	(6)
(2) Of which: in respect of off-balance sheet credit instruments	478	-	44	522	1	523

\* Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### 2. Change in allowance for credit losses (continued)

	For the nine months ended September 30, 2020					Total
	Credit to the public			Banks and governments		
	Commercial	Housing	Other private		Total	
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251
Provision for credit losses <sup>(1)</sup>	1,343	298	488	2,129	1	2,130
Charge-offs	(552)	(13)	(440)	(1,005)	-	(1,005)
Recoveries of debts charged off in previous years	348	7	243	598	-	598
Net charge-offs	(204)	(6)	(197)	(407)	-	(407)
Allowance for credit losses as at September 30, 2020 <sup>(2)</sup> (unaudited)	5,146	738	1,081	6,965	9	6,974
(1) Of which: in respect of off-balance sheet credit instruments	207	-	46	253	(1)	252
(2) Of which: in respect of off-balance sheet credit instruments	704	-	85	789	-	789

	For the nine months ended September 30, 2019					Total
	Credit to the public			Banks and governments		
	Commercial*	Housing*	Other private		Total	
Allowance for credit losses at beginning of year (audited)	2,997	424	904	4,325	9	4,334
Provision for credit losses <sup>(1)</sup>	203	19	178	400	-	400
Charge-offs	(530)	(5)	(512)	(1,047)	-	(1,047)
Recoveries of debts charged off in previous years	562	1	261	824	-	824
Net charge-offs	32	(4)	(251)	(223)	-	(223)
Other	(2)	-	(5)	(7)	-	(7)
Allowance for credit losses as at September 30, 2019 <sup>(2)</sup> (unaudited)	3,230	439	826	4,495	9	4,504
(1) Of which: in respect of off-balance sheet credit instruments	(54)	-	9	(45)	-	(45)
(2) Of which: in respect of off-balance sheet credit instruments	478	-	44	522	1	523

\* Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 7 Deposits from the Public

NIS millions

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

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
<b>In Israel</b>			
On demand			
Non-interest bearing	184,951	142,667	145,695
Interest bearing	100,690	81,421	86,408
Total on demand	285,641	224,088	232,103
Fixed term	114,017	107,940	113,332
Total deposits from the public in Israel*	399,658	332,028	345,435
<b>Outside Israel</b>			
On demand			
Non-interest bearing	1,271	1,210	1,193
Interest bearing	6,091	4,419	5,306
Total on demand	7,362	5,629	6,499
Fixed term	9,985	10,370	9,711
Total deposits from the public outside Israel	17,347	15,999	16,210
Total deposits from the public	417,005	348,027	361,645
* Of which:			
Deposits of private individuals	191,119	167,407	165,615
Deposits of institutional entities	58,730	44,455	48,817
Deposits of corporations and others	149,809	120,166	131,003

### B. Deposits from the public by size

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
<b>Deposit ceiling</b>			
Up to 1	142,120	124,319	122,404
Over 1 up to 10	109,350	89,773	90,385
Over 10 up to 100	59,737	52,346	55,261
Over 100 up to 500	38,911	32,327	35,698
Over 500	66,887	49,262	57,897
Total	417,005	348,027	361,645

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 8 Employee Benefits

NIS millions

### A. Employee benefits

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
<b>Early retirement and severance pay</b>			
Amount of liability	7,300	7,344	8,262
Fair value of plan assets	(3,592)	(3,807)	(4,138)
Surplus liability over plan assets (included in other liabilities)	3,708	3,537	4,124
<b>Grant for non-utilization of sick days</b>			
Amount of liability	349	381	395
Fair value of plan assets	-	-	-
Surplus liability over plan assets (included in other liabilities)	349	381	395
<b>25-year service grant</b>			
Amount of liability	34	36	36
Fair value of plan assets	-	-	-
Surplus liability over plan assets (included in other liabilities)	34	36	36
<b>Other benefits at end of employment and post-employment</b>			
Amount of liability	630	638	664
Fair value of plan assets	-	-	-
Surplus liability over plan assets (included in other liabilities)	630	638	664
<b>Total</b>			
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	4,721	4,592	5,219
* Of which: in respect of benefits for employees overseas	72	43	34

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 8 Employee Benefits (continued)

NIS millions

### B. Post-retirement benefit plan

#### (1) Commitments and financing status

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Net commitment in respect of forecast benefit at beginning of period	<b>4,798</b>	4,389	<b>5,183</b>	4,319	4,319
Service cost	<b>38</b>	33	<b>124</b>	104	139
Interest cost	<b>28</b>	31	<b>94</b>	101	128
Deposits by plan participants	<b>(13)</b>	(29)	<b>(13)</b>	(29)	(29)
Actuarial loss (profit)	<b>(34)</b>	213	<b>(174)</b>	380	1,013
Changes in foreign-currency exchange rates	<b>1</b>	(1)	<b>1</b>	(4)	(5)
Benefits paid	<b>(131)</b>	(80)	<b>(538)</b>	(276)	(343)
Subtraction of balances attributed to a discontinued operation	-	-	-	(39)	(39)
Other	-	-	<b>10</b>	-	-
Net commitment in respect of forecast benefit at end of period	<b>4,687</b>	4,556	<b>4,687</b>	4,556	5,183
Net commitment in respect of cumulative benefit at end of period	<b>4,436</b>	4,344	<b>4,436</b>	4,344	5,005

##### b. Amounts recognized in the consolidated balance sheet

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
<b>Early retirement and severance pay</b>			
Amounts recognized in the item "other liabilities"	<b>4,687</b>	4,556	5,183

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

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
Net actuarial loss	<b>2,067</b>	1,765	***2,350
Closing balance in accumulated other comprehensive income	<b>2,067</b>	1,765	***2,350

\* Includes post-retirement benefits, including a sick-day grant paid at retirement.

\*\* The amounts presented are net of plan assets. For further details, see Section (d) below.

\*\*\* Reclassified.



# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 8 Employee Benefits (continued)

NIS millions

### B. Post-retirement benefit plan (continued)

#### (1) Commitments and financing status (continued)

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

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
Commitment in respect of forecast benefit	<b>8,279</b>	8,363	9,321
Commitment in respect of cumulative benefit	<b>8,028</b>	8,151	9,143
Fair value of plan assets	<b>(3,592)</b>	(3,807)	(4,138)

#### (2) Expense for the period

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Service cost	<b>38</b>	33	<b>124</b>	104	139
Interest cost	<b>28</b>	31	<b>94</b>	101	128
Subtraction of unrecognized amounts:					
Net actuarial loss	<b>38</b>	29	<b>110</b>	86	117
Other	-	-	<b>10</b>	-	-
Net total benefit cost	<b>104</b>	93	<b>338</b>	291	384

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 8 Employee Benefits (continued)

NIS millions

### B. Post-retirement benefit plan (continued)

#### (2) Expense for the period (continued)

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Net actuarial loss (profit) for the period	(34)	213	(174)	380	1,013
Subtraction of actuarial profit (loss)	(38)	(29)	(110)	(86)	(117)
Changes in foreign-currency exchange rates	-	(1)	1	(4)	(5)
Subtraction of balances attributed to a discontinued operation	-	-	-	(23)	(15)
Total recognized in other comprehensive income (loss)	(72)	183	(283)	267	876
Net total benefit cost	104	93	338	291	384
Total recognized in net benefit cost for the period and in other comprehensive income	32	276	55	558	1,260

#### c. Estimate of amounts included in accumulated other comprehensive income and expected to be subtracted from accumulated other comprehensive income to the statement of profit and loss as an expense (as income) in 2020, before tax effect

Net actuarial loss	143
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## Note 8 Employee Benefits (continued)

### B. Post-retirement benefit plan (continued)

#### (3) Assumptions\*

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

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

	September 30		December 31	
	2020	2019	2019	
	Unaudited		Audited	
Capitalization rate	0.78%	0.69%	0.44%	
Rate of increase in the CPI	2.0%	2.0%	2.0%	
Rate of increase in remuneration <sup>(1)</sup>	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	

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

	For the three months ended September 30		For the three months ended June 30		For the three months ended March 31		For the year ended December 31
	2020	2019	2020	2019	2020	2019	2019
	Unaudited						Audited
Capitalization rate	0.66%	1.24%	1.99%	1.25%	0.44%	1.89%	0.69%
Rate of increase in remuneration	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%	0.0%-7.5%

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

	Increase of one percentage point			Decrease of one percentage point		
	September 30		December 31	September 30		December 31
	2020	2019	2019	2020	2019	2019
	Unaudited		Audited	Unaudited		Audited
	NIS millions					
Capitalization rate	(391)	(399)	(423)	466	475	502

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

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

**Note 8 Employee Benefits (continued)**

NIS millions

**B. Post-retirement benefit plan (continued)****(4) Plan assets**

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

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial. Thus, for example, in the case of a 10% decrease in the fair value of the amounts funded for severance pay, the net liability would increase by a total of approximately NIS 20 million.

Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 32% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

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

	September 30		December 31
	<b>2020</b>	2019	2019
	Unaudited		Audited
Liability for severance pay	<b>3,459</b>	3,638	3,933
Amounts funded for severance pay	<b>(3,349)</b>	(3,519)	(3,841)
Net liability	<b>110</b>	119	92

**Note 8 Employee Benefits (continued)****C. Cash flows****(1) Deposits**

	Forecast	Actual deposits				
		For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020*	2020	2019	2020	2019	2019
			Unaudited			Audited
Deposits	164	50	30	126	115	182

\* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2020.

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

Year	
2020	112
2021	503
2022	409
2023	364
2024	338
2025-2029	1,350
2030 forward	2,103
Total	5,179

**D.** On January 21, 2020, the Bank and the representatives of the Employee Union signed a wage agreement for 2018-2022, which was approved by the Board of Directors and Board of Management of the Bank. This agreement encompasses the full consideration granted to the employees for the years 2018-2022; all labor disputes and strike announcements declared by the employee representatives prior to the signing of the agreement have been rescinded.

The wage agreement includes the following components, among other matters:

- a. In addition to the mechanisms for routine promotions and pay raises customary at the Bank, the employees specified in the agreement will be paid a fixed salary increment, in NIS, in three phases during the years 2020-2022, part of which is contingent upon the business performance of the Bank. According to the estimates of the Bank, taking into consideration the effect of this salary increment, as well as the customary promotion mechanisms and additional effects, the average annual rate of increase in the wages of the aforesaid employees will reach approximately 3.7% during the period of the agreement. The annual increase in the cost of wages of the aforesaid employees in respect of the increment is estimated at approximately 0.8%.
- b. The employees received a one-time signing bonus at a total cost of approximately NIS 200 million.

## Note 8 Employee Benefits (continued)

- c. The plan for granting phantom units to employees, which was the customary practice at the Bank, was converted to wages and benefits paid to the eligible employees at a similar cost. Concurrently, the existing liability in respect of the vested phantom units was settled in early 2020, based on the liability in the books of the Bank as at December 31, 2019.
- d. As part of the Bank's preparations for the changes underway in the banking universe, agreement has been reached regarding continuation of the policy of hiring employees with specific skills under personal contracts, particularly in the areas of technology and innovation, which are essential to the Bank, and regarding the launch of a program for training existing employees for the professions of the future.

The effect of this agreement is a one-time increase in the actuarial liabilities of the Bank, in the amount of approximately NIS 80 million, before tax, subtracted from shareholders' equity as at December 31, 2019; and salary expenses for 2019 in the amount of approximately NIS 200 million, before tax, in respect of the one-time bonus.

**E.** In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio. In view of the effects of the spread of the coronavirus, with the aim of improving its preparedness for the challenges and opportunities presented by the current crisis, the Bank decided to accelerate the implementation of the aforesaid efficiency plan, emphasizing retirement at a higher rate than planned in 2020.

The plan is focused on technology and digitization, supporting processes at the Head Office, and care for human resources.

**F.** Further to the statements in Note 22C(4) to the Annual Financial Statements for 2019, and taking into consideration the return on equity achieved by the Bank in 2019, 89,771 restricted stock units (RSU) expired in March 2020, which were granted under previous remuneration plans, in respect of previous years, as deferred variable remuneration for the former CEO of the Bank, members of the Board of Management, senior executives, and key employees OF the Bank. Most of the balance of the RSU vested, and the Bank allocated 218,855 shares (0.02% of the issued capital) in respect thereof, of the shares held in treasury.

## Note 8 Employee Benefits (continued)

**G.** Further to the statements in Note 22C to the Annual Financial Statements for 2019, at the date of approval of the financial statements for the first quarter of 2020, the Board of Directors approved a grant of restricted shares (for three years, beginning January 1, 2020) to the previous Chairman of the Board of Directors, members of the Board of Management, senior executives, and key employees of the Bank, at a total volume of up to approximately 0.04% of the issued capital of the Bank (556,127 shares), within the implementation of the existing remuneration plans and employment contracts, as part of the fixed remuneration component for 2019, which was recognized in the annual financial statements of the Bank for 2019, and in accordance with the outline issued by the Bank in May 2018. The CEO of the Bank waived the restricted shares to which he was entitled in respect of 2019 (at a value of approximately NIS 25.5 thousand). In addition, the allocation of 28,257 restricted stock units (RSU) (approximately 0.002% of the issued capital) to several employees who are not officers was approved.

**H.** Further to the statements in Note 22C(2) to the Annual Financial Statements for 2019 regarding the terms of service and employment of the chairperson of the board of directors, and in connection with the resignation of the late Oded Eran from the position of Chairman of the Board in June 2020, the Bank, with the approval of the Remuneration Committee and of the Board of Directors, waived the work of the chairman during the advance notice period (six months), without detriment to Mr. Eran's right to the full terms of remuneration in respect of this period.

In October 2020, the general meeting of shareholders of the Bank (following approval by the Remuneration Committee and Board of Directors of the Bank) approved a new remuneration policy for officers of the Bank, the terms of service of the Chairman of the Board of Directors of the Bank, and the terms of service and employment of the CEO of the Bank, as detailed below:

**Officer remuneration policy** – The remuneration policy was designed and approved in accordance with the directives of the Companies Law, the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (the "Remuneration Limit Law"), and Directive 301A of the Proper Conduct of Banking Business Directives of the Banking Supervision Department ("Directive 301A"), and will be in effect from January 1, 2021, for a period of three years.

Pursuant to the remuneration policy, the remuneration package for officers (excluding directors) may include fixed remuneration components, primarily a monthly salary; employer contributions and related benefits; fixed equity compensation, the granting of which is not contingent upon conditions or performance, but which is blocked for a period of three years from the date of the grant; and retirement pay not beyond the prevalent level for other employees of the Bank.

## Note 8 Employee Benefits (continued)

The annual bonus for officers, which will have a ceiling of five monthly salaries (and at certain ranks seven monthly salaries), is contingent upon the fulfillment of threshold conditions referring to the attainment of a minimum rate of return on equity (7%), and will be paid according to gradations in the range of return on equity of 7%-10%. The Remuneration Committee and the Board of Directors are permitted to raise or lower the aforesaid return on equity thresholds (minimum and maximum) by up to 1%, provided that the difference remains 3%. It is possible to approve a discretionary bonus in the event of non-fulfillment of the threshold conditions, in the amount of up to three monthly salaries.

The new remuneration policy allows the update of the remuneration (as defined in the Remuneration Limit Law") of officers reporting to the CEO, beyond the remuneration grade pursuant to the directives of Section 2(a) of the Remuneration Limit Law (i.e., at the date of the report, beyond NIS 2.55 million per year), with the approval of the Remuneration Committee and the Board of Directors, without further approval by the general meeting of shareholders of the Bank.

Within the new remuneration policy, directives were amended with regard to the arrangements for the return of bonus amounts in the event of revision of the financial statements (pursuant to the Companies Law) and under exceptional circumstances (pursuant to the directives of the Banking Supervision Department). This includes the determination that damage at a rate of 3% of shareholders' equity is considered "exceptional damage," and that, with due attention to the importance accorded by the Bank to compliance with the directives of the law and with the policies and procedures of the Bank, if the criteria for return are fulfilled, the amount returned shall be up to the full amount of the bonus (excluding the part deducted and paid as tax to the Tax Authority). It was also clarified that the return arrangements established in the remuneration policy shall not detract from any other remedy that may be available to the Bank under the law with respect to an officer, in the event that the Bank incurs damage.

A framework of liability limits has been established for the acquisition of an officer liability insurance policy, a POSI (public offering of securities insurance) policy, and a run-off officer liability insurance policy (providing coverage for past activity) under circumstances of structural changes.

**Terms of service for the Chairman of the Board of Directors** – The main points of the terms of service approved for the Chairman include a consideration in a total amount of NIS 2.4 million per year (NIS 200,000 per month), linked to the CPI, against an invoice, plus VAT as relevant, without benefits (without deposits into severance pay or provident funds, or employer contributions to a study fund); the terms shall be in effect from June 28, 2020 (the date of the election of Mr. Krupik to the office of Chairman of the Board of Directors of the Bank) to December 31, 2023.



## Note 8 Employee Benefits (continued)

Mr. Krupik serves at the Bank as an external director, pursuant to the provisions of Proper Conduct of Banking Business Directive 301 ("301 External Director"), and as an independent director pursuant to the provisions of the Companies Law. Prior to his appointment to the office of Chairman, Mr. Krupik was entitled to the payment of remuneration due to his service as a director, in accordance with the Companies Regulations (Rules for Remuneration and Expenses of External Directors), 2000 (hereinafter: the "Remuneration Regulations"). In view of the appointment of Mr. Krupik to the office of Chairman, taking into consideration the significant change in the scope of his position (to a full-time position) and the responsibility inherent in this office, terms of remuneration were approved for Mr. Krupik, as noted, that exceed the ordinary remuneration of directors. In August 2019, the Banking Supervision Department issued a letter concerning principles for the establishment of the terms of service of a chairperson of the board of directors of a bank without a controlling core (the "Supervision Letter"). The Supervision Letter states, among other matters, that service as a board chairperson at a bank without a controlling core does not, in itself, create an affinity for the chairperson that impairs the chairperson's qualification for office, provided that the duties and authority of the chairperson do not exceed the scope of duties and authority granted to the chairperson according to the provisions of the law. The terms of service approved for the Chairman were established with due attention to the principles set forth in the Supervision Letter. The position of the Bank is that taking into consideration the fact that the Bank is a banking corporation without a controlling core, in which all of the directors are effectively required to be independent of the Bank, under the provisions of the Banking Ordinance, the service of Mr. Krupik as an independent director pursuant to the provisions of the Companies Law does not, in itself, preclude the approval of the terms of service proposed for his office as Chairman of the Board of Directors (which exceed the remuneration owed to the other directors pursuant to the Remuneration Regulations). In view of the fact that the Israel Securities Authority issued a position summary in the past, not referring specifically to a bank without a controlling core, indicating a different position, the Bank approached and is in contact with the authorities and the supervisory bodies (including the Israel Securities Authority) with regard to this matter. Until the Board of Directors of the Bank resolves that the provisions of the law and the guidelines of the supervisory bodies do not preclude the payment of the terms of service of the Chairman approved by the general meeting, the Chairman shall be entitled to continue to receive remuneration in accordance with the Remuneration Regulations (Remuneration of Directors), similar to the remuneration he received prior to his appointment. If and when the Board of Directors of the Bank resolves that it is possible to pay Chairman according to the aforesaid approved terms of service, the Bank shall supplement the payment to the Chairman with the balance of the remuneration to which he is entitled, from the date of his election to the office of Chairman.

## Note 8 Employee Benefits (continued)

**Terms of service and employment for the CEO of the Bank** – The main points of the terms of service and employment approved for the CEO include a monthly salary of NIS 201,500, linked to the CPI; benefits including deposits into severance pay and provident funds, and employment contributions to a study fund; reimbursement of expenses necessary for the discharge of his duties; fixed equity compensation through restricted shares at a value of NIS 100,000, linked to the CPI, restricted from exercise for a period of three years; and an annual bonus up to a ceiling of five monthly salaries (subject to the ceiling stated in the Remuneration Limit Law of 35 times the salary of the lowest salary recipient; if necessary, the bonus for the CEO will be capped at the level of the ceiling permitted by law). The annual bonus will consist of two components: (a) a component of the performance of the Bank – a bonus component of 0.25 to 2 monthly salaries, paid according to return on equity, based on the model applicable to the other officers (i.e. according to a return on equity range of 7%-10%, subject to possible adjustment of up to 1% by the Board of Directors – see above); and (b) a component at the discretion of the Remuneration Committee and the Board of Directors, in the amount of up to three monthly salaries. If the threshold return on equity conditions are not attained (7%, subject to adjustment as noted above), the Remuneration Committee and the Board of Directors shall be permitted to approve a bonus of up to three monthly salaries for the CEO. The terms of service and employment of the CEO will be in effect from January 1, 2021, to December 31, 2023.

## Note 9 Capital, Capital Adequacy, Leverage, and Liquidity

### A. Dividends

Subject to the statements in this section, below, since the first quarter of 2017, the dividend distribution policy of the Bank is to distribute up to 40% of quarterly net operating profit. Any distribution is subject to a specific resolution of the Board of Directors of the Bank, based on its judgment at the date of the distribution, taking into account business considerations, the directives of all laws, and any constraints on distribution. In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see [Note 10D](#)), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. In view of the notification of the Supervisor of Banks of March 29, 2020, and the temporary order established (see [Section H below](#)) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

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

### B. Dividend payments

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
February 2, 2020	March 9, 2020	*53.937	**720
September 24, 2019	October 23, 2019	74.897	1,000

\* Calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91). Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank.

\*\* Paid as a dividend in kind, in shares. The amount noted is based on the price of the Isracard share on the stock exchange on March 8, 2020.

### C. Basel 3 directives

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

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives." In accordance with the transitional directives, capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. Accordingly, the ceiling for instruments qualifying as supervisory capital was 30% and 20%, respectively, in 2019 and 2020.

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

### D. Capital adequacy in consolidated data

	September 30, 2020	September 30, 2019	December 31, 2019
	Unaudited		Audited
	NIS millions		
<b>1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions</b>			
Common equity Tier 1 capital <sup>(1)</sup>	<b>39,202</b>	39,528	38,795
Additional Tier 1 capital	<b>488</b>	733	733
Total Tier 1 capital <sup>(1)</sup>	<b>39,690</b>	40,261	39,528
Tier 2 capital	<b>10,432</b>	10,197	9,707
Total overall capital <sup>(1)</sup>	<b>50,122</b>	50,458	49,235
<b>2. Weighted balances of risk-adjusted assets</b>			
Credit risk <sup>(2)</sup>	<b>313,134</b>	306,194	309,303
Market risks	<b>3,541</b>	3,044	3,528
Operational risk	<b>23,286</b>	23,684	23,556
Total weighted balances of risk-adjusted assets <sup>(2)</sup>	<b>339,961</b>	332,922	336,387
	%		
<b>3. Ratio of capital to risk components</b>			
Ratio of common equity Tier 1 capital to risk components	<b>11.53%</b>	11.87%	11.53%
Ratio of Tier 1 capital to risk components	<b>11.67%</b>	12.09%	11.75%
Ratio of total capital to risk components	<b>14.74%</b>	15.16%	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department <sup>(3)</sup>	<b>9.26%</b>	10.26%	10.27%
Minimum total capital ratio required by the Banking Supervision Department <sup>(3)</sup>	<b>12.76%</b>	13.76%	13.77%

(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 plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see [Section I below](#).

(2) A total of NIS 658 million as at September 30, 2020, NIS 883 million as at December 31, 2019, and NIS 480 million as at September 30, 2019, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of the efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years from inception.

(3) The required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see [Section H below](#)). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

### D. Capital adequacy in consolidated data (continued)

	September 30, 2020	September 30, 2019	December 31, 2019
	Unaudited		Audited
	%		
4. Significant subsidiaries			
Hapoalim Switzerland <sup>(1)(2)</sup>			
Ratio of common equity Tier 1 capital to risk components	173.26%	82.32%	18.27%
Ratio of Tier 1 capital to risk components	173.26%	82.32%	18.27%
Ratio of total capital to risk components	173.26%	82.38%	18.31%
Minimum common equity Tier 1 capital ratio required by local regulation	8.00%	8.00%	8.00%
Minimum total capital ratio required by local regulation	11.20%	11.20%	11.20%
Bank Pozitif <sup>(1)</sup>			
Ratio of Tier 1 capital to risk components	30.12%	30.55%	33.09%
Ratio of total capital to risk components	31.18%	30.55%	33.09%
Minimum total capital ratio required by local regulation	12.00%	12.00%	12.00%

(1) As reported to the local regulator.

(2) Following the loss that resulted from the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, recognized in the financial statements for the fourth quarter of 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested an amount of CHF 95 million, in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### E. Capital components for the calculation of the capital ratio

	September 30, 2020	September 30, 2019	December 31, 2019
	Unaudited		Audited
<b>Common equity Tier 1 capital</b>			
Total capital	<b>38,998</b>	39,261	38,221
Differences between total capital and common equity Tier 1 capital	<b>(16)</b>	(26)	(25)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	<b>38,982</b>	39,235	38,196
Supervisory adjustments and deductions:			
Goodwill and intangible assets	-	(7)	(7)
Deferred tax assets	<b>(64)</b>	(42)	(50)
Other supervisory adjustments and deductions – common equity Tier 1 capital*	<b>(206)</b>	(1)	(1)
Total supervisory adjustments and deductions, before efficiency plan adjustments – common equity Tier 1 capital	<b>(270)</b>	(50)	(58)
Total efficiency plan adjustments – common equity Tier 1 capital**	<b>490</b>	343	657
Total common equity Tier 1 capital, after supervisory adjustments and deductions	<b>39,202</b>	39,528	38,795
<b>Additional Tier 1 capital</b>			
Total additional Tier 1 capital	<b>488</b>	733	733
Total Tier 1 capital, after supervisory adjustments and deductions	<b>39,690</b>	40,261	39,528
<b>Tier 2 capital</b>			
Tier 2 capital – instruments, before deductions	<b>6,518</b>	6,417	5,929
Tier 2 capital – allowance for credit losses, before deductions	<b>3,914</b>	3,780	3,778
Total Tier 2 capital	<b>10,432</b>	10,197	9,707
Total overall capital	<b>50,122</b>	50,458	49,235

\* The balance as at September 30, 2020, includes a total of NIS 172 million resulting from deduction of the credit line for Bank Pozitif, in accordance with the requirement of the Banking Supervision Department. For further details, see [the section "Subsidiary of the Bank in Turkey,"](#) below.

\*\* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section, "Improving operational efficiency,"](#) below), are allocated in equal parts over five years from inception.

**Note 9 Capital, Capital Adequacy, Leverage, and Liquidity (continued)****F. Effect of efficiency plan adjustments on the common equity Tier 1 capital ratio**

	September 30, 2020	September 30, 2019	December 31, 2019
	Unaudited		Audited
	%		
Ratio of capital to risk components			
Ratio of common equity Tier 1 capital to risk components before the effect of the efficiency plan adjustments	11.37%	11.75%	11.31%
Effect of efficiency plan adjustments*	0.16%	0.12%	0.22%
Ratio of common equity Tier 1 capital to risk components	11.53%	11.87%	11.53%

\* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see [the section, "Improving operational efficiency,"](#) below), are allocated in equal parts over five years from inception.

**G. Capital components subject to volatility**

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

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

Scale of effect of a decrease in capital and an increase in risk-adjusted assets on the common equity Tier 1 capital ratio as at September 30, 2020

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

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

### **H. Capital-adequacy target**

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% 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 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months, until March 31, 2021. The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order (i.e., until March 31, 2023), provided that the capital ratios of the Bank do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower.

A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at September 30, 2020, and for the duration of the period of the Temporary Order, stand at 9.26% and 12.76%, respectively (instead of 10.26% and 13.76% prior to the Temporary Order).

In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

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.



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

### **I. 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.

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 ("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 a letter dated December 16, 2019, the Banking Supervision Department extended the period for implementation of the efficiency plan until December 31, 2021.

The Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments. Such relocation, if executed, would enable the Bank to vacate properties it presently uses for these units.

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 plan is being allocated in equal installments over five years, beginning in 2017, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

In January 2020, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 352 million, net of tax effect, which was allocated to capital as at December 31, 2019. The plan is being allocated in equal installments over five years, beginning in 2020, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

The effect of the reliefs in respect of the efficiency plans on the ratio of common equity Tier 1 capital to risk components is estimated at approximately 0.16% as at September 30, 2020.

**Note 9 Capital, Capital Adequacy, Leverage, and Liquidity  
(continued)****J. Issuance of subordinated notes with a loss-absorption mechanism**

In May 2020, the Bank issued a series of CPI-linked subordinated notes (Series U), through Hapoalim Hanpakot (a wholly owned subsidiary that serves as the funding arm of the Bank), bearing annual interest at a rate of 2.59%, with principal in a total amount of approximately NIS 1.06 billion, maturing in 2031 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

In August 2020, the Bank issued a series of CPI-linked subordinated notes (Series E), bearing annual interest at a rate of 2.97%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2031 (with the option of early maturity, at the initiative of the Bank and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through forced conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

**K. Early redemption of capital notes in Tier 2 capital**

In July 2020, Hapoalim Hanpakot executed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million. Following the decision regarding partial early redemption, as announced on June 16, 2020, the amount redeemed is not recognized in supervisory capital, beginning with the financial statements as at June 30, 2020.

**L. The subsidiary of the Bank in Turkey**

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

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

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

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at September 30, 2020, is an additional decrease of approximately 0.04%.

Within the Bank's strategic plan, a decision has been made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

In June 2020 (and again in November 2020), the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif (see [Section 2.6.3](#), "Principal companies," in the Report of the Board of Directors and Board of Management), in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 172 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.

### **M. Leases**

The effect of the implementation of the accounting standard concerning leases, at the adoption date of the standard, January 1, 2020, is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio and a decrease of approximately 0.05% in the total capital ratio. For further details, see [Note 1C](#) above.

### **N. Guarantees with reduced conversion factors**

In September 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 203.

Pursuant to the circular, the Banking Supervision Department has established reduced conversion factors for certain guarantees granted within project finance for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions.

The conversion factors will be identical to conversion factors for Sale Law guarantees, i.e. 10% if the residence has been transferred to the tenant, and 30% if the residence has not yet been transferred to the tenant.

The Bank is preparing to implement this directive; the effect is not expected to be material.

**Note 9 Capital, Capital Adequacy, Leverage, and Liquidity  
(continued)****O. Effect of the implementation of accounting rules concerning estimated credit losses on supervisory capital**

Banking corporations are required to allocate the effect of the initial implementation of accounting rules concerning estimated credit losses to retained earnings on January 1, 2022. In October 2020, the Banking Supervision Department issued a draft circular pursuant to which, if the initial implementation causes a decrease in the common equity Tier 1 capital of a banking corporation, net of tax effect, the banking corporation is permitted to include this decrease over the course of three years.

**P. Leverage ratio**

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

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items. Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations will maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 5.5%. Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order.

The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, "Leverage Ratio." The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction. Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

	September 30, 2020	September 30, 2019	December 31, 2019
	Unaudited		Audited
	NIS millions		
<b>a. Consolidated data</b>			
Tier 1 capital*	39,690	40,261	39,528
Total exposures*	573,323	508,609	519,648
		%	
Leverage ratio	6.92%	7.92%	7.61%
Minimum leverage ratio required by the Banking Supervision Department**	6.00%	6.00%	6.00%
<b>b. Significant subsidiary</b>			
<b>Bank Pozitif</b>			
Leverage ratio	26.94%	29.65%	29.73%
Minimum required leverage ratio according to local regulation	3.00%	3.00%	3.00%
<p>* These data include adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see <a href="#">the section "Improving operational efficiency,"</a> above). The effect of the reliefs in respect of the efficiency plans on the leverage ratio as at September 30, 2020, estimated at approximately 0.09%, is allocated in equal parts over five years, beginning at the inception date thereof.</p> <p>** According to the circular of the Banking Supervision Department, the minimum leverage ratio is expected to be 5.5% during the period of the Temporary Order. For further details, see <a href="#">the section "Leverage ratio,"</a> above.</p>			
		Effect of decrease of NIS 100 million in Tier 1 capital	Effect of increase of NIS 1 billion in total exposures
			%
<b>c. Effects on the leverage ratio as at September 30, 2020</b>			
The Bank in consolidated data		(0.02%)	(0.01%)

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

The Bank calculates its stand-alone and consolidated liquidity ratios daily, with a division into NIS and foreign currency, and monitors this ratio at its subsidiaries (which are required to comply with internal liquidity limits adapted to the nature of their activity). These ratios are reported as an average of the daily observations. The number of observations used to calculate the averages in the reported quarter is 61.

	<b>For the three months ended September 30, 2020</b>	For the three months ended September 30, 2019	For the three months ended December 31, 2019
	Unaudited		Audited
	%		
<b>a. Consolidated data</b>			
Liquidity coverage ratio	<b>132%</b>	124%	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	<b>100%</b>	100%	100%
<b>b. Bank data</b>			
Liquidity coverage ratio	<b>131%</b>	124%	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	<b>100%</b>	100%	100%

\* The ratio is calculated on a daily basis, and reported as an average of the daily observations.

## Notes to the Condensed Financial Statements

as at September 30, 2020

### Note 10 Contingent Liabilities and Special Commitments

NIS millions

#### A. Contingent liabilities and other special commitments

	September 30		December 31
	2020	2019	2019
	Unaudited		Audited
1. Commitment to purchase securities	584	497	577
2. Construction and acquisition of buildings and equipment	45	36	19
3. Long-term rent contracts – rent for buildings and equipment in commitments payable in future years:			
First year	136	144	147
Second year	130	138	142
Third year	121	129	133
Fourth year	108	120	123
Fifth year	85	106	106
Over five years	678	785	763
Total rent on buildings and equipment	1,258	1,422	1,414

#### 4. Credit selling activity

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

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Unaudited				Audited
Book value of credit sold	24	-	24	67	104
Consideration received in cash	45	-	45	68	113
Total net profit from sale of credit	21	-	21	1	9

5. Further to the statements in Note 25B(5) to the Annual Financial Statements for 2019, the Bank granted an indemnity commitment (a letter of indemnity) to a senior employee who is not an officer, in connection with his position as manager of an affiliate; to the Chief Compliance Officer of the Bank; and an indemnity commitment for certain cases to managers at another affiliate.

**Note 10 Contingent Liabilities and Special Commitments (continued)**

6. In October 1985, Hapoalim Switzerland leased a building used as management premises in Zurich, for a period of approximately 100 years, for an annual leasing fee, linked to the CPI, in the amount of CHF 2 million (at this time, approximately CHF 3 million per annum). Close to the beginning of the lease period, Hapoalim Switzerland divided the leased property and sold approximately half of the lease to a third party (a foreign banking corporation) (the "Third Party"), which has borne half of the annual leasing fee since then. To the best of the knowledge of the Bank, the banking corporation wished to sell its share of the leased property, but is engaged in a legal proceeding with the owner of the property (the lessor) with regard to its liability for the leasing fee after the sale. During the aforesaid legal proceeding, the lessor notified Hapoalim Switzerland that according to its position, Hapoalim Switzerland is responsible for the payment of the full leasing fee in respect of the property in its entirety, and in particular if the court rules that the banking corporation will not bear liability for the leasing fee after the sale of its share. Hapoalim Switzerland disputed this position, and did not believe that it would be held responsible for the share of the banking corporation in the lease. Accordingly, Hapoalim Switzerland recorded a provision in the amount of approximately CHF 23 million in respect of the difference between the contractual leasing fee for its share of the property (not the share of the banking corporation) and the fair value of the liability in respect of its share for the remainder of the period of the lease. A memorandum was signed in June 2020, and subsequently an agreement was signed in October 2020, between Hapoalim Switzerland and the lessor, pursuant to which Hapoalim Switzerland was released from the long-term lease contract in consideration for a payment of CHF 23 million, an amount for which a provision had been recorded, as noted. The property was placed under the ownership of the lessor. Concurrently, a rental agreement was signed, until April 2021.

7. The Bank and the subsidiaries, from time to time, under the commonly accepted conditions and circumstances and during the ordinary course of business, grant letters of indemnity, with limited amount and period or unlimited amount and period, including within transactions for the sale of holdings in the companies of the Group, contractual engagements with suppliers, etc.

**B. Legal proceedings**

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

The additional exposure in respect of claims filed against the Bank on various matters, as at September 30, 2020, that have a "reasonably possible" probability of materialization amounts to approximately NIS 356 million.

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



## Note 10 Contingent Liabilities and Special Commitments (continued)

### B. Legal proceedings (continued)

**a.** For details concerning claims and petitions to certify claims as class actions in material amounts, see [Note 25C\(a\) to the Financial Statements as at December 31, 2019](#) (hereinafter: the “2019 Annual Report”). As at the date of publication of the financial statements, no material changes have occurred relative to the information in the aforesaid Note 25C(a), with the following exceptions:

- 1.** With regard to the civil suit in the amount of USD 1 billion filed with the Federal Court of Washington DC in the United States by several Palestinian parties against a long list of defendants, including the Bank, described in Section 1 of Note 25C(a) of the 2019 Annual Report, on May 5, 2020, the claimants notified the court of their request to expunge several defendants from the claim, including the Bank. Accordingly, a court ruling was given on June 6, 2020, ordering expungement of the claim against the Bank and additional defendants.
- 2.** With regard to the claim filed with the US Bankruptcy Court of the Southern District of New York (hereinafter: the “Bankruptcy Court”) against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank, and against others, described in Section 8 of Note 25C(a) of the 2019 Annual Report, pursuant to the ruling of the Bankruptcy Court of December 2018, the fund filed an amended claim statement on January 15, 2020, which includes the components pertaining to the Fairfield claims that were not rejected in the aforesaid ruling (hereinafter: the “Amended Claim”). The defendants filed a motion for dismissal in limine of the Amended Claim in March 2020 (hereinafter: the “Motion”). The fund submitted its objection to the Motion, and the defendants submitted their response to this objection in June 2020. A ruling has not yet been given on the Motion. In addition, in December 2019 the fund appealed the ruling of the Bankruptcy Court of December 2018 with the US District Court for the Southern District of New York, with regard to the components pertaining to the Fairfield claims that were rejected (hereinafter: the “Appeal”). The defendants submitted their objection to the Appeal in March 2020, and the fund submitted its response to the objection in April 2020. A ruling has not yet been given on the Appeal.
- 3.** With regard to the class-action suit in the amount of NIS 3,860 million against Psagot Provident and Pension Funds Ltd., as described in Note 25C(a)(6) of the Annual Financial Statements for 2019, in its capacity as the manager of the provident fund Gadish (which it acquired from the Bank in the past), concerning the management of monies in accounts of deceased members, with respect to the mediation and compromise proceeding in the claim and the arguments of Psagot regarding certain indemnification rights against the Bank in respect thereof, on June 12, 2020, a ruling was given approving a settlement of the claimant in the class-action suit and the represented group with Psagot, pursuant to which Psagot will bear payments for compensation, remuneration, attorneys’ fees, and miscellaneous expenses in a total amount of approximately NIS 61 million.

## Note 10 Contingent Liabilities and Special Commitments (continued)

### B. Legal proceedings (continued)

**4.** With regard to the petition to certify a class action filed with the District Court of Tel Aviv Jaffa against the Bank and five additional banks, as described in Note 25C(c)(a)(9) of the Annual Financial Statements for 2019, in which the amount of the claim attributed to the Bank is NIS 1.96 billion, concerning the collection of fees for foreign-currency conversion transactions, and with regard to the motions to dismiss the petition in limine, on June 21, 2020, the court accepted the motions to dismiss and ordered rejection of the certification petition in limine (the "Ruling"). On July 7, 2020, the Bank was presented with an appeal of the Ruling that had been filed with the Supreme Court.

**5.** With regard to the petition to certify a class action filed with the Central District Court against the Bank, in a stated claim amount of NIS 546 million, described in Note 25C(c)(a)(5) of the Annual Financial Statements for 2019, concerning the matter of the arrangement of the Bank with the Isracard Group due to which the credit-card fee paid by customers of the Bank to the Isracard Group is higher than fees paid to it by customers of other banks, a ruling was given on August 23, 2020, rejecting the petition.

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

**1.** A petition to certify a class action against the Bank was filed with the District Court of Tel-Aviv-Jaffa on December 10, 2019 (the "Certification Petition"). According to the contentions, the Bank violated the Law for the Prohibition of Discrimination in Products, Services, and Entrance to Entertainment Venues and Public Places, 2000 (hereinafter: the "Discrimination Prohibition Law") by refusing to provide certain banking services to residents of the Judea and Samaria region, and discriminates against them due to their place of residence. The petitioner alleges that the Bank refused to grant him a loan for the purchase of a property located in a town in the Judea and Samaria region, solely due to the location of the collateral. It is therefore argued that the conduct of the Bank constitutes violation of the Discrimination Prohibition Law, violation of a legislated duty, and injury to the dignity of the petitioners and the members of the group under the Basic Law: Human Dignity and Liberty. The petitioner estimates the total damages (pecuniary and non-pecuniary damages) at NIS 1.15 billion. The Bank replied to the certification petition, arguing, among other matters, that the petition is factually and judicially unfounded; that the Bank does not discriminate against its customers; and that it has granted and grants housing loans to customers residing in Judea and Samaria with the property securing the loans located there.

**Note 10** Contingent Liabilities and Special Commitments (continued)**B. Legal proceedings** (continued)

2. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations of flaws, deficiencies, and misleading statements in the reports of the Bank pursuant to the Securities Law, since 2015, pertaining to the tax investigation of the United States authorities and the management of the internal investigation conducted by the Bank, and in particular, flaws in the reports of the Bank pertaining to the non-appointment of an Independent Examiner and external accounting firm at an early stage of the investigation; pertaining to the position of the DOJ with regard to the findings of the internal self-investigation and its demand to appoint an Independent Examiner and repeat the investigation, or part thereof; and pertaining to the damage caused to the Bank as a result of the lack of a timely appointment of an Independent Examiner. According to the petitioner, the amount of the personal claim and the amount of the class action cannot be estimated at this stage, but the amount of the class action is greater than NIS 2.5 million. The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank between March 1, 2015, and April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In the proceeding, two motions were filed pursuant to Section 7 of the Class Action Law, 2006 (the "Section 7 Motions"), by the petitioner in this proceeding and by a petitioner in another proceeding, in which each petitioner seeks expungement of the opposing motion. On August 10, 2020, the Attorney General gave notice that he does not intend to express any position regarding the petition at this stage, and that he reserves the right to participate in the proceedings in the future. On August 10, 2020, the court ruled to expunge the additional proceeding (described in Section 3 below; the "Additional Proceeding") and to retain the hearing of this Certification Petition. On September 10, 2020, the petitioner in the Additional Proceeding filed an appeal of the court ruling on the Section 7 Motions. The Bank filed a motion to extend the deadline for submission of its reply to the Certification Petition, such that it is submitted ninety days after the receipt of the findings of the independent committee established, pursuant to the resolution of the Board of Directors of the Bank, in connection with the American matter, headed by the Honorable Supreme Court Justice (Retired) Prof. Yoram Danziger, or ninety days after the final ruling on the Section 7 Motions. The court denied the motion and stated that the Bank must submit its reply to the Certification Petition by December 15, 2020.

**Note 10 Contingent Liabilities and Special Commitments (continued)****B. Legal proceedings (continued)**

**3.** A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations that the Bank violated disclosure duties pursuant to the Securities Law in connection with the tax investigation of the US authorities. According to the petitioner, the Bank acted to obstruct the investigation of the DOJ, including through concealment of data from the United States authorities and submission of unreliable data, conduction of an independent internal investigation that failed to meet appropriate standards, and non-appointment of a supervising accountant. The petitioner alleges that the Bank did not disclose these actions in its reports and that it acted to obstruct the investigation by performing such actions. This petition was also filed against the former controlling shareholder of the Bank (Arison Holdings (1998) Ltd.). The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank from November 23, 2017, to April 30, 2020, and held shares at that date (with the exception of the respondents and anyone acting on their behalf). According to the petitioner, the damage caused to the members of the represented class, in total, stands at approximately 2.34% of the amount for which the class members purchased the shares which they purchased during the aforesaid period and held on April 30, 2020. The Bank has not submitted a response to the Certification Petition. In connection with this petition, two motions pursuant to Section 7 of the Class Action Law, 2006, were submitted within the procedure described in Section 2 above (the "Section 7 Motions"). On August 10, 2020, the court ruled to expunge the Certification Petition and retain the hearing of the certification petition described in Section 2 above. On September 10, 2020, the petitioner filed an appeal of the court ruling on the Section 7 Motions.

**4.** A claim statement and a petition to certify the claim as a class action against the Bank and two additional banks were filed with the District Court of Tel Aviv on May 17, 2020 (the "Certification Petition"). The petition alleges, among other matters, that the Bank transfers personal information of its customers, in violation of privacy and banking secrecy, through its use of online advertising tools (such as Google and Facebook), and through online services that process information in the cloud, which are used by the Bank to provide services to its customers. The arguments against the Bank refer to the digital platforms: the website of the Bank, the Account Management application, and the Bit application. It is also alleged that the privacy protection policy and the terms of use published on these platforms include provisions constituting discriminatory provisions in a uniform contract. The claim does not state the amount of damage to the group. The amount of the personal claim has been set at a total of NIS 1,000.

**5.** A claim statement and a petition to certify the claim as a class action against the Bank, filed with the Center District Court, concerning inactive deposits, as defined in the Banking Ordinance, were received on May 21, 2020. The petition alleges, among other matters, that the Bank violated its duty to find and report to the owners of the accounts with regard to these accounts, collected fees, and obtained unjust enrichment. Among other matters, it is argued that the Bank must pay the amounts of the deposits, according to the real value thereof, with the addition of the fees that have been collected. The claim does not state the amount of damage to the group. A motion was filed to amend the certification petition by the addition of two affidavits (petitioners) to the petition, in which it was argued that it constituted no change in the contentions of the petitioner and in the contentions presented within the certification petition. The court accepted the amendment motion, and a hearing of the case was scheduled for April 7, 2021.

**Note 10** Contingent Liabilities and Special Commitments (continued)**C. Other proceedings and petitions to certify derivative claims**

For details regarding other proceedings and petitions to certify derivative claims, see [Note 25C\(c\) of the 2019 Annual Report](#). As at the date of publication of the financial statements, no material changes have occurred relative to the aforesaid Note 25C(c), with the following exceptions:

1. With regard to the motion for disclosure and perusal of documents in advance of filing a derivative claim, in connection with the investigation conducted in the United States (the "Investigation") of the suspicion that the Bank Group served as a conduit for holding and transferring bribes paid to senior FIFA officials, described in Section 2 in Note 25C(c) of the 2019 Annual Report: further to the ruling of the court of February 27, 2020, pursuant to which the parties were to hold discussions and attempt to reach understandings regarding the continued inquiry of the disclosure motion, on March 26, 2020, the petitioner submitted notification to the court, enclosing the relevant note from the 2019 Annual Report concerning the Investigation, which included reference to the negotiations over a resolution with the United States authorities, in which the court was asked to order continued discussion of the disclosure motion (the "Motion"). The respondents submitted their reply to the Motion, and the petitioner submitted his response to this reply. On May 3, 2020, an update notification was submitted by the respondents, pursuant to which a non-prosecution agreement had been signed between the respondents and the DOJ, which would conclude the investigation of the Bank Group. A similar notification was also submitted on behalf of the petitioner on the same day. On July 8, 2020, a motion was filed to approve a procedural arrangement between the parties, pursuant to which the court was asked to stay the proceedings in the Motion until January 3, 2021, in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On July 9, 2020, the court ruled that prior to approval of the procedural arrangement, the parties must give notice that they agree to waive all arguments regarding limitation periods, primarily with regard to a lack of evidence arising from the procedural arrangement and the time elapsed as a consequence. On July 15, 2020, the parties gave notice of their agreement to the statements in the ruling, without prejudice to any other right or argument available to them. On July 18, 2020, the motion for approval of a procedural arrangement was accepted, and it was determined that the parties would provide an update by January 3, 2021.

**Note 10** Contingent Liabilities and Special Commitments (continued)

2. With regard to the petition to certify a derivative claim and the motion for disclosure of documents prior to filing a derivative claim in connection with the tax investigation of the United States authorities, the hearing of which was consolidated, which are described in Section 3 of Note 25C(c) of the 2019 Annual Report, on March 18, 2020, the petitioners filed an update notification pursuant to which, as indicated by the Immediate Report issued by the Bank to the public on that date (the "Statement of the Bank"), the proceedings in the investigation referenced in the petition had concluded, also referencing the consent of the Bank and the Board of Directors of the Bank to the directive of the Supervisor of Banks to establish an independent committee, as indicated by the Statement of the Bank. In their notification, the petitioners asked the court to order the Bank to submit a full report regarding this affair, including various documents. The court ordered the Bank to submit a detailed response to the motion by April 29, 2020, including reference to the identity of the members of the independent committee and the parties appointing the committee. The Bank submitted its response on April 22, 2020. Concurrently with the submission of the response of the Bank, a joint motion of the Bank and the petitioners to approve a procedural arrangement was also submitted, within which the parties agreed that the petitioners would submit a consolidated and amended petition to certify a derivative claim within sixty days of the date of final approval of the resolutions with the United States authorities (hereinafter: the "Approval Date" and the "Procedural Arrangement"). The Bank will not object to the filing of such a petition, in itself (without expressing any position regarding the content of the petition), and the petition will be filed without an expense order; the proceedings will be stayed for six months from the Approval Date, in order to allow the independent committee to perform its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On April 22, 2020, the court ruled that the motion would be transferred to the Attorney General, who would submit his position. The Attorney General has given notice that he does not express any position regarding the petition at this stage, but reserves the right to participate in the proceedings in the future. On June 3, 2020, the Procedural Arrangement was approved, and it was determined that the parties would provide an update by January 3, 2021. In addition, in accordance with the Procedural Arrangement, an amended petition to certify a derivative claim against the Bank and other respondents (including present and past officers) was filed (hereinafter: the "Amended Petition"), thereby rendering unnecessary the motion for disclosure of documents prior to filing a derivative claim, the hearing of which was consolidated with this proceeding. In the Amended Petition, the amount of the damage caused to the Bank, as alleged by the petitioner, is estimated at approximately NIS 4.5 billion, at least. The assessment of the damage is based on amounts paid by the Bank to the United States authorities, and on legal and other expenses in the course of the tax investigation, and also refers to additional components that have not been quantified. Causes of the claim were also added to the Amended Petition, including with regard to the alleged lack of cooperation of the Bank with the United States authorities during the period of the Investigation.

### **Note 10** Contingent Liabilities and Special Commitments (continued)

**3.** On March 31, 2020, a motion was filed with the District Court of Tel Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law. The motion concerns the decision of the Board of Directors of the Bank to establish an independent committee, as described in Note 25D of the 2019 Annual Report. The petitioner argues that the tasks assigned to the committee are in material conflict, and that an attempt to fulfill these tasks simultaneously may constitute violation of the duty of confidentiality established in Section 15A(a) of the Banking Ordinance, 1941. The petitioner contends that the Board of Directors of the Bank should therefore have appointed two separate committees, or clearly separated the tasks assigned to the committee. A reply to the motion and a response to the reply were submitted, and a hearing of the motion was held on September 9, 2020, in which the court ordered the Bank of Israel to present its position on this issue, after which the parties will present their positions. On October 14, 2020, the Bank of Israel submitted its position, in which it clarified that the decision for the Bank to examine the exhaustion of rights (as differentiated from the requirement to examine managerial processes) was not based on a demand of the Supervisor, but the relevant parties at the Banking Supervision Department were advised in advance of the decision that the committee would also address this matter.

The Bank of Israel chose not to address the merits of the arguments of the petitioner (and a motion filed by the petitioner for the court to order the Bank of Israel to submit a supplementary position also addressing the petitioner's arguments in the derivative proceeding on their merits was denied by the court). According to the ruling of the court, the parties are required to comment on the position of the Bank of Israel. On November 4, 2020, the position of the petitioner regarding the position of the Bank of Israel was submitted, in which he argues that it would have been proper for the Bank of Israel to comment on the arguments in the motion on their merits. Concurrently, the petitioner argues that the absence of comment on the arguments on their merits should be interpreted as supportive of his arguments.

## Note 10 Contingent Liabilities and Special Commitments (continued)

**4.** On May 3, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns the argument that part of the amounts of the fines imposed upon the Bank within the resolution with the United States authorities, as detailed in Section D of this note, below, is attributed to the noncooperation of the Bank with these authorities for most of the duration of the investigation, and that the Motion is filed in order to impose liability for the damages of the Bank on those responsible for these actions and inactions (including, according to the petitioner, employees, officers, and external advisors of the Bank and of Bank Hapoalim Switzerland), and in order to quantify the surplus fines imposed upon the Bank due to this conduct, and allow the petitioner to examine and evaluate the feasibility of filing a derivative claim. On June 14, 2020, the court approved a procedural arrangement between the parties pursuant to which the court would stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On June 30, 2020, the petitioner in the petition to certify a derivative claim described in Section 2 above filed a motion to expunge this petition (the "Expungement Motion"). The reply of the Bank and the response of the petitioner to the Expungement Motion have been submitted; a ruling has not yet been handed down. The hearing of the Expungement Motion is scheduled for December 6, 2020.

**5.** On May 21, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure of documents prior to a derivative claim pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns contentions regarding damages caused to the Bank due to taxation aspects pertaining to payments paid by the Bank to government authorities in the matter of the United States tax investigation. It is argued in the Motion that due to various tax aspects, the actual damage caused to the Bank is greater than the amount of the payments to the United States authorities. In view of these contentions, the petitioner is seeking to receive various documents in order to consider whether to file a petition to certify a derivative claim on behalf of the Bank against those responsible for this alleged damage. The petitioner estimates the amount of damage caused to the Bank due to the taxation aspects at approximately USD 448 million. On June 14, 2020, the court approved a procedural arrangement between the parties pursuant to which the court would stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On July 2, 2020, the petitioner in the petition to certify a derivative claim described in Section 2 above filed a motion to expunge this petition (the "Expungement Motion"). The reply of the Bank and the reply of the petitioner have been submitted; a ruling on the Expungement Motion has not yet been handed down. A hearing of the Expungement Motion has been scheduled for December 6, 2020.



## Note 10 Contingent Liabilities and Special Commitments (continued)

**6.** On June 15, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents pursuant to Section 198A of the Companies Law (the "Motion"). It is argued in the Motion, among other matters, that the officers of the Bank granted credit to companies in the Yedioth Ahronoth Group and to the controlling shareholder of the group, Mr. Arnon (Noni) Mozes, in the amount of approximately NIS 1 billion, for the purpose of trading in high-risk speculative financial instruments, disregarding the best interests of the Bank; disclosure of documents is requested in connection with this matter. The court approved a procedural arrangement pursuant to which the petitioner would file a motion to amend the Motion, and a response and a reply to the response would be submitted by the Bank and the petitioner, respectively.

**7.** With regard to the petition to certify a derivative claim against the Bank and officers of the Bank described in Section 1 of Note 25C(c) to the 2019 Annual Report, which concerns contentions against the conduct of the respondents in connection with the provision of credit from the group of Mr. Eliezer Fishman and the collection thereof, in a hearing held on May 20, 2020, and further to the motions of the respondents, it was determined that the respondents would submit supplementary replies on their behalf to the response of the petitioner during the month of November. In addition, a motion for disclosure and perusal of documents was filed within the proceeding, on which a ruling has not yet been handed down. The case is scheduled for an additional pretrial hearing on January 6, 2021.

**8.** In August 2020, a letter of request and demand for disclosure of documents pursuant to Sections 194 and 198A of the Companies Law, 1999, was received at the Bank, concerning contentions pertaining to credit granted to Mr. Fishman, corporations under his control, and related parties; control and enforcement measures taken by the Bank with respect to this credit; and the support of the Bank for the mediation arrangements with members of the Fishman family and with Ms. Ronit Even, within Bankruptcy Case 3642-08-16, Tax Assessment Officer for Large Enterprises and others v. Fishman and others, and Company Liquidation Case 3829-01-17, Terzalit Ltd. v. Fishman (the "Letter"). A letter of response was sent on behalf of the Bank on September 24, 2020, in which it rejects the request and demand for disclosure of documents.

**D.** Further to the details provided in Note 25D to the Annual Financial Statements for 2019 with respect to the investigation by the US authorities in connection with the Bank Group's business with its US customers (the "Tax Investigation"), on April 30, 2020, resolutions with the US authorities in connection with the Tax Investigation were announced and entered into force, as follows:

**a.** A Deferred Prosecution Agreement ("DPA") between the Bank and the DOJ, with respect to the Bank's activity and dealings with its US customers during the period that was the subject of the investigation (2002-2014), to the extent related to Bank Hapoalim in Israel, Poalim Trust Services Ltd., and Bank Hapoalim branches and subsidiaries outside of Israel (excluding Hapoalim Switzerland).

**Note 10 Contingent Liabilities and Special Commitments (continued)**

As part of the DPA, the Bank accepted responsibility under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the DPA, to which the Bank has admitted. Pursuant to the DPA, as approved by a federal court in the State of New York, the charges against the Bank are being deferred for a period of three years, such that if the Bank meets the conditions of the agreement during the said period, the charges (detailed in the Information document attached to the resolution) will be dismissed with no criminal conviction. In the event that the Bank breaches the agreement, the DOJ will have the right, among others, to extend the deferral period for a period of one additional year, and to take other measures against the Bank, including canceling the agreement and prosecuting the Bank. Pursuant to the DPA, the Bank paid the US government a total sum of USD 214,385,612. The said amount is comprised of the following components: a total of USD 77,877,099 for the tax loss restitution component, a total of USD 35,696,929 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 100,811,584 for the penalty component.

**b.** A Plea Agreement between the DOJ and Hapoalim Switzerland Ltd. (formerly Bank Hapoalim (Switzerland) Ltd.) ("Hapoalim Switzerland"), that relates to the activity and dealings of Hapoalim Switzerland with its US customers during the period that was the subject of the investigation (2002-2014).

As part of the Plea Agreement, Hapoalim Switzerland has pleaded guilty and was convicted of an offense under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the Plea Agreement, to which Hapoalim Switzerland admitted.

Pursuant to the Plea Agreement, Hapoalim Switzerland paid the US government a total sum of USD 402,534,921. The said amount is comprised of the following components: a total of USD 138,908,073 for the tax loss restitution component, a total of USD 124,628,449 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 138,998,399 for the penalty component.

**c.** A Consent Order issued by the New York State Department of Financial Services (the "NYDFS"), according to which the Bank paid the NYDFS a civil monetary penalty in the amount of USD 220,000,000.

**d.** A Cease and Desist Order issued by the Board of Governors of the Federal Reserve System (the "Fed"), according to which the Bank paid the Fed a civil monetary penalty in the amount of USD 37,350,000.

In total, under the said resolutions, the Bank Group paid the aforesaid three US authorities an aggregate sum of USD 874,270,533 in connection with the Tax Investigation (NIS 3,066 million). The said amount is higher by approximately USD 4.2 million (approximately NIS 15 million) than the total amount of the provision recorded by the Bank until the entry into force of the resolutions; the difference arises from amendments and updates of the method of calculation of the amounts which the Bank was required to pay performed since the publication of the aforesaid financial statements. The additional amount was recorded in the financial statements for the first quarter of 2020.

The entry into force of the aforesaid resolutions brings to an end the Tax Investigation conducted by the US authorities against the Bank Group.

## Note 10 Contingent Liabilities and Special Commitments (continued)

The DPA and the Plea Agreement contain Statements of Facts documents, which detail the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with US laws. The resolution documents also detail the considerations for determining the various penalty amounts, including, inter alia, the nature and seriousness of the conduct of the Bank Group in each case; partial credit given by the relevant authorities for the payments made to other authorities; the participation of individuals with high-level positions in the offense; the level of cooperation of the Bank Group with the relevant authorities; and the Bank Group's lack of criminal history.

The resolutions with the DOJ described above include various undertakings by the Bank and Hapoalim Switzerland to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the investigations, including, among other matters, to continue providing assistance and various types of information to the DOJ, and to submit a periodic report to the DOJ regarding loans granted by the Bank's branches in the US that are guaranteed by accounts held with branches of the Bank outside the US, as well as related internal controls.

The Consent Order and the Cease and Desist Order require the Bank to agree to a number of undertakings, including, among others, with respect to employee discipline, internal controls, reporting, and cooperation. The resolutions do not include the appointment of a monitor.

The resolutions described above relate to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only, and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the various resolution documents. The resolutions do not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as concerns the obligations of the Bank Group to cooperate in accordance with the resolutions and not to breach the provisions of the resolutions.

The resolutions described above and the attachments thereto are available for reading on the Bank's website, at <https://www.bankhapoalim.co.il/he/node/757>.

In accordance with the requirement of the Supervisor of Banks, the Board of Directors of the Bank decided that an independent committee, headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"), would examine the managerial and supervisory processes that allowed the actions that are the subject of the Tax Investigation in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors. Pursuant to the decision of the Board of Directors, the Committee will examine exhausting the Bank's rights in connection with the Tax Investigation, including whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. The Committee began its work near the date of approval of the resolutions with the United States authorities.

The Board of Directors of the Bank has established a committee of the Board of Directors to monitor the implementation of the resolutions of the Bank with the US authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions.

## Note 10 Contingent Liabilities and Special Commitments (continued)

**E.** Further to the details provided in Note 25E of the financial statements for the year 2019 in connection with the U.S. Department of Justice (the "DOJ") investigation in connection with the Fédération Internationale de Football Association (FIFA) (the "FIFA Investigation"), on April 30, 2020 a Non Prosecution Agreement ("NPA") was signed and entered into force between the Bank and Hapoalim Switzerland and the DOJ with respect to the FIFA Investigation. The NPA does not involve criminal charges, an indictment, or a criminal conviction. Pursuant to the NPA the Bank admitted, among other things, that certain employees of the Bank Group participated in a scheme to launder funds constituting bribes paid to soccer officials, as detailed in the Statement of Facts attached to the NPA, which details the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with the laws of the United States. According to the NPA, the Bank Group paid the US government a sum of USD 30,063,317 (NIS 107 million). The said amount is comprised of the following components: a sum of USD 20,733,322 for forfeiture of funds transferred or attempted to be transferred through accounts at the Bank Group as part of the FIFA matter, and a penalty of USD 9,329,995.

The NPA includes different undertakings by the Bank and Hapoalim Switzerland, including an undertaking to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the said investigation. The resolution does not include the appointment of a monitor.

The entry into force of the NPA brings to an end the investigation conducted by the DOJ against the Bank Group in this matter.

The resolution relates to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the resolution. The resolution does not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as such things concern the obligations of the Bank Group to cooperate in accordance to the resolutions and not to breach the provisions of the resolution. The NPA and its attachments are available for reading on the Bank's website at <https://bankhapoalim.co.il/he/node/757>.

On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee headed by Justice (Retired) Danziger (see [Note 10D](#) above) to also encompass an examination of the FIFA affair. Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see [Note 10C\(1\)](#)). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Nominal amount of derivative instruments

	September 30, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
<b>Interest contracts</b>			
Future and forward contracts	2,587	22,362	24,949
Options written	-	1,790	1,790
Options bought	103	1,790	1,893
Swaps <sup>(1)</sup>	22,073	334,554	356,627
Total <sup>(2)</sup>	24,763	360,496	385,259
Of which: hedging derivatives	15,781	-	15,781
<b>Foreign-currency contracts</b>			
Future and forward contracts	13,026	243,596	256,622
Options written	-	24,738	24,738
Options bought	255	23,331	23,586
Swaps	290	34,377	34,667
Total <sup>(3)</sup>	13,571	326,042	339,613
Of which: hedging derivatives	-	-	-
<b>Share-related contracts</b>			
Future and forward contracts	-	16,977	16,977
Options written	1,850	23,938	25,788
Options bought <sup>(4)</sup>	526	23,938	24,464
Swaps	1,102	19,646	20,748
Total	3,478	84,499	87,977
<b>Commodity and other contracts</b>			
Future and forward contracts	-	285	285
Options written	-	43	43
Options bought	-	42	42
Total	-	370	370
Total nominal amount	41,812	771,407	813,219

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 190,093 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 27,972 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 20,019 million.

(4) Of which: traded on the stock exchange in the amount of NIS 23,938 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Nominal amount of derivative instruments (continued)

	September 30, 2019*		
	Derivatives not held for trading	Derivatives held for trading	Total
<b>Interest contracts</b>			
Future and forward contracts	4,246	38,862	43,108
Options written	-	15,837	15,837
Options bought		17,404	17,404
Swaps <sup>(1)</sup>	21,056	475,779	496,835
Total <sup>(2)</sup>	25,302	547,882	573,184
Of which: hedging derivatives	13,041	-	13,041
<b>Foreign-currency contracts</b>			
Future and forward contracts	25,395	178,141	203,536
Options written	-	28,344	28,344
Options bought	187	28,346	28,533
Swaps	3,388	31,569	34,957
Total <sup>(3)</sup>	28,970	266,400	295,370
Of which: hedging derivatives	-	-	-
<b>Share-related contracts</b>			
Future and forward contracts	-	10,843	10,843
Options written	2,102	10,475	12,577
Options bought <sup>(4)</sup>	581	10,474	11,055
Swaps	1,504	11,515	13,019
Total	4,187	43,307	47,494
<b>Commodity and other contracts</b>			
Future and forward contracts	-	416	416
Options written	-	295	295
Options bought	-	274	274
Total	-	985	985
Total nominal amount	58,459	858,574	917,033

\* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 262,819 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 29,401 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 20,681 million.

(4) Of which: traded on the stock exchange in the amount of NIS 10,434 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### A. Nominal amount of derivative instruments (continued)

	December 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
<b>Interest contracts</b>			
Future and forward contracts	3,449	43,714	47,163
Options written	-	13,944	13,944
Options bought	104	14,613	14,717
Swaps <sup>(1)</sup>	18,552	437,766	456,318
Total <sup>(2)</sup>	22,105	510,037	532,142
Of which: hedging derivatives	11,050	-	11,050
<b>Foreign-currency contracts</b>			
Future and forward contracts	15,412	209,620	225,032
Options written	-	25,802	25,802
Options bought	188	26,761	26,949
Swaps	2,915	31,339	34,254
Total <sup>(3)</sup>	18,515	293,522	312,037
Of which: hedging derivatives	-	-	-
<b>Share-related contracts</b>			
Future and forward contracts	-	13,192	13,192
Options written	2,043	11,259	13,302
Options bought <sup>(4)</sup>	594	11,259	11,853
Swaps	1,258	12,315	13,573
Total	3,895	48,025	51,920
<b>Commodity and other contracts</b>			
Future and forward contracts	-	260	260
Options written	-	723	723
Options bought	-	684	684
Total	-	1,667	1,667
Total nominal amount	44,515	853,251	897,766

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 243,475 million.

(2) Of which: NIS-CPI swap contracts in the amount of NIS 28,255 million.

(3) Of which: foreign-currency spot swap contracts in the amount of NIS 11,213 million.

(4) Of which: traded on the stock exchange in the amount of NIS 11,102 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Gross fair value of derivative instruments

	September 30, 2020					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	395	6,382	6,777	1,278	6,887	8,165
Of which: hedging derivatives	38	1	39	358	701	1,059
Foreign-currency contracts	72	3,903	3,975	68	3,351	3,419
Share-related contracts	43	926	969	42	914	956
Commodity and other contracts	-	52	52	-	52	52
Total gross assets (liabilities) in respect of derivatives <sup>(1)</sup>	510	11,263	11,773	1,388	11,204	12,592
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	510	11,263	11,773	1,388	11,204	12,592
Of which: not subject to a netting arrangement or similar arrangements	96	1,035	1,131	341	791	1,132

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 39 million.



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Gross fair value of derivative instruments (continued)

	September 30, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading*	Derivatives held for trading*	Total	Derivatives not held for trading*	Derivatives held for trading*	Total
Interest contracts	354	7,048	7,402	796	7,354	8,150
Of which: hedging derivatives	70	5	75	225	427	652
Foreign-currency contracts	554	3,870	4,424	376	4,382	4,758
Share-related contracts	41	790	831	41	778	819
Commodity and other contracts	-	35	35	-	35	35
Total gross assets (liabilities) in respect of derivatives <sup>(1)</sup>	949	11,743	12,692	1,213	12,549	13,762
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	949	11,743	12,692	1,213	12,549	13,762
Of which: not subject to a netting arrangement or similar arrangements	140	1,231	1,371	126	1,628	1,754

\* Reclassified due to the initial implementation of the circular of the Bank of Israel concerning derivative instruments and hedging (classification of derivatives held for trading and not held for trading).

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Gross fair value of derivative instruments (continued)

	December 31, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	263	6,112	6,375	637	6,468	7,105
Of which: hedging derivatives	21	11	32	183	344	527
Foreign-currency contracts	445	3,317	3,762	332	3,650	3,982
Share-related contracts	53	938	991	50	941	991
Commodity and other contracts	-	15	15	-	15	15
Total gross assets (liabilities) in respect of derivatives <sup>(1)</sup>	761	10,382	11,143	1,019	11,074	12,093
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	761	10,382	11,143	1,019	11,074	12,093
Of which: not subject to a netting arrangement or similar arrangements	79	1,113	1,192	104	1,310	1,414

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 43 million.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### C. Accounting hedges

#### 1. Effect of accounting hedges

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2020	2019	2020	2019	2019
	Interest income (expenses)				
	Unaudited				Audited
Profit (loss) from fair-value hedges					
Interest contracts					
Hedged items	(105)	98	540	552	407
Hedging derivatives	105	(103)	(546)	(557)	(405)

#### 2. Items hedged in fair-value hedges

	Balance as at September 30, 2020		Balance as at September 30, 2019		Balance as at December 31, 2019	
	Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value	Book value	Cumulative fair-value adjustments that increased the book value
	Unaudited				Audited	
Securities	15,086	995	10,488	600	10,527	455

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Credit risk in respect of derivative instruments, by contract counterparty

	September 30, 2020					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	165	6,158	2,136	135	3,179	11,773
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,831)	(1,840)	(16)	(1,137)	(8,824)
Credit risk mitigation in respect of cash collateral received	-	(287)	(65)	(106)	(776)	(1,234)
Net total assets in respect of derivative instruments	165	40	231	13	1,266	1,715
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	305	3,955	2,059	102	4,771	11,192
Off-balance sheet credit risk mitigation	-	(2,213)	(655)	(7)	(1,301)	(4,176)
Total gross credit risk in respect of derivative instruments	470	10,113	4,195	237	7,950	22,965
Balance sheet balance of liabilities in respect of derivative instruments <sup>(2)</sup>	120	7,374	2,419	16	2,663	12,592
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,831)	(1,840)	(16)	(1,137)	(8,824)
Cash collateral pledged	-	(1,021)	(552)	-	(572)	(2,145)
Net total liabilities in respect of derivative instruments	120	522	27	-	954	1,623

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 39 million (September 30, 2019: NIS 34 million; December 31, 2019: NIS 43 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	September 30, 2019					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	397	6,765	2,130	224	3,176	12,692
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,968)	(2,031)	(2)	(760)	(8,761)
Credit risk mitigation in respect of cash collateral received	-	(419)	(60)	(168)	(335)	(982)
Net total assets in respect of derivative instruments	397	378	39	54	2,081	2,949
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	276	3,546	1,659	93	3,875	9,449
Off-balance sheet credit risk mitigation	-	(1,799)	(749)	(1)	(852)	(3,401)
Total gross credit risk in respect of derivative instruments	673	10,311	3,789	317	7,051	22,141
Balance sheet balance of liabilities in respect of derivative instruments <sup>(2)</sup>	187	6,787	2,575	2	4,211	13,762
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,968)	(2,031)	(2)	(760)	(8,761)
Cash collateral pledged	-	(457)	(207)	-	(1,324)	(1,988)
Net total liabilities in respect of derivative instruments	187	362	337	-	2,127	3,013

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 39 million (September 30, 2019: NIS 34 million; December 31, 2019: NIS 43 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2019					Total
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	
Positive gross fair value of derivative instruments	359	5,800	1,943	209	2,832	11,143
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(5,128)	(1,739)	-	(708)	(7,575)
Credit risk mitigation in respect of cash collateral received	-	(409)	(136)	(208)	(97)	(850)
Net total assets in respect of derivative instruments	359	263	68	1	2,027	2,718
Off-balance sheet credit risk in respect of derivative instruments <sup>(1)</sup>	289	3,309	1,584	97	4,019	9,298
Off-balance sheet credit risk mitigation	-	(1,662)	(615)	-	(1,062)	(3,339)
Total gross credit risk in respect of derivative instruments	648	9,109	3,527	306	6,851	20,441
Balance sheet balance of liabilities in respect of derivative instruments <sup>(2)</sup>	177	5,922	2,316	-	3,678	12,093
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(5,128)	(1,739)	-	(708)	(7,575)
Cash collateral pledged	-	(424)	(180)	-	(1,694)	(2,298)
Net total liabilities in respect of derivative instruments	177	370	397	-	1,276	2,220

(1) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.

(2) Of which, negative fair value of embedded derivative instruments in the amount of NIS 39 million (September 30, 2019: NIS 34 million; December 31, 2019: NIS 43 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### E. Details of maturity dates (nominal value amounts)

	September 30, 2020				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
	Unaudited				
Interest contracts					
NIS-CPI	3,216	6,337	11,518	6,901	27,972
Other	25,230	88,937	176,288	66,832	357,287
Foreign-currency contracts	176,358	110,058	39,156	14,041	339,613
Share-related contracts	60,847	21,546	2,360	3,224	87,977
Commodity and other contracts (including credit derivatives)	154	192	24	-	370
<b>Total</b>	<b>265,805</b>	<b>227,070</b>	<b>229,346</b>	<b>90,998</b>	<b>813,219</b>
	September 30, 2019				
	Unaudited				
<b>Total</b>	236,084	318,917	258,697	103,335	917,033
	December 31, 2019				
	Audited				
<b>Total</b>	347,220	215,925	250,060	84,561	897,766

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments

### Assignment of customers to the supervisory activity segments

The reporting on segments of activity is in accordance with the format and classifications established in the Public Reporting Directive of the Banking Supervision Department, as detailed in Note 28 to the Annual Financial Statements for 2019.

### Information regarding supervisory activity segments

	For the three months ended September 30, 2020		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	1,100	625	5
Interest expenses for externals	(60)	-	-
Net interest income:			
From externals	1,040	625	5
Inter-segmental	(306)	(373)	-
Total net interest income	734	252	5
Non-interest income:			
Non-interest financing income	1	-	-
Fees and other income	293	16	50
Total non-interest income	294	16	50
Total income	1,028	268	55
Provision (income) for credit losses	127	22	-
Operating and other expenses:			
For externals	1,004	74	52
Inter-segmental	(92)	-	-
Total operating and other expenses	912	74	52
Profit (loss) from continued operations before taxes	(11)	172	3
Provision for taxes (tax benefit) on profit (loss) from continued operations	(3)	69	1
Profit (loss) from continued operations after taxes	(8)	103	2
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	(8)	103	2
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	(8)	103	2
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(8)	103	2



# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the three months ended September 30, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
3	523	226	380	7	219	-	2,458	149	2,607
(29)	(21)	(19)	(23)	(47)	(154)	-	(353)	(53)	(406)
(26)	502	207	357	(40)	65	-	2,105	96	2,201
40	(9)	(17)	(81)	54	320	-	1	(1)	-
14	493	190	276	14	385	-	2,106	95	2,201
-	2	4	11	9	308	-	335	-	335
33	199	64	104	20	20	26	759	7	766
33	201	68	115	29	328	26	1,094	7	1,101
47	694	258	391	43	713	26	3,200	102	3,302
-	89	(7)	(58)	-	1	-	152	41	193
31	337	77	55	21	174	14	1,713	138	1,851
15	87	3	23	21	(62)	8	3	(3)	-
46	424	80	78	42	112	22	1,716	135	1,851
1	181	185	371	1	600	4	1,332	(74)	1,258
(1)	57	64	149	-	201	(1)	466	(17)	449
2	124	121	222	1	399	5	866	(57)	809
-	-	-	-	-	5	-	5	-	5
2	124	121	222	1	404	5	871	(57)	814
-	-	-	-	-	-	-	-	-	-
2	124	121	222	1	404	5	871	(57)	814
-	-	-	-	-	5	-	5	(3)	2
2	124	121	222	1	409	5	876	(60)	816

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2020		
	Activity in Israel		
	Households <sup>(4)</sup>		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets <sup>(1)</sup>	<b>130,894</b>	<b>94,805</b>	<b>3,865</b>
Of which: investments in equity-basis investees <sup>(1)</sup>	-	-	-
Average balance of gross credit to the public <sup>(1)</sup>	<b>132,387</b>	<b>95,528</b>	<b>3,865</b>
Balance of gross credit to the public at the end of the reported period	<b>131,219</b>	<b>96,734</b>	<b>4,540</b>
Balance of impaired debts	<b>776</b>	<b>1</b>	-
Balance of debts in arrears of more than 90 days	<b>733</b>	<b>694</b>	-
Average balance of liabilities <sup>(1)</sup>	<b>153,594</b>	-	-
Of which: average balance of deposits from the public <sup>(1)</sup>	<b>153,591</b>	-	-
Balance of deposits from the public at the end of the reported period	<b>156,148</b>	-	-
Average balance of risk-adjusted assets <sup>(1)(2)</sup>	<b>94,294</b>	<b>55,365</b>	<b>5,020</b>
Balance of risk-adjusted assets at the end of the reported period <sup>(2)</sup>	<b>94,405</b>	<b>55,962</b>	<b>4,998</b>
Average balance of assets under management <sup>(1)(3)</sup>	<b>61,921</b>	-	-
Segmentation of net interest income:			
Spread from credit granting activity	<b>675</b>	<b>252</b>	<b>5</b>
Spread from deposit taking activity	<b>59</b>	-	-
Other	-	-	-
Total net interest income	<b>734</b>	<b>252</b>	<b>5</b>

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 14.5 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the three months ended September 30, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
573	50,398	28,950	62,724	2,710	203,527	364	480,140	27,642	507,782
-	-	-	-	-	300	-	300	-	300
581	51,357	30,418	62,909	2,281	-	-	279,933	14,946	294,879
617	52,451	30,629	68,578	993	-	-	284,487	14,534	299,021
-	1,041	341	1,421	-	-	-	3,579	557	4,136
-	23	1	14	-	-	-	771	19	790
34,543	75,488	26,130	44,211	57,578	59,024	10	450,578	19,434	470,012
34,542	75,340	26,006	44,085	57,519	-	-	391,083	17,972	409,055
34,971	75,872	26,506	47,431	58,730	-	-	399,658	17,347	417,005
1,111	63,530	43,348	87,064	5,810	20,902	4,611	320,670	19,100	339,770
1,087	63,170	43,843	87,382	5,797	20,642	4,549	320,875	19,086	339,961
43,870	30,578	14,918	70,170	300,520	35,470	3,886	561,333	-	561,333
2	473	183	268	4	691	-	2,296	142	2,438
12	20	7	8	7	(309)	-	(196)	(53)	(249)
-	-	-	-	3	3	-	6	6	12
14	493	190	276	14	385	-	2,106	95	2,201

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2019*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	876	300	6
Interest expenses for externals	(68)	-	-
Net interest income:			
From externals	808	300	6
Inter-segmental	33	(85)	(1)
Total net interest income	841	215	5
Non-interest income:			
Non-interest financing income	1	-	-
Fees and other income	339	17	64
Total non-interest income	340	17	64
Total income	1,181	232	69
Provision (income) for credit losses	76	7	-
Operating and other expenses:			
For externals	942	60	46
Inter-segmental	(5)	-	-
Total operating and other expenses	937	60	46
Profit (loss) from continued operations before taxes	168	165	23
Provision for taxes (tax benefit) on profit (loss) from continued operations	60	60	8
Profit (loss) from continued operations after taxes	108	105	15
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	108	105	15
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	108	105	15
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	108	105	15

\* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the three months ended September 30, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
5	578	202	392	5	235	-	2,293	300	2,593
(58)	(42)	(22)	(94)	(40)	115	-	(209)	(101)	(310)
(53)	536	180	298	(35)	350	-	2,084	199	2,283
95	31	16	(24)	52	(143)	-	60	(60)	-
42	567	196	274	17	207	-	2,144	139	2,283
1	4	2	12	8	35	-	63	(5)	58
35	206	71	98	19	19	20	807	19	826
36	210	73	110	27	54	20	870	14	884
78	777	269	384	44	261	20	3,014	153	3,167
-	49	(51)	(129)	1	(2)	-	(56)	16	(40)
36	408	87	72	31	161	72	1,809	161	1,970
13	30	(2)	10	11	(53)	(1)	3	(3)	-
49	438	85	82	42	108	71	1,812	158	1,970
29	290	235	431	1	155	(51)	1,258	(21)	1,237
13	108	89	153	2	82	(18)	489	34	523
16	182	146	278	(1)	73	(33)	769	(55)	714
-	-	-	-	-	3	-	3	-	3
16	182	146	278	(1)	76	(33)	772	(55)	717
-	-	-	-	-	-	16	16	-	16
16	182	146	278	(1)	76	(17)	788	(55)	733
-	-	-	-	-	-	-	-	3	3
16	182	146	278	(1)	76	(17)	788	(52)	736

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the three months ended September 30, 2019*		
	Activity in Israel		
	Households <sup>(4)</sup>		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets <sup>(1)</sup>	124,625	86,025	4,535
Of which: investments in equity-basis investees <sup>(1)</sup>	-	-	-
Average balance of gross credit to the public <sup>(1)</sup>	126,860	86,456	4,535
Balance of gross credit to the public at the end of the reported period	127,079	87,382	5,672
Balance of impaired debts	739	-	-
Balance of debts in arrears of more than 90 days	622	550	-
Average balance of liabilities <sup>(1)</sup>	135,549	-	-
Of which: average balance of deposits from the public <sup>(1)</sup>	135,547	-	-
Balance of deposits from the public at the end of the reported period	136,052	-	-
Average balance of risk-adjusted assets <sup>(1)(2)</sup>	93,492	50,203	5,180
Balance of risk-adjusted assets at the end of the reported period <sup>(2)</sup>	93,882	50,761	5,397
Average balance of assets under management <sup>(1)(3)</sup>	70,180	-	-
Segmentation of net interest income:			
Spread from credit granting activity	717	215	5
Spread from deposit taking activity	124	-	-
Other	-	-	-
Total net interest income	841	215	5

\* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 12.2 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the three months ended September 30, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
745	54,833	28,964	52,086	2,051	156,916	141	420,361	30,940	451,301
-	-	-	-	-	106	-	106	-	106
752	56,538	30,412	55,359	1,746	-	-	271,667	15,487	287,154
718	54,013	30,117	66,143	1,605	-	-	279,675	15,305	294,980
-	1,012	287	488	-	-	-	2,526	439	2,965
-	205	4	-	-	-	-	831	10	841
31,964	60,610	21,634	40,935	43,921	57,744	10	392,367	19,486	411,853
31,961	60,447	21,485	40,440	43,820	-	-	333,700	15,089	348,789
31,355	58,421	21,338	39,059	44,455	-	-	330,680	17,347	348,027
1,366	64,302	41,197	82,736	5,237	19,654	6,367	314,351	19,779	334,130
1,351	64,448	41,849	83,294	5,218	19,314	4,326	313,682	19,240	332,922
48,591	34,232	11,415	81,198	465,294	44,440	3,677	759,027	1,418	760,445
4	496	174	251	4	432	-	2,078	215	2,293
38	71	22	23	11	(467)	-	(178)	(149)	(327)
-	-	-	-	2	242	-	244	73	317
42	567	196	274	17	207	-	2,144	139	2,283

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2020		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	2,988	1,502	16
Interest expenses for externals	(166)	-	-
Net interest income:			
From externals	2,822	1,502	16
Inter-segmental	(540)	(776)	(1)
Total net interest income	2,282	726	15
Non-interest income:			
Non-interest financing income	4	-	-
Fees and other income	920	43	149
Total non-interest income	924	43	149
Total income	3,206	769	164
Provision (income) for credit losses	784	297	-
Operating and other expenses:			
For externals	2,936	227	153
Inter-segmental	(247)	-	-
Total operating and other expenses	2,689	227	153
Profit (loss) from continued operations before taxes	(267)	245	11
Provision for taxes (tax benefit) on profit (loss) from continued operations	(85)	91	4
Profit (loss) from continued operations after taxes	(182)	154	7
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	(182)	154	7
Loss from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	(182)	154	7
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	(182)	154	7



# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
7	1,614	662	1,146	25	685	-	7,127	554	7,681
(112)	(78)	(58)	(90)	(146)	(270)	-	(920)	(202)	(1,122)
(105)	1,536	604	1,056	(121)	415	-	6,207	352	6,559
169	(6)	(35)	(220)	167	515	-	50	(50)	-
64	1,530	569	836	46	930	-	6,257	302	6,559
-	12	9	55	49	685	1	815	19	834
110	609	201	307	69	85	119	2,420	26	2,446
110	621	210	362	118	770	120	3,235	45	3,280
174	2,151	779	1,198	164	1,700	120	9,492	347	9,839
2	545	167	479	4	1	-	1,982	148	2,130
88	989	227	158	63	514	155	5,130	463	5,593
48	257	9	72	58	(192)	7	12	(12)	-
136	1,246	236	230	121	322	162	5,142	451	5,593
36	360	376	489	39	1,377	(42)	2,368	(252)	2,116
11	135	142	191	18	501	3	916	(31)	885
25	225	234	298	21	876	(45)	1,452	(221)	1,231
-	-	-	-	-	7	-	7	-	7
25	225	234	298	21	883	(45)	1,459	(221)	1,238
-	-	-	-	-	-	(109)	(109)	-	(109)
25	225	234	298	21	883	(154)	1,350	(221)	1,129
-	-	-	-	-	9	-	9	3	12
25	225	234	298	21	892	(154)	1,359	(218)	1,141

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2020		
	Activity in Israel		
	Households <sup>(4)</sup>		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets <sup>(1)</sup>	<b>126,690</b>	<b>92,507</b>	<b>3,845</b>
Of which: investments in equity-basis investees <sup>(1)</sup>	-	-	-
Average balance of gross credit to the public <sup>(1)</sup>	<b>127,929</b>	<b>93,058</b>	<b>3,845</b>
Balance of gross credit to the public at the end of the reported period	<b>131,219</b>	<b>96,734</b>	<b>4,540</b>
Balance of impaired debts	<b>776</b>	<b>1</b>	-
Balance of debts in arrears of more than 90 days	<b>733</b>	<b>694</b>	-
Average balance of liabilities <sup>(1)</sup>	<b>147,368</b>	-	-
Of which: average balance of deposits from the public <sup>(1)</sup>	<b>147,365</b>	-	-
Balance of deposits from the public at the end of the reported period	<b>156,148</b>	-	-
Average balance of risk-adjusted assets <sup>(1)(2)</sup>	<b>94,120</b>	<b>54,171</b>	<b>5,062</b>
Balance of risk-adjusted assets at the end of the reported period <sup>(2)</sup>	<b>94,405</b>	<b>55,962</b>	<b>4,998</b>
Average balance of assets under management <sup>(1)(3)</sup>	<b>63,757</b>	-	-
Segmentation of net interest income:			
Spread from credit granting activity	<b>2,047</b>	<b>726</b>	<b>15</b>
Spread from deposit taking activity	<b>235</b>	-	-
Other	-	-	-
Total net interest income	<b>2,282</b>	<b>726</b>	<b>15</b>

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers. The average balance of assets under management for the three months ended March 31, 2020, in the institutional customer segment has been updated, and stands at NIS 399,730 million.

(4) Includes housing loans in the amount of NIS 14.5 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2020									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
553	51,398	28,718	65,534	1,774	183,686	216	458,569	30,154	488,723
-	-	-	-	-	264	-	264	-	264
559	52,425	30,094	67,385	1,385	-	-	279,777	15,348	295,125
617	52,451	30,629	68,578	993	-	-	284,487	14,534	299,021
-	1,041	341	1,421	-	-	-	3,579	557	4,136
-	23	1	14	-	-	-	771	19	790
33,523	69,392	25,346	44,867	50,004	59,752	10	430,262	20,638	450,900
33,522	69,242	25,212	44,725	49,941	-	-	370,007	18,466	388,473
34,971	75,872	26,506	47,431	58,730	-	-	399,658	17,347	417,005
1,149	64,236	42,352	86,422	5,832	21,426	4,729	320,266	19,116	339,382
1,087	63,170	43,843	87,382	5,797	20,642	4,549	320,875	19,086	339,961
44,790	29,910	15,776	79,116	351,102	38,230	3,706	626,387	-	626,387
6	1,428	537	796	14	1,748	-	6,576	489	7,065
58	102	32	40	25	(1,083)	-	(591)	(249)	(840)
-	-	-	-	7	265	-	272	62	334
64	1,530	569	836	46	930	-	6,257	302	6,559

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2019*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	3,551	1,790	18
Interest expenses for externals	(250)	-	-
Net interest income:			
From externals	3,301	1,790	18
Inter-segmental	(772)	(1,179)	(2)
Total net interest income	2,529	611	16
Non-interest income:			
Non-interest financing income	3	-	-
Fees and other income	987	46	176
Total non-interest income	990	46	176
Total income	3,519	657	192
Provision (income) for credit losses	207	18	-
Operating and other expenses:			
For externals	2,741	219	136
Inter-segmental	(19)	-	-
Total operating and other expenses	2,722	219	136
Profit (loss) from continued operations before taxes	590	420	56
Provision for taxes on profit from continued operations	206	148	19
Profit (loss) from continued operations after taxes	384	272	37
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	384	272	37
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	384	272	37
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	384	272	37

\* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
19	1,757	676	1,272	26	902	-	8,203	945	9,148
(175)	(145)	(106)	(306)	(215)	(596)	-	(1,793)	(329)	(2,122)
(156)	1,612	570	966	(189)	306	-	6,410	616	7,026
290	89	-	(162)	245	528	-	218	(218)	-
134	1,701	570	804	56	834	-	6,628	398	7,026
1	9	9	37	20	234	3	316	(3)	313
102	612	209	286	71	61	89	2,417	45	2,462
103	621	218	323	91	295	92	2,733	42	2,775
237	2,322	788	1,127	147	1,129	92	9,361	440	9,801
-	182	(58)	30	4	1	-	366	34	400
100	1,182	253	209	89	476	195	5,245	594	5,839
39	91	(6)	30	31	(150)	(5)	11	(11)	-
139	1,273	247	239	120	326	190	5,256	583	5,839
98	867	599	858	23	802	(98)	3,739	(177)	3,562
35	310	218	303	9	306	(28)	1,359	54	1,413
63	557	381	555	14	496	(70)	2,380	(231)	2,149
-	-	-	-	-	7	-	7	-	7
63	557	381	555	14	503	(70)	2,387	(231)	2,156
-	-	-	-	-	-	258	258	-	258
63	557	381	555	14	503	188	2,645	(231)	2,414
-	-	-	-	-	4	-	4	10	14
63	557	381	555	14	507	188	2,649	(221)	2,428

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the nine months ended September 30, 2019*		
	Activity in Israel		
	Households <sup>(4)</sup>		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets <sup>(1)</sup>	123,187	83,701	4,449
Of which: investments in equity-basis investees <sup>(1)</sup>	-	-	-
Average balance of gross credit to the public <sup>(1)</sup>	124,700	84,130	4,449
Balance of gross credit to the public at the end of the reported period	127,079	87,382	5,672
Balance of impaired debts	739	-	-
Balance of debts in arrears of more than 90 days	622	550	-
Average balance of liabilities <sup>(1)</sup>	135,329	-	-
Of which: average balance of deposits from the public <sup>(1)</sup>	135,317	-	-
Balance of deposits from the public at the end of the reported period	136,052	-	-
Average balance of risk-adjusted assets <sup>(1)(2)</sup>	92,754	49,089	4,742
Balance of risk-adjusted assets at the end of the reported period <sup>(2)</sup>	93,882	50,761	5,397
Average balance of assets under management <sup>(1)(3)</sup>	69,116	-	-
Segmentation of net interest income:			
Spread from credit granting activity	2,159	611	16
Spread from deposit taking activity	370	-	-
Other	-	-	-
Total net interest income	2,529	611	16

\* Reclassified, mainly due to housing loans granted to individuals in an economic sector other than the sector "private individuals," which were reclassified from the business segments to the "households" and "private banking" segments. In addition, some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.  
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 12.2 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
777	53,033	27,452	58,698	1,685	152,702	5,175	422,709	33,162	455,871
-	-	-	-	-	105	-	105	-	105
786	54,204	28,222	60,899	1,366	-	5,036	275,213	15,737	290,950
718	54,013	30,117	66,143	1,605	-	-	279,675	15,305	294,980
-	1,012	287	488	-	-	-	2,526	439	2,965
-	205	4	-	-	-	-	831	10	841
32,364	61,116	21,866	39,835	44,747	55,088	5,746	396,091	21,018	417,109
32,363	60,949	21,719	39,308	44,592	-	192	334,440	16,689	351,129
31,355	58,421	21,338	39,059	44,455	-	-	330,680	17,347	348,027
1,394	64,002	39,883	81,606	5,281	20,338	10,445	315,703	20,847	336,550
1,351	64,448	41,849	83,294	5,218	19,314	4,326	313,682	19,240	332,922
46,941	34,406	15,331	76,502	524,822	52,064	3,573	822,755	1,182	823,937
12	1,477	502	735	14	2,453	-	7,352	684	8,036
122	224	68	69	36	(1,784)	-	(895)	(511)	(1,406)
-	-	-	-	6	165	-	171	225	396
134	1,701	570	804	56	834	-	6,628	398	7,026

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019*		
	Activity in Israel		
	Households		
	Total	Of which: housing loans	Of which: credit cards
Interest income from externals	4,596	2,277	24
Interest expenses for externals	(317)	-	-
Net interest income:			
From externals	4,279	2,277	24
Inter-segmental	(922)	(1,441)	(2)
Total net interest income	3,357	836	22
Non-interest income:			
Non-interest financing income	4	-	-
Fees and other income	1,316	60	240
Total non-interest income	1,320	60	240
Total income	4,677	896	262
Provision (income) for credit losses	224	31	-
Operating and other expenses:			
For externals	3,688	298	210
Inter-segmental	(22)	-	-
Total operating and other expenses	3,666	298	210
Profit (loss) from continued operations before taxes	787	567	52
Provision for taxes (tax benefit) on profit (loss) from continued operations	294	214	18
Profit (loss) from continued operations after taxes	493	353	34
The Bank's share in profits of equity-basis investees	-	-	-
Net profit (loss) from continued operations	493	353	34
Net profit from a discontinued operation	-	-	-
Net profit (loss) before attribution to non-controlling interests	493	353	34
Loss (profit) attributed to non-controlling interests	-	-	-
Net profit (loss) attributed to shareholders of the Bank	493	353	34

\* Some data were reclassified in order to properly reflect improvements in segment measurement methods.



# Notes to the Condensed Financial Statements

as at September 30, 2020

Audited  
NIS millions

For the year ended December 31, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
22	2,332	910	1,667	33	1,178	-	10,738	1,182	11,920
(227)	(180)	(135)	(355)	(287)	(691)	-	(2,192)	(409)	(2,601)
(205)	2,152	775	1,312	(254)	487	-	8,546	773	9,319
376	103	(4)	(235)	328	613	-	259	(259)	-
171	2,255	771	1,077	74	1,100	-	8,805	514	9,319
1	13	12	52	26	459	3	570	(11)	559
138	824	275	387	92	108	133	3,273	57	3,330
139	837	287	439	118	567	136	3,843	46	3,889
310	3,092	1,058	1,516	192	1,667	136	12,648	560	13,208
-	300	(48)	630	(2)	(1)	-	1,103	173	1,276
134	1,583	338	278	125	641	855	7,642	1,134	8,776
51	118	(8)	41	43	(202)	(6)	15	(15)	-
185	1,701	330	319	168	439	849	7,657	1,119	8,776
125	1,091	776	567	26	1,229	(713)	3,888	(732)	3,156
47	410	295	213	16	437	(8)	1,704	(23)	1,681
78	681	481	354	10	792	(705)	2,184	(709)	1,475
-	-	-	-	-	11	-	11	-	11
78	681	481	354	10	803	(705)	2,195	(709)	1,486
-	-	-	-	-	-	296	296	-	296
78	681	481	354	10	803	(409)	2,491	(709)	1,782
-	-	-	-	-	7	-	7	10	17
78	681	481	354	10	810	(409)	2,498	(699)	1,799

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12 Supervisory Activity Segments (continued)

### Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019*		
	Activity in Israel		
	Households <sup>(4)</sup>		
	Total	Of which: housing loans	Of which: credit cards
Average balance of assets <sup>(1)</sup>	123,671	84,723	4,425
Of which: investments in equity-basis investees <sup>(1)</sup>	-	-	-
Average balance of gross credit to the public <sup>(1)</sup>	125,075	85,155	4,425
Balance of gross credit to the public at the end of the reported period	127,833	89,440	5,240
Balance of impaired debts	757	2	-
Balance of debts in arrears of more than 90 days	786	693	-
Average balance of liabilities <sup>(1)</sup>	135,266	-	-
Of which: average balance of deposits from the public <sup>(1)</sup>	135,256	-	-
Balance of deposits from the public at the end of the reported period	134,366	-	-
Average balance of risk-adjusted assets <sup>(1)(2)</sup>	93,025	49,675	4,927
Balance of risk-adjusted assets at the end of the reported period <sup>(2)</sup>	94,086	52,017	5,669
Average balance of assets under management <sup>(1)(3)</sup>	69,585	-	-
Segmentation of net interest income:			
Spread from credit granting activity	2,872	836	22
Spread from deposit taking activity	485	-	-
Other	-	-	-
Total net interest income	3,357	836	22

\* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).

(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.

(4) Includes housing loans in the amount of NIS 13.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

Audited  
NIS millions

For the year ended December 31, 2019*									
Activity in Israel								Activity overseas	Total
Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
734	51,746	27,822	60,354	1,937	153,326	3,917	423,507	32,162	455,669
-	-	-	-	-	122	-	122	-	122
742	53,576	28,348	62,030	1,624	-	3,777	275,172	15,690	290,862
618	54,834	29,615	67,919	1,199	-	-	282,018	15,629	297,647
-	1,043	329	1,693	-	-	-	3,822	620	4,442
-	121	-	-	-	-	-	907	6	913
32,109	60,750	21,967	40,528	44,249	57,042	4,313	396,224	20,581	416,805
32,108	60,587	21,826	40,049	44,113	-	144	334,083	16,670	350,753
31,249	61,478	24,549	44,976	48,817	-	-	345,435	16,210	361,645
1,358	63,993	40,259	82,425	5,143	20,464	9,299	315,966	20,551	336,517
1,210	63,971	41,765	85,710	4,585	20,968	4,718	317,013	19,374	336,387
47,358	33,857	15,440	85,526	518,667	50,225	3,599	824,257	227	824,484
14	1,965	684	984	17	3,102	-	9,638	873	10,511
157	290	87	93	49	(2,310)	-	(1,149)	(617)	(1,766)
-	-	-	-	8	308	-	316	258	574
171	2,255	771	1,077	74	1,100	-	8,805	514	9,319

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 12A Segments of Activity Based on Management Approach

Unaudited  
NIS millions

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

For details regarding the assignment of customers to segments based on the management approach and rules for the distribution of results of operations among the segments, see [Note 28A to the Annual Financial Statements for 2019](#).

### A. Information regarding activity segments

	For the three months ended September 30, 2020								Total
	Retail activity			Business activity			Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity			
Net interest income:									
From externals	404	323	627	309	439	83	15	1	2,201
Inter-segmental	126	6	(374)	(37)	(87)	3	363	-	-
Non-interest financing income	1	2	-	3	36	-	284	9	335
Total net financing profit	531	331	253	275	388	86	662	10	2,536
Fees and other income	343	135	16	99	117	11	27	18	766
Total income	874	466	269	374	505	97	689	28	3,302
Provision (income) for credit losses	107	56	22	15	(49)	42	-	-	193
Operating and other expenses:									
From externals	887	224	112	118	154	134	181	41	1,851
Inter-segmental	17	88	(38)	9	5	2	(64)	(19)	-

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

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Information regarding activity segments (continued)

	For the three months ended September 30, 2020								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	Total
Profit (loss) from continued operations before taxes	(137)	98	173	232	395	(81)	572	6	1,258
Provision for taxes (tax benefit) on profit (loss) from continued operations	(46)	35	60	78	141	(17)	199	(1)	449
Profit (loss) from continued operations after taxes	(91)	63	113	154	254	(64)	373	7	809
The Bank's share in profits of equity-basis investees, after taxes	-	-	-	-	-	-	5	-	5
Net profit (loss) from continued operations	(91)	63	113	154	254	(64)	378	7	814
Loss from a discontinued operation	-	-	-	-	-	-	-	-	-
Net profit (loss)									
Before attribution to non-controlling interests	(91)	63	113	154	254	(64)	378	7	814
Attributed to non-controlling interests	-	-	-	-	-	(3)	5	-	2
Attributed to shareholders of the Bank	(91)	63	113	154	254	(67)	383	7	816
Net credit to the public at the end of the reported period	37,264	30,745	96,365	41,279	72,709	12,760	1,723	-	292,845
Deposits from the public at the end of the reported period	217,181	55,850	-	29,469	53,619	17,103	43,783	-	417,005

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

(2) This section includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment.

## Notes to the Condensed Financial Statements

as at September 30, 2020

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

#### A. Information regarding activity segments (continued)

---

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

---

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

---

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

---

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

\* Reclassified.

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

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the three months ended September 30, 2019*								
Retail activity			Business activity		International activity management <sup>(1)</sup>	Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	Total
Private customers	Small businesses	Housing loans	Commercial	Corporate				
443	375	300	291	441	174	257	2	2,283
261	25	(86)	(12)	(80)	(51)	(57)	-	-
2	1	-	3	16	(5)	41	-	58
706	401	214	282	377	118	241	2	2,341
384	144	16	97	116	23	31	15	826
1,090	545	230	379	493	141	272	17	3,167
58	68	6	15	(201)	16	(2)	-	(40)
895	261	111	130	161	159	175	78	1,970
67	56	(38)	(1)	(3)	2	(66)	(17)	-
70	160	151	235	536	(36)	165	(44)	1,237
26	55	52	84	193	29	90	(6)	523
44	105	99	151	343	(65)	75	(38)	714
-	-	-	-	-	-	3	-	3
44	105	99	151	343	(65)	78	(38)	717
-	-	-	-	-	-	-	16	16
44	105	99	151	343	(65)	78	(22)	733
-	-	-	-	-	3	-	-	3
44	105	99	151	343	(62)	78	(22)	736
42,313	31,132	87,316	39,997	76,306	12,690	1,253	-	291,007
187,013	43,826	-	23,493	48,719	15,910	29,066	-	348,027

## Notes to the Condensed Financial Statements

as at September 30, 2020

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

#### A. Information regarding activity segments (continued)

---

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

---

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

---

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Loss from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

---

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

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



# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2020								
Retail activity			Business activity		International activity	Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	Total
Private customers	Small businesses	Housing loans	Commercial	Corporate				
1,246	1,015	1,506	913	1,322	308	244	5	6,559
488	25	(778)	(94)	(270)	(35)	664	-	-
7	5	-	12	108	18	659	25	834
1,741	1,045	728	831	1,160	291	1,567	30	7,393
1,087	411	43	287	384	38	79	117	2,446
2,828	1,456	771	1,118	1,544	329	1,646	147	9,839
531	355	298	313	480	149	4	-	2,130
2,619	659	337	342	440	453	535	208	5,593
45	261	(110)	24	20	3	(196)	(47)	-
(367)	181	246	439	604	(276)	1,303	(14)	2,116
(125)	68	90	165	227	(37)	483	14	885
(242)	113	156	274	377	(239)	820	(28)	1,231
-	-	-	-	-	-	7	-	7
(242)	113	156	274	377	(239)	827	(28)	1,238
-	-	-	-	-	-	-	(109)	(109)
(242)	113	156	274	377	(239)	827	(137)	1,129
-	-	-	-	-	3	9	-	12
(242)	113	156	274	377	(236)	836	(137)	1,141
37,264	30,745	96,365	41,279	72,709	12,760	1,723	-	292,845
217,181	55,850	-	29,469	53,619	17,103	43,783	-	417,005

## Notes to the Condensed Financial Statements

as at September 30, 2020

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

#### A. Information regarding activity segments (continued)

---

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

---

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

---

Profit (loss) from continued operations before taxes

Provision for taxes on profit from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit (loss)

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

---

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

\* Reclassified.

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

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

Unaudited  
NIS millions

For the nine months ended September 30, 2019*								
Retail activity			Business activity		International activity management <sup>(1)</sup>	Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	Total
Private customers	Small businesses	Housing loans	Commercial	Corporate				
1,295	1,131	1,790	864	1,401	547	(10)	8	7,026
855	90	(1,178)	(51)	(353)	(190)	827	-	-
6	2	-	8	55	(4)	221	25	313
2,156	1,223	612	821	1,103	353	1,038	33	7,339
1,121	432	46	277	349	57	104	76	2,462
3,277	1,655	658	1,098	1,452	410	1,142	109	9,801
180	235	25	29	(105)	34	2	-	400
2,576	754	342	381	461	583	506	236	5,839
183	169	(124)	1	(5)	4	(192)	(36)	-
338	497	415	687	1,101	(211)	826	(91)	3,562
122	179	145	249	397	44	299	(22)	1,413
216	318	270	438	704	(255)	527	(69)	2,149
-	-	-	-	-	-	7	-	7
216	318	270	438	704	(255)	534	(69)	2,156
-	-	-	-	-	-	-	258	258
216	318	270	438	704	(255)	534	189	2,414
-	-	-	-	-	10	4	-	14
216	318	270	438	704	(245)	538	189	2,428
42,313	31,132	87,316	39,997	76,306	12,690	1,253	-	291,007
187,013	43,826	-	23,493	48,719	15,910	29,066	-	348,027

## Notes to the Condensed Financial Statements

as at September 30, 2020

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

#### A. Information regarding activity segments (continued)

---

Net interest income:

From externals

Inter-segmental

Non-interest financing income

Total net financing profit

Fees and other income

Total income

---

Provision (income) for credit losses

Operating and other expenses:

From externals

Inter-segmental

---

Profit (loss) from continued operations before taxes

Provision for taxes (tax benefit) on profit (loss) from continued operations

Profit (loss) from continued operations after taxes

The Bank's share in profits of equity-basis investees, after taxes

Net profit (loss) from continued operations

Net profit from a discontinued operation

Net profit

Before attribution to non-controlling interests

Attributed to non-controlling interests

Attributed to shareholders of the Bank

---

Net credit to the public at the end of the reported period

Deposits from the public at the end of the reported period

\* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

Audited  
NIS millions

For the year ended December 31, 2019*								
Retail activity			Business activity		International activity	Financial management <sup>(1)</sup>	Adjustments <sup>(2)</sup>	Total
Private customers	Small businesses	Housing loans	Commercial	Corporate				
1,737	1,503	2,284	1,166	1,847	686	85	11	9,319
1,091	107	(1,446)	(75)	(451)	(223)	997	-	-
5	2	-	10	75	(12)	409	70	559
2,833	1,612	838	1,101	1,471	451	1,491	81	9,878
1,500	580	60	370	496	72	128	124	3,330
4,333	2,192	898	1,471	1,967	523	1,619	205	13,208
220	299	13	89	588	68	(1)	-	1,276
3,451	1,019	452	512	617	1,119	697	909	8,776
237	220	(159)	-	(6)	5	(249)	(48)	-
425	654	592	870	768	(669)	1,172	(656)	3,156
163	250	223	331	298	(2)	404	14	1,681
262	404	369	539	470	(667)	768	(670)	1,475
-	-	-	-	-	-	11	-	11
262	404	369	539	470	(667)	779	(670)	1,486
-	-	-	-	-	-	-	296	296
262	404	369	539	470	(667)	779	(374)	1,782
-	-	-	-	-	10	7	-	17
262	404	369	539	470	(657)	786	(374)	1,799
41,456	31,022	89,331	40,138	76,603	12,978	1,412	-	292,940
188,766	45,959	-	25,143	53,035	16,147	32,595	-	361,645

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

#### **B. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity**

The expenses allocated at Hapoalim Switzerland and at the New York branch pertaining to the investigation of the Bank Group's business with American customers were attributed, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), in respect of customers in Israel and overseas. These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the first nine months of 2020 and in the year ended December 31, 2019, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 14 million and net profit would total approximately NIS 738 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 250 million and approximately NIS 954 million, respectively; and loss in the amount of approximately NIS 110 million and net profit of approximately NIS 220 million, respectively, would be recorded in the Adjustments Segment.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Debts\* and off-balance sheet credit instruments

#### Allowance for credit losses

##### 1. Change in allowance for credit losses

	For the three months ended September 30, 2020					Total
	Credit to the public				Banks and governments	
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at June 30, 2020	5,033	717	1,002	6,752	8	6,760
Provision for credit losses <sup>(1)</sup>	65	22	105	192	1	193
Charge-offs	(146)	(4)	(120)	(270)	-	(270)
Recoveries of debts charged off in previous years	194	3	94	291	-	291
Net charge-offs	48	(1)	(26)	21	-	21
Allowance for credit losses as at September 30, 2020 <sup>(2)</sup>	5,146	738	1,081	6,965	9	6,974
(1) Of which: in respect of off-balance sheet credit instruments	13	-	14	27	-	27
(2) Of which: in respect of off-balance sheet credit instruments	704	-	85	789	-	789
	For the three months ended September 30, 2019					Total
	Credit to the public				Banks and governments	
	Commercial <sup>(3)</sup>	Housing <sup>(3)</sup>	Other private	Total		
Allowance for credit losses as at June 30, 2019	3,260	437	843	4,540	12	4,552
Provision (income) for credit losses <sup>(1)</sup>	(100)	4	59	(37)	(3)	(40)
Charge-offs	(177)	(2)	(159)	(338)	-	(338)
Recoveries of debts charged off in previous years	249	-	84	333	-	333
Net charge-offs	72	(2)	(75)	(5)	-	(5)
Other	(2)	-	(1)	(3)	-	(3)
Allowance for credit losses as at September 30, 2019 <sup>(2)</sup>	3,230	439	826	4,495	9	4,504
(1) Of which: in respect of off-balance sheet credit instruments	(8)	-	2	(6)	-	(6)
(2) Of which: in respect of off-balance sheet credit instruments	478	-	44	522	1	523

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

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### A. Debts\* and off-balance sheet credit instruments (continued)

#### Allowance for credit losses (continued)

##### 1. Change in allowance for credit losses (continued)

	For the nine months ended September 30, 2020					Total
	Credit to the public				Banks and governments	
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year (audited)	4,007	446	790	5,243	8	5,251
Provision for credit losses <sup>(1)</sup>	1,343	298	488	2,129	1	2,130
Charge-offs	(552)	(13)	(440)	(1,005)	-	(1,005)
Recoveries of debts charged off in previous years	348	7	243	598	-	598
Net charge-offs	(204)	(6)	(197)	(407)	-	(407)
Other	-	-	-	-	-	-
Allowance for credit losses as at September 30, 2020 <sup>(2)</sup> (unaudited)	5,146	738	1,081	6,965	9	6,974
(1) Of which: in respect of off-balance sheet credit instruments	207	-	46	253	(1)	252
(2) Of which: in respect of off-balance sheet credit instruments	704	-	85	789	-	789
	For the nine months ended September 30, 2019					Total
	Credit to the public				Banks and governments	
	Commercial <sup>(3)</sup>	Housing <sup>(3)</sup>	Other private	Total		
Allowance for credit losses at beginning of year (audited)	2,997	424	904	4,325	9	4,334
Provision for credit losses <sup>(1)</sup>	203	19	178	400	-	400
Charge-offs	(530)	(5)	(512)	(1,047)	-	(1,047)
Recoveries of debts charged off in previous years	562	1	261	824	-	824
Net charge-offs	32	(4)	(251)	(223)	-	(223)
Other	(2)	-	(5)	(7)	-	(7)
Allowance for credit losses as at September 30, 2019 <sup>(2)</sup> (unaudited)	3,230	439	826	4,495	9	4,504
(1) Of which: in respect of off-balance sheet credit instruments	(54)	-	9	(45)	-	(45)
(2) Of which: in respect of off-balance sheet credit instruments	478	-	44	522	1	523

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

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Debts\* and off-balance sheet credit instruments (continued)

#### Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts\* and regarding the underlying debts\*

	September 30, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	143,075	1	874	143,950	19,484	163,434
Examined on a collective basis <sup>(1)</sup>	24,159	97,049	33,863	155,071	-	155,071
Total debts*	167,234	97,050	34,737	299,021	19,484	318,505
(1) Of which: allowance for which was calculated according to the extent of arrears	53	96,904	-	96,957	-	96,957
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	3,941	-	133	4,074	9	4,083
Examined on a collective basis <sup>(2)</sup>	501	738	863	2,102	-	2,102
Total allowance for credit losses	4,442	738	996	6,176	9	6,185
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	738	-	738	-	738

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 53 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2019: NIS 74 million; December 31, 2019: NIS 75 million).

\*\*\* Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 594 million (September 30, 2019: NIS 307 million; December 31, 2019: NIS 314 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Debts\* and off-balance sheet credit instruments (continued)

#### Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts\* and regarding the underlying debts\* (continued)

	September 30, 2019					
	Credit to the public				Banks and governments	Total
	Commercial** <sup>(3)</sup>	Housing <sup>(3)</sup>	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	143,610	-	889	144,499	17,953	162,452
Examined on a collective basis <sup>(1)</sup>	23,489	87,683	39,309	150,481	-	150,481
Total debts*	167,099	87,683	40,198	294,980	17,953	312,933
(1) Of which: allowance for which was calculated according to the extent of arrears	74	87,516	-	87,590	-	87,590
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,343	-	133	2,476	8	2,484
Examined on a collective basis <sup>(2)</sup>	409	439	649	1,497	-	1,497
Total allowance for credit losses	2,752	439	782	3,973	8	3,981
(2) Of which: allowance for which was calculated according to the extent of arrears***	2	439	-	441	-	441

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 53 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2019: NIS 74 million; December 31, 2019: NIS 75 million).

\*\*\* Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 594 million (September 30, 2019: NIS 307 million; December 31, 2019: NIS 314 million).

(3) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

**Note 13 Additional Information Regarding Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)**Audited  
NIS millions**A. Debts\* and off-balance sheet credit instruments (continued)****Allowance for credit losses (continued)**

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts\* and regarding the underlying debts\* (continued)

	December 31, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	144,239	2	862	145,103	20,042	165,145
Examined on a collective basis <sup>(1)</sup>	25,011	89,700	37,833	152,544	-	152,544
Total debts*	169,250	89,702	38,695	297,647	20,042	317,689
(1) Of which: allowance for which was calculated according to the extent of arrears	75	89,533	-	89,608	-	89,608
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,951	-	136	3,087	7	3,094
Examined on a collective basis <sup>(2)</sup>	559	446	615	1,620	-	1,620
Total allowance for credit losses	3,510	446	751	4,707	7	4,714
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	446	-	446	-	446

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

\*\* The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 53 million, of commercial borrowers, or granted to purchasing groups in the process of construction (September 30, 2019: NIS 74 million; December 31, 2019: NIS 75 million).

\*\*\* Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 594 million (September 30, 2019: NIS 307 million; December 31, 2019: NIS 314 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\*

#### 1. Credit quality and arrears

	September 30, 2020					
	Non-problematic	Problematic <sup>(1)</sup>		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired <sup>(2)</sup>		In arrears of 90 days or more <sup>(3)</sup>	In arrears of 30 to 89 days <sup>(4)</sup>
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	27,958	86	235	28,279	4	19
Construction and real estate – real-estate activities	21,312	855	224	22,391	2	7
Financial services***	16,812	153	30	16,995	-	1
Commercial – other	76,213	2,325	2,315	80,853	30	61
Total commercial	142,295	3,419	2,804	148,518	36	88
Private individuals – housing loans <sup>(5)</sup>	95,870	694	1	96,565	694	817
Private individuals – other	33,837	72	774	34,683	39	102
Total public – activity in Israel	272,002	4,185	3,579	279,766	769	1,007
Banks in Israel	195	-	-	195	-	-
Israeli government	1,388	-	-	1,388	-	-
Total activity in Israel	273,585	4,185	3,579	281,349	769	1,007

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

\*\* For this purpose, “unimpaired debts” include non-problematic debts.

\*\*\* Credit balances of Isracard were included for the first time due to the discontinuation of consolidation.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (September 30, 2019: NIS 56 million; December 31, 2019: NIS 62 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 1. Credit quality and arrears (continued)

	September 30, 2020					
	Non-problematic	Problematic <sup>(1)</sup>		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired <sup>(2)</sup>		In arrears of 90 days or more <sup>(3)</sup>	In arrears of 30 to 89 days <sup>(4)</sup>
Borrower activity overseas						
Public – commercial						
Construction and real estate	5,726	486	224	6,436	1	-
Commercial – other	10,776	1,173	331	12,280	1	80
Total commercial	16,502	1,659	555	18,716	2	80
Private individuals	518	19	2	539	19	16
Total public – activity overseas	17,020	1,678	557	19,255	21	96
Banks overseas	16,709	-	-	16,709	-	11
Governments overseas	1,192	-	-	1,192	-	-
Total activity overseas	34,921	1,678	557	37,156	21	107
Total public	289,022	5,863	4,136	299,021	790	1,103
Total banks	16,904	-	-	16,904	-	11
Total governments	2,580	-	-	2,580	-	-
Total	308,506	5,863	4,136	318,505	790	1,114

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

\*\* For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 1. Credit quality and arrears (continued)

	September 30, 2019					
	Non-problematic <sup>(4)</sup>	Problematic <sup>(1)</sup>		Total <sup>(4)</sup>	Unimpaired debts** – additional information	
		Unimpaired <sup>(4)</sup>	Impaired <sup>(2)</sup>		In arrears of 90 days or more <sup>(3)(6)</sup>	In arrears of 30 to 89 days <sup>(4)(6)</sup>
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	26,232	194	259	26,685	19	41
Construction and real estate – real-estate activities	17,642	841	197	18,680	8	15
Financial services	20,296	22	14	20,332	1	2
Commercial – other	79,335	1,918	1,318	82,571	93	81
Total commercial	143,505	2,975	1,788	148,268	121	139
Private individuals – housing loans <sup>(5)</sup>	86,548	662	-	87,210	638	701
Private individuals – other	39,258	127	738	40,123	72	167
Total public – activity in Israel	269,311	3,764	2,526	275,601	831	1,007
Banks in Israel	223	-	-	223	-	-
Israeli government	813	-	-	813	-	-
Total activity in Israel	270,347	3,764	2,526	276,637	831	1,007

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

\*\* For this purpose, “unimpaired debts” include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (September 30, 2019: NIS 56 million; December 31, 2019: NIS 62 million).

(6) Reclassified. Housing loans granted to individuals in an economic sector other than “private individuals” were reclassified from “commercial” credit to “housing” credit.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 1. Credit quality and arrears (continued)

	September 30, 2019					
	Non-problematic <sup>(5)</sup>	Problematic <sup>(1)</sup>		Total <sup>(5)</sup>	Unimpaired debts** – additional information	
		Unimpaired <sup>(5)</sup>	Impaired <sup>(2)</sup>		In arrears of 90 days or more <sup>(3)(5)</sup>	In arrears of 30 to 89 days <sup>(4)(5)</sup>
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	6,274	251	106	6,631	-	21
Commercial – other	11,594	280	326	12,200	-	68
Total commercial	17,868	531	432	18,831	-	89
Private individuals	528	13	7	548	10	6
Total public – activity overseas	18,396	544	439	19,379	10	95
Banks overseas	15,662	-	-	15,662	-	-
Governments overseas	1,255	-	-	1,255	-	-
Total activity overseas	35,313	544	439	36,296	10	95
Total public	287,707	4,308	2,965	294,980	841	1,102
Total banks	15,885	-	-	15,885	-	-
Total governments	2,068	-	-	2,068	-	-
Total	305,660	4,308	2,965	312,933	841	1,102

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

\*\* For this purpose, “unimpaired debts” include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Reclassified. Housing loans granted to individuals in an economic sector other than “private individuals” were reclassified from “commercial” credit to “housing” credit.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Debts\* (continued)

#### 1. Credit quality and arrears (continued)

	December 31, 2019					Unimpaired debts** – additional information	
	Non-problematic	Problematic <sup>(1)</sup>		Total		In arrears of 90 days or more <sup>(3)</sup>	In arrears of 30 to 89 days <sup>(4)</sup>
		Unimpaired	Impaired <sup>(2)</sup>				
<b>Borrower activity in Israel</b>							
<b>Public – commercial</b>							
Construction and real estate – construction	27,284	243	271	27,798	11	40	
Construction and real estate – real-estate activities	19,049	900	279	20,228	3	17	
Financial services	19,878	97	30	20,005	1	3	
Commercial – other	77,581	2,147	2,484	82,212	104	97	
Total commercial	143,792	3,387	3,064	150,243	119	157	
Private individuals – housing loans <sup>(5)</sup>	88,532	694	2	89,228	693	682	
Private individuals – other	37,726	144	756	38,626	93	141	
Total public – activity in Israel	270,050	4,225	3,822	278,097	905	980	
Banks in Israel	132	-	-	132	-	-	
Israeli government	794	-	-	794	-	-	
Total activity in Israel	270,976	4,225	3,822	279,023	905	980	

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

\*\* For this purpose, “unimpaired debts” include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (September 30, 2019: NIS 56 million; December 31, 2019: NIS 62 million).



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Debts\* (continued)

#### 1. Credit quality and arrears (continued)

	December 31, 2019					
	Non-problematic	Problematic <sup>(1)</sup>		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired <sup>(2)</sup>		In arrears of 90 days or more <sup>(3)</sup>	In arrears of 30 to 89 days <sup>(4)</sup>
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	6,204	169	279	6,652	1	17
Commercial – other	11,740	280	335	12,355	1	62
Total commercial	17,944	449	614	19,007	2	79
Private individuals	531	6	6	543	6	10
Total public – activity overseas	18,475	455	620	19,550	8	89
Banks overseas	17,933	-	-	17,933	-	-
Governments overseas	1,183	-	-	1,183	-	-
Total activity overseas	37,591	455	620	38,666	8	89
Total public	288,525	4,680	4,442	297,647	913	1,069
Total banks	18,065	-	-	18,065	-	-
Total governments	1,977	-	-	1,977	-	-
Total	308,567	4,680	4,442	317,689	913	1,069

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

\*\* For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see [Note 13B\(2\)\(c\)](#) below.

(3) Classified as unimpaired problematic debts accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of approximately NIS 146 million (September 30, 2019: NIS 162 million; December 31, 2019: NIS 167 million) were classified as unimpaired problematic debts.

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

#### **Credit quality – the status of debts in arrears**

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

#### **Concessions and troubled debt restructuring**

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted only in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see [Note 1C](#) above.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\*\* (continued)

#### 2. Additional information regarding impaired debts

##### a. Impaired debts and individual allowance

	September 30, 2020				
	Balance <sup>(1)</sup> of impaired debts for which an individual allowance exists <sup>(2)</sup>	Individual allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which no individual allowance exists <sup>(2)</sup>	Total balance <sup>(1)</sup> of impaired debts	Balance of contractual principal of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	106	30	129	235	1,489
Construction and real estate – real-estate activities	111	10	113	224	1,170
Financial services	6	1	24	30	365
Commercial – other	2,072	1,153	243	2,315	5,386
Total commercial	2,295	1,194	509	2,804	8,410
Private individuals – housing loans	-	-	1	1	1
Private individuals – other	772	129	2	774	1,664
Total public – activity in Israel	3,067	1,323	512	3,579	10,075
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	174	125	50	224	281
Commercial – other	95	69	236	331	635
Total commercial	269	194	286	555	916
Private individuals	2	1	-	2	4
Total public – activity overseas	271	195	286	557	920
Total public*	3,338	1,518	798	4,136	10,995
* Of which:					
Measured at the present value of cash flows	3,114	1,419	446	3,560	-
Debts in troubled debt restructuring	2,232	1,031	513	2,745	-

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

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\*\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### a. Impaired debts and individual allowance (continued)

	September 30, 2019				
	Balance <sup>(1)</sup> of impaired debts for which an individual allowance exists <sup>(2)</sup>	Individual allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which no individual allowance exists <sup>(2)</sup>	Total balance <sup>(1)</sup> of impaired debts	Balance of contractual principal of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	114	34	145	259	1,801
Construction and real estate – real-estate activities	115	6	82	197	1,130
Financial services	12	2	2	14	300
Commercial – other	939	437	379	1,318	4,728
Total commercial	1,180	479	608	1,788	7,959
Private individuals – other	473	125	265	738	1,538
Total public – activity in Israel	1,653	604	873	2,526	9,497
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	16	2	90	106	153
Commercial – other	111	58	215	326	582
Total commercial	127	60	305	432	735
Private individuals	7	6	-	7	9
Total public – activity overseas	134	66	305	439	744
Total public*	1,787	670	1,178	2,965	10,241
* Of which:					
Measured at the present value of cash flows	1,547	588	882	2,429	-
Debts in troubled debt restructuring	812	169	536	1,348	-

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

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Debts\*\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### a. Impaired debts and individual allowance (continued)

	December 31, 2019				
	Balance <sup>(1)</sup> of impaired debts for which an individual allowance exists <sup>(2)</sup>	Individual allowance <sup>(2)</sup>	Balance <sup>(1)</sup> of impaired debts for which no individual allowance exists <sup>(2)</sup>	Total balance <sup>(1)</sup> of impaired debts	Balance of contractual principal of impaired debts
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	159	43	112	271	1,491
Construction and real estate – real-estate activities	96	8	183	279	1,283
Financial services	4	2	26	30	371
Commercial – other	2,311	1,053	173	2,484	5,631
Total commercial	2,570	1,106	494	3,064	8,776
Private individuals – housing loans	-	-	2	2	2
Private individuals – other	753	131	3	756	1,570
Total public – activity in Israel	3,323	1,237	499	3,822	10,348
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	209	93	70	279	337
Commercial – other	132	73	203	335	610
Total commercial	341	166	273	614	947
Private individuals	6	5	-	6	8
Total public – activity overseas	347	171	273	620	955
Total public*	3,670	1,408	772	4,442	11,303
* Of which:					
Measured at the present value of cash flows	3,439	1,332	501	3,940	-
Debts in troubled debt restructuring	1,089	181	285	1,374	-

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

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### b. Average balance and interest income

	For the three months ended September 30, 2020			For the nine months ended September 30, 2020		
	Average balance** of impaired debts	Interest income recorded*** <sup>(1)</sup>	Of which: recorded on a cash basis	Average balance** of impaired debts	Interest income recorded*** <sup>(1)</sup>	Of which: recorded on a cash basis
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	240	1	1	252	3	2
Construction and real estate – real-estate activities	234	-	-	256	1	-
Financial services	33	-	-	33	-	-
Commercial – other	2,347	6	4	2,405	17	9
Total commercial	2,854	7	5	2,946	21	11
Private individuals – housing loans	2	-	-	2	-	-
Private individuals – other	770	12	4	764	35	10
Total public – activity in Israel	3,626	19	9	3,712	56	21
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	223	1	-	229	1	-
Commercial – other	297	6	-	295	6	-
Total commercial	520	7	-	524	7	-
Private individuals	6	-	-	6	-	-
Total public – activity overseas	526	7	-	530	7	-
Total public	4,152	26	9	4,242	63	21

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

\*\* Average recorded debt balance of impaired debts in the reported period.

\*\*\* Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income would have been recorded in the amount of NIS 85 million and NIS 253 million for the three-month and nine-month periods ended September 30, 2020, respectively (September 30, 2019: NIS 57 million and NIS 215 million, respectively).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### b. Average balance and interest income (continued)

	For the three months ended September 30, 2019			For the nine months ended September 30, 2019		
	Average balance** of impaired debts	Interest income recorded*** <sup>(1)</sup>	Of which: recorded on a cash basis	Average balance** of impaired debts	Interest income recorded*** <sup>(1)</sup>	Of which: recorded on a cash basis
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	267	2	2	285	3	2
Construction and real estate – real-estate activities	208	1	-	234	2	-
Financial services	17	-	-	23	-	-
Commercial – other	1,303	7	5	1,271	12	9
Total commercial	1,795	10	7	1,813	17	11
Private individuals – other	731	24	7	711	36	11
Total public – activity in Israel	2,526	34	14	2,524	53	22
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	105	-	-	105	-	-
Commercial – other	304	3	-	254	3	-
Total commercial	409	3	-	359	3	-
Private individuals	6	-	-	12	-	-
Total public – activity overseas	415	3	-	371	3	-
Total public	2,941	37	14	2,895	56	22

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

\*\* Average recorded debt balance of impaired debts in the reported period.

\*\*\* Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income would have been recorded in the amount of NIS 85 million and NIS 253 million for the three-month and nine-month periods ended September 30, 2020, respectively (September 30, 2019: NIS 57 million and NIS 215 million, respectively).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring

	September 30, 2020				
	Recorded debt balance				
	Not accruing interest income	Accruing <sup>(1)</sup> , in arrears of 90 days or more	Accruing <sup>(1)</sup> , in arrears of 30 to 89 days	Accruing <sup>(1)</sup> , not in arrears	Total <sup>(2)</sup>
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	43	-	-	40	83
Construction and real estate – real-estate activities	10	-	-	4	14
Financial services	3	-	-	2	5
Commercial – other	1,520	-	-	140	1,660
Total commercial	1,576	-	-	186	1,762
Private individuals – other	314	-	-	413	727
Total public – activity in Israel	1,890	-	-	599	2,489
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	174	-	-	24	198
Commercial – other	27	-	-	31	58
Total public – activity overseas	201	-	-	55	256
Total public	2,091	-	-	654	2,745

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

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 67 million as at September 30, 2020 (September 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	September 30, 2019				
	Recorded debt balance				
	Not accruing interest income	Accruing <sup>(1)</sup> , in arrears of 90 days or more	Accruing <sup>(1)</sup> , in arrears of 30 to 89 days	Accruing <sup>(1)</sup> , not in arrears	Total <sup>(2)</sup>
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	41	-	-	19	60
Construction and real estate – real-estate activities	49	-	-	26	75
Financial services	4	-	-	1	5
Commercial – other	328	-	2	132	462
Total commercial	422	-	2	178	602
Private individuals – other	301	-	1	383	685
Total public – activity in Israel	723	-	3	561	1,287
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	10	-	-	-	10
Commercial – other	51	-	-	-	51
Total public – activity overseas	61	-	-	-	61
Total public	784	-	3	561	1,348

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

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 67 million as at September 30, 2020 (September 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	December 31, 2019				
	Recorded debt balance				
	Not accruing interest income	Accruing <sup>(1)</sup> , in arrears of 90 days or more	Accruing <sup>(1)</sup> , in arrears of 30 to 89 days	Accruing <sup>(1)</sup> , not in arrears	Total <sup>(2)</sup>
<b>Borrower activity in Israel</b>					
<b>Public – commercial</b>					
Construction and real estate – construction	43	-	-	20	63
Construction and real estate – real-estate activities	45	-	-	25	70
Financial services	2	-	-	2	4
Commercial – other	328	-	-	144	472
Total commercial	418	-	-	191	609
Private individuals – other	323	-	-	384	707
Total public – activity in Israel	741	-	-	575	1,316
<b>Borrower activity overseas</b>					
<b>Public – commercial</b>					
Construction and real estate	10	-	-	-	10
Commercial – other	48	-	-	-	48
Total public – activity overseas	58	-	-	-	58
Total public	799	-	-	575	1,374

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

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 67 million as at September 30, 2020 (September 30, 2019: NIS 17 million; December 31, 2019: NIS 23 million).

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended September 30, 2020			In the nine months ended September 30, 2020		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	38	13	11	168	51	49
Construction and real estate – real-estate activities	7	8	8	29	12	11
Financial services	4	1	-	16	3	2
Commercial – other	282	63	53	1,087	1,500	1,435
Total commercial	331	85	72	1,300	1,566	1,497
Private individuals – other	1,580	76	74	5,130	276	260
Total public – activity in Israel	1,911	161	146	6,430	1,842	1,757
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	-	-	-	3	191	191
Commercial – other	-	-	-	2	72	72
Total commercial	-	-	-	5	263	263
Private individuals	2	-	-	8	-	-
Total public – activity overseas	2	-	-	13	263	263
Total public	1,913	161	146	6,443	2,105	2,020

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	Debts restructured					
	In the three months ended September 30, 2019			In the nine months ended September 30, 2019		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
<b>Borrower activity in Israel</b>						
<b>Public – commercial</b>						
Construction and real estate – construction	69	16	14	213	36	31
Construction and real estate – real-estate activities	7	1	1	23	17	14
Financial services	6	2	2	12	3	3
Commercial – other	405	75	63	1,163	209	185
Total commercial	487	94	80	1,411	265	233
Private individuals – other	2,143	129	106	6,207	358	303
Total public – activity in Israel	2,630	223	186	7,618	623	536
<b>Borrower activity overseas</b>						
<b>Public – commercial</b>						
Construction and real estate	-	-	-	1	-	-
Private individuals	4	3	-	7	3	-
Total public – activity overseas	4	3	-	8	3	-
Total public	2,634	226	186	7,626	626	536

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\*\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended September 30, 2020		In the nine months ended September 30, 2020	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
<b>Borrower activity in Israel</b>				
<b>Public – commercial</b>				
Construction and real estate – construction	40	3	155	8
Construction and real estate – real-estate activities	7	-	11	-
Financial services	4	-	6	-
Commercial – other	158	971	629	995
Total commercial	209	974	801	1,003
Private individuals – other	753	13	2,942	46
Total public – activity in Israel	962	987	3,743	1,049
<b>Borrower activity overseas</b>				
Private individuals	2	-	5	-
Total public	964	987	3,748	1,049

\* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Debts\*\* (continued)

#### 2. Additional information regarding impaired debts (continued)

##### c. Troubled debt restructuring (continued)

	Failed restructured debts*			
	In the three months ended September 30, 2019		In the nine months ended September 30, 2019	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
<b>Borrower activity in Israel</b>				
<b>Public – commercial</b>				
Construction and real estate – construction	50	1	109	5
Construction and real estate – real-estate activities	2	-	8	5
Financial services	2	-	5	-
Commercial – other	195	8	453	28
Total commercial	249	9	575	38
Private individuals – other	1,001	14	2,351	44
Total public – activity in Israel	1,250	23	2,926	82
<b>Borrower activity overseas</b>				
Private individuals	1	-	6	-
Total public	1,251	23	2,932	82

\* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

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

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### B. Debts\*\* (continued)

#### 3. Additional information regarding housing loans – private individuals

End of period balances by financing ratio (LTV)\*, repayment type, and interest type

		September 30, 2020			Off-balance sheet credit risk
		Balance of housing loans – private individuals			
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Unaudited			
First lien: financing rate	Up to 60%	61,422	1,579	39,194	3,325
	Over 60%	34,795	428	23,278	3,010
Secondary lien or no lien		833	40	480	273
Total		97,050	2,047	62,952	6,608

		September 30, 2019			Off-balance sheet credit risk <sup>(1)</sup>
		Balance of housing loans – private individuals			
		Total <sup>(1)</sup>	Of which: bullet and balloon <sup>(1)</sup>	Of which: floating interest rate <sup>(1)</sup>	
		Unaudited			
First lien: financing rate	Up to 60%	56,409	1,799	36,163	2,329
	Over 60%	30,508	503	20,841	1,830
Secondary lien or no lien		766	46	458	1,807
Total		87,683	2,348	57,462	5,966

		December 31, 2019			Off-balance sheet credit risk
		Balance of housing loans – private individuals			
		Total	Of which: bullet and balloon	Of which: floating interest rate	
		Audited			
First lien: financing rate	Up to 60%	57,519	1,764	36,832	3,687
	Over 60%	31,396	484	21,331	3,022
Secondary lien or no lien		787	45	468	558
Total		89,702	2,293	58,631	7,267

\* Ratio of the approved credit facility, when the facility was granted, to the value of the asset, as approved by the Bank when the facility was granted.

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

(1) Reclassified. Housing loans granted to individuals in an economic sector other than "private individuals" were reclassified from "commercial" credit to "housing" credit.

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

#### **Credit quality – LTV ratio**

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. The borrower receives a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. A part of a credit facility that has not been utilized.
5. Substantial early repayment (10% or more).

The note presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

#### **C. Information regarding debt sales**

For information regarding credit sale transactions, see [Note 10A\(4\)](#).



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### D. Off-balance sheet financial instruments

	September 30		December 31		September 30		December 31	
	2020	2019	2019		2020	2019	2019	
	Contract balances*				Allowance for credit losses			
	Unaudited		Audited		Unaudited		Audited	
Transactions the balance of which represents a credit risk:								
Documentary credit	834	772	816		5	3	4	
Credit guarantees	6,006	5,554	5,732		42	38	38	
Guarantees to purchasers of homes	19,864	20,726	20,019		54	43	45	
Guarantees and other commitments**	25,177	25,350	25,383		207	131	136	
Unutilized credit-card credit facilities under the Bank's responsibility	15,814	14,956	15,640		69	42	42	
Unutilized revolving overdraft and other credit facilities in on-demand accounts	48,302	44,378	44,695		164	107	103	
Irrevocable commitments to grant credit approved but not yet drawn***	37,204	32,563	33,279		173	102	106	
Commitments to issue guarantees	26,071	24,408	25,044		75	57	63	

\* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

\*\* Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 73 million (December 31, 2019: NIS 94 million).

\*\*\* Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

### E. Guarantees

The Bank provides a wide range of guarantees and indemnities for its customers, in order to enable them to complete a wide variety of transactions. The maximum amount of potential future payments is established according to the nominal amount of the guarantees, without taking into consideration possible reimbursements or collateral held or pledged. To the extent necessary, the Bank customarily receives collateral or commitments of various kinds, such as deposits, securities, real estate, financial ratios, etc. Most of the guarantees at the Bank are assigned the rating at which the credit was granted.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

NIS millions

### E. Guarantees (continued)

	September 30, 2020					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	4,460	689	148	682	27	6,006
Guarantees to purchasers of homes	2,598	3	-	-	17,263	19,864
Guarantees and other commitments	11,393	7,694	1,257	4,833	-	25,177
Commitments to issue guarantees	8,441	14,052	3,504	74	-	26,071
Total	26,892	22,438	4,909	5,589	17,290	77,118
	September 30, 2019					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Unaudited					
Credit guarantees	3,516	1,088	109	794	47	5,554
Guarantees to purchasers of homes	4,040	-	-	-	16,686	20,726
Guarantees and other commitments	11,010	5,943	3,756	4,641	-	25,350
Commitments to issue guarantees	8,287	12,958	3,094	69	-	24,408
Total	26,853	19,989	6,959	5,504	16,733	76,038
	December 31, 2019					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
	Audited					
Credit guarantees	3,472	1,298	101	815	46	5,732
Guarantees to purchasers of homes	3,036	-	-	-	16,983	20,019
Guarantees and other commitments	10,530	6,108	4,127	4,618	-	25,383
Commitments to issue guarantees	8,910	12,001	4,016	117	-	25,044
Total	25,948	19,407	8,244	5,550	17,029	76,178

# Notes to the Condensed Financial Statements

as at September 30, 2020

## Note 14 Assets and Liabilities by Linkage Base

Unaudited  
NIS millions

	September 30, 2020						
	Israeli currency		Foreign currency <sup>(1)</sup>			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
<b>Assets</b>							
Cash and deposits with banks	111,155	-	15,672	851	743	-	128,421
Securities	38,698	1,811	24,207	966	103	2,050	67,835
Securities borrowed or purchased under agreements to resell	437	-	-	-	-	-	437
Net credit to the public <sup>(2)</sup>	215,908	49,389	20,446	4,218	2,042	842	292,845
Credit to governments	657	-	812	1,104	-	-	2,573
Investments in equity-basis investees	52	-	-	-	-	325	377
Buildings and equipment	-	-	-	-	-	3,227	3,227
Assets in respect of derivative instruments	6,245	340	3,199	873	494	622	11,773
Other assets	4,654	24	76	39	12	1,393	6,198
Total assets	377,806	51,564	64,412	8,051	3,394	8,459	513,686
<b>Liabilities</b>							
Deposits from the public	298,883	11,108	92,201	10,666	3,255	892	417,005
Deposits from banks	2,195	-	802	275	8	-	3,280
Deposits from the government	209	1	181	-	-	-	391
Securities lent or sold under agreements to repurchase	-	-	-	-	6	-	6
Bonds and subordinated notes	587	24,117	20	-	-	-	24,724
Liabilities in respect of derivative instruments	6,323	485	3,843	806	513	583	12,553
Other liabilities	10,596	4,649	632	66	415	371	16,729
Total liabilities	318,793	40,360	97,679	11,813	4,197	1,846	474,688
Surplus assets (liabilities)	59,013	11,204	(33,267)	(3,762)	(803)	6,613	38,998
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(35,102)	(2,170)	33,958	3,142	172	-	-
Options in the money, net (in terms of underlying asset)	1,105	-	(1,487)	121	261	-	-
Options out of the money, net (in terms of underlying asset)	(351)	-	(239)	549	41	-	-
Overall total	24,665	9,034	(1,035)	50	(329)	6,613	38,998
Options in the money, net (nominal present value)	1,559	-	(1,837)	43	235	-	-
Options out of the money, net (nominal present value)	(2,663)	-	(486)	3,004	145	-	-

\* Including derivative instruments whose underlying asset refers to a non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

	September 30, 2019						
	Israeli currency		Foreign currency <sup>(1)</sup>			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
<b>Assets</b>							
Cash and deposits with banks	56,442	-	13,461	333	2,281	-	72,517
Securities	34,753	4,006	24,056	897	195	1,685	65,592
Securities borrowed or purchased under agreements to resell	529	-	-	-	-	-	529
Net credit to the public <sup>(2)</sup>	215,311	48,060	20,920	3,751	1,840	1,125	291,007
Credit to governments	65	-	1,080	917	-	-	2,062
Investments in equity-basis investees	47	-	-	-	-	60	107
Buildings and equipment	-	-	-	-	-	3,051	3,051
Assets in respect of derivative instruments	8,452	780	2,463	138	216	643	12,692
Other assets	3,865	300	90	112	38	556	4,961
Investment constituting a discontinued operation	-	-	-	-	-	829	829
Total assets	319,464	53,146	62,070	6,148	4,570	7,949	453,347
<b>Liabilities</b>							
Deposits from the public	248,109	11,720	73,112	10,677	3,242	1,167	348,027
Deposits from banks	1,600	-	1,199	334	45	-	3,178
Deposits from the government	229	2	254	-	-	-	485
Securities lent or sold under agreements to repurchase	-	-	-	-	10	-	10
Bonds and subordinated notes	940	27,211	165	10	11	-	28,337
Liabilities in respect of derivative instruments	8,897	980	2,901	153	185	612	13,728
Other liabilities	**10,483	**4,728	2,669	259	355	1,827	20,321
Total liabilities	**270,258	**44,641	80,300	11,433	3,848	3,606	414,086
Surplus assets (liabilities)	**49,206	**8,505	(18,230)	(5,285)	722	4,343	39,261
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(24,524)	367	20,052	5,328	(1,223)	-	-
Options in the money, net (in terms of underlying asset)	(534)	-	(251)	611	174	-	-
Options out of the money, net (in terms of underlying asset)	2,284	-	(1,533)	(708)	(43)	-	-
Overall total	**26,432	**8,872	38	(54)	(370)	4,343	39,261
Options in the money, net (nominal present value)	(2,432)	-	610	1,592	230	-	-
Options out of the money, net (nominal present value)	6,609	-	(4,908)	(1,744)	43	-	-

\* Including derivative instruments whose underlying asset refers to a non-monetary item.

\*\* Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

	December 31, 2019						Total
	Israeli currency		Foreign currency <sup>(1)</sup>			Non-monetary items*	
	Unlinked	CPI-linked	USD	EUR	Other		
<b>Assets</b>							
Cash and deposits with banks	69,744	-	15,802	204	2,372	-	88,122
Securities	35,283	700	20,687	909	134	1,773	59,486
Securities borrowed or purchased under agreements to resell	471	-	-	-	-	-	471
Net credit to the public <sup>(2)</sup>	216,564	48,735	20,519	4,514	1,964	644	292,940
Credit to governments	66	-	980	925	-	-	1,971
Investments in equity-basis investees	48	-	-	-	-	144	192
Buildings and equipment	-	-	-	-	-	3,233	3,233
Assets in respect of derivative instruments	7,349	755	1,851	245	297	646	11,143
Other assets	4,524	7	77	96	41	536	5,281
Investment constituting a discontinued operation	-	-	-	-	-	849	849
Total assets	334,049	50,197	59,916	6,893	4,808	7,825	463,688
<b>Liabilities</b>							
Deposits from the public	256,968	11,693	78,124	10,755	3,408	697	361,645
Deposits from banks	2,074	-	1,097	336	13	-	3,520
Deposits from the government	386	2	297	-	-	-	685
Securities lent or sold under agreements to repurchase	-	-	-	-	3	-	3
Bonds and subordinated notes	955	25,724	152	10	12	-	26,853
Liabilities in respect of derivative instruments	7,645	975	2,274	249	304	603	12,050
Other liabilities	**12,281	**3,986	3,588	200	354	302	20,711
Total liabilities	**280,309	**42,380	85,532	11,550	4,094	1,602	425,467
Surplus assets (liabilities)	**53,740	**7,817	(25,616)	(4,657)	714	6,223	38,221
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(27,418)	(523)	26,470	2,577	(1,106)	-	-
Options in the money, net (in terms of underlying asset)	69	-	(1,543)	1,444	30	-	-
Options out of the money, net (in terms of underlying asset)	(580)	-	(214)	774	20	-	-
Overall total	**25,811	**7,294	(903)	138	(342)	6,223	38,221
Options in the money, net (nominal present value)	(1,785)	-	(809)	2,736	(142)	-	-
Options out of the money, net (nominal present value)	(3,348)	-	565	2,445	338	-	-

\* Including derivative instruments whose underlying asset refers to a non-monetary item.

\*\* Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.

(1) Including linked to foreign currency.

(2) After deduction of allowances for credit losses attributed to the linkage bases.

**Note 15 Balances and Fair-Value Estimates of Financial Instruments****Fair value of financial instruments**

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

**Principal methods and assumptions used to estimate the fair value of financial instruments**

**Deposits with banks, nonmarketable bonds and loans, and credit to the government –** By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

**Marketable securities –** According to market value in the principal market.

**Credit to the public –** The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows, discounted by a suitable discount rate. The balance of credit was segmented into homogeneous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category.

This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discount rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts.

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

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the present value of a cash flow). In the absence of such data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in an increase of the fair value by NIS 7 million.

**Deposits, bonds, and notes** – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) at the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

**Inter-customer lending** – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

**Derivative financial instruments** – Derivative financial instruments that have an active market were assessed at the market value established in the principal market.

Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors.

Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

**Off-balance sheet financial instruments in which the balance represents credit risk** – Fair value is presented according to the balance sheet balance of the fees in the aforesaid transactions, which constitute an approximation of the fair value.

**Assets and liabilities for which fair value is measured based on Level 3 data** – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus, some of the inputs of which are unobservable.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### A. Balances and fair-value estimates of financial instruments

	September 30, 2020				
	Balance sheet balance	Fair value <sup>(1)</sup>			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and deposits with banks	128,421	3,097	-	125,363	128,460
Securities*	67,835	48,733	17,301	1,809	67,843
Securities borrowed or purchased under agreements to resell	437	-	-	437	437
Net credit to the public***	292,845	2,432	-	292,460	294,892
Credit to governments	2,573	-	-	2,580	2,580
Assets in respect of derivative instruments	11,773	626	8,545	2,602	11,773
Other financial assets	848	8	-	917	925
Total financial assets	**504,732	54,896	25,846	426,168	506,910
<b>Financial liabilities</b>					
Deposits from the public***	417,005	3,777	-	414,731	418,508
Deposits from banks	3,280	-	-	3,282	3,282
Deposits from the government	391	-	-	406	406
Securities lent or sold under agreements to repurchase	6	-	-	6	6
Bonds and subordinated notes	24,724	23,310	1,552	104	24,966
Liabilities in respect of derivative instruments	12,553	614	9,707	2,232	12,553
Other financial liabilities	9,794	8	-	9,806	9,814
Total financial liabilities	**467,753	27,709	11,259	430,567	469,535
<b>Off-balance sheet financial instruments</b>					
Transactions in which the balance represents credit risk	-	-	-	201	201

\* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,201 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

\*\* Of which: assets and liabilities in the amount of NIS 83,587 million and in the amount of NIS 16,377 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

\*\*\* Of which, a total of NIS 39 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair value measurements using quoted prices on an active market.

Level 2 – Fair-value measurements using other significant observable inputs.

Level 3 – Fair-value measurements using significant unobservable inputs.



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

	September 30, 2019				
	Balance sheet balance	Fair value <sup>(1)</sup>			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and deposits with banks	72,517	3,117	-	69,426	72,543
Securities*	65,592	49,823	14,212	1,562	65,597
Securities borrowed or purchased under agreements to resell	529	-	-	529	529
Net credit to the public***	291,007	3,607	-	289,838	293,445
Credit to governments	2,062	-	-	2,065	2,065
Assets in respect of derivative instruments	12,692	652	7,510	4,530	12,692
Other financial assets	905	18	-	881	899
Total financial assets	**445,304	57,217	21,722	368,831	447,770
<b>Financial liabilities</b>					
Deposits from the public***	348,027	4,258	-	345,855	350,113
Deposits from banks	3,178	-	-	3,180	3,180
Deposits from the government	485	-	-	498	498
Securities lent or sold under agreements to repurchase	10	-	-	10	10
Bonds and subordinated notes	28,337	27,327	1,564	304	29,195
Liabilities in respect of derivative instruments	13,728	650	7,289	5,789	13,728
Other financial liabilities	13,451	18	-	13,469	13,487
Total financial liabilities	**407,216	32,253	8,853	369,105	410,211
<b>Off-balance sheet financial instruments</b>					
Transactions in which the balance represents credit risk	-	-	-	151	151

\* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,073 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

\*\* Of which: assets and liabilities in the amount of NIS 83,702 million and in the amount of NIS 18,038 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

\*\*\* Of which, a total of NIS 34 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair value measurements using quoted prices on an active market.  
Level 2 – Fair-value measurements using other significant observable inputs.  
Level 3 – Fair-value measurements using significant unobservable inputs.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

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

	December 31, 2019				Total
	Balance sheet balance	Fair value <sup>(1)</sup>			
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and deposits with banks	88,122	2,887	-	85,255	88,142
Securities*	59,486	44,374	13,615	1,501	59,490
Securities borrowed or purchased under agreements to resell	471	-	-	471	471
Net credit to the public***	292,940	3,411	-	291,570	294,981
Credit to governments	1,971	-	-	1,982	1,982
Assets in respect of derivative instruments	11,143	634	9,097	1,412	11,143
Other financial assets	977	24	-	1,059	1,083
Total financial assets	**455,110	51,330	22,712	383,250	457,292
<b>Financial liabilities</b>					
Deposits from the public***	361,645	4,090	-	360,013	364,103
Deposits from banks	3,520	-	-	3,503	3,503
Deposits from the government	685	-	-	698	698
Securities lent or sold under agreements to repurchase	3	-	-	3	3
Bonds and subordinated notes	26,853	25,977	1,557	48	27,582
Liabilities in respect of derivative instruments	12,050	638	11,025	387	12,050
Other financial liabilities	13,173	24	-	13,154	13,178
Total financial liabilities	**417,929	30,729	12,582	377,806	421,117
<b>Off-balance sheet financial instruments</b>					
Transactions in which the balance represents credit risk	-	-	-	112	112

\* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,021 million. For further details regarding the balance sheet balance and fair value of securities, see [Note 5](#).

\*\* Of which: assets and liabilities in the amount of NIS 75,702 million and in the amount of NIS 16,207 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see [Sections B-F](#).

\*\*\* Of which, a total of NIS 43 million in respect of embedded derivative instruments is included in the balance of deposits from the public.

(1) Level 1 – Fair value measurements using quoted prices on an active market.

Level 2 – Fair-value measurements using other significant observable inputs.

Level 3 – Fair-value measurements using significant unobservable inputs.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

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

	September 30, 2020			Total fair value
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets</b>				
<b>Bonds available for sale</b>				
Israeli government bonds	31,964	6,238	-	38,202
Foreign government bonds	8,486	932	-	9,418
Bonds of foreign financial institutions	61	5,276	176	5,513
Bonds of foreign others	29	4,076	-	4,105
Total bonds available for sale	40,540	16,522	176	57,238
Investments in tradable shares not held for trading	68	779	-	847
<b>Securities held for trading</b>				
Israeli government bonds	8,121	-	-	8,121
Foreign government bonds	2	-	-	2
Tradable shares	2	-	-	2
Total securities held for trading	8,125	-	-	8,125
<b>Assets in respect of derivative instruments</b>				
NIS-CPI contracts	-	311	246	557
Other interest contracts	-	5,794	426	6,220
Foreign-currency contracts	57	2,169	1,749	3,975
Share contracts	569	254	146	969
Commodity and other contracts	-	17	35	52
Credit in respect of inter-customer lending	2,499	-	-	2,499
Assets in respect of activity in the Maof market	8	-	-	8
Total assets	51,866	25,846	2,778	80,490
<b>Liabilities</b>				
<b>Liabilities in respect of derivative instruments</b>				
NIS-CPI contracts	-	435	43	478
Other interest contracts	-	7,382	305	7,687
Foreign-currency contracts	44	1,758	1,618	3,420
Share contracts	570	101	245	916
Commodity and other contracts	-	31	21	52
Liabilities in respect of embedded derivatives	-	21	18	39
Deposits in respect of inter-customer lending	2,499	-	-	2,499
Liabilities in respect of activity in the Maof market	8	-	-	8
Liabilities in respect of securities lending	1,278	-	-	1,278
Total liabilities	4,399	9,728	2,250	16,377

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### B. Items measured at fair value on a recurring basis (continued)

	September 30, 2019			Total fair value
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets</b>				
<b>Bonds available for sale</b>				
Israeli government bonds	31,050	4,320	-	35,370
Foreign government bonds	11,082	242	-	11,324
Bonds of foreign financial institutions	150	6,706	178	7,034
Bonds of foreign others	41	2,427	-	2,468
Total bonds available for sale	42,323	13,695	178	56,196
Investments in tradable shares not held for trading	578	29	-	607
<b>Securities held for trading</b>				
Israeli government bonds	7,402	-	-	7,402
Foreign government bonds	3	-	-	3
Tradable shares	5	-	-	5
Total securities held for trading	7,410	-	-	7,410
<b>Assets in respect of derivative instruments</b>				
NIS-CPI contracts	-	199	191	390
Other interest contracts	-	4,399	2,613	7,012
Foreign-currency contracts	56	2,706	1,662	4,424
Share contracts	596	189	46	831
Commodity and other contracts	-	17	18	35
Credit in respect of inter-customer lending	3,662	-	-	3,662
Assets in respect of activity in the Maof market	18	-	-	18
Total assets	54,643	21,234	4,708	80,585
<b>Liabilities</b>				
<b>Liabilities in respect of derivative instruments</b>				
NIS-CPI contracts	-	159	87	246
Other interest contracts	-	5,561	2,343	7,904
Foreign-currency contracts	55	1,477	3,225	4,757
Share contracts	595	75	116	786
Commodity and other contracts	-	17	18	35
Liabilities in respect of embedded derivatives	-	16	18	34
Deposits in respect of inter-customer lending	3,662	-	-	3,662
Liabilities in respect of activity in the Maof market	18	-	-	18
Liabilities in respect of securities lending	596	-	-	596
Total liabilities	4,926	7,305	5,807	18,038

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### B. Items measured at fair value on a recurring basis (continued)

	December 31, 2019			Total fair value
	Fair value measurements using			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets</b>				
<b>Bonds available for sale</b>				
Israeli government bonds	29,081	4,336	-	33,417
Foreign government bonds	7,869	239	-	8,108
Bonds of foreign financial institutions	148	6,505	177	6,830
Bonds of foreign others	41	2,413	-	2,454
Total bonds available for sale	37,139	13,493	177	50,809
Investments in tradable shares not held for trading	628	122	-	750
<b>Securities held for trading</b>				
Israeli government bonds	6,602	-	-	6,602
Foreign government bonds	3	-	-	3
Tradable shares	2	-	-	2
Total securities held for trading	6,607	-	-	6,607
<b>Assets in respect of derivative instruments</b>				
NIS-CPI contracts	-	256	116	372
Other interest contracts	-	5,342	662	6,004
Foreign-currency contracts	59	3,102	601	3,762
Share contracts	575	392	23	990
Commodity and other contracts	-	5	10	15
Credit in respect of inter-customer lending	3,482	-	-	3,482
Assets in respect of activity in the Maof market	24	-	-	24
Total assets	48,514	22,712	1,589	72,815
<b>Liabilities</b>				
<b>Liabilities in respect of derivative instruments</b>				
NIS-CPI contracts	-	221	3	224
Other interest contracts	-	6,865	17	6,882
Foreign-currency contracts	45	3,799	137	3,981
Share contracts	593	127	229	949
Commodity and other contracts	-	13	1	14
Liabilities in respect of embedded derivatives	-	26	17	43
Deposits in respect of inter-customer lending	3,482	-	-	3,482
Liabilities in respect of activity in the Maof market	24	-	-	24
Liabilities in respect of securities lending	608	-	-	608
Total liabilities	4,752	11,051	404	16,207

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### C. Items measured at fair value on a nonrecurring basis

September 30, 2020				
Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended September 30, 2020
Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		

#### Assets measured at fair value on a nonrecurring basis

Impaired credit the collection of which is contingent on collateral	-	-	576	576	<sup>(1)</sup> (32)
Investments in shares	-	-	-	-	<sup>(2)</sup> -
Total	-	-	576	576	(32)

September 30, 2019				
Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended September 30, 2019
Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		

#### Assets measured at fair value on a nonrecurring basis

Impaired credit the collection of which is contingent on collateral	-	-	536	536	<sup>(1)</sup> 34
Investments in shares	-	-	30	30	<sup>(2)</sup> (14)
Total	-	-	566	566	20

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."

(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### C. Items measured at fair value on a nonrecurring basis (continued)

	December 31, 2019			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2019
	Fair value measurements using				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
<b>Assets measured at fair value on a nonrecurring basis</b>					
Impaired credit the collection of which is contingent on collateral	-	-	502	502	<sup>(1)</sup> 50
Investments in shares	-	-	69	69	<sup>(2)</sup> (21)
Total	-	-	571	571	29

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."

(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3

For the three months ended September 30, 2020									
	Fair value as at June 30, 2020	Gains (losses) included in statement of profit and loss <sup>(1)(3)</sup>	Gains (losses) included in equity <sup>(2)</sup>	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Sept. 30, 2020	Unrealized gains (losses) in respect of instruments held as at Sept. 30, 2020
<b>Assets</b>									
<b>Bonds available for sale</b>									
Bonds of foreign financial institutions	175	-	1	-	-	-	-	176	(2)(1) -
<b>Net balances in respect of derivative instruments</b>									
NIS-CPI contracts	219	(3)	-	-	(13)	-	-	203	(3)(16)
Other interest contracts	350	(152)	-	(1)	(76)	-	-	121	(3)(1)(85)
Foreign-currency contracts	(933)	860	-	227	(23)	-	-	131	(3)104
Share contracts	(123)	(112)	-	-	136	-	-	(99)	(3)14
Commodity and other contracts	16	(3)	-	1	-	-	-	14	(3)-
Embedded derivatives	(17)	(3)	-	-	2	-	-	(18)	(3)(2)
Total	(313)	587	1	227	26	-	-	528	15

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

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

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."



# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the three months ended September 30, 2019								Unrealized gains (losses) in respect of instruments held as at Sept. 30, 2019
	Fair value as at June 30, 2019	Gains (losses) included in statement of profit and loss <sup>(1)(3)</sup>	Gains (losses) included in equity <sup>(2)</sup>	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Sept. 30, 2019	
<b>Assets</b>									
<b>Bonds available for sale</b>	-	-	-	-	-	-	-	-	<sup>(2)(1)</sup> -
Bonds of foreign financial institutions	183	(2)	(3)	-	-	-	-	178	<sup>(2)(1)</sup> 11
<b>Net balances in respect of derivative instruments</b>									
NIS-CPI contracts	68	27	-	-	9	-	-	104	<sup>(3)</sup> 7
Other interest contracts	156	63	-	(4)	55	-	-	270	<sup>(3)(1)</sup> 93
Foreign-currency contracts	(832)	(584)	-	(80)	(67)	-	-	(1,563)	<sup>(3)</sup> (499)
Share contracts	(66)	(5)	-	-	1	-	-	(70)	<sup>(3)</sup> (3)
Commodity and other contracts	-	27	-	-	(27)	-	-	-	<sup>(3)</sup> 19
Embedded derivatives	(21)	5	-	-	(2)	-	-	(18)	<sup>(3)</sup> 6
<b>Total</b>	<b>(512)</b>	<b>(469)</b>	<b>(3)</b>	<b>(84)</b>	<b>(31)</b>	<b>-</b>	<b>-</b>	<b>(1,099)</b>	<b>(366)</b>

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

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

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

For the nine months ended September 30, 2020									
	Fair value as at December 31, 2019	Gains (losses) included in statement of profit and loss <sup>(1)(3)</sup>	Gains (losses) included in equity <sup>(2)</sup>	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Sept. 30, 2020	Unrealized gains (losses) in respect of instruments held as at Sept. 30, 2020
<b>Assets</b>									
<b>Bonds available for sale</b>									
Bonds of foreign financial institutions	177	1	(2)	-	-	-	-	176	<sup>(2)(1)</sup> (2)
<b>Net balances in respect of derivative instruments</b>									
NIS-CPI contracts	113	112	-	-	(22)	-	-	203	<sup>(3)</sup> 90
Other interest contracts	645	(344)	-	8	(188)	-	-	121	<sup>(3)(1)</sup> (244)
Foreign-currency contracts	464	(233)	-	337	(437)	-	-	131	<sup>(3)</sup> (14)
Share contracts	(206)	(118)	-	-	225	-	-	(99)	<sup>(3)</sup> 11
Commodity and other contracts	9	13	-	1	(9)	-	-	14	<sup>(3)</sup> -
Embedded derivatives	(17)	(6)	-	-	5	-	-	(18)	<sup>(3)</sup> (5)
Total	1,185	(575)	(2)	346	(426)	-	-	528	(164)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

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

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the nine months ended September 30, 2019								
	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss <sup>(1)(3)</sup>	Gains (losses) included in equity <sup>(2)</sup>	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Sept. 30, 2019	Unrealized gains (losses) in respect of instruments held as at Sept. 30, 2019
<b>Assets</b>									
<b>Bonds available for sale</b>									
Bonds of foreign financial institutions	191	(11)	(2)	-	-	-	-	178	<sup>(2)(1)</sup> (2)
<b>Net balances in respect of derivative instruments</b>									
NIS-CPI contracts	54	37	-	-	13	-	-	104	<sup>(3)</sup> 15
Other interest contracts	596	(708)	-	(19)	401	-	-	270	<sup>(3)(1)</sup> (269)
Foreign-currency contracts	404	(2,027)	-	(179)	239	-	-	(1,563)	<sup>(3)</sup> (962)
Share contracts	62	(134)	-	(3)	5	-	-	(70)	<sup>(3)</sup> (123)
Commodity and other contracts	40	(11)	-	(1)	(28)	-	-	-	<sup>(3)</sup> (19)
Embedded derivatives	(14)	(10)	-	-	6	-	-	(18)	<sup>(3)</sup> (9)
Total	1,333	(2,864)	(2)	(202)	636	-	-	(1,099)	(1,369)

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

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

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	For the year ended December 31, 2019							Fair value as at December 31, 2019	Unrealized gains (losses) in respect of instruments held as at December 31, 2019
	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss <sup>(1)(3)</sup>	Gains (losses) included in equity <sup>(2)</sup>	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3		
<b>Assets</b>									
<b>Bonds available for sale</b>									
Bonds of foreign financial institutions	191	(12)	(2)	-	-	-	-	177	<sup>(2)(1)</sup> (2)
<b>Net balances in respect of derivative instruments</b>									
NIS-CPI contracts	54	83	-	-	(24)	-	-	113	<sup>(3)</sup> 46
Other interest contracts	596	223	-	25	(199)	-	-	645	<sup>(3)(1)</sup> 149
Foreign-currency contracts	404	5	-	219	(164)	-	-	464	<sup>(3)</sup> 3
Share contracts	62	(204)	-	-	(64)	-	-	(206)	<sup>(3)</sup> 7
Commodity and other contracts	40	(17)	-	14	(28)	-	-	9	<sup>(3)</sup> (5)
Embedded derivatives	(14)	(9)	-	(1)	7	-	-	(17)	<sup>(3)</sup> (9)
<b>Total</b>	<b>1,333</b>	<b>69</b>	<b>(2)</b>	<b>257</b>	<b>(472)</b>	<b>-</b>	<b>-</b>	<b>1,185</b>	<b>189</b>

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."

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

(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

**E. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the banking corporation, transfers from level to level are recognized as occurring at the end of the reported period.**

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

September 30, 2020				
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
<b>1. Items measured at fair value on a recurring basis</b>				
<b>Assets</b>				
Bonds of foreign financial institutions	<b>176</b>	Quote from transaction counterparty		
<b>Net balances in respect of derivative instruments</b>				
NIS-CPI contracts	<b>203</b>	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-5.35% (2.05%)
Other interest contracts	<b>121</b>	Interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-16.19% (2.45%)
Foreign-currency contracts	<b>123</b>	Option pricing model	Transaction counterparty risk	0.23%-15.31% (0.76%)
Share contracts	<b>(117)</b>	Share derivatives pricing model	Transaction counterparty risk	0.23%-0.39% (0.29%)
Share contracts	<b>18</b>	Option pricing model	Quote from counterparty	-
Foreign-currency contracts	<b>8</b>	Option pricing model	Quote from counterparty	-
Share contracts <sup>(1)</sup>	<b>0.18</b>	Option pricing model	Standard deviation	111.09%-111.09% (111.09%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.11%-0.11% (0.11%)
Commodity and other contracts	<b>14</b>	Currency derivatives pricing model	Transaction counterparty risk	0.23%-15.11% (2.83%)
Embedded derivatives <sup>(2)</sup>	<b>(18)</b>	Option pricing model	Quote from counterparty	-
<b>2. Items measured at fair value on a nonrecurring basis</b>				
Investment in non-tradable shares	-	Valuation		
Impaired credit the collection of which is contingent on collateral	<b>576</b>	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Unaudited  
NIS millions

### F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	September 30, 2019			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
<b>1. Items measured at fair value on a recurring basis</b>				
<b>Assets</b>				
Bonds of foreign financial institutions	178	Quote from transaction counterparty		
<b>Net balances in respect of derivative instruments</b>				
NIS-CPI contracts	104	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.22%-5.02% (1.49%)
Other interest contracts	270	Interest-rate derivatives pricing model	Transaction counterparty risk	0.00%-15.49% (1.34%)
Foreign-currency contracts	(1,563)	Option pricing model	Transaction counterparty risk	0.22%-15.09% (1.17%)
Share contracts	(92)	Share derivatives pricing model	Transaction counterparty risk	0.22%-14.87% (0.44%)
Share contracts <sup>(1)</sup>	22	Option pricing model	Quote from counterparty	-
	-		Standard deviation	79.94%-79.94% (79.94%)
			Dividend yield	0.00%-0.00% (0.00%)
	-		Unlinked NIS interest rate	0.26%-0.26% (0.26%)
Commodity and other contracts	-	Currency derivatives pricing model	Transaction counterparty risk	0.22%-2.87% (1.36%)
Embedded derivatives <sup>(2)</sup>	(18)	Option pricing model	Quote from counterparty	-
<b>2. Items measured at fair value on a nonrecurring basis</b>				
Investment in non-tradable shares	30	Valuation		
Impaired credit the collection of which is contingent on collateral	536	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

# Notes to the Condensed Financial Statements

as at September 30, 2020

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

Audited  
NIS millions

### F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	December 31, 2019			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
<b>1. Items measured at fair value on a recurring basis</b>				
<b>Assets</b>				
Bonds of foreign financial institutions	177	Quote from transaction counterparty		
<b>Net balances in respect of derivative instruments</b>				
NIS-CPI contracts	113	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.41%-4.47% (1.75%)
Other interest contracts	645	Interest-rate derivatives pricing model	Transaction counterparty risk	0.35%-14.74% (1.68%)
Foreign-currency contracts	464	Option pricing model	Transaction counterparty risk	0.33%-14.44% (1.17%)
Share contracts	(223)			0.33%-0.43% (0.34%)
Share contracts	17	Option pricing model	Quote from counterparty	
Share contracts <sup>(1)</sup>	-	Option pricing model	Standard deviation	76.96%-76.96% (76.96%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.32%-0.32% (0.32%)
Commodity and other contracts	9	Currency derivatives pricing model	Transaction counterparty risk	1.01%-2.25% (2.00%)
Embedded derivatives <sup>(2)</sup>	17	Option pricing model	Quote from counterparty	
<b>2. Items measured at fair value on a nonrecurring basis</b>				
Investment in non-tradable shares	69	Valuation		
Impaired credit the collection of which is contingent on collateral	502	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:

- (1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
- (2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

## Note 16 Regulatory Initiatives

### The coronavirus crisis and the banking system

The coronavirus crisis began in Israel in February 2020. In view of the crisis, requests from the banks, and the adjustments necessary in the activity of the banking system, the Bank of Israel issued a series of regulatory reliefs aimed at coping with the crisis. Most of the reliefs granted have been extended until March 2021.

The Bank of Israel issued Proper Conduct of Banking Business Directive 250, which grants reliefs in many areas.

**Proper Conduct of Banking Business Directive 301, "Activity of the Board of Directors"** – The board of directors of a bank is permitted to conduct board meetings without convening in person, without the restrictions in Directive 301 regarding the discussions and resolutions permitted in meetings conducted via telecommunications.

**Proper Conduct of Banking Business Directive 308A, "Handling of Public Complaints"** – Responses to public complaints may be provided in writing or orally, according to the circumstances; it has been clarified that this refers only to exceptional circumstances, such as full lockdown or a significant cutback of personnel. The processing, the bank's answer, and the bank's notification to the customer must be documented. In addition, the Supervisor has been granted authority, under exceptional circumstances, to extend the response and processing times for addressing complaints received.

**Proper Conduct of Banking Business Directive 311, "Credit Risk Management"** – The tax authorities have announced an extension of the period for submitting financial statements; the extension also applies to cases in which there is a requirement to receive financial statements in order to grant credit to borrowers.

**Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit"** – Total credit (net of indebtedness for national infrastructures) to the construction and real-estate sector is raised from 20% to 22% of total indebtedness of the public. This relief will continue to apply for 24 months from the date of return to routine conditions (i.e., it will expire in September 2022 at the earliest), in order to allow the banks to return to a rate of 20%.

**Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts"** – During this period, there are expected to be more customers who encounter cash-flow problems due to the crisis. The amendments to the directive are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the formation of the deviation.

**Proper Conduct of Banking Business Directive 326, "Project Finance"** – The definition stating that a bank must issue a guarantee to a buyer in respect of an amount paid through a payment stub within fourteen days has been canceled.

**Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans"** – Banks will be permitted to grant all-purpose loans secured by a mortgage on a residence at a financing rate of up to 70%, versus the present rate of 50%. Loans will be granted according to this relief subject to a declaration of the borrower that the loan is not for the purpose of purchasing a residence as an investment. The bank can also rely on the income of the borrower prior to the period of the coronavirus, under certain conditions.



## Note 16 Regulatory Initiatives (continued)

**Proper Conduct of Banking Business Directive 355, "Business Continuity Management"** – Banks are permitted to operate in a reduced format, with minimal impairment of banking services for the public. The Banking Supervision Department has also approved the operation of mobile branches, in accordance with the general permit for banks to open and relocate branches during emergencies. The use of the permit to open mobile branches is limited to the end of the present situation, or until an emergency is declared and other instructions are given.

**Proper Conduct of Banking Business Directive 360, "Continuous Vacations"** – The updates are intended to enable the banking system to manage the implementation of the requirement for continuous vacations in 2020, given that during the emergency period some employees worked in a "capsule" format.

**Proper Conduct of Banking Business Directive 367, "E-Banking," and Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication"** – In order to support the accessibility of existing communication channels to customers, with an emphasis on possibilities for remote activities, it has been agreed that banks are permitted to proactively send their customers messages through e-banking channels proposing registration for these services and guiding them on how to do so, even without having the customer sign an e-banking agreement. An update has also been issued raising the volume of activity subject to the reliefs with regard to identification and verification from NIS 50,000 to NIS 100,000.

**Proper Conduct of Banking Business Directive 439, "Debits by Authorization"** – The Bank of Israel allows banks to receive orders from customers to cancel debits by authorization or account debit authorizations via telephone, rather than only by written notice, provided that the call is documented.

### Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in preliminary stages.

#### Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- The law states that credit-card companies are to be separated from the two largest banks (the Bank and Bank Leumi). The Bank completed its separation from the Isracard Group, as required by the Law for Increasing Competition, on March 9, 2020.
- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years. The Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts for the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 11, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000.

**Note 16 Regulatory Initiatives (continued)****Law for Online Bank Account Switching**

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer.

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system. In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system. On December 16, 2019, the Bank of Israel issued the Banking Rules (Service to Customers) (Transferring the Financial Activity of Customers Between Banks), and Proper Conduct of Banking Business Directive 448, "Online Transfers of the Financial Activity of Customers Between Banks," which regulates the series of actions required of the receiving bank and the transferring bank when switching banks, and specifies the obligations applicable to each bank. Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.

**Payment services reform**

The Payment Services Law, issued in January 2019, took effect on October 14, 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated.

**Open API**

Within the Law for Increasing Competition in the Banking System, the Bank of Israel initiated the Open Banking Procedure. The procedure establishes rules for viewing by a third party of the financial information of a customer. The procedure states that access to the information of consenting customers will be granted using open API (open banking). The banks will allow third parties a secure connection to their databases, and, after receiving authorization from the customer, the third parties will be able to provide cost comparison and financial information collection services.

In practice, the Bank is obligated to allow the transfer of information regarding customers' accounts to third parties providing customers with consulting, cost comparison, and financial information summation services. Such transfer shall be subject to the customer's approval, and shall be performed using open API.

## Note 16 Regulatory Initiatives (continued)

An updated schedule was issued by the Bank of Israel on April 7, 2020: the banks are to be prepared with regard to a consent model, balances, and current-account transactions by March 31, 2021; October 10, 2021 – statements for bank and non-bank charge cards, and access to the issuance of orders to transfer payment from the customer's bank account; March 31, 2022 – access to additional information of customers – credit and loans, deposits and savings, and information regarding the customer's securities portfolio.

The Memorandum of Law for the Provision of Financial Information Services was released for comments from the public on June 24, 2020. The memorandum is expected to be incorporated in the next Arrangements Law.

### Additional material directives and initiatives in 2020

- Proper Conduct of Banking Business Directive, "Consumer Credit Management" – A second draft of a Proper Conduct of Banking Business Directive concerning the management of consumer credit was issued on February 18, 2020. The goal of the directive is to establish minimum standards and norms of conduct expected in the activity of the banking system with households, including:
  - Restriction of the scope of retail credit to the financial capability of the customer, and avoidance of granting credit that may constitute an excessive burden on the household.
  - Strict adherence to appropriate marketing processes towards customers.
  - Strict adherence to relevant and complete disclosure to customers.
  - Ensuring that remuneration mechanisms at the Bank do not encourage unfair conduct.
- Immediate payments – The Bank of Israel has notified the banks that the banks are required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, banks are required to allow their customers to receive payments through the immediate payment service. The Bank is preparing to comply with this schedule.
- Exemption from restrictive arrangement for Masav – The Competition Authority has extended the restrictive arrangement exemption for Masav, which permits the cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, or until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to "unreasonably refuse" the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.

## Note 16 Regulatory Initiatives (continued)

- Proper Conduct of Banking Business Directive 432 – On June 23, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request. The inception date is December 23, 2020.
- On October 1, 2020, the Bank of Israel issued a draft new Proper Conduct of Banking Business Directive concerning “reporting on technological failure events and cyber events” at banking corporations. The directive is aimed at facilitating the process for reporting by banks to the Banking Supervision Department on technological failure events and cyber events, by centralizing all of the reporting requirements on this subject in one place and simplifying the process for all event types. This directive will replace Supervision Reporting Directive 848, “Reporting on Cyber Events.”
- An amendment to Proper Conduct of Banking Business Directive 450, concerning debt collection procedures, was issued in early October 2020. The amendment aims to achieve an easier process for obtaining customer consent to a debt arrangement between the customer and the bank. The requirement to sign the arrangement has been replaced by a requirement to obtain documented consent, in accordance with common practice and as enacted in parallel legislation during the recent period. A requirement has also been added to publish contact details on the bank’s website of the specific function responsible for debt collection, to make it easier to contact this function.
- An amendment to Proper Conduct of Banking Business Directive 411, concerning the management of money laundering and terrorism financing prohibition risk, was issued in early October 2020. Since the last update in March 2011, which regulated the opening of accounts for asylum seekers in Israel and for people under temporary protection, issues have arisen from time to time regarding the implementation of the update. These issues derived, among other things, from changes in the identification procedures and confirmations issued by the Population and Immigration Authority, which required adjustment of the arrangement to allow asylum seekers and people under temporary protection to open accounts and administer the accounts properly by presenting the confirmations issued to them. Accordingly, the Banking Supervision Department deemed it appropriate to issue the aforesaid amendment. The amendment states that Appendix B1 will be added to Directive 411, formalizing the arrangement established by the Supervisor of Banks regarding the methods of identification, verification of information, confirmations, and alternative documents for the purpose of opening and administering accounts for asylum seekers and people under temporary protection.

### **Bills published in the Official Gazette of the Israeli Government taking effect in the near future**

The Checks Without Cover Law (Amendment 14), 2020, passed in the second and third readings on August 18, 2020, and was published in the Official Gazette of the Israeli Government. The law, slated to take effect in September 2021, states that banks must notify customers that a check they have given is designated for rejection, and the customers must be given one business day to deposit money in their account in order for the check to clear. Implementation of the law will require significant preparations and extensive developments.

### Note 16 Regulatory Initiatives (continued)

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

### Note 17 Effects of the Coronavirus Crisis

The coronavirus spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. The spread of the coronavirus and the defensive measures to combat it have caused material damage to regular economic activity, as well as high volatility in financial asset prices, in Israel and globally. Real activity and financial-market trends are both influenced by fiscal and monetary policies during this period.

The crisis of the spread of the coronavirus has caused material worsening of activity in the economy in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – also has the effect of reducing the future financing income and interest income of the Bank. This adds to the decreases in prices of tradable assets and the changes in bond spreads, which have an adverse effect on the value of the tradable assets of the Bank, and additional effects.

In view of the crisis of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order, for a period of six months, which was extended by six additional months in September 2020, until March 31, 2021. For further details regarding the directives of the Supervisor of Banks, capital-adequacy targets, and dividends, see [Note 9](#), above.

### **Note 17** Effects of the Coronavirus Crisis (continued)

From the beginning of 2020 to September 30, 2020, the Bank recorded an increase in the provision for credit losses in a total amount of approximately NIS 2,130 million, mostly due to the crisis of the spread of the coronavirus, primarily consisting of an increase in the collective allowance in the amount of approximately NIS 1,562 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses due to the crisis of the spread of the coronavirus in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus known at that time. In this context, note that due to the coronavirus crisis, of the total debts in deferral of payments, loan payments (principal and/or interest) in the amount of approximately NIS 1,998 million were deferred as at September 30, 2020.

While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets have since recovered. The value of the share portfolio and the bond portfolio rose by approximately NIS 247 million during the third quarter, further to the upward trend of the second quarter, in which this value increased by approximately NIS 871 million. These increases offset the declines of the first quarter (NIS 705 million). In the first and second quarters, the effect of the changes in the value of the share portfolio and the bond portfolio on capital was mitigated by the allocation to capital of offsetting effects, mainly arising from the closure of the credit spreads used to determine the discount rate of employee benefit liabilities.

It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

# **Bank Hapoalim**

Corporate Governance,  
Additional Information and Appendices  
as at September 30, 2020



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### 5. Corporate governance

#### 5.1. Internal audit

Details regarding the Group's internal auditing, including the professional standards under which internal audit operates and the considerations involved in formulating the annual and multi-year work plans, are provided in the Annual Report for 2019. No material changes occurred in this information during the reported period, other than those noted below.

In the late first quarter and early second quarter, with the development of the coronavirus pandemic, in accordance with the instructions of the Ministry of Health and the Banking Supervision Department, auditing temporarily operated with a reduced workforce. Internal audit reduced its routine activity and rechanneled resources to the examination of immediate risks and to the performance of necessary ad-hoc examinations. Upon resuming routine work amid the coronavirus pandemic, internal audit adjusted its work plan for 2020, with reference to the developments in the risk environment as a result of the crisis.

At this time, the second lockdown during the Jewish holidays in September and October has not had material additional impacts on auditing work.

#### 5.2. Other matters

Oded Eran resigned from his position as Chairman of the Board of Directors and as a director at the Bank on June 18, 2020, for health reasons, after taking a leave of absence due to illness beginning June 9, 2020. Mr. Eran passed away a few days later. The Board of Directors wishes to express its gratitude and appreciation for the late Mr. Eran and his family, for his immense contribution to the Bank during the years of his service, particularly in his leadership of the Board of Directors and in matters of corporate governance.

On June 28, 2020, the Board of Directors of the Bank resolved to elect Mr. Reuven Krupik to the position of Chairman of the Board of Directors of the Bank. This appointment took effect on July 28, 2020, after the Supervisor of Banks gave notice that he had no objection to the appointment. Prior to the appointment, Mr. Krupik served as Acting Chairman of the Board of Directors beginning June 9, 2020.

On October 25, 2020, the Board of Directors of the Bank, at the recommendation of the CEO, resolved to approve the appointment of Mr. Guy Kalif, who serves as Head of Financial Planning and Budgets, to the position of Chief Accountant of the Bank and member of the Board of Management, effective January 1, 2021, subject to the approval of the Supervisor of Banks. Mr. Kalif will succeed Mr. Ofer Levy, Chief Accountant of the Bank, who will retire at the end of 2020, after some forty years of work at the Bank, of which fifteen years as a member of the Board of Management.

At the annual general meeting of shareholders of the Bank, which convened on October 22, 2020, the following resolutions were discussed and passed:

- (a) A discussion was held regarding the audited annual financial statements of the Bank as at December 31, 2019, and the Report of the Board of Directors and Board of Management for the year ended on that date.
- (b) Somekh Chaikin (KPMG), CPA, and Ziv Haft (BDO), CPA, were reappointed as the joint auditors of the Bank, until the end of the next annual general meeting of the Bank.

- (c) The appointments of four directors (of six candidates proposed by the Committee for the Appointment of Directors at Banking Corporations) were approved, as follows: Ronit Abramson-Rokach and Dalia Lev for second terms as external directors under the Companies Law (also meeting the qualification conditions for external directors pursuant to Directive 301); and Israel Trau and Prof. Stanley Fischer as non-external ("other") directors. The aforesaid appointments are subject to the approval or non-objection of the Supervisor of Banks; the appointment of the non-external directors will take effect when approval is received. When the second appointment of a non-external director takes effect, the term of service of Moshe Koren as a director at the Bank will end (this term of service was extended by the Banking Supervision Department).
- (d) A new remuneration policy for officers of the Bank was approved.
- (e) The terms of service of the Chairman of the Board of Directors of the Bank were approved.
- (f) The terms of service and employment of the CEO of the Bank were approved.

For further details regarding the remuneration policy and the terms of service approved for the Chairman of the Board of Directors and CEO of the Bank, see [Note 8 to the Condensed Financial Statements](#).

Over the last few months, the Board of Directors of the Bank and the board committees have held frequent discussions of the spread of the coronavirus and the various aspects of its impact on the Bank and on the markets, including the business continuity of the activity of the Bank, the Bank's preparations for various scenarios, and preparation for "the day after." Taking into consideration the circumstances and the regulatory directives, including the Temporary Order issued by the Banking Supervision Department in connection with the crisis, some of the meetings of the Board of Directors and of the board committees have been held through telecommunications since March 2020, without in-person attendance.

Pursuant to the requirement of the Banking Supervision Department, the Board of Directors of the Bank resolved on March 18, 2020, to establish an independent committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"). Based on the requirements of the Banking Supervision Department, the Committee will examine the managerial and supervisory processes that allowed the actions that are the subject of the American matter in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors, and in this regard will form recommendations as needed. In addition, and noting the legal proceedings pending in connection with the investigations of the United States authorities, including a petition to approve a derivative claim and a petition for disclosure of documents prior to a derivative claim (see [Note 10 to the Condensed Financial Statements](#)), the Board of Directors of the Bank decided that the Committee would also examine whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. Upon approval of the resolutions with the United States authorities (see [Note 10D to the Condensed Financial Statements](#)), the work of the Committee began. The members of the Committee are: the Honorable Justice (Retired) Prof. Yoram Danziger (chairperson of the Committee), the Honorable Justice (Retired) Yosef Alon, Prof. Gideon Parchomovsky, and Ms. Ronit Abramson-Rokach (an external director of the Bank).

On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee to also encompass an examination of the FIFA affair (see [Note 10E](#) to the Condensed Financial Statements). Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see [Note 10C\(1\)](#) to the Financial Statements). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

On March 31, 2020, the Board of Directors of the Bank resolved to establish a board committee to monitor the implementation of the resolutions of the Bank with the United States authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions. See also [Note 10D and 10E](#) to the Condensed Financial Statements.

In May 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors resolved to approve the extension of the directors' and officers' liability insurance policy of the Bank and of subsidiaries of the Bank for a period of up to one month (i.e. until June 30, 2020, instead of May 31, 2020, the expiration date of the previous insurance policy – see [Standard 29A of the Annual Periodic Report of the Bank for 2019, p. 530-531](#)), in consideration for a total premium of approximately USD 250,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of approximately USD 178 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 30 million (approximately USD 208 million in total), beginning July 1, 2020, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.9 million.

### **Decentralization of the controlling core of the Bank and transition to a bank without a controlling core**

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional information regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see [Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018](#).

## **6. Additional information regarding the business of the corporation and the management thereof**

### **6.1. Segments of activity based on management approach**

#### **6.1.1. Private Customer Segment**

##### **General information and segment structure**

The Bank provides a wide range of services to private customers, including routine account-management services, credit granting for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes meetings, proactively initiated telephone calls, and an advanced advisory system aided by decision support tools.

Services are provided to customers through a network of 199 branches, in addition to five Platinum Centers for selected customers, a mobile branch, and the Bank's first advising center, Poalim Invest Harimon, as well as through direct channels, including self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, the Connect contact center for digitally oriented customers, the interactive voice response (IVR) system for information and transactions, and social media. As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend over the last few years of growth in banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center).

In addition to this trend, the Bank has increased the use of the service for scheduling appointments with bankers and added channels for scheduling appointments, allowing customers a high-quality, professional, individual encounter.

### **Actions taken by the Bank to cope with the spread of the coronavirus**

Greeters and attendants have been posted at branches open to the public, to assist customers in operating digital means and self-service devices, while adhering to the instructions of the Ministry of Health.

Customers are advised to schedule appointments with the personal, private, and business banking departments.

Appointments scheduled in advance are recommended for customers interested in cash services from a teller. Service is provided without a scheduled appointment for specified population groups: customers over the age of 65, pregnant women, people with disabilities, customers without Israeli means of identification, and exceptional cases.

The Bank has made it easier for customers to receive service at the call centers, and added new transactions and options available through the automated voice response system and through bankers. The age threshold of the dedicated line for elderly customers has been lowered from 70 to 65 (customers who call this line receive service from a human banker, with high availability, sensitivity, and professionalism). As part of the effort to cope with this complex and challenging situation, the Bank has introduced several products and processes aimed at providing relief to our customers, including:

- Allowing deferral of payments on mortgages and other loans, for private and business customers.
- Proposals for customers of the Bank to receive credit with preferred terms through digital means.
- Development of an online course for customers of the Bank on the possibilities and advantages of the direct channels.
- Extension of the grace period for Instant Credit and Multichannel Loans (from three months to six months).
- Relief in Directive 325 with regard to overdrafts in credit facilities.
- New products launched in early October 2020 – the Thinking Ahead package, for customers who have suffered harm during the period of the coronavirus.
- A multichannel professional development loan, for financing of professional studies, in amounts of up to NIS 15,000, at an interest rate of Prime + 2%, repaid in up to 72 installments.
- Student loans to finance tuition, with an option for a grace period of up to three years (principal or principal and interest); a digital version will be offered in the future.
- Targeted loans for spreading of loan payments for up to 96 months, with a grace period of up to one year (at a branch, after exploration of needs).

### **Pension advising**

Despite the increase in the number of coronavirus cases in the third quarter of 2020 and its impact on the economy, the positive trend in returns of provident funds continued, due to capital-market gains.

The draft memorandum of the Law for Supervision of Financial Services (Pension Advising, Marketing, and Clearing Systems) (Amendment 11), 2020, issued July 12, 2020, is aimed at enabling banking corporations to provide pension advising services by telephone or through digital means. The memorandum has not yet been approved by the Finance Committee, and is expected to be passed with the Arrangements Law.

### Collection

Work processes have been adjusted in view of the coronavirus crisis, with the aim of helping customers cope with the economic difficulties of this period:

- Time limits for working with customers have been expanded at Poalim Recovery, the collection centers, and external law firms, with the aim of exhausting the possibilities for settling debts without legal procedures, to the extent possible.
- Collection activities are conducted according to the regulations of the various judicial authorities concerning emergency procedures due to the spread of the coronavirus.
- Evictions from residential properties are not performed (with the exception of realizations with customer consent).

### Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- On March 14, 2018, the Knesset plenum passed the Banking Chapter of the Bank Switching System Law (the plan for increasing competition in the banking market through the removal of barriers to switching), in the second and third readings. Pursuant to the law, banks will allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect within three years. On December 16, 2019, the Banking Supervision Department issued rules regarding the types of products transferable using the system, including authorizations to debit an account, management of negative balances in NIS and in foreign currency, management of securities, and more. A Proper Conduct of Banking Business Directive was also published on December 16, 2019, regulating the series of actions required of the receiving bank and the transferring bank when switching banks, which specifies the obligations applicable to each bank, among other matters. Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.
- The Payment Services Law, issued in January 2019, took effect on October 14, 2020, following a postponement. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated.
- Immediate payments – The Bank of Israel has notified the banks that the banks are required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, banks are required to allow their customers to receive payments through the immediate payment service. The Bank is preparing to comply with this schedule.



- Exemption from restrictive arrangement for Masav – The Competition Authority has extended the restrictive arrangement exemption for Masav, which permits the cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to “unreasonably refuse” the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.
- Proper Conduct of Banking Business Directive 432 – On July 1, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request. The Bank is preparing to allow the submission of requests online, as required.
- Update of the Checks Without Cover Law – In Amendment 14 to the Checks Without Cover Law, issued on August 18, 2020, it has been decided that banks are required to send notification to customers before returning a check due to insufficient funds. This update will take effect within one year. The bank will send notices to the owner of the account on which the check is drawn, to inform them of the need to deposit money into the account, thereby preventing the refusal of the check, up to 2.5 hours before the end of the business day. If monies allowing the check to be drawn are not deposited by the deadline, the check will be returned due to insufficient funds.
- Draft Proper Conduct of Banking Business Directive on inactive deposits and accounts of deceased owners – A new directive specifying the ways of contacting the account owner before and after categorization as an inactive deposit. The directive addresses attempts to contact the customer close to the date of the report to the Administrator General (ten years without activity) and the conduct with respect to accounts of deceased owners. The directive contains instructions for finding customers who rent safe-deposit boxes when five years have elapsed from the date of the last activity in the safe-deposit box or in their account. According to the Proper Conduct of Banking Business Directives, the bank is required to proactively find the customer. The main change is the transition to inactive deposits at the level of the account (instead of the system level, i.e. current accounts, securities, deposits, etc.).
- Strum Committee implementation – reduction of credit facilities – the Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts for the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 10, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000.

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

For additional information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the "Strum Committee"), see [Note 16](#) to the Condensed Financial Statements.

**Table 6-1: Results of operations and principal data of the Private Customer Segment**

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
	NIS millions			
Total net interest income	<b>530</b>	704	<b>1,734</b>	2,150
Non-interest financing income	<b>1</b>	2	<b>7</b>	6
Total net financing profit	<b>531</b>	706	<b>1,741</b>	2,156
Fees and other income	<b>343</b>	384	<b>1,087</b>	1,121
Total income	<b>874</b>	1,090	<b>2,828</b>	3,277
Provision for credit losses	<b>107</b>	58	<b>531</b>	180
Total operating and other expenses	<b>904</b>	962	<b>2,664</b>	2,759
Profit (loss) from continued operations before taxes	<b>(137)</b>	70	<b>(367)</b>	338
Provision for taxes (tax benefit) on profit (loss) from continued operations	<b>(46)</b>	26	<b>(125)</b>	122
Net profit (loss) attributed to shareholders of the Bank	<b>(91)</b>	44	<b>(242)</b>	216
Net credit to the public at the end of the reported period	<b>37,264</b>	42,313	<b>37,264</b>	42,313
Deposits from the public at the end of the reported period	<b>217,181</b>	187,013	<b>217,181</b>	187,013

\* Reclassified.

## Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 242 million in the first nine months of 2020, compared with net profit in the amount of NIS 216 million in the same period last year. Most of the decrease resulted from a decrease in net financing profit and from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,741 million in the first nine months of 2020, compared with NIS 2,156 million in the same period last year. The decrease resulted from a decrease in credit balances, alongside a decrease in financial spreads on deposits, due to a decrease in the dollar interest rate.

Income from fees totaled NIS 1,087 million in the first nine months of 2020, compared with NIS 1,121 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in securities fees.

The provision for credit losses totaled NIS 531 million in the first nine months of 2020, compared with NIS 180 million in the same period last year. The increase mainly resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 2,664 million in the first nine months of 2020, compared with NIS 2,759 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first nine months of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first nine months of 2019, due to an increase in the share price of the Bank. By contrast, expenses increased due to a change in the Bank's estimate with regard to the balance of a contingent liability.

Net credit to the public totaled approximately NIS 37.3 billion as at September 30, 2020, compared with approximately NIS 41.5 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 217.2 billion as at September 30, 2020, compared with approximately NIS 188.8 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

For additional information regarding credit risk with respect to private individuals, see ["Credit risk"](#) in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

### 6.1.2. Small Business Segment

#### General information and segment structure

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see [the section "Private Customer Segment"](#) above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at support for and growth of this segment, including targeted credit tailored to customers' needs through a wide range of products.

### **Solutions for customers during the crisis**

In addition to the information in the Private Customer Segment, the Bank introduced several products and processes to provide relief to business clients, including:

- Designated loans for small businesses in amounts of up to NIS 400,000 per borrower, for periods of up to 60 months, with a grace period of up to 12 months.
- State-backed loans in amounts derived from customers' business turnover.
- An option to defer loan payments for a period of up to six months, in accordance with the outline of the Bank of Israel.

### **Small Business Segment – technological changes that may have a material impact on the segment**

As the coronavirus began to spread, the Bank took a series of measures aimed at helping small businesses continue their banking activities, including remotely, while offering new services to provide relief to customers during this period.

### **Measures to assist small businesses**

- Establishment of a designated loan fund for self-employed individuals – In April 2020, the Bank and the organization Lahav founded a loan fund targeted to the self-employed, at a volume of NIS 0.5 billion, with interest rates similar to those offered in state-backed loans. Loan applications are submitted in a quick, convenient process on the website or application.
- Suspension of loans using digital channels – The Bank allows customers to suspend loan payments for several months, through the website or application of the Bank for private customers, in order to provide cash-flow relief to small businesses that are not corporations (companies).

### **Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment**

See [“Private Customer Segment,”](#) above.

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
NIS millions				
Total net interest income	329	400	1,040	1,221
Non-interest financing income	2	1	5	2
Total net financing profit	331	401	1,045	1,223
Fees and other income	135	144	411	432
Total income	466	545	1,456	1,655
Provision for credit losses	56	68	355	235
Total operating and other expenses	312	317	920	923
Profit from continued operations before taxes	98	160	181	497
Provision for taxes on profit from continued operations	35	55	68	179
Net profit attributed to shareholders of the Bank	63	105	113	318
Net credit to the public at the end of the reported period	30,745	31,132	30,745	31,132
Deposits from the public at the end of the reported period	55,850	43,826	55,850	43,826

\* Reclassified.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 113 million in the first nine months of 2020, compared with NIS 318 million in the same period last year. Most of the decrease resulted from a decrease in net financing profit and from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,045 million in the first nine months of 2020, compared with NIS 1,223 million in the same period last year. The decrease resulted from a decrease in financial spreads on credit and from a decrease in spreads on deposits, due to a decrease in the dollar interest rate.

Income from fees totaled NIS 411 million in the first nine months of 2020, compared with NIS 432 million in the same period last year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in securities fees.

The provision for credit losses totaled NIS 355 million in the first nine months of 2020, compared with NIS 235 million in the same period last year. The increase resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Net credit to the public totaled approximately NIS 30.7 billion as at September 30, 2020, compared with approximately NIS 31.0 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 55.9 billion as at September 30, 2020, compared with approximately NIS 46.0 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

### 6.1.3. Housing Loan Segment

#### General information and segment structure

The Bank offers housing loans to private customers, from Bank funds as well as through government assistance programs, at Mishkan representative offices within branches located nationwide.

#### Competition

Mortgages are a price-oriented product: a mortgage is a significant economic transaction for households, and customers therefore tend to conduct market surveys and compare prices. This market is therefore characterized by a high level of competition.

#### Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- Since the beginning of the coronavirus crisis, the Bank has allowed customers with housing loans who meet the criteria to defer loan payments for up to three months (principal and interest payments). Following the instruction of the Bank of Israel of May 7, 2020, an extension for three additional months is possible. When loan payments are deferred, the customer does not perform the scheduled payments during the deferral period; the deferred payments are added to the loan principal balance and spread over the remaining period of the original loan.
- Following the instructions of the Bank of Israel of July 10, 2020, customers who have already received a deferral of loan payments can defer the payments until the end of 2020, even if the deferral exceeds six months. Customers who have not yet deferred loan payments can defer payments for a period of six months; applications to defer loan payments were accepted until October 30, 2020.
- In the first quarter of 2020, a relief was granted in Proper Conduct of Banking Business Directive 329, due to the coronavirus crisis, permitting the granting of all-purpose loans with a lien on a residential property at a financing rate of up to 70% (the limit on the financing rate was 50% prior to this relief).
- Additional reliefs due to the coronavirus crisis were granted in Proper Conduct of Banking Business Directive 329 in the second quarter of 2020:
  - To estimate income, banking corporations are permitted to consider the average income of the borrower in the three months preceding unpaid leave, under the condition, among other matters, that the payment to income ratio of the borrower after the unpaid leave begins does not exceed 70%.
  - The requirement to raise the common equity Tier 1 capital target at the rate of 1% of the balance of housing loans has been suspended with respect to loans approved during the period of the Temporary Order. The period of validity of Proper Conduct of Banking Business Directive 250, which concerns directives relevant to limits on housing loans, has been extended until March 31, 2021.
  - According to the most recent outline of the Bank of Israel, applications to defer mortgages can be submitted until December 31, 2020, instead of October 30, 2020.

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
NIS millions				
Total net interest income	<b>253</b>	214	<b>728</b>	612
Fees and other income	<b>16</b>	16	<b>43</b>	46
Total income	<b>269</b>	230	<b>771</b>	658
Provision for credit losses	<b>22</b>	6	<b>298</b>	25
Total operating and other expenses	<b>74</b>	73	<b>227</b>	218
Profit from continued operations before taxes	<b>173</b>	151	<b>246</b>	415
Provision for taxes on profit from continued operations	<b>60</b>	52	<b>90</b>	145
Net profit attributed to shareholders of the Bank	<b>113</b>	99	<b>156</b>	270
Net credit to the public at the end of the reported period	<b>96,365</b>	87,316	<b>96,365</b>	87,316

\* Reclassified.

#### Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 156 million in the first nine months of 2020, compared with NIS 270 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, and was partly offset by an increase in net financing profit.

Net financing profit totaled NIS 728 million in the first nine months of 2020, compared with NIS 612 million in the same period last year. The increase resulted from an increase in credit volumes.

The provision for credit losses totaled NIS 298 million in the first nine months of 2020, compared with NIS 25 million in the same period last year. The increase resulted from an increase in the collective allowance in respect of sound credit, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Credit to the public totaled approximately NIS 96.4 billion as at September 30, 2020, compared with approximately NIS 89.3 billion as at December 31, 2019. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see [Section 3.2.6](#) in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

### 6.1.4. Commercial Segment

#### General information and segment structure

The Commercial Segment provides a wide range of banking services to middle-market business clients. The segment operates through business centers for established customers and business centers for growing customers. Operational services for the segment's customers are provided by a nationwide network of service centers.

#### Customers

The main areas of activity of the segment's customers are industry, commerce, and construction and real estate. These customers primarily operate in the domestic market; the segment also serves customers engaged in import and export activities. Most of the growth in this segment stems from the construction and real-estate sector.

The third quarter this year was mostly marked by an upswing in economic activity, due to the lifting of the first lockdown and gradual resumption of activity. Coronavirus cases rose rapidly with the reopening of the economy, and a second lockdown was imposed in mid-September. Between the lockdowns, private consumption soared, and the broad unemployment rate decreased to approximately 11%. In the residential real estate market, the number of transactions rose in the months following the lockdown; the index of prices of homes is close to the pre-crisis level. Construction starts decreased, due to the high uncertainty. Restrictions on activity led to a steep drop in demand for commercial real estate and office space. As noted, the lockdown resumed in the last two weeks of the quarter. Economic activity fell back again, and the number of job seekers rose. The damage is most prominent in the service sectors. The government has extended the duration of its assistance program for businesses and households, which includes state-backed loans as well as grants for businesses suffering a decline in sales turnovers.

For further details regarding the effects of the coronavirus, see [the section "Risk management"](#) in the Report of the Board of Directors and Board of Management.



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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
NIS millions				
Total net interest income	<b>272</b>	279	<b>819</b>	813
Non-interest financing income	<b>3</b>	3	<b>12</b>	8
Total net financing profit	<b>275</b>	282	<b>831</b>	821
Fees and other income	<b>99</b>	97	<b>287</b>	277
Total income	<b>374</b>	379	<b>1,118</b>	1,098
Provision for credit losses	<b>15</b>	15	<b>313</b>	29
Total operating and other expenses	<b>127</b>	129	<b>366</b>	382
Profit from continued operations before taxes	<b>232</b>	235	<b>439</b>	687
Provision for taxes on profit from continued operations	<b>78</b>	84	<b>165</b>	249
Net profit attributed to shareholders of the Bank	<b>154</b>	151	<b>274</b>	438
Net credit to the public at the end of the reported period	<b>41,279</b>	39,997	<b>41,279</b>	39,997
Deposits from the public at the end of the reported period	<b>29,469</b>	23,493	<b>29,469</b>	23,493

\* Reclassified.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 274 million in the first nine months of 2020, compared with NIS 438 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 831 million in the first nine months of 2020, compared with NIS 821 million in the same period last year. The increase mainly resulted from an increase in the volume of credit.

Income from fees totaled NIS 287 million in the first nine months of 2020, compared with NIS 277 million in the same period last year. The increase mainly resulted from an increase in fees from financing transactions. The provision for credit losses totaled NIS 313 million in the first nine months of 2020, compared with a provision in the amount of NIS 29 million in the same period last year. The increase mainly resulted from an increase in the provision recorded on a collective basis in respect of sound credit, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. An additional increase resulted from an increase in the collective allowance in respect of problematic debts.

Operating and other expenses of the segment totaled NIS 366 million in the first nine months of 2020, compared with NIS 382 million in the same period last year. The decrease mainly resulted from a decrease in salary expenses, resulting from continued cost savings due to efficiency processes; a decrease in bonus amounts, in view of the return on equity attained in the first nine months of 2020, as a result of the effects of the spread of the coronavirus; and the effects of the wage agreement, pursuant to which equity compensation for employees has been eliminated and replaced by wage increments granted beginning in May. A large expense for equity compensation was recorded in the first nine months of 2019, due to an increase in the share price of the Bank.

Net credit to the public totaled approximately NIS 41.3 billion as at September 30, 2020, compared with approximately NIS 40.1 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 29.5 billion as at September 30, 2020, compared with approximately NIS 25.1 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

### 6.1.5. Corporate Segment

#### General information and segment structure

The Corporate Segment specializes in providing financial services to large corporations in Israel. Credit granting constitutes its principal area of activity. The segment operates through three sectors, each of which contains specialist Customer Relationship Managers (CRMs):

- Real estate;
- Industry, commerce, and hotels;
- Infrastructures and energy.

The sector also specializes in complex financing products, including foreign-trade financing, financing of working capital, financing of assets overseas, complex financing transactions, syndication, and credit-risk sales.

Also operating within the Corporate Banking Division is the Special Credit Area, which coordinates the handling of customers experiencing financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support.

For details regarding the effect of the coronavirus outbreak, see [Section 6.1.4](#), "Commercial Segment," above.

**Table 6-5: Management approach activity segments – results of operations and principal data of the Corporate Segment**

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
NIS millions				
Total net interest income	<b>352</b>	361	<b>1,052</b>	1,048
Non-interest financing income	<b>36</b>	16	<b>108</b>	55
Total net financing profit	<b>388</b>	377	<b>1,160</b>	1,103
Fees and other income	<b>117</b>	116	<b>384</b>	349
Total income	<b>505</b>	493	<b>1,544</b>	1,452
Provision (income) for credit losses	<b>(49)</b>	(201)	<b>480</b>	(105)
Total operating and other expenses	<b>159</b>	158	<b>460</b>	456
Profit from continued operations before taxes	<b>395</b>	536	<b>604</b>	1,101
Provision for taxes on profit from continued operations	<b>141</b>	193	<b>227</b>	397
Net profit attributed to shareholders of the Bank	<b>254</b>	343	<b>377</b>	704
Net credit to the public at the end of the reported period	<b>72,709</b>	76,306	<b>72,709</b>	76,306
Deposits from the public at the end of the reported period	<b>53,619</b>	48,719	<b>53,619</b>	48,719

\* Reclassified.

**Principal changes in net profit and balance sheet balances**

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 377 million in the first nine months of 2020, compared with NIS 704 million in the same period last year. The decrease mainly resulted from an increase in the provision for credit losses, partly offset by an increase in net financing profit and in income from fees.

Net financing profit totaled NIS 1,160 million in the first nine months of 2020, compared with NIS 1,103 million in the same period last year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market.

Income from fees totaled NIS 384 million in the first nine months of 2020, compared with NIS 349 million in the same period last year. The increase mainly resulted from an increase in syndication fees and in securities fees. The provision for credit losses totaled NIS 480 million in the first nine months of 2020, compared with income in the amount of NIS 105 million in the same period last year. The increase resulted from an increase in the provision recorded on a collective basis, mainly in respect of problematic debts. The increase also resulted from an increase in the provision on an individual basis, due to a decrease in recovery of charged-off debts. Net credit to the public totaled approximately NIS 72.7 billion as at September 30, 2020, compared with approximately NIS 76.6 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 53.6 billion as at September 30, 2020, compared with approximately NIS 53.0 billion as at December 31, 2019.

### 6.1.6. International activity

#### General information

The international activity of the Bank Group includes the New York branch and representative offices in the United States, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see [the section "Credit exposure to foreign financial institutions"](#)).

In the area of global private banking, the Bank is completing the process of discontinuing its operations overseas and closing its subsidiaries.

#### Legislative restrictions, standards, and special constraints applicable to international activity

The activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of the activity of the Group in the countries in which its business is conducted (cross-border regulations), and to regulatory supervision by various government agencies in the countries in which the overseas offices of the Bank operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

In addition, rules and limits are imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad.

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

For details regarding the conclusion of the investigation of the Bank in connection with senior officials of the Fédération Internationale de Football Association (FIFA), see [Note 10E](#) to the Condensed Financial Statements.

#### Main international banking units

##### New York branch

Most of the Bank Group's international business banking is conducted through the New York branch and through representative offices, as well as through relationships maintained with banks around the world. The New York branch has activity in the middle-market sector in the United States, through the development of relationships with and granting of direct credit to local commercial clients. The branch also operates in the syndication market, as a complementary activity.

##### Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland; since then, its global private banking customer assets have been sold or transferred.

The Bank is acting to return the license, as required in order to withdraw the company from the supervisory authority of FINMA.

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

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to corporations with an affinity to Israel operating in Europe. In June 2019, as part of its strategy for overseas activities, the Board of Directors of the Bank resolved to act to close Banque Hapoalim Luxembourg, by transferring its existing credit portfolio to Israel or settling its balance, and to continue its financing activity in certain countries in Europe directly through the Bank in Israel. Banque Hapoalim Luxembourg approached the regulator in Luxembourg during the third quarter with a request to return its bank license.

### **Activity of the Bank in Turkey**

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking.

The Bank's stake in Bank Pozitif stands at 69.8%. For further details, see [Section 2.6](#) in the Report of the Board of Directors and Board of Management.

In view of the economic and political situation in Turkey, and within the strategic plan of the Bank, a decision was made to act to sell the investment in Bank Pozitif. Accordingly, the Bank is working to gradually reduce the credit portfolio of Bank Pozitif.

The Bank has engaged a Turkish investment bank to assist in finding potential buyers. The sale process has been greatly slowed amid the coronavirus pandemic.

Bank Hapoalim provides a credit line to Bank Pozitif, the pricing of which is based on an ordered methodology. In light of the coronavirus crisis, the increase in market risks in Turkey was reflected in high pricing of the interest on the credit line. The Bank of Israel approved the request of Bank Hapoalim for an exception, such that the interest rate for renewal of the credit line is lower than the interest rate determined by the ordered methodology. This request is based on the challenging conditions of the Turkish economy and of Bank Pozitif, and on the expectations of the Turkish regulator.

Following the aforesaid approval, Bank Hapoalim must deduct the indebtedness in respect of the credit line from its regulatory capital, pursuant to Proper Conduct of Banking Business Directive 312.

In addition, the minority shareholder of Bank Pozitif has contentions against the Bank in connection with the alleged effect of the foregoing on the results of Bank Pozitif. The general manager of the bank resigned in July 2020. Due to the various disagreements, the Bank is conducting ongoing dialogue with the minority shareholder with regard to the conduct of Bank Pozitif and the activity of its board of directors. Within this dialogue, various alternatives are under discussion with respect to the division of the expected consideration from the sale of Bank Pozitif.

Following a proposal received by the Bank for the acquisition of Bank Pozitif, taking into consideration the discussions of the various alternatives with the minority shareholder, as noted, the Bank adjusted the fair value of the expected consideration, stated the value of the investment in capital at a total of approximately NIS 3 million in the second quarter of 2020 (compared with NIS 33 million as at December 31, 2019), and recorded a provision for impairment in the amount of NIS 30 million. The Bank has received an additional proposal better than the proposal mentioned above, and is conducting concurrent negotiations with the offeror. At this stage, the Bank is unable to estimate the probability of realization of the proposals, taking into consideration, among other matters, the economic conditions in Turkey, the circumstances of Bank Pozitif, and past experience.

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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019	2020	2019
NIS millions				
Total net interest income	86	123	273	357
Non-interest financing income	-	(5)	18	(4)
Total net financing profit	86	118	291	353
Fees and other income	11	23	38	57
Total income	97	141	329	410
Provision for credit losses	42	16	149	34
Total operating and other expenses	136	161	456	587
Loss from continued operations before taxes	(81)	(36)	(276)	(211)
Provision for taxes (tax benefit) on loss from continued operations	(17)	29	(37)	44
Net profit (loss)				
Before attribution to non-controlling interests	(64)	(65)	(239)	(255)
Attributed to non-controlling interests	(3)	3	3	10
Net loss attributed to shareholders of the Bank	(67)	(62)	(236)	(245)
Net credit to the public at the end of the reported period	12,760	12,690	12,760	12,690
Deposits from the public at the end of the reported period	17,103	15,910	17,103	15,910

**Principal changes in net profit and balance sheet balances**

The loss attributed to shareholders of the Bank in the International Activity Segment totaled NIS 236 million in the first nine months of 2020, compared with NIS 245 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses, partly offset by expenses recorded in respect of revaluation of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year.

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

- The loss of the New York branch totaled approximately NIS 56 million in the first nine months of 2020, compared with net profit of approximately NIS 82 million in the same period last year. The loss mainly resulted from an increase in the provision for credit losses, due to an increase in the rate of the collective allowance, as a result of the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and from a decrease in net financing profit, due to the reduction of the Federal Reserve interest rate.

- The loss of Hapoalim Switzerland totaled approximately NIS 168 million in the first nine months of 2020, compared with a loss in the amount of approximately NIS 222 million in the same period last year. The decrease in loss resulted from a decrease in legal expenses attributed to the investigation of the Bank Group's business with American customers. However, expenses were recorded in the first nine months of 2020 in respect of revaluation of the provision for the American investigation, versus income recorded in the same period last year. In addition, a loss was recorded in the same period last year in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.
- In the first nine months of 2020, loss from impairment was recognized in respect of the investment in Pozitif, in the amount of NIS 30 million, and the Bank stated its share in the capital of Pozitif at a total of NIS 3 million. In the same period last year, loss from impairment in the amount of approximately NIS 63 million was recognized.

Total credit to the public in international activity amounted to approximately NIS 12.8 billion as at September 30, 2020, compared with approximately NIS 12.9 billion as at December 31, 2019.

- Credit to the public at the New York branch totaled approximately NIS 12.5 billion as at September 30, 2020, similar to the balance as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11.3 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.1 billion as at December 31, 2019, of which a total of approximately NIS 4.8 billion in respect of syndication transactions.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.3 billion as at September 30, 2020, similar to the balance at the end of 2019.

Total deposits from the public in international activity amounted to approximately NIS 17.1 billion as at September 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019.

- The balance of deposits from the public at the New York branch totaled approximately NIS 17.1 billion as at September 30, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 7.4 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 9.7 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

### 6.1.7. Financial Management Segment

#### General information and structure

The activity of this segment includes:

- Activity in the banking book – Management of assets and liabilities, including the management of market and liquidity risks (for details regarding these risks, see [the section “Review of risks”](#) in the Report of the Board of Directors and Board of Management), through the establishment of internal transfer prices (see below), investment portfolio management, issuance of bonds and notes, and the execution of transactions in derivative financial instruments. The segment’s activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through the Nostro Investment Management Unit, which is responsible for managing the portfolio of government and corporate bonds and the portfolio of shares, and for coordination of activity at the level of the Group.
- Activity in the trading books – Market making and trading activity in the dealing rooms in the areas of foreign currency, interest rates, and OTC derivatives.
- Activity with customers – The provision of research and trading services to the Bank’s customers for the execution of transactions in Israeli and foreign securities through the Brokerage Unit, and execution of transactions for customers in derivative financial instruments in NIS, foreign currency, interest rates, indices, and commodities through the dealing rooms. Service is provided to a range of customers including institutional entities, business firms, selected private customers, and foreign customers. The dealing room also serves as a market maker in government bonds. The segment’s activity with customers also includes support for the development and pricing of sophisticated financial products, custody services, tradable and non-tradable derivatives, and operational services for mutual funds.

The Bank provides its customers with advanced trading services in Israeli and foreign securities, as well as in derivative financial instruments, currencies, interest rates, indices, and commodities.

Service is provided to a range of clients, including large institutional entities, portfolio managers, mutual funds, proprietary trading firms, hedge funds, business firms, selected private customers, and foreign customers.

Bank Hapoalim is the largest market maker in the world in NIS/foreign-currency trading. Activity in the dealing room is conducted through dedicated desks providing individual service to customers with unique activities in foreign currency, alongside professional trading departments.

The Brokerage Department at the Bank encompasses the Research Unit and two dealing rooms, one for Israeli securities and one for foreign securities, and offers professional trading services to local and international investors as well as professional analysis services.



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

	For the three months ended September 30		For the nine months ended September 30	
	2020	2019*	2020	2019*
	NIS millions			
Total net interest income	<b>378</b>	200	<b>908</b>	817
Non-interest financing income	<b>284</b>	41	<b>659</b>	221
Total net financing profit	<b>662</b>	241	<b>1,567</b>	1,038
Fees and other income	<b>27</b>	31	<b>79</b>	104
Total income	<b>689</b>	272	<b>1,646</b>	1,142
Provision (income) for credit losses	-	(2)	<b>4</b>	2
Total operating and other expenses	<b>117</b>	109	<b>339</b>	314
Profit from continued operations before taxes	<b>572</b>	165	<b>1,303</b>	826
Provision for taxes on profit from continued operations	<b>199</b>	90	<b>483</b>	299
Profit from continued operations after taxes	<b>373</b>	75	<b>820</b>	527
The Bank's share in profits of equity-basis investees, after taxes	<b>5</b>	3	<b>7</b>	7
Net profit:				
Before attribution to non-controlling interests	<b>378</b>	78	<b>827</b>	534
Attributed to non-controlling interests	<b>5</b>	-	<b>9</b>	4
Net profit attributed to shareholders of the Bank	<b>383</b>	78	<b>836</b>	538
Net credit to the public at the end of the reported period	<b>1,723</b>	1,253	<b>1,723</b>	1,253
Deposits from the public at the end of the reported period	<b>43,783</b>	29,066	<b>43,783</b>	29,066

\* Reclassified.

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

### Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 836 million in the first nine months of 2020, compared with NIS 538 million in the same period last year. The increase mainly resulted from an increase in net financing profit, partly offset by a decrease in fees.

Net financing profit of the segment totaled NIS 1,567 million in the first nine months of 2020, compared with NIS 1,038 million in the same period last year. The increase resulted from a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, as a result of a negative accrual fair value gap in the same period last year due to a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. Income from the activity of the dealing room also increased, due to an increase in the volume of transactions, as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus. By contrast, profit from investment in shares decreased, due to the crisis of the spread of the coronavirus, and profits from investment in bonds decreased. In addition, income from linkage differentials decreased due to changes in the rate of increase of the known CPI between the periods.

Income from fees totaled NIS 79 million in the first nine months of 2020, compared with NIS 104 million in the same period last year. The decrease mainly resulted from a decrease in operating fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies in July 2019.

Net credit to the public totaled approximately NIS 1.7 billion as at September 30, 2020, compared with approximately NIS 1.4 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 43.8 billion as at September 30, 2020, compared with approximately NIS 32.6 billion as at December 31, 2019. The increase mainly resulted from customers' transition to conservative investment channels due to the effects of the spread of the coronavirus.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see [the section "Credit risk"](#) in the "Review of Risks" in the Report of the Board of Directors and Board of Management.

### 6.1.8. Adjustments

This section includes activities of the Bank Group with negligible volumes, each of which does not form a reportable segment. This includes, among other things: (1) the results of the subsidiaries Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities.

The segment also includes the activity of the Isracard Group, which was classified as a discontinued operation, until its distribution as a dividend in kind in March 2020.

The discontinuation of the provision of custody and brokerage services through the subsidiary Poalim Sahar was completed during the third quarter of 2020, and the company is in the process of withdrawing its membership in the stock exchange.

**Principal changes in net profit and balance sheet balances**

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 137 million in the first nine months of 2020, compared with net profit in the amount of NIS 189 million in the same period last year.

The loss from continued operations attributed to shareholders of the Bank in the segment totaled NIS 28 million in the first nine months of 2020, compared with a loss in the amount of NIS 69 million in the same period last year. The decrease in loss mainly resulted from a decrease in legal expenses in connection with the American investigation and profit from the sale of assets. This increase was partly offset by an expense for revaluation of the liability in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with income in the same period last year, in which the dollar exchange rate fell.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in the first nine months of 2020, compared with profit in the amount of NIS 258 million in the same period last year. The loss from a discontinued operation in the first nine months of 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders. The Bank's share in the profits of the Isracard Group and in profit from the sale of 65% of the shares of Isracard, in the amount of NIS 137 million, were included in the same period last year.

**6.2. Ratings of the Bank**

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

**Table 6-8: Ratings**

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
<b>Israel – sovereign rating</b>					
	Moody's	A1		Stable	October 2020
	S&P	AA-	A-1+	Stable	November 2020
	Fitch Ratings	A+	F1+	Stable	April 2020
<b>Bank Hapoalim</b>					
	Moody's	A2	P-1	Stable	August 2020
	S&P	A	A-1	Stable	July 2020
	Fitch Ratings	A	F1+	Stable	July 2020
	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
<b>Local rating (in Israel)</b>					
	S&P Maalot	ilAAA		Stable	July 2020
	Midroog	Aaa.il	P-1	Stable	December 2019

In May 2020, S&P Maalot affirmed a rating of AA for notes issued by Poalim Hanpakot Ltd., with a mechanism for loss absorption by write-off of principal (CoCo), which will be recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes. In August 2020, S&P Maalot affirmed a rating of AA for notes issued by the Bank, with a mechanism for loss absorption by conversion into capital (CoCo), which were recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes.

### **6.3. Social involvement and contribution to the community; social responsibility**

Active engagement in society is an essential element of the vision of the Bank, which considers itself an integral part of the community in which it operates. Based on this approach, alongside its leadership in business, the Bank works to promote a range of social causes and to empower the community. To achieve this social goal, we take action through a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities. The support provided by the Bank encompasses varied and extensive social activities that take the form of social involvement, monetary donations, and large-scale volunteer activities.

At the outbreak of the coronavirus crisis, the Bank mapped the acute needs of Israeli society and led various initiatives to provide assistance to broad segments in the areas of health care, welfare, and employment.

The community engagement of Poalim for the Community in the first nine months of 2020 was expressed in a cumulative financial expenditure of approximately NIS 20 million.

As part of the initiatives in which we invest each year, we invested in the Poalim Success Fund once again this year. Poalim Success grants tuition scholarships to students from peripheral regions of Israel. The mission of the fund is to support young people with potential from the social and geographical peripheries of Israel, and to help them expand the range of their future occupational opportunities. The fund is managed jointly with the Educating for Excellence Foundation. Each student volunteers for approximately 160 hours, receiving individual training and providing support to schoolchildren, who gain instruction and tools for personal empowerment and academic support. The fund grants scholarship in the amount of NIS 700,000 each year. This year, in light of the coronavirus crisis, in response to the great demand, the Bank decided to enlarge the fund and grant scholarships in the amount of NIS 1 million.

The following are additional focus areas of the Bank during this period, as Israeli society contends with the impact of the coronavirus, within the long-standing commitment of the Bank to society and to the community.

### Job market assistance

Each year, Bank Hapoalim promotes employment for the general public in peripheral regions and in various sectors across Israel. The Bank works towards diverse employment through the inclusion of people with disabilities in the workforce of the Israeli economy. Due to the coronavirus crisis, employment has become a burning issue in Israeli society. To respond to these needs appropriately, the Bank created three programs, offered to the general public free of charge, which provide professional and practical knowledge and tools, aimed at helping hundreds of thousands of job seekers quickly find employment again.

The programs are the following:

**Taasukav Employment Hotline** – A telephone assistance line for job seekers, in collaboration with the non-profit organization Be-Atzmi, providing personalized employment assistance, including professional guidance, emotional support, direction, and advice.

**Poalim Employment** – A personal coaching program, in collaboration with the non-profit organization Chasdei Lev, which offers professional knowledge and tools and an occupational coaching process for hundreds of thousands of unemployed people, and an opportunity to rejoin the workforce. The program begins with a dedicated website offering users an occupational coaching process in which they can learn about the new world of employment, the professions of the future, mapping capabilities, seeking work, writing a resume, interviewing, building a job-seeking plan, and more. At the conclusion of the process, interested participants receive an occupational coaching session free of charge.

**From Employee to Self-Employed initiative** – A program supporting employment for employees, unemployed people, and workers on unpaid leave interested in taking action to improve their financial situation by starting a small business. The program consists of a support structure including business training, business and financial guidance, creation of a business plan, benefits for the business, a supportive business community, and loans with preferred terms.

Bank Hapoalim also sponsored Career Fair 2020, a virtual high-tech industry job fair conducted via Zoom for engineers in the Arab community.

### Support for coronavirus victims and for medical and health-care services

- The Bank donated a total of NIS 1,050,000 to fifteen hospitals across Israel, for the wards on the front lines of the battle against the coronavirus pandemic.
- 570 food and snack packages were delivered to twenty hospitals nationwide for the medical teams treating coronavirus patients.
- A dedicated button was developed in the Bit application allowing users to donate to Magen David Adom emergency services, quickly and easily, for the acquisition of lifesaving equipment kits for paramedics, in a campaign that raised more than NIS 11 million. The Bank also donated approximately NIS 0.5 million to Magen David Adom.
- NIS 200,000 was donated to Yad Sarah and United Hatzalah.

### Assistance and support for population segments hurt by the crisis

- In two fundraising campaigns, Mahpilim Mehalev ("Multiplying from the Heart") and Marhivim et Halev ("Expanding the Heart"), the Bank joined the Lev Ohev Foundation and the Schusterman Foundation in recruiting businesses and organizations for the self-employed, through which donations of more than NIS 8 million reached families in need and self-employed people. The Bank also donated approximately NIS 0.5 million to these campaigns.
- 2,000 food packages were distributed by Bank employees to Holocaust survivors, solitary elderly people, and families in distress.
- Hundreds of craft kits and games were distributed to 120 non-profit organizations, childcare centers, youth clubs, and clubs for the elderly, to make prolonged stays at home more pleasant.
- Sponsorship was granted to the 1221 national hotline for elderly people and people with disabilities who need assistance obtaining food and medication.
- Assistance was provided to people experiencing financial distress due to the coronavirus crisis through specializing organizations, such as Paamonim, Chasdei Lev, and Lehetiv.
- NIS 650,000 was donated to non-profit organizations assisting people in need, including Pitchon Lev, Latet, Eran, Aleh Negev, Or Shalom, and others.

### Assistance through donations of computers and accompanying equipment

In the awareness of the high importance of the education and advancement of children and adolescents, the Bank donated approximately 130 computers and accompanying equipment this year to people who could not obtain them, to support continuous learning during this period.

For further details regarding the activity of the Bank Group in the area of social involvement, contribution to the community, and social responsibility, see [Section 7.8 of the Report on Corporate Governance and Additional Information in the Annual Periodic Report of the Bank for 2019](#).

In July 2020, the Bank published its social, environmental, and economic responsibility report for 2019. The report, prepared in compliance with advanced GRI standards, is available on the Bank's website.

## 7. Appendices

### 7.1. Material developments in income and expenses by quarter

Table 7-1: Quarterly developments in total net financing profit

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Interest income	<b>2,607</b>	2,532	2,542	2,772	2,593	3,730	2,825
Interest expenses	<b>(406)</b>	(366)	(350)	(479)	(310)	(1,264)	(548)
Net interest income	<b>2,201</b>	2,166	2,192	2,293	2,283	2,466	2,277
Non-interest financing income	<b>335</b>	193	306	246	58	166	89
Total reported financing profit	<b>2,536</b>	2,359	2,498	2,539	2,341	2,632	2,366
Excluding effects not from regular activity:							
Income from realization and adjustments to fair value of bonds	<b>34</b>	95	27	3	169	76	(23)
Profit (loss) from investments in shares	<b>86</b>	36	(122)	91	12	95	155
Adjustment to fair value of investment in affiliate	<b>6</b>	(18)	11	7	(63)	-	-
Gains in respect of loans sold	<b>21</b>	-	-	8	-	1	-
Adjustments to fair value of derivative instruments <sup>(1)</sup>	<b>56</b>	(27)	9	49	(136)	(77)	(97)
Financing income (expenses) from tax hedging of investments overseas <sup>(2)</sup>	<b>(3)</b>	(48)	87	(20)	(28)	(35)	(65)
Total income from regular financing activity <sup>(3)</sup>	<b>2,336</b>	2,321	2,486	2,401	2,387	2,572	2,396

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

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

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.

Of which, in respect of the effects of changes in the CPI: income of NIS 15 million in the third quarter of 2020; an expense of NIS 36 million in the second quarter of 2020; an expense of NIS 70 million in the first quarter of 2020; an expense of NIS 28 million in the fourth quarter of 2019; an expense of NIS 76 million in the third quarter of 2019; income of NIS 158 million in the second quarter of 2019; and an expense of NIS 33 million in the first quarter of 2019.

**Table 7-2: Provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter\*\***

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions						
Individual provision for credit losses	<b>139</b>	354	324	966	155	268	230
Decrease in individual allowance for credit losses and recovery of charged off debts	<b>(288)</b>	(151)	(122)	(191)	(306)	(254)	(200)
Net individual provision (income) for credit losses	<b>(149)</b>	203	202	775	(151)	14	30
Net provision in respect of the collective allowance for credit losses and net charge-offs	<b>342</b>	925	607	101	111	305	91
Total provision (income) for credit losses*	<b>193</b>	1,128	809	876	(40)	319	121
* Of which:							
Net provision (income) for credit losses in respect of commercial credit risk	<b>65</b>	622	656	851	(100)	253	50
Net provision for credit losses in respect of housing credit risk	<b>22</b>	244	32	13	4	11	4
Net provision for credit losses in respect of other private credit risk	<b>105</b>	263	120	13	59	54	65
Net provision (income) for credit losses in respect of risk of credit to banks and governments	<b>1</b>	(1)	1	(1)	(3)	1	2
Total provision (income) for credit losses	<b>193</b>	1,128	809	876	(40)	319	121
Provision as a percentage of total credit to the public:***							
Percentage of individual provision (income) for credit losses	<b>0.19%</b>	0.47%	0.43%	1.31%	0.21%	0.37%	0.32%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	<b>0.64%</b>	1.69%	1.24%	1.45%	0.36%	0.79%	0.45%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	<b>0.26%</b>	1.49%	1.07%	1.19%	(0.05%)	0.44%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	<b>(0.03%)</b>	0.32%	0.25%	0.17%	0.01%	0.13%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	<b>(1.36%)</b>	16.09%	14.20%	10.96%	0.50%	9.47%	12.86%

\*\* Including in respect of housing loans examined according to the extent of arrears.

\*\*\* Annualized.

\*\*\*\* The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged off debts.



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

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
NIS millions							
<b>Fees</b>							
Account management fees	191	184	210	218	222	212	218
Securities activity	183	197	223	177	173	174	174
Credit cards, net	67	54	76	85	85	88	63
Credit handling	43	49	63	76	46	46	54
Financing transaction fees	128	126	122	122	122	119	116
Other fees	143	136	169	158	167	165	160
Total fees	755	746	863	836	815	804	785
<b>Other income</b>	11	49	22	32	11	29	18
Total fee income and other income	766	795	885	868	826	833	803

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

	2020			2019			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
NIS millions							
<b>Salary expenses</b>							
Salaries <sup>(1)</sup>	942	931	937	905	904	909	949
Bonuses and share-based compensation	46	32	25	84	129	126	102
Total wages	988	963	962	989	1,033	1,035	1,051
<b>Maintenance and depreciation of buildings and equipment</b>	336	321	321	345	351	324	314
<b>Others<sup>(1)(2)(3)</sup></b>	527	542	633	1,603	586	633	512
Total	1,851	1,826	1,916	2,937	1,970	1,992	1,877

(1) Includes expenses (income) for the closure of private-banking activity in Switzerland: an expense in the amount of NIS 4 million in the third quarter of 2020 (income in the amount of NIS 4 million in the fourth quarter of 2019, and an expense in the amount of NIS 76 million in the second quarter of 2019).

(2) No legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA were included in the third quarter of 2020 (a total of NIS 42 million in the second quarter of 2020, a total of NIS 66 million in the first quarter of 2020, a total of NIS 72 million in the fourth quarter of 2019, a total of NIS 100 million in the third quarter of 2019, a total of NIS 111 million in the second quarter of 2019, and a total of NIS 123 million in the first quarter of 2019).

(3) No expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA were included in the third quarter of 2020 (income in the amount of NIS 53 million in the second quarter of 2020, an expense in the amount of NIS 112 million in the first quarter of 2020, an expense in the amount of NIS 985 million in the fourth quarter of 2019, income in the amount of NIS 51 million in the third quarter of 2019, income in the amount of NIS 41 million in the second quarter of 2019, and income in the amount of NIS 71 million in the first quarter of 2019).

**7.2. Rates of interest income and expenses****Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup>**

	For the three months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income	Rate of income	Average balance <sup>(2)</sup>	Interest income	Rate of income
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates</b>						
<b>Interest-bearing assets</b>						
Credit to the public <sup>(3)</sup> :						
In Israel	<b>274,069</b>	<b>2,299</b>	<b>3.40%</b>	264,995	2,080	3.18%
Outside Israel	<b>14,221</b>	<b>139</b>	<b>3.97%</b>	15,536	213	5.60%
Total	<b>288,290</b>	<sup>(4)</sup> <b>2,438</b>	<b>3.43%</b>	280,531	<sup>(4)</sup> 2,293	3.31%
Credit to governments:						
In Israel	<b>2,573</b>	<b>12</b>	<b>1.88%</b>	2,073	15	2.93%
Outside Israel	-	-	-	-	-	-
Total	<b>2,573</b>	<b>12</b>	<b>1.88%</b>	2,073	15	2.93%
Deposits with banks:						
In Israel	<b>6,130</b>	<b>14</b>	<b>0.92%</b>	7,977	40	2.02%
Outside Israel	<b>372</b>	<b>(1)</b>	<b>(1.07%)</b>	156	(5)	(12.22%)
Total	<b>6,502</b>	<b>13</b>	<b>0.80%</b>	8,133	35	1.73%
Deposits with central banks:						
In Israel	<b>89,413</b>	<b>23</b>	<b>0.10%</b>	38,975	25	0.26%
Outside Israel	<b>8,961</b>	<b>2</b>	<b>0.09%</b>	9,472	58	2.47%
Total	<b>98,374</b>	<b>25</b>	<b>0.10%</b>	48,447	83	0.69%
Securities borrowed or purchased under agreements to resell:						
In Israel	<b>348</b>	-	-	508	-	-
Outside Israel	-	-	-	-	-	-
Total	<b>348</b>	-	-	508	-	-

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Fees in the amount of NIS 126 million were included in interest income in the three-month period ended September 30, 2020 (September 30, 2019: NIS 134 million).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the three months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income	Rate of income	Average balance <sup>(2)</sup>	Interest income	Rate of income
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing assets (continued)</b>						
Bonds held to maturity and available for sale <sup>(3)</sup> :						
In Israel	53,887	104	0.77%	55,757	150	1.08%
Outside Israel	3,153	7	0.89%	2,991	20	2.70%
Total	57,040	111	0.78%	58,748	170	1.16%
Bonds held for trading <sup>(3)</sup> :						
In Israel	6,477	8	0.49%	7,341	(3)	(0.16%)
Outside Israel	3	-	-	10	-	-
Total	6,480	8	0.49%	7,351	(3)	(0.16%)
Other assets:						
In Israel	1,132	-	-	1,880	-	-
Outside Israel	-	-	-	1	-	-
Total	1,132	-	-	1,881	-	-
Total interest-bearing assets	460,739	2,607	2.28%	407,672	2,593	2.57%
Non-interest-bearing debtors in respect of credit cards						
	6,589	-	-	6,623	-	-
Other non-interest-bearing assets <sup>(4)</sup>						
	40,454	-	-	37,006	-	-
Total assets	507,782	-	-	451,301	-	-
Total interest-bearing assets attributed to activities outside Israel						
	26,710	147	2.22%	28,166	286	4.12%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 623 million for the three months ended September 30, 2020 (September 30, 2019: NIS 263 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.

(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the three months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing liabilities</b>						
Deposits from the public:						
In Israel	<b>211,469</b>	<b>199</b>	<b>0.38%</b>	192,126	239	0.50%
On demand	<b>114,769</b>	<b>5</b>	<b>0.02%</b>	83,519	45	0.22%
Fixed term	<b>96,700</b>	<b>194</b>	<b>0.80%</b>	108,607	194	0.72%
Outside Israel	<b>16,437</b>	<b>50</b>	<b>1.22%</b>	15,101	88	2.35%
On demand	<b>5,709</b>	<b>7</b>	<b>0.49%</b>	4,016	22	2.21%
Fixed term	<b>10,728</b>	<b>43</b>	<b>1.61%</b>	11,085	66	2.40%
Total	<b>227,906</b>	<b>249</b>	<b>0.44%</b>	207,227	327	0.63%
Deposits from the government:						
In Israel	<b>392</b>	<b>2</b>	<b>2.06%</b>	243	2	3.33%
Outside Israel	-	-	-	-	-	-
Total	<b>392</b>	<b>2</b>	<b>2.06%</b>	243	2	3.33%
Deposits from central banks:						
In Israel	<b>277</b>	-	-	-	-	-
Outside Israel	<b>1</b>	-	-	100	-	-
Total	<b>278</b>	-	-	100	-	-
Deposits from banks:						
In Israel	<b>2,358</b>	<b>1</b>	<b>0.17%</b>	827	1	0.48%
Outside Israel	<b>148</b>	<b>1</b>	<b>2.73%</b>	219	3	5.59%
Total	<b>2,506</b>	<b>2</b>	<b>0.32%</b>	1,046	4	1.54%
Securities lent or sold under agreements to repurchase:						
In Israel	<b>3</b>	-	-	-	-	-
Outside Israel	<b>6</b>	-	-	11	1	41.63%
Total	<b>9</b>	-	-	11	1	41.63%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the three months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing liabilities (continued)</b>						
Bonds:						
In Israel	25,050	153	2.47%	29,665	(31)	(0.42%)
Outside Israel	57	1	7.20%	222	8	15.21%
Total	25,107	154	2.48%	29,887	(23)	(0.31%)
Other liabilities:						
In Israel	413	(1)	(0.97%)	222	(2)	(3.56%)
Outside Israel	1	-	-	3	1	216.05%
Total	414	(1)	(0.96%)	225	(1)	(1.77%)
Total interest-bearing liabilities	256,612	406	0.63%	238,739	310	0.52%
Non-interest-bearing deposits from the public	181,149	-	-	141,562	-	-
Non-interest-bearing creditors in respect of credit cards	7,397	-	-	9,644	-	-
Other non-interest-bearing liabilities <sup>(3)</sup>	24,854	-	-	21,908	-	-
Total liabilities	470,012	-	-	411,853	-	-
Total capital means	37,770	-	-	39,448	-	-
Total liabilities and capital means	507,782	-	-	451,301	-	-
Interest spread	-	-	1.65%	-	-	2.05%
Net return on interest-bearing assets <sup>(4)</sup>						
In Israel	434,029	2,106	1.96%	379,506	2,098	2.23%
Outside Israel	26,710	95	1.43%	28,166	185	2.65%
Total	460,739	2,201	1.92%	407,672	2,283	2.26%
Total interest-bearing liabilities attributed to activities outside Israel						
	16,650	52	1.26%	15,656	101	2.61%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Includes derivative instruments.

(4) Net return – net interest income divided by total interest-bearing assets.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the nine months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income	Rate of income	Average balance <sup>(2)</sup>	Interest income	Rate of income
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing assets</b>						
Credit to the public <sup>(3)</sup> :						
In Israel	<b>273,635</b>	<b>6,578</b>	<b>3.22%</b>	264,671	7,460	3.78%
Outside Israel	<b>15,017</b>	<b>487</b>	<b>4.35%</b>	16,336	666	5.47%
Total	<b>288,652</b>	<b>(4)7,065</b>	<b>3.28%</b>	281,007	<b>(4)8,126</b>	3.87%
Credit to governments:						
In Israel	<b>2,391</b>	<b>40</b>	<b>2.24%</b>	2,163	51	3.16%
Outside Israel	-	-	-	-	-	-
Total	<b>2,391</b>	<b>40</b>	<b>2.24%</b>	2,163	51	3.16%
Deposits with banks:						
In Israel	<b>6,704</b>	<b>70</b>	<b>1.39%</b>	6,233	115	2.47%
Outside Israel	<b>216</b>	<b>(6)</b>	<b>(3.69%)</b>	226	(13)	(7.60%)
Total	<b>6,920</b>	<b>64</b>	<b>1.24%</b>	6,459	102	2.11%
Deposits with central banks:						
In Israel	<b>70,017</b>	<b>75</b>	<b>0.14%</b>	42,189	80	0.25%
Outside Israel	<b>10,111</b>	<b>34</b>	<b>0.45%</b>	10,582	196	2.48%
Total	<b>80,128</b>	<b>109</b>	<b>0.18%</b>	52,771	276	0.70%
Securities borrowed or purchased under agreements to resell:						
In Israel	<b>356</b>	-	-	614	-	-
Outside Israel	-	-	-	-	-	-
Total	<b>356</b>	-	-	614	-	-

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.

(4) Fees in the amount of NIS 397 million were included in interest income in the period ended September 30, 2020 (June 30, 2019: NIS 388 million).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the nine months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income	Rate of income	Average balance <sup>(2)</sup>	Interest income	Rate of income
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing assets (continued)</b>						
Bonds held to maturity and available for sale <sup>(3)</sup> :						
In Israel	51,171	341	0.89%	55,853	583	1.39%
Outside Israel	3,119	38	1.63%	3,233	71	2.94%
Total	54,290	379	0.93%	59,086	654	1.48%
Bonds held for trading <sup>(3)</sup> :						
In Israel	8,395	24	0.38%	6,123	29	0.63%
Outside Israel	3	-	-	20	-	-
Total	8,398	24	0.38%	6,143	29	0.63%
Other assets:						
In Israel	2,281	-	-	1,626	-	-
Outside Israel	-	-	-	1	-	-
Total	2,281	-	-	1,627	-	-
Total interest-bearing assets	443,416	7,681	2.32%	409,870	9,238	3.02%
Non-interest-bearing debtors in respect of credit cards						
	6,473	-	-	9,943	-	-
Other non-interest-bearing assets <sup>(4)</sup>						
	38,834	-	-	36,058	-	-
Total assets	488,723	-	-	455,871	-	-
Total interest-bearing assets attributed to activities outside Israel						
	28,466	553	2.60%	30,398	920	4.06%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within accumulated other comprehensive income, in the amount of NIS 339 million for the three months ended September 30, 2020 (September 30, 2019: NIS 115 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.

(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the nine months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing liabilities</b>						
Deposits from the public:						
In Israel	<b>202,605</b>	<b>646</b>	<b>0.43%</b>	195,438	1,115	0.76%
On demand	<b>93,743</b>	<b>28</b>	<b>0.04%</b>	87,939	169	0.26%
Fixed term	<b>108,862</b>	<b>618</b>	<b>0.76%</b>	107,499	946	1.18%
Outside Israel	<b>16,833</b>	<b>194</b>	<b>1.54%</b>	16,039	291	2.43%
On demand	<b>5,057</b>	<b>36</b>	<b>0.95%</b>	3,840	63	2.19%
Fixed term	<b>11,776</b>	<b>158</b>	<b>1.79%</b>	12,199	228	2.50%
Total	<b>219,438</b>	<b>840</b>	<b>0.51%</b>	211,477	1,406	0.89%
Deposits from the government:						
In Israel	<b>424</b>	<b>4</b>	<b>1.26%</b>	201	5	3.33%
Outside Israel	-	-	-	-	-	-
Total	<b>424</b>	<b>4</b>	<b>1.26%</b>	201	5	3.33%
Deposits from central banks:						
In Israel	<b>197</b>	-	-	-	-	-
Outside Israel	<b>85</b>	<b>1</b>	<b>1.57%</b>	428	7	2.19%
Total	<b>282</b>	<b>1</b>	<b>0.47%</b>	428	7	2.19%
Deposits from banks:						
In Israel	<b>2,534</b>	<b>4</b>	<b>0.21%</b>	2,299	4	0.23%
Outside Israel	<b>142</b>	<b>4</b>	<b>3.77%</b>	243	10	5.52%
Total	<b>2,676</b>	<b>8</b>	<b>0.40%</b>	2,542	14	0.74%
Securities lent or sold under agreements to repurchase:						
In Israel	<b>1</b>	-	-	-	-	-
Outside Israel	<b>4</b>	-	-	9	1	-
Total	<b>5</b>	-	-	9	1	-

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).



Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the nine months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense	Average balance <sup>(2)</sup>	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%
<b>A. Average balances and interest rates (continued)</b>						
<b>Interest-bearing liabilities (continued)</b>						
Bonds:						
In Israel	25,362	265	1.40%	29,439	673	3.06%
Outside Israel	133	5	5.04%	284	14	6.63%
Total	25,495	270	1.41%	29,723	687	3.09%
Other liabilities:						
In Israel	725	(1)	(0.18%)	620	3	0.65%
Outside Israel	1	-	-	5	1	-
Total	726	(1)	(0.18%)	625	4	0.85%
Total interest-bearing liabilities	249,046	1,122	0.60%	245,005	2,124	1.16%
Non-interest-bearing deposits from the public	169,035	-	-	139,652	-	-
Non-interest-bearing creditors in respect of credit cards	7,321	-	-	10,378	-	-
Other non-interest-bearing liabilities <sup>(3)</sup>	25,498	-	-	22,074	-	-
Total liabilities	450,900	-	-	417,109	-	-
Total capital means	37,823	-	-	38,762	-	-
Total liabilities and capital means	488,723	-	-	455,871	-	-
Interest spread	-	-	1.72%	-	-	1.86%
Net return on interest-bearing assets <sup>(4)</sup>						
In Israel	414,950	6,210	2.00%	379,472	6,518	2.30%
Outside Israel	28,466	349	1.64%	30,398	596	2.62%
Total	443,416	6,559	1.98%	409,870	7,114	2.32%
Total interest-bearing liabilities attributed to activities outside Israel						
	17,198	204	1.58%	17,008	324	2.55%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Includes derivative instruments.

(4) Net return – net interest income divided by total interest-bearing assets.

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the three months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income/ (expenses)	Rate of income/ (expense)	Average balance <sup>(2)</sup>	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%
<b>B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel</b>						
<b>Israeli currency unlinked</b>						
Total interest-bearing assets	<b>340,792</b>	<b>1,875</b>	<b>2.22%</b>	283,373	2,011	2.87%
Total interest-bearing liabilities	<b>161,638</b>	<b>(92)</b>	<b>(0.23%)</b>	142,708	(115)	(0.32%)
Interest spread	-	-	<b>1.99%</b>	-	-	2.55%
<b>Israeli currency CPI-linked</b>						
Total interest-bearing assets	<b>51,033</b>	<b>399</b>	<b>3.16%</b>	52,138	9	0.07%
Total interest-bearing liabilities	<b>36,020</b>	<b>(187)</b>	<b>(2.09%)</b>	40,929	81	0.79%
Interest spread	-	-	<b>1.07%</b>	-	-	0.86%
<b>Foreign currency (includes Israeli currency linked to foreign currency)</b>						
Total interest-bearing assets	<b>42,204</b>	<b>186</b>	<b>1.77%</b>	43,995	287	2.64%
Total interest-bearing liabilities	<b>42,304</b>	<b>(75)</b>	<b>(0.71%)</b>	39,446	(175)	(1.79%)
Interest spread	-	-	<b>1.06%</b>	-	-	0.85%
<b>Total activity in Israel</b>						
Total interest-bearing assets	<b>434,029</b>	<b>2,460</b>	<b>2.29%</b>	379,506	2,307	2.45%
Total interest-bearing liabilities	<b>239,962</b>	<b>(354)</b>	<b>(0.59%)</b>	223,083	(209)	(0.38%)
Interest spread	-	-	<b>1.70%</b>	-	-	2.07%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the nine months ended September 30					
	2020			2019*		
	Average balance <sup>(2)</sup>	Interest income/ (expenses)	Rate of income/ (expense)	Average balance <sup>(2)</sup>	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%
<b>B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel (continued)</b>						
<b>Israeli currency unlinked</b>						
Total interest-bearing assets	324,503	5,738	2.36%	283,893	6,068	2.86%
Total interest-bearing liabilities	154,270	(300)	(0.26%)	146,816	(413)	(0.38%)
Interest spread	-	-	2.10%	-	-	2.48%
<b>Israeli currency CPI-linked</b>						
Total interest-bearing assets	50,779	764	2.01%	50,932	1,321	3.47%
Total interest-bearing liabilities	36,558	(284)	(1.04%)	40,989	(810)	(2.64%)
Interest spread	-	-	0.97%	-	-	0.83%
<b>Foreign currency (includes Israeli currency linked to foreign currency)</b>						
Total interest-bearing assets	39,668	626	2.11%	44,647	929	2.78%
Total interest-bearing liabilities	41,020	(334)	(1.09%)	40,192	(577)	(1.92%)
Interest spread	-	-	1.02%	-	-	0.86%
<b>Total activity in Israel</b>						
Total interest-bearing assets	414,950	7,128	2.30%	379,472	8,318	2.93%
Total interest-bearing liabilities	231,848	(918)	(0.53%)	227,997	(1,800)	(1.05%)
Interest spread	-	-	1.77%	-	-	1.88%

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 7-5: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses<sup>(1)</sup> (continued)

	For the three months ended September 30, 2020, vs. the three months ended September 30, 2019*			For the nine months ended September 30, 2020, versus the nine months ended September 30, 2019*		
	Increase (decrease) due to change <sup>(2)</sup>		Net change	Increase (decrease) due to change <sup>(2)</sup>		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
<b>C. Analysis of changes in interest income and expenses</b>						
<b>Interest-bearing assets</b>						
Credit to the public:						
In Israel	76	143	219	215	(1,097)	(882)
Outside Israel	(13)	(61)	(74)	(43)	(136)	(179)
Total	63	82	145	172	(1,233)	(1,061)
Other interest-bearing assets:						
In Israel	46	(112)	(66)	103	(411)	(308)
Outside Israel	-	(65)	(65)	(3)	(185)	(188)
Total	46	(177)	(131)	100	(596)	(496)
Total interest income	109	(95)	14	272	(1,829)	(1,557)
<b>Interest-bearing liabilities</b>						
Deposits from the public:						
In Israel	18	(58)	(40)	23	(492)	(469)
Outside Israel	4	(42)	(38)	9	(106)	(97)
Total	22	(100)	(78)	32	(598)	(566)
Other interest-bearing liabilities:						
In Israel	(13)	198	185	(31)	(382)	(413)
Outside Israel	(3)	(8)	(11)	(17)	(6)	(23)
Total	(16)	190	174	(48)	(388)	(436)
Total interest expenses	6	90	96	(16)	(986)	(1,002)
Total interest income less interest expenses	103	(185)	(82)	288	(843)	(555)

\* Includes balances attributed to a discontinued operation.

(1) Data presented after the effect of hedging derivative instruments.

(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

**Active market**

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

**Average duration**

Weighted average term to maturity of the principal and interest payments on a bond.

**B2B****Business to business**

A business activity in which a product is sold or a service is provided by an organization to another organization.

**Basel 2/Basel 3**

Risk-management regulations for banks, established by the Basel Committee, which supervises and sets standards for supervision of banks worldwide.

**Bid-ask spread**

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

**Bond**

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

**CPI****Consumer price index**

An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family.

**CVA****Credit valuation adjustment**

Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

**Debt**

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

**Debt contingent on collateral**

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

**Derivative instrument**

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

**Dormant shares**

Shares held directly by the company itself. These shares are denied rights to capital or voting in the company.

**FATCA**

**Foreign Accounts Tax Compliance Act**

An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

**FDIC**

**Federal Deposit Insurance Corporation**

The Federal Deposit Insurance Corporation in the United States.

**Financial instrument**

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

**FINMA**

**Swiss Financial Market Supervisory Authority**

The government agency that supervises financial institutions in Switzerland.

**Fixed-term deposits**

Deposits in which the depositor does not have the right or authorization to withdraw funds for at least six days from the date of the deposit.

**GRI**

**Global Reporting Initiative**

An international standard for reporting on sustainability and corporate social responsibility.

**ICAAP**

**Internal Capital Adequacy Assessment Process**

An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

**Indebtedness**

As defined in Proper Conduct of Banking Business Directive 313.

**LDC**

**Less developed country**

A country classified by the World Bank as having low or medium revenue.

**LTV**

**Loan to value ratio**

The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

**MTM**

**Mark to market**

Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

**NPL**

**Non-performing loan**

Impaired credit not accruing interest income.

**Obligo**

Total indebtedness; total liabilities of the customer to the Bank.

**Off-balance sheet credit**

Commitments to grant credit and guarantees (excluding derivative instruments).

**On-demand deposits**

Deposits other than fixed-term deposits.

**Option**

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

**OTC derivative**

**Over-the-counter derivative**

A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists where its value can be determined.

**Phantom share**

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

**Repurchase/resale agreements**

Agreements to purchase or sell securities in consideration for cash or securities, in which, at the time of the transaction, the seller and the buyer agree to perform the reverse transaction at a date and price agreed upon in advance.

**Securitization**

Non-bank capital raising by a financial entity through special bonds reflecting the expected cash flows in respect of pooled loans.

**Subordinated notes**

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

**Supervisory capital**

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

**Syndication**

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

**Tier 1 capital**

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

**Tier 2 capital**

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

**VaR****Value at risk**

A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance



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