Bank Hapoalim

Annual Report

2019

Contents

The Bank has received approval from the Banking Supervision Department to publish the annual financial statements on a consolidated basis only. Note 34 to the Financial Statements contains the stand-alone condensed financial statements of the Bank. Stand-alone data concerning the Bank is available in hard copy upon request, or on the Bank's website at www.bankhapoalim.co.il.

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

Letter from the Chairman of the Board of Directors

On behalf of the members of the Board of Directors and Board of Management of Bank Hapoalim, I am honored to present our financial statements for 2019. The business results and financial data are displayed over the hundreds of pages that follow; I would like to try to focus on the story beyond the numbers, and in particular on the events of the last few days.

These are challenging times; the world is confronting a crisis the likes of which have not been seen in many years. The financial system has a key role in preserving the stability of the economy, which will drive continued growth in Israel and worldwide. Now more than ever, the importance of maintaining a stable financial system capable of contending with extreme scenarios that would have been difficult to envision in the past is evident. I am proud that despite having a complicated year, Bank Hapoalim is resolute and steadfast in facing the evolving crisis caused by the coronavirus outbreak, and is navigating its path to the days ahead with determination and good judgment, while granting the highest priority to the needs of the public and of the economy during these times. The Bank has solid capital reserves that make it possible for us to continue to support our customers and come through this crisis together. The direct and indirect impacts of the coronavirus crisis and its effects on the financial markets are already taking a toll. It is difficult to predict the full extent of the impact of the crisis at this stage, but we expect to see a significant effect on the banking system and on the stability of companies. The effects of the crisis will require us to act with the utmost effectiveness and responsibility, in order to continue to maintain the stability and growth of the Bank and of the Israeli economy.

As you know, the Bank has been coping with American investigations concerning taxation over the last few years. Significant progress has been made recently in these proceedings; we hope that this is the final stretch, and that it will soon be possible to finally conclude this matter. In order to bring the investigations to conclusion, subject to final approvals by the United States authorities, the Bank Group will be required to pay a sum of USD 870 million. In view of these developments, we recorded a provision for the fines in the amount of USD 259 million in the fourth quarter, adding to previous provisions of USD 611 million.

Within the Bank's preparations, and further to the requirement of the Supervisor of Banks, the Board of Directors resolved to establish an independent committee, headed by Supreme Court Justice (Retired) Prof. Yoram Danziger. 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.

Concurrently with the legal proceeding, the Bank has already implemented the lessons learned from the investigations through a series of decisions and actions aimed at reducing compliance risks at the Bank, including significant reduction of activities outside Israel (with the exception of New York) and the closure of Bank Hapoalim Switzerland. In addition, the Bank has taken various actions in recent years to improve its internal controls and prevent the recurrence of similar incidents in the future. Thus, for example, the Risk Management Division and the Audit Division have grown significantly, while expanding and improving their responsibilities and methods. The Board of Directors of the Bank devotes extensive attention to these matters, as part of its supervisory role.

Over the last year, international technology giants have taken major steps towards expanding their activities in the financial sector, and are preparing to enter Israel. This fact, alongside the announcement of the foundation of a digital bank in Israel, has a crucial impact on future banking and on our business. These trends have necessitated reexamination of our strategy this year, to adapt the work plans of the Bank to the changing financial universe. In 2020, we intend to delve deep and examine additional strategic changes needed to cope with the challenges of the new world.

After selling most of our holdings in Isracard in a successful offering earlier this year, we recently distributed our remaining shares of Isracard to the shareholders of Bank Hapoalim. This marked the end of a long period in which the Bank was the controlling shareholder of Isracard, in a separation mandated by law.

The power of Bank Hapoalim has always resided in its employees. We are blessed with talented, highly skilled employees who are committed to the Bank, to its values, and to the success of its business – as demonstrated, yet again, by the fact that despite the plethora of internal challenges and changes we experienced this year, and amid intensifying local and global competition, Bank Hapoalim maintains its leadership in the Israeli banking system.

We recently signed a new collective agreement with our employee union, following prolonged but respectful negotiations that required flexible thinking, listening to the other side, and finding the ways to align everyone's interests and what is best for the Bank.

I would like to thank the employees of Bank Hapoalim, and to say that I feel immense pride every time I meet you – at every visit to a branch and in every interaction with a customer, seeing your dedication and commitment, and hearing the many genuine compliments you earn from our customers.

Special thanks to the Board of Management of the Bank, headed by Dov Kotler, for their staunch dedication and resolute leadership in these fascinating and challenging times. To me, you are a model of strong, honest, values-driven business leadership.

This year, we said goodbye to the Bank's former CEO, Arik Pinto. Arik worked at the Bank for almost forty years, rising through diligent hard work from a position as banker in the branch network to leadership as chief executive officer. Arik was a model and example to us all, as an executive, as a banker, as a leader, and as a human being. The departure of a key figure of Arik's stature from the Bank is a momentous event, for our employees, managers, and, of course, for the directors.

When Arik informed us of his intention not to extend his term of service, we began an intensive search process for a new CEO. We considered a large number of impressive candidates, both internal and external to the Bank. Following an in-depth screening process, we chose Dov Kotler, for his extensive and varied experience in business as well as his leadership skills, which stood out throughout the process. The members of the Board of Directors found Dov to have the combination of qualities that will enable him to successfully cope with the management of the Bank as it is today, with all the ensuing challenges, and with the preparations for a future of innovative, technological banking. Dov settled in quickly at the Bank, taking the helm with confidence and vigor – and he still walks in smiling every morning.

I would also like to thank the members of the Board of Directors of the Bank, who are partners in the leadership of this organization, steering this immense ship through the multitude of present and future challenges. I commend your responsibility, dedication, and commitment. We welcomed three new directors this year: David Avner, Noam Hanegbi, and Dr. David Zvilichovsky. Each of them brings rich and unique experience to their positions. The diverse areas of knowledge and activity of the members of the Board of Directors are an important asset for the Bank.

Finally, I would like to thank the customers and investors of the Bank, who place their confidence in us and trust us with their finances year after year. In these challenging times, we will redouble our efforts to stand by our customers through business and financial decisions, in the business or private sphere; we will continue to provide devoted, fair service and to guide you in growth for yourself and your business.

Sincerely yours,

Oded Eran

Oded Eran

Chairman of the Board of Directors

March 18, 2020

Bank Hapoalim

Report of the Board of Directors
and Board of Management

2019

Contents

List of Tables

1. General review, objectives, and strategy

1.1. Condensed description of the Bank

General information

- Founded in 1921, the Bank constitutes a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under the control of the state. The Bank was privatized in 1997, and the controlling interest was transferred to Arison Holdings (1998) Ltd. and others. In November 2018, the Bank became a banking corporation without a controlling core.
- The Bank Group operates in Israel, in all of the various areas of banking and in associated activity in the capital market, through three main units: the Corporate Banking Division, the Retail Banking Division, and the Financial Markets and International Banking Division.
  - The Corporate Banking Division provides service to most of the Bank's business customers; activities with large corporate clients are conducted through sectors specializing in specific industries, while middle-market clients are served through Business Centers located throughout Israel, and through the branches of the Bank, which provide operational services to these customers.
  - The Retail Banking Division serves customers including households, private-banking customers, foreign residents, and small businesses, through 215 branches, including a mobile branch, and through direct channels: self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, 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; within this service concept, all of the Bank's services have been made accessible to people with disabilities, and accessibility is taken into consideration in the development of new products and processes and in tailoring unique solutions for the Bank's customers.
  - The Financial Markets and International Banking Division oversees the activity of the Bank Group in most areas of the capital market, in Israel and overseas. This activity includes, among other matters, securities trading services (brokerage), securities custody, trading services in currencies and derivatives, research and consulting, services for financial-asset managers, management of investment portfolios, investment banking, underwriting, and issuance management.
- The international activity of the Bank Group includes the New York branch and representative offices, as well as relationships maintained with banks around the world. International business banking is primarily conducted through the New York branch, which focuses on providing banking services to companies. The Bank has discontinued its global private banking activity outside Israel; most of the assets of global private banking customers were transferred by the end of 2019. Within the Bank's strategic plan, a decision has also been made to sell the investment in Bank Pozitif.

1.2. Forward-looking information

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

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

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

1.3. Condensed financial information

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"), on April 8, 2019, the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering. After the sale, the Bank retains a holding of approximately 33% of the shares of Isracard, which is accounted for using the equity method. On March 9, 2020, the remaining holdings in shares of Isracard were distributed as a dividend in kind to the shareholders of the Bank; the Bank thereby completed its separation from Isracard, as required by the Law for Increasing Competition, and no longer has holdings in Isracard.

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

From the second quarter of 2019, in which, as noted, the Bank sold 65.2% of the capital of Isracard, to the date of distribution of the remaining holdings as a dividend in kind, as noted, the Bank retained significant influence over Isracard. The remaining balance of the investment and the results of activity attributed to it, including the net profit from the sale of the investment, are therefore presented in one line, as a discontinued operation, in the Bank's financial statements.
Accordingly, the data of the Isracard Group are not presented within the detailed information below. For further details, see Note 1G to the Financial Statements.

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

	For the year ended December 31				
	2019	2018	2017	2016	2015
Main performance indicators					
Return of net profit on equity attributed to shareholders of the Bank	**4.62%**	7.06%	7.50%	7.72%	9.61%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items(1)	**7.13%**	9.74%	9.44%	10.04%	9.61%
Return of net profit from continued operations on equity attributed to shareholders of the Bank(5)	**3.86%**	6.07%	6.61%	6.92%	8.74%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items(2)(5)	**6.72%**	8.75%	8.55%	9.23%	8.74%
Return on average assets	**0.39%**	0.57%	0.59%	0.60%	0.73%
Ratio of income to average assets	**2.17%**	2.29%	1.99%	2.07%	2.13%
Efficiency ratio – cost-income ratio from continued operations	**66.44%**	65.05%	64.57%	63.24%	59.63%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations(2)	**58.13%**	57.82%	59.10%	59.22%	59.63%
Financing margin from regular activity(3)	**2.26%**	2.31%	2.13%	2.05%	2.05%
Liquidity coverage ratio(4)	**121%**	120%	122%	124%	99.00%

	December 31				
	2019	2018	2017	2016	2015
Ratio of common equity Tier 1 capital to risk components(5)	**11.53%**	11.16%	11.26%	11.01%	9.63%
Ratio of total capital to risk components(5)	**14.64%**	14.39%	14.64%	15.11%	14.36%
Leverage ratio(5)	**7.61%**	7.51%	7.37%	7.25%	7.10%

(1) Does not include expenses in respect 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 from the sale of Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(2) Does not include expenses in respect 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.
(3) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, in the section "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(4) For additional information, see the section "Liquidity and refinancing risk," below.
(5) For additional information, see the section "Capital, capital adequacy, and leverage," below.

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

	For the year ended December 31				
	2019	2018	2017	2016	2015
Main credit quality indicators					
Allowance for credit losses as a percentage of credit to the public	**1.58%**	1.31%	1.36%	1.50%	1.58%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	**1.80%**	1.23%	1.31%	1.83%	2.27%
Net charge-offs as a percentage of average credit to the public	**0.12%**	0.20%	0.21%	0.18%	0.08%
Provision for credit losses as a percentage of average credit to the public	**0.44%**	0.22%	0.08%	0.07%	0.17%
	NIS millions				
Main profit and loss data					
Net profit attributed to shareholders of the Bank	**1,799**	2,595	2,660	2,628	3,082
Net profit attributed to shareholders of the Bank excluding extraordinary items(1)	**2,778**	3,579	3,348	3,417	3,082
Net profit from continued operations attributed to shareholders of the Bank	**1,503**	2,231	2,346	2,354	2,802
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items(2)	**2,619**	3,215	3,034	3,143	2,802
Net interest income	**9,319**	8,906	8,424	7,958	7,710
Provision (income) for credit losses	**1,276**	613	202	179	437
Net financing profit*	**9,878**	10,351	9,076	9,121	8,744
Non-interest income	**3,889**	4,868	4,153	4,917	4,996
Of which: fees	**3,240**	3,318	3,338	3,617	3,838
Operating and other expenses	**8,776**	8,960	8,121	8,142	7,577
Of which: salaries and related expenses	**4,018**	4,097	4,209	4,239	4,467
Total income	**13,208**	13,774	12,577	12,875	12,706
Net earnings per ordinary share (in NIS)					
Basic net earnings per share in NIS attributed to shareholders of the Bank from continued operations	**1.13**	1.68	1.76	1.77	2.11

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

(1) Does not include expenses in respect 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 from the sale of Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.

(2) Does not include expenses in respect 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.

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

	December 31				
	2019	2018	2017	2016	2015
	NIS millions				
Main balance sheet data					
Total assets	**463,688**	460,926	454,424	448,105	431,638
Of which: Cash and deposits with banks	**88,122**	84,459	86,093	80,367	64,964
Securities	**59,486**	56,116	65,416	71,429	62,865
Net credit to the public	**292,940**	282,507	265,853	259,878	267,480
Net problematic credit risk	**8,787**	6,944	6,822	7,358	9,171
Net impaired balance sheet debts	**3,034**	2,158	2,121	3,094	4,257
Total liabilities	**425,467**	423,270	418,420	413,880	398,419
Of which: Deposits from the public	**361,645**	352,260	347,344	338,494	321,718
Deposits from banks	**3,520**	4,528	3,649	4,077	4,542
Bonds and subordinated notes	**26,853**	30,024	29,058	33,560	34,475
Shareholders' equity	**38,181**	37,544	35,863	34,047	33,032
Credit to the public not accruing interest income (NPL)	**3,867**	2,178	2,073	3,480	4,928
Additional data					
Share price at end of year (in NIS)	**28.7**	23.7	25.6	22.9	20.1

	For the year ended December 31				
	2019	2018	2017	2016	2015
Total dividend per share (in agorot)*	**74.90**	37.17	64.53	51.44	42.87
Average number of employee positions	**9,297**	9,723	10,228	10,556	11,025
Ratio of net interest income to average assets	**2.05%**	1.97%	1.87%	1.80%	1.88%
Ratio of fees to average assets	**0.71%**	0.73%	0.74%	0.82%	1.26%

* According to the date of declaration.

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

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

1.5. 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, continued significant investments in fintech companies, and the entry of significant technological players into activity with customers in the financial arena. It is emphasized that over the last year, the world's largest technology companies, led by Google, Apple, and Facebook, announced expansion of their 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. In its Annual Review of the Banking System in Israel for 2017, published in May 2018, the Banking Supervision Department described the Basel scenarios. The Bank adopted the Basel scenarios as a methodology for the analysis of the future competitive environment and for the selection of the most probable reference scenario for the banking industry in Israel. 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.

The Bank implements the directives of the Bank of Israel concerning compliance with capital targets; these directives were taken into consideration in the Bank's strategic planning.

Objectives

The strategic plan focuses on seven overarching objectives:

a. Increase return on equity.
b. Retain market share in key markets.
c. Maintain the profitability level of key products.
d. Improve operational efficiency.
e. Increase customers' digital-banking activity.
f. Strengthen customer loyalty.
g. Reinforce employee commitment and motivation.

Corporate strategy

In 2020, the Bank will continue to implement the key pillars of its strategic plan

According to the Bank's conceptualization, its relationship with its customers can be divided into two arenas: expert banking and daily banking. Daily banking mainly encompasses simple banking transactions, which most customers prefer to perform independently using the direct channels (mobile applications, the Bank's website, self-service stations, and more); the assumption is that the percentage of such customers will rise further in the future. By contrast, expert banking refers to more complex banking transactions. The more complex a transaction is perceived to be, the greater the percentage of customers interested in guidance from a human professional.

Digital transformation – digital banking becomes retail customers' first choice for daily banking activities

In daily banking, the Bank has decided to invest significant effort in transforming the digital and direct channels into customers' first choice for the consumption of non-complex services and products. Within this effort, the Bank will act to improve the range and quality of products and channels offered, and to manage the migration to digital channels while remaining responsive to customers with low digital literacy.

Operating structure and service concept of the Retail Banking Division

As part of the enhancement of expert-banking capabilities, in early 2020 the Board of Management and Board of Directors of the Bank approved a three-year plan for a change in the operating structure and improvement of service in the Retail Banking Division. The plan encompasses optimization of the deployment of the retail network, which will increasingly focus on providing banking services for complex needs.

Leap forward in credit and payment capabilities

The Bank will work to continue to improve its retail credit portfolio, while enhancing its capabilities in underwriting and collection, through the development of automatic underwriting models and improvement of customer journeys. In the corporate and commercial arenas, the Bank will continue to work to maintain its leading position, with the aim of being the first choice for large and mid-sized business clients. The Bank will also work to strengthen its capabilities in service for businesses and in supporting customers experiencing growth. The Bank will also work to improve its value offer in charge cards and provide advanced payment solutions, such as the application Bit, in accordance with market conditions and subject to the relevant legal and regulatory directives (including the terms and restrictions specified in the position paper of the Bank of Israel of July 9, 2019, concerning the operation of payment applications of banks).

Technological transformation – infrastructure development, use of advanced tools, and modernization of core systems

Within the endeavor of strengthening its technological infrastructures, the Bank is leading a process of adapting its core systems to cope with the pace of changes in the business environment. Given the rapid shifts in business models and in technological products, a renewal of the Bank's core systems has become necessary. Modernization of the core systems will allow a more flexible and simpler banking infrastructure, which will improve the pace of implementation of new business processes and the time to market of newly developed products; a foundation for open API; and reduction of IT costs.

The Bank intends to achieve a leap forward in its technological capabilities, in order to improve flexibility and the pace of implementation, and to work in the coming years to build technological infrastructures, work processes, advanced tools, and organizational changes which, in concert, will enable the Bank to improve the customer experience and achieve its business objectives.

In addition, the Bank is working to develop information and analytics to improve decision-making capabilities through the adoption of precise, individual automated processes based on broad information infrastructures.

Organizational transformation – culture, processes, efficiency, and employee care

The Bank has resolved on a process of organizational transformation, encompassing aspects of its culture, processes, efficiency, and employee care. The Bank will work to continue to streamline and improve work processes, with an emphasis on simplifying and automating processes, thereby improving service for customers while strengthening operational excellence. The Bank has decided to apply an agile operational model (transition to cross-position work teams built around a business objective), which allows rapid response (TTM) and flexibility, at several of its Head Office units, and will continue to consider expanding the transition to this work model over the coming year.

A decision has been made to adapt organizational structure for increased organizational effectiveness, and to adapt the composition of employees to evolving needs. A collective wage agreement has been signed with the employees of the Bank, and the Board of Management and Board of Directors have approved a voluntary-retirement program within which more than 900 employees will retire from the Bank over the next three years.

Striving for simplicity and continual operational excellence will remain a key aspiration for the Bank. The Bank will work to improve its operational efficiency ratio throughout the period of the strategic plan. The push towards operational excellence will allow the Bank to make optimal use of its existing resources in order to realize new initiatives.

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, political, and security situation in Israel and in the region; and to regulatory changes.

2. Explanation and analysis of results and business position

2.1. Trends, events, developments, and material changes

2.1.1. Economic and financial review

Developments in the global economy

The global economy grew by 2.9% in 2019, compared with 3.6% growth in 2018. The trade war between the United States and China and the uncertainty surrounding Britain's withdrawal from the European Union were among the causes of the slower growth. The expansion of global trade was checked, hurting the industrial sector; the increase in uncertainty also led to a slowdown in real investments. In geographical terms, the slowdown was most notable in the European countries and in China, but growth also decelerated in the United States. Central banks around the world reacted to the risks to growth and to inflation with even more expansionary monetary policies. The Federal Reserve lowered the interest rate three times in the course of 2019, to 1.75%. The European Central Bank also lowered its interest rate, to -0.5%, while renewing its quantitative expansion policy. Inflation remained moderate. In the United States, the core PCE index rose by 1.6% in 2019, while inflation in Europe totaled 1.3%.

In late December 2019, the government of China reported a coronavirus outbreak within its borders. China took exceptional measures to reduce the spread of the virus, including a lockdown on a region with some 50 million inhabitants and minimization of activity in the major Chinese cities. Despite these measures, the virus spread around the world. The World Health Organization has declared the coronavirus a pandemic. The European countries, particularly Italy and Spain, are the current focus of coronavirus spread. Governments have declared a state of emergency, and restricted international travel; many countries in Europe have placed residents under quarantine. The global economic damage is already evident in manufacturing and trade, in a sharp drop in tourism, and now also in private consumption, as leisure and business venues shut down in many countries around the world. Stock markets and prices of corporate bonds are showing steep declines. Central banks, including the Federal Reserve and the Bank of England, have lowered interest rates. In the United States, the Federal Reserve lowered the interest rate to 0.0%-0.25%, while concurrently acting to increase liquidity in the money market. We estimate that the proactive efforts to prevent the spread of the virus are likely to exact a heavy toll on growth; in the short term, GDP may contract.

Economic activity in Israel

The growth rate of the Israeli economy was 3.5% in 2019, reflecting a 1.6% increase in per-capita GDP. Positive effects on growth were a sharp 8.7% increase in exports of services from Israel, and a 3.9% increase in private consumption. However, exports of goods remained unchanged, and fixed-asset investments grew by only one percent. The composition of growth was likely influenced by global trends, particularly the trade tensions between the United States and China, which hurt global trade and real investments. The labor market remained tight, with the average unemployment rate falling slightly in 2019, to 3.8%, and a 3.0% increase in average wages.

The effects of the coronavirus on the Israeli economy are already apparent in most economic sectors. The government of Israel has announced extensive restrictions on daily life: closure of all educational institutions, closure of entertainment and commercial venues, restriction of travel by public transportation, and a prohibition on congregating in groups of more than ten people. Many workplaces have already announced suspension of their activities, and tens of thousands of workers have been placed on unpaid leave for at least a month. We estimate that these restrictions will have negative impacts on many economic sectors, particularly in areas such as tourism, hotels, and energy. Private consumption is likely to sustain substantial damage in the short term, and the financial condition of households and businesses may worsen if the lockdown policies are extended.

Residential real estate

2019 was characterized by a turning point in the residential construction market. Purchases of new homes rose sharply in 2019, by 42% compared with 2018. The proportion of homes sold within the Mechir Lamishtaken ("Tenant Price") project reached approximately 50% of total new homes. The survey of prices of homes by the Central Bureau of Statistics pointed to a 3.40% increase in prices over the last year. The heightened demand for homes may be explained by the decrease in interest rates at all ranges, and possibly also by the political uncertainty. Construction starts totaled approximately 51,000 units in 2019, similar to the pace of the preceding year.

Fiscal and monetary policy

The Bank of Israel interest rate remained unchanged at 0.25% throughout 2019. During the first half, inflation appeared to be stabilizing within the target range, and the monetary committee estimated that it would be necessary to raise the interest rate. In the second half, the steep currency appreciation and sharp drop in annual inflation led the committee to estimate that the interest rate would remain at the same level for a long period, or decrease. In view of the effect of the sharp appreciation of the shekel on inflation, the Bank of Israel has preferred to resume purchases of foreign currency, at this point, rather than lower the interest rate. On March 15, the Bank of Israel announced that it would begin to buy government bonds, in order to ensure the proper functioning of the government-bond market.

The budget deficit totaled NIS 52.2 billion in 2019, or 3.7% of GDP, versus a deficit target of 2.9% of GDP. The gap between the government deficit target in the budget planning and the actual results is accounted for by revenues below forecast by approximately NIS 9.2 billion, and expenditures higher than planned by NIS 2.8 billion. There were two rounds of Knesset elections in 2019, following which a new regular government was not established and the interim government remained in office. In the absence of an established government, 2020 opened without an approved budget, and government expenditures are determined by the planned budget of 2019. A third round of Knesset elections was held in early March 2020. The large political parties are currently attempting to build a coalition allowing the formation of a government. In view of the measures being taken to prevent the spread of the coronavirus and their effect on tax revenues, the budget deficit is likely to grow in the coming months. The government may also be forced to increase expenditures beyond the planned level.

Inflation and exchange rates

The "known" consumer price index rose by 0.3% in 2019. Inflation has been below the lower limit of the target range for six years. The decrease in inflation over the last year is attributed, in large part, to the appreciation of the shekel against the currency basket, which was reflected in lower prices of index components such as foreign travel, furniture and household equipment, and clothing and footwear. Heightened competition from online shopping also continued to temper the prices of commercial goods. Components less affected by the exchange rate, such as household maintenance, education, culture and entertainment, and housing, showed price increases which are actually aligned with the inflation target. In contrast to previous years, the direct impact of economic policy on prices was low. Several developments occurred in March 2020 that may affect inflation, such as the sharp decrease in global oil prices, the steep depreciation of the shekel, and the partial shutdown of economic activity. These factors have greatly increased uncertainty with regard to the trajectory of inflation in the coming period.

The shekel appreciated by 7.8% against the US dollar and by 9.6% against the euro in 2019. The shekel appreciated by 8.3% against the effective currency basket. In view of the steep appreciation of the shekel, the Bank of Israel resumed its purchases of foreign currency in the fourth quarter of 2019, at a volume of USD 3.8 billion. During February and March, due to the high uncertainty in the financial markets, the shekel depreciated sharply against the effective currency basket, with very high exchange-rate volatility.

Financial and capital markets

World capital markets saw sharp price gains in 2019, influenced by interest-rate cuts and quantitative expansion policies of the central banks; the price increases constituted correction, to some extent, of the steep declines in prices of late 2018. The S&P 500 index in the United States was up by 29%, while the Europe Stoxx 600 rose by 23%. The increase in prices of financial assets in Israel was influenced by global trends; overall for the year, all of the investment segments in the capital market showed price gains: the TA-125 index rose by 21%, the government-bond index rose by 9.1%, and the corporate bond index rose by 8.2%.

The change in global monetary policies led to a decrease in yields of long-term bonds. In the United States, yields of ten-year government bonds fell to 1.92% at the end of 2019, from 2.68% at the end of 2018. In Israel, the yield of ten-year government bonds fell from 2.3% at the end of 2018 to 0.94% at the end of 2019. Risk spreads of corporate bonds (Tel Bond 60) decreased, to approximately 0.98%.

The global spread of the coronavirus heightened investors' worries over a global recession, as noted, and drew a sharp reaction from the financial markets. Stock indices in the United States have fallen by approximately 20% on average since mid-February. Declines in Europe and in Israel were steeper, at approximately 30% on average. Volatility in the financial markets has greatly increased. Risk spreads of corporate bonds have also grown sharply.

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.

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

- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA are under investigation by the authorities in the United States. Over the recent period, the Bank Group and each of the teams addressing the DOJ investigation and teams from the banking regulation agencies have conducted extensive negotiations regarding the terms of the resolutions which, when approved by the American authorities and the Bank Group and as they reach final formulation, will bring the investigations to conclusion. For details, see Notes 25D and 25E to the Financial Statements.

- **Macro-economic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy; significant changes in monetary policies and interest-rate curves; market volatility; changes in prices of financial assets in Israel and worldwide, and in real-estate prices; and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macro-economic environment, taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. For further details, see the section "Economic and financial review."
  The coronavirus outbreak may cause significant change in the macro-economic environment, as noted in the economic review and as detailed in the section "Additional matters," below.
- **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 its credit-card companies and the significant changes in this area of activity, as well as the mobility of bank accounts and open API, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate and assess the effect thereof on the Bank. For details regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, 2017, see Note 35 to the Financial Statements.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect on April 12, 2019, 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 25 to the Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 35 to the Financial Statements.

2.1.3. 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 25C(b) concerning exposure to class-action suits filed against the Bank Group, Note 25D concerning the investigation of the Bank Group's business with American customers, and Note 25E concerning the investigation regarding FIFA.

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

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 1,799 million in 2019, compared with profit in the amount of NIS 2,595 million in 2018. The decrease in profit mainly resulted from an increase in the provision for credit losses, and from a decrease in financing profit, due to the effects of the changes in the consumer price index and the effects of adjustments to fair value of derivative instruments. By contrast, a decrease occurred in expenses for the provision in connection with the investigation of the Bank Group's business with American customers and the related legal expenses.

The rate of net return on shareholders' equity was 4.62% in 2019, compared with 7.06% in 2018

.

Table 2-1: Condensed statement of profit and loss

	For the year ended December 31		Change
	2019	2018	
	NIS millions		
Interest income	**11,920**	11,672	2.1%
Interest expenses	**(2,601)**	(2,766)	(6.0%)
Net interest income	**9,319**	8,906	4.6%
Non-interest financing income	**559**	1,445	(61.3%)
Net financing profit*	**9,878**	10,351	(4.6%)
Provision (income) for credit losses	**1,276**	613	108.2%
Net financing profit after provision for credit losses	**8,602**	9,738	(11.7%)
Fees and other income*	**3,330**	3,423	(2.7%)
Operating and other expenses	**8,776**	8,960	(2.1%)
Profit from continued operations before taxes	**3,156**	4,201	(24.9%)
Provision for taxes on profit from continued operations	**1,681**	2,009	(16.3%)
Profit from continued operations after taxes	**1,475**	2,192	(32.7%)
The Bank's share in profits of equity-basis investees, after taxes	**11**	4	175.0%
Net profit from continued operations	**1,486**	2,196	(32.3%)
Net profit from a discontinued operation	**296**	364	(18.7%)
Net profit			
Before attribution to non-controlling interests	**1,782**	2,560	(30.4%)
Loss (profit) attributed to non-controlling interests	**17**	35	(51.4%)
Attributed to shareholders of the Bank	**1,799**	2,595	(30.7%)
Return of net profit	**4.6%**	7.1%	(34.7%)

* 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."

The net loss of the Bank Group attributed to shareholders of the Bank totaled NIS 629 million in the fourth quarter of 2019, compared with net profit in the amount of NIS 97 million in the same quarter of the preceding year. The results in the fourth quarter of 2019 and in the same quarter of the preceding year were influenced by exceptional expenses in respect of the provision in connection with the investigation of the Bank Group's business with American customers (an expense in the amount of NIS 1,000 million in the fourth quarter of 2019, compared with NIS 922 million in the same quarter of the preceding year).

Net profit excluding the extraordinary effects noted above totaled NIS 359 million in the fourth quarter of 2019, compared with net profit excluding extraordinary effects in the amount of NIS 991 million in the same quarter of the preceding year.

Main factors influencing the business results of the Group, excluding extraordinary items, in the fourth quarter of 2019, compared with the same quarter of the preceding year:

(1) An increase in credit losses in the amount of NIS 687 million, due to factors including the direct and indirect effects of the coronavirus crisis, as known at the date of preparation of the financial statements.

(2) A decrease in the amount of NIS 201 million in financing profit, mainly due to a decrease in the amount of NIS 139 million in profit from shares and bonds, and a decrease in the amount of NIS 33 million, due to the change in the known CPI between the periods

For details regarding material developments in income and expenses by quarter, see the addendums to the Corporate Governance section.

2.2.1. Developments in income and expenses

Net financing profit

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

Table 2-2: Composition of net financing profit

	For the year ended		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Interest income	**11,920**	11,672	2.12%
Interest expenses	**(2,601)**	(2,766)	(5.97%)
Net interest income	**9,319**	8,906	4.64%
Non-interest financing income*	**559**	1,445	(61.31%)
Total reported financing profit	**9,878**	10,351	(4.57%)
Excluding effects not from regular activity:			
Income from realization and adjustments to fair value of bonds	**225**	180	25.00%
Profit from investments in shares	**353**	403	(12.41%)
Loss from impairment of shares of affiliate*	**(56)**	-	
Gains in respect of loans sold	**9**	56	
Adjustments to fair value of derivative instruments(1)	**(261)**	64	
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items(2)	**(148)**	73	
Total effects not from regular activity	**122**	776	(84.28%)
Total income from regular financing activity(3)	**9,756**	9,575	1.89%

* Includes a provision for impairment in respect of the Bank's investments in Bank Pozitif.
(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.
(2) This item includes the effects of hedging of currency exposures of non-monetary items and the effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.
(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting. Of which in respect of the effects of changes in the CPI: income in the amount of NIS 21 million in 2019, compared with income in the amount of NIS 128 million in 2018.

Income from regular financing activity totaled NIS 9,756 million in 2019, compared with a total of NIS 9,575 million in 2018. The increase resulted from an increase in financial spreads of deposits, due to an increase in the dollar and shekel interest rates. Volumes of housing credit and of business activity also increased. By contrast, the volume of consumer retail credit decreased, and income from linkage differentials decreased, due to changes in the rate of increase of the known CPI between the periods.

Total reported financing income amounted to NIS 9,878 million in 2019, compared with a total of NIS 10,351 million in 2018. The decrease resulted from a loss in the amount of NIS 261 million, compared with profit in the amount of NIS 64 million in 2018, due to a change in adjustments to fair value of derivative instruments, mainly as a result of a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items and a decrease in income from linkage differentials, as a result of changes in the rate of increase of the known CPI between the periods. Profit from investment in shares also decreased, and impairment in the amount of approximately NIS 56 million was recognized in respect of the Bank's investment in Bank Pozitif (for further details, see the section "Principal companies," below).

Table 2-3: Principal data regarding interest income and expenses

	For the year ended			
	December 31, 2019		December 31, 2018	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS millions/percent			
Interest income	**11,920**	**2.93%**	11,672	2.97%
Interest expenses	**(2,601)**	**1.07%**	(2,766)	1.13%
Net interest income	**9,319**	**1.86%**	8,906	1.84%
Net interest income as a percentage of the balance of interest-bearing assets		**2.29%**		2.27%

Interest income increased in 2019, compared with 2018, due to an increase in the dollar and NIS interest rates, and an increase in the volume of housing credit and of business activity. By contrast, the volume of consumer retail credit decreased, and the rate of increase of the known CPI decreased between the periods. Interest expenses decreased, due to the decrease in the rate of increase of the CPI between the periods, which was partly offset by the increase in the dollar and NIS interest rates.
An analysis of the changes in interest income and expenses, in a comparison of 2019 to 2018, indicates that changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 604 million, and changes in interest rates caused a decrease in the amount of approximately NIS 191 million in net interest income.

The provision for credit losses totaled NIS 1,276 million in 2019, compared with a total of NIS 613 million in 2018. A provision in the amount of NIS 668 million was recorded in the net individual allowance in 2019, compared with income in the amount of NIS 155 million in 2018. The change in this item mainly resulted from an increase in the gross individual provision.

The net provision in respect of the collective allowance totaled NIS 608 million in 2019, compared with a provision in the amount of NIS 768 million in 2018. The decrease in the collective provision mainly resulted from a decrease in automatic charge-offs, due to focused treatment of debts in excess and arrears. In addition, changes occurred in credit balances, compared with 2018, offset by a collective allowance recorded due to the sale of control of the Isracard Group in April 2019, and the inclusion of the balance sheet and off-balance sheet credit balances of the group as of that date.

The allowance for credit losses was influenced by the effects of the coronavirus crisis, as known at the date of preparation of the financial statements, mainly in respect of borrowers connected to sectors hurt by the crisis (primarily energy, aviation, and tourism).

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 13 to the Financial Statements.

Table 2-4: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**

	For the year ended	
	December 31, 2019	December 31, 2018
	NIS millions	
Individual provision for credit losses	**1,619**	835
Decrease in individual allowance for credit losses and recovery of charged off debts	**(951)**	(990)
Net individual provision (income) for credit losses	**668**	(155)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**608**	768
Total provision (income) for credit losses*	**1,276**	613
* Of which:		
Net provision (income) for credit losses in respect of commercial credit risk	**1,055**	114
Net provision (income) for credit losses in respect of housing credit risk	**31**	40
Net provision for credit losses in respect of other private credit risk	**191**	457
Net provision for credit losses in respect of risk of credit to banks and governments	**(1)**	2
Total provision (income) for credit losses	**1,276**	613
	%	
Provision (income) as a percentage of total credit to the public:		
Percentage of individual provision (income) for credit losses	**0.55%**	0.30%
Gross provision (income) for credit losses as a percentage of the average recorded balance of credit to the public***	**0.76%**	0.58%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**0.44%**	0.22%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.12%**	0.20%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**7.48%**	14.58%

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

Fees and other income totaled NIS 3,330 million in 2019, compared with NIS 3,423 million in 2018. Income from fees totaled NIS 3,240 million in 2019, compared with NIS 3,318 million in 2018. The decrease resulted from a decrease in account-management fees and in securities activity fees, offset by an increase in income from financing transaction fees and in income from credit cards.

Other income totaled NIS 90 million, compared with NIS 105 million in 2018. The decrease resulted from income recorded from the sale of buildings in 2018, in the amount of NIS 28 million, and from profit from the sale of international banking customer portfolios in the amount of NIS 28 million in 2018, compared with NIS 12 million in 2019.

Table 2-5: Details of fees and other income

	For the year ended		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Fees			
Account management fees	**870**	920	(5.4%)
Securities activity	**698**	741	(5.8%)
Credit cards, net	**321**	282	13.8%
Credit handling	**222**	223	(0.4%)
Financing transaction fees	**479**	450	6.4%
Other fees	**650**	702	(7.4%)
Total operating fees	**3,240**	3,318	(2.4%)
Total others	**90**	105	(14.3%)
Total operating income and other income	**3,330**	3,423	(2.7%)

Operating and other expenses totaled NIS 8,776 million in 2019, compared with NIS 8,960 million in 2018, a decrease of approximately 2.1%. The decrease in expenses mainly resulted from a decrease in 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, and the related legal expenses.

Table 2-6: Details of operating and other expenses

	For the year ended		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Salary expenses			
Wages	**3,573**	3,740	(4.5%)
Bonuses and share-based compensation	**445**	357	24.6%
Total wages	**4,018**	4,097	(1.9%)
Maintenance and depreciation of buildings and equipment	**1,334**	1,376	(3.1%)
Other expenses(1)	**3,424**	3,487	(1.8%)
Total operating and other expenses	**8,776**	8,960	(2.1%)

(1) In 2019, includes a total of NIS 71 million in respect of the discontinuation of private-banking activity at Bank Hapoalim Switzerland (includes a total of NIS 30 million in 2018).

Salary expenses totaled NIS 4,018 million in 2019, compared with NIS 4,097 million in 2018, a decrease of 1.9%. The decrease in salary expenses mainly resulted from continued cost savings due to efficiency processes, and from a decrease in the amount of the annual bonus. This decrease was offset by a one-time signing bonus in the amount of NIS 210 million, due to the signing of a wage agreement, and an increase in share-based compensation due to an increase in the share price.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,334 million in 2019, compared with NIS 1,376 million in 2018, a decrease of 3.1%, mainly in rental fees, and a decrease in software amortization.

Other expenses totaled NIS 3,424 million in 2019, compared with NIS 3,487 million in 2018, a decrease of 1.8%. The decrease resulted from the effect of the provision for the investigation of the business of the customers of the Bank and of FIFA, which totaled approximately NIS 822 million in 2019, compared with NIS 1,049 million in 2018, and from a decrease in the related legal expenses. This decrease was offset by an expense in respect of the transaction for the sale of the international banking customer portfolio; an increase in IT expenses and in marketing and advertising expenses; and a provision for legal claims and customer damages.

The provision for taxes on profit from continued operations amounted to NIS 1,681 million in 2019, compared with a total of NIS 2,009 million in 2018.

The effective tax rate for the Bank reached 53.3% in 2019, compared with a statutory tax rate of 34.2%, due to unrecognized expenses, mainly as a result of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA; losses of subsidiaries for which no deferred taxes were included; and adjustment of taxes in respect of previous years, mainly as a result of the recovery of charged-off debts.

Net profit from a discontinued operation totaled NIS 296 million in 2019, compared with a total of NIS 364 million in 2018.

Profit from a discontinued operation in 2019 includes net profit in the amount of approximately NIS 137 million (after the effect of related tax), which includes capital gains in the amount of approximately NIS 210 million in respect of the part of the investment that has been sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date, net of reduction to market price as at June 30, 2019, in the amount of approximately NIS 73 million, and the Bank's share of the profits of the Isracard Group, in the amount of NIS 159 million, compared with NIS 364 million in 2018. The results of the discontinued operation include the Bank's share in the profits of Isracard (33%), beginning in the second quarter of 2019. Until the end of the first quarter of 2019 and in 2018, profit from a discontinued operation included the share of the Bank (98.2%) in the profits of the Isracard Group.

Non-controlling interests' share in net results of consolidated companies amounted to a loss, mainly from Bank Pozitif, in the amount of NIS 17 million in 2019, compared with a loss in the amount of NIS 35 million in 2018.

Net profit attributed to shareholders of the Bank totaled NIS 1,799 million in 2019, compared with a total of NIS 2,595 million in 2018.

Basic net earnings attributed to the shareholders of the Bank from continued operations per share of par value NIS 1 amounted to NIS 1.13 in 2019, compared with NIS 1.68 in 2018.

2.2.2. Developments in comprehensive income

Table 2-7: Comprehensive income

	For the year ended	
	December 31, 2019	December 31, 2018
	NIS millions	
Net profit before attribution to non-controlling interests	**1,782**	2,560
Net loss (profit) attributed to non-controlling interests	**17**	35
Net profit attributed to shareholders of the Bank	**1,799**	2,595
Other comprehensive income (loss) before taxes:		
Net adjustments in respect of bonds available for sale at fair value(1)	**581**	(920)
Net adjustments from translation of financial statements,* after hedge effects	**-**	(2)
Adjustments of employee benefit liabilities**	**(876)**	379
Other comprehensive income (loss) before taxes	**(295)**	(543)
Effect of related tax	**119**	135
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(176)**	(408)
Comprehensive income (loss) before attribution to non-controlling interests	**1,606**	2,152
Comprehensive loss (income) attributed to non-controlling interests	**17**	35
Comprehensive income attributed to shareholders of the Bank	**1,623**	2,187

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

Comprehensive income totaled NIS 1,623 million in 2019, compared with a total of NIS 2,187 million in 2018. Comprehensive income was mainly influenced, beyond the change in net profit, by an increase in adjustments of bonds available for sale, as a result of an increase in prices of bonds in Israel and overseas (primarily government bonds), in contrast to decreases in prices of securities available for sale in 2018. Part of this increase was offset by an increase in employee benefit liabilities, as a result of the effect of the efficiency plan for 2020-2022; the wage agreement; and the effect of a decrease in interest-rate curves, which increased the actuarial liability.

2.2.3. Information-technology system

Table 2-8: Information-technology system

	Software	Hardware[3]	Other	Total
	NIS millions			
Additions to assets[1] in respect of the information-technology system not charged as expenses in 2019				
Costs in respect of wages and related expenses	**240**	**-**	**-**	**240**
Outsourcing costs, including consultants' fees	**121**	**-**	**-**	**121**
Costs of acquisitions or usage licenses[4]	**76**	**104**	**-**	**180**
Costs of equipment, buildings, and land	**-**	**-**	**21**	**21**
Total	**437**	**104**	**21**	**562**
Balances of assets[2] in respect of the information-technology system as at December 31, 2019				
Total depreciated cost	**1,304**	**337**	**42**	**1,683**
Of which: in respect of wages and related expenses	**612**	**-**	**-**	**612**
Expenses in respect of the information-technology system as included in the profit and loss statement in 2019				
Expenses in respect of wages and related expenses	**399**	**101**	**-**	**500**
Expenses in respect of acquisitions or usage licenses not discounted to assets	**244**	**26**	**18**	**288**
Outsourcing expenses, including consultants' fees	**68**	**20**	**2**	**90**
Depreciation expenses	**220**	**92**	**17**	**329**
Other expenses	**71**	**19**	**[5]50**	**140**
Total expenses	**1,002**	**258**	**87**	**1,347**
Additions to assets[1] in respect of the information-technology system not charged as expenses in 2018				
Costs in respect of wages and related expenses	**208**	**-**	**-**	**208**
Outsourcing costs, including consultants' fees	**78**	**-**	**-**	**78**
Costs of acquisitions or usage licenses[4]	**72**	**95**	**-**	**167**
Costs of equipment, buildings, and land	**-**	**-**	**8**	**8**
Total	**358**	**95**	**8**	**461**
Balances of assets[2] in respect of the information-technology system as at December 31, 2018				
Total depreciated cost	**1,076**	**342**	**35**	**1,453**
Of which: in respect of wages and related expenses	**508**	**-**	**-**	**508**
Expenses in respect of the information-technology system as included in the profit and loss statement in 2018				
Expenses in respect of wages and related expenses	**350**	**128**	**-**	**478**
Expenses in respect of acquisitions or usage licenses not discounted to assets	**223**	**32**	**11**	**266**
Outsourcing expenses, including consultants' fees	**59**	**23**	**2**	**84**
Depreciation expenses	**270**	**91**	**22**	**383**
Other expenses	**68**	**25**	**[5]63**	**156**
Total expenses	**970**	**299**	**98**	**1,367**

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 12 million (December 31, 2018: NIS 42 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 216 million (December 31, 2018: NIS 206 million).
(3) Including communications infrastructures.
(4) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(5) Includes expenses by the information-technology system, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

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

The consolidated balance sheet as at December 31, 2019 totaled NIS 463.7 billion, compared with NIS 460.9 billion at the end of 2018. The increase mainly resulted from an increase in credit to the public and in investments in securities, mainly offset by the discontinuation of consolidation of the Isracard Group, due to the sale of most of the shares of Isracard in 2019.

Table 2-9: Developments in principal balance sheet items

	Balance as at		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Total assets	**463,688**	460,926	0.6%
Net credit to the public	**292,940**	282,507	3.7%
Cash and deposits with banks	**88,122**	84,459	4.3%
Securities	**59,486**	56,116	6.0%
Assets attributed to a discontinued operation*	**849**	15,110	(94.4%)
Deposits from the public	**361,645**	352,260	2.7%
Bonds and subordinated notes	**26,853**	30,024	(10.6%)
Liabilities attributed to a discontinued operation*	**-**	14,733	(100.0%)
Shareholders' equity	**38,181**	37,544	1.7%

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

2.3.1. Structure and development of assets and liabilities

Credit to the public

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

	As at		Change
	December 31, 2019	December 31, 2018*	
	NIS millions		
Private individuals – housing loans	**89,256**	80,962	10.2%
Private individuals – other	**37,944**	42,269	(10.2%)
Construction and real estate	**53,833**	50,682	6.2%
Commerce	**26,176**	26,026	0.6%
Industry	**15,998**	16,371	(2.3%)
Financial services**	**22,058**	18,404	19.9%
Other	**47,675**	47,793	(0.2%)
Total	**292,940**	282,507	3.7%

* 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."

** Due to the discontinuation of the consolidation of Isracard beginning in the second quarter of 2019, the balance includes loans granted to the Isracard Group in the amount of approximately NIS 3,593 million at the date of the discontinuation of consolidation.

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

Problematic debts

Table 2-11: Problematic credit risk[1]

	December 31, 2019			December 31, 2018		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**4,442**	**861**	**5,303**	2,729	582	3,311
Substandard credit risk[2]	**1,476**	**270**	**1,746**	1,451	220	1,671
Credit risk under special supervision	**3,240**	**597**	**3,837**	2,432	770	3,202
Total problematic credit risk*	**9,158**	**1,728**	**10,886**	6,612	1,572	8,184
Net problematic credit risk	**7,144**	**1,643**	**8,787**	5,492	1,452	6,944
* Of which, unimpaired debts in arrears of 90 days or more[2]	**913**	**-**	**913**	808	-	808

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

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

Total problematic debts increased by 33% in 2019, due to factors including the direct and indirect effects of the coronavirus crisis, as known at the date of preparation of the financial statements.

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

Off-balance sheet credit

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

	Balance as at		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	**816**	1,397	(41.6%)
Guarantees and other commitments*,**	**51,134**	52,490	(2.6%)
Unutilized credit-card credit facilities under the Bank's responsibility	**15,640**	14,689	6.5%
Unutilized revolving overdraft and other credit facilities in on-demand accounts*[(1)]	**44,695**	41,403	8.0%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**58,323**	50,755	14.9%
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	**-**	24,845	

* Includes off-balance sheet credit risk in the amount of approximately NIS 13,797 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2018: NIS 22,617 million).

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 94 million (December 31, 2018: NIS 174 million).

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

Securities

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

Securities totaled approximately NIS 59.5 billion as at December 31, 2019, compared with approximately NIS 56.1 billion at the end of 2018, an increase of approximately 6.0%, which mainly resulted from net purchases of Israeli government bonds in the portfolio available for sale.

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

Table 2-13: Securities balances

	Trading book		Available for sale		Held to maturity		Total	
	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities	Balance sheet value	% of total securities
	NIS millions/percent							
December 31, 2019								
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%**
December 31, 2018								
Israeli government bonds	6,266	11.2%	26,373	47.0%	-	-	32,639	58.2%
US government bonds	64	0.1%	9,419	16.8%	-	-	9,483	16.9%
Government bonds – other foreign countries	5	0.0%	1,001	1.8%	-	-	1,006	1.8%
Total government bonds	6,335	11.3%	36,793	65.6%	-	-	43,128	76.9%
Corporate bonds – Israel	-	-	255	0.5%	398	0.7%	653	1.2%
Corporate bonds – foreign countries	2	0.0%	10,812	19.3%	-	-	10,814	19.3%
Total corporate bonds	2	0.0%	11,067	19.7%	398	0.7%	11,467	20.4%
Shares	41	0.1%	1,480	2.6%	-	-	1,521	2.7%
Total securities	6,378	11.4%	49,340	87.9%	398	0.7%	56,116	100.0%

* Not held for trading.

For further details regarding amounts measured at fair value, see Note 32B to the Financial Statements.
For further details regarding the effects of the coronavirus outbreak, see Note 36 to the Financial Statements.

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

	December 31, 2019		December 31, 2018	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	**540**	**5.6%**	544	4.7%
Industry	**700**	**7.3%**	578	5.0%
Electricity and water	**387**	**4.0%**	418	3.6%
Information and communications	**313**	**3.3%**	447	3.9%
Banks and financial institutions	**7,129**	**74.4%**	8,785	76.6%
Others	**514**	**5.4%**	695	6.1%
Total corporate bonds	**9,583**	**100.0%**	11,467	100.0%

For details regarding unrealized loss from adjustments to fair value in respect of bonds available for sale (2018 – securities in the portfolio available for sale), see Note 12 to the Financial Statements.

Deposits

Table 2-15: Developments in balances of deposits

	Balance as at		Change
	December 31, 2019	December 31, 2018	
	NIS millions		
Deposits from the public	**361,645**	352,260	2.66%
Deposits from banks	**3,520**	4,528	(22.26%)
Deposits from the government	**685**	208	229.33%
Total	**365,850**	356,996	2.48%

The balance of deposits totaled approximately NIS 366 billion as at December 31, 2019, compared with a total of approximately NIS 357 billion at the end of 2018. The increase mainly resulted from corporate deposits.

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
	December 31, 2019	December 31, 2018	
	NIS millions		
Securities[(1)(3)]	**723,227**	*840,202	(13.92%)
Mutual fund assets[(2)]	**92,980**	76,213	22.00%
Assets of provident funds receiving operational services[(3)]	**-**	85,305	-

* Restated.
(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services. Most of the decrease in the volume of customer assets resulted from the transfer of assets in the amount of approximately NIS 150 billion of a substantial customer of a wholly-owned subsidiary of the Bank, partly offset by an increase in prices of securities.
(2) Value of assets of mutual funds receiving services related to account management at various volumes.
(3) Further to the decision of the Bank to discontinue the activity of providing operational services for provident funds and study funds to management companies, the discontinuation of this activity was completed in July 2019.

Bonds and subordinated notes totaled NIS 26.9 billion as at December 31, 2019, compared with NIS 30.0 billion at the end of 2018, a decrease of approximately 10.6%, which resulted from maturities of bonds and subordinated notes in a total amount of approximately NIS 6.1 billion, partly offset by the issuance of bonds in the amount of approximately NIS 2.5 billion and the issuance of subordinated notes in the amount of approximately NIS 1 billion.

Table 2-17: Details of bonds and subordinated notes

	December 31, 2019		December 31, 2018	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	**12,818**	**11,066**	15,371	12,108
Bonds	**14,035**	**13,861**	14,653	14,393
Total bonds and subordinated notes	**26,853**	**24,927**	30,024	26,501

Table 2-18: Derivative instruments

	December 31, 2019			December 31, 2018		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**6,375**	**7,105**	**532,142**	4,808	4,811	793,078
Currency contracts	**3,762**	**3,982**	**312,037**	4,286	3,423	264,123
Share-related contracts	**991**	**991**	**51,920**	1,377	1,380	51,423
Commodity and service contracts (including credit derivatives)	**15**	**15**	**1,667**	63	64	1,280
Total	**11,143**	**12,093**	**897,766**	10,534	9,678	1,109,904

2.3.2. Capital, capital adequacy, and leverage

(1) Capital

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

The issued and paid-up share capital of the Bank, as at December 31, 2019, is NIS 1,335,168,159 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 2,208,952 ordinary shares purchased by the Bank ("Treasury Shares").

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

Dividends

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

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) if the cumulative balance of retained earnings of the bank (net of negative differences included in accumulated other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the forecast is that in the year following the payout the bank's ratio of capital to risk-adjusted assets will fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. 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.
Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends from ongoing earnings should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See also Note 24 to the Financial Statements.
As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019 (see Note 15E to the Financial Statements), the Bank accumulated additional capital surplus in the amount of approximately NIS 1.3 billion (of which approximately NIS 0.3 billion in respect of a decrease in the operational risk of Isracard, which will be recognized gradually, over a period of three years). With respect to this capital surplus, in September 2019 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 1 billion, paid in October 2019.
The 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.

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
May 23, 2018	June 12, 2018	18.825	251
March 25, 2018	April 11, 2018	18.345	245

* 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 40% and 30%, respectively, in 2018 and 2019.

Capital-adequacy target

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

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at December 31, 2019, stand at 10.27% and 13.77%, respectively. Pursuant to a resolution of the Board of Directors of the Bank, the target common equity Tier 1 capital ratio is 10.75%.

On March 1, 2020, the Banking Supervision Department issued a circular on the subject, "Capital measurement and adequacy – introduction, application, and calculation of requirements and leverage ratio," updating Proper Conduct of Banking Business Directives 201 and 218. Pursuant to the circular, a banking corporation of significant importance is a banking corporation whose total balance sheet assets on a consolidated basis are equal to or greater than 24% of the total balance sheet assets of the banking system.

The circular is not expected to change the status of the Bank as a banking corporation of significant importance.

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.

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. 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 0.22% as at December 31, 2019.

Issuance of subordinated notes with a loss-absorption mechanism

In April 2019, the Bank issued a series of subordinated notes through Hapoalim Hanpakot, in the amount of approximately NIS 1 billion, which constitute part of the Tier 2 capital of the Bank. In March 2020, the Board of Directors of the Bank approved the facility for raising debt instruments and secondary capital for 2020. The Bank is preparing to raise debt and secondary capital according to requirements. For details regarding the issue, see Note 24K to the Financial Statements.

Early redemption of capital notes in Tier 1 capital

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

The subsidiary of the Bank in Turkey

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

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at December 31, 2019, is a decrease of approximately 0.03%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.09%, under the assumption of weighting of the risk-adjusted assets at 600%.

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

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

Leases

The effect of the implementation of the new accounting standard concerning leases, implemented as of 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 1F.

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

	December 31, 2019	December 31, 2018
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital(1)	**38,795**	38,004
Additional Tier 1 capital	**733**	977
Total Tier 1 capital(1)	**39,528**	38,981
Tier 2 capital	**9,707**	10,042
Total overall capital(1)	**49,235**	49,023
2. Weighted balances of risk-adjusted assets		
Credit risk(2)	**309,303**	312,900
Market risks	**3,528**	3,429
Operational risk	**23,556**	24,268
Total weighted balances of risk-adjusted assets(2)	**336,387**	340,597
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components	**11.53%**	11.16%
Ratio of Tier 1 capital to risk components	**11.75%**	11.44%
Ratio of total capital to risk components	**14.64%**	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**10.27%**	10.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**13.77%**	13.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency 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 Note 24J to the Financial Statements.
(2) A total of NIS 883 million as at December 31, 2019, and NIS 640 million as at December 31, 2018, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning at the inception date thereof.
(3) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 10% and 13.5%, respectively. A capital requirement at a rate representing 1% of the balance of housing loans at the dates of the financial statements was added to these ratios.

(3) Leverage ratio

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

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

Table 2-21: Leverage ratio

	December 31, 2019	December 31, 2018
	NIS millions	
Consolidated data		
Tier 1 capital*	**39,528**	38,981
Total exposures*	**519,648**	518,980
	%	
Leverage ratio	**7.61%**	7.51%
Minimum leverage ratio required by the Banking Supervision Department	**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 December 31, 2019, estimated at approximately 0.13%, is allocated in equal parts over five years, beginning at the inception date thereof.

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 28A to the 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 Financial Statements.

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

	For the year ended December 31, 2019										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	**3,361**	**172**	**2,268**	**783**	**1,129**	**100**	**1,559**	**3**	**9,375**	**503**	**9,878**
Fees and other income	**1,316**	**138**	**824**	**275**	**387**	**92**	**108**	**133**	**3,273**	**57**	**3,330**
Total income	**4,677**	**310**	**3,092**	**1,058**	**1,516**	**192**	**1,667**	**136**	**12,648**	**560**	**13,208**
Provision (income) for credit losses	**224**	**-**	**300**	**(48)**	**630**	**(2)**	**(1)**	**-**	**1,103**	**173**	**1,276**
Operating and other expenses	**3,666**	**185**	**1,701**	**330**	**319**	**168**	**439**	**849**	**7,657**	**1,119**	**8,776**
Profit (loss) from continued operations before taxes	**787**	**125**	**1,091**	**776**	**567**	**26**	**1,229**	**(713)**	**3,888**	**(732)**	**3,156**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**294**	**47**	**410**	**295**	**213**	**16**	**437**	**(8)**	**1,704**	**(23)**	**1,681**
Net profit (loss) from continued operations	**493**	**78**	**681**	**481**	**354**	**10**	**803**	**(705)**	**2,195**	**(709)**	**1,486**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**296**	**296**	**-**	**296**
Net profit (loss) attributed to shareholders of the Bank	**493**	**78**	**681**	**481**	**354**	**10**	**810**	**(409)**	**2,498**	**(699)**	**1,799**
Balance of gross credit to the public at the end of the reported period	**127,833**	**618**	**54,834**	**29,615**	**67,905**	**1,199**	**-**	**-**	**282,004**	**15,643**	**297,647**
Balance of deposits from the public at the end of the reported period	**134,366**	**31,249**	**61,478**	**24,549**	**44,976**	**48,817**	**-**	**-**	**345,435**	**16,210**	**361,645**

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

	For the year ended December 31, 2018*										
	Activity in Israel									Activity overseas	Total
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management	Other	Total activity in Israel	Total activity overseas	
	NIS millions										
Net financing profit	3,230	156	2,221	688	1,082	133	2,232	-	9,742	609	10,351
Fees and other income	1,336	157	791	281	349	135	119	136	3,304	119	3,423
Total income	4,566	313	3,012	969	1,431	268	2,351	136	13,046	728	13,774
Provision (income) for credit losses	498	-	377	(48)	(305)	(14)	2	-	510	103	613
Operating and other expenses	3,517	179	1,645	319	309	159	493	587	7,208	1,752	8,960
Profit (loss) from continued operations before taxes	551	134	990	698	1,427	123	1,856	(451)	5,328	(1,127)	4,201
Provision for taxes (tax benefit) on profit (loss) from continued operations	201	49	362	257	515	45	601	(63)	1,967	42	2,009
Net profit (loss) from continued operations	350	85	628	441	912	78	1,259	(388)	3,365	(1,169)	2,196
Net profit from a discontinued operation	-	-	-	-	-	-	-	364	364	-	364
Net profit (loss) attributed to shareholders of the Bank	350	85	628	441	912	78	1,275	(24)	3,745	(1,150)	2,595
Balance of gross credit to the public at the end of the reported period	123,575	900	54,182	26,023	62,488	1,568	-	(1)14,605	283,341	17,529	300,870
Balance of deposits from the public at the end of the reported period	135,120	33,812	59,452	22,278	39,076	43,402	-	(1)82	333,222	19,120	352,342

* 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) The data include balances attributed to a discontinued operation.

Principal changes in net profit and balance sheet balances

Household Segment

Net profit attributed to shareholders of the Bank in the Household Segment totaled NIS 493 million in 2019, compared with net profit in the amount of NIS 350 million in the preceding year. The increase mainly resulted from a decrease in the provision for credit losses and an increase in net financing profit, partly offset by an increase in operating expenses.

Net financing profit totaled NIS 3,361 million in 2019, compared with NIS 3,230 million in the preceding year. The increase resulted from an increase in volumes and financial spreads of housing credit. In addition, the volume of deposits increased, and financial spreads on deposits grew as a result of an increase in the dollar and shekel interest rates. By contrast, a decrease occurred as a result of a decrease in the volume of consumer credit.

Fees and other income totaled NIS 1,316 million in 2019, compared with NIS 1,336 million in the preceding year. The decrease mainly resulted from a decrease in account management fees, financial product distribution fees, and securities activity fees. This decrease was partly offset by an increase in credit-card fees.

The provision for credit losses totaled NIS 224 million in 2019, compared with NIS 498 million in the preceding year. The decrease mainly resulted from a decrease in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 3,666 million in 2019, compared with NIS 3,517 million in the preceding year. The increase mainly resulted from an increase in IT expenses and in fee expenses, due to an increase in volumes of activity, and in salary expenses.

Credit to the public totaled 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 approximately NIS 34 billion, and credit cards in the amount of approximately NIS 5 billion), compared with approximately NIS 124 billion as at December 31, 2018 (of which: housing credit in the amount of approximately NIS 81 billion, consumer credit in the amount of NIS 38 billion, and credit cards in the amount of approximately NIS 5 billion).

Deposits from the public totaled approximately NIS 134.4 billion as at December 31, 2019, compared with approximately NIS 135.1 billion as at December 31, 2018.

Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 78 million in 2019, compared with net profit in the amount of NIS 85 million in the preceding year. The decrease mainly resulted from a decrease in income from fees, offset by an increase in net financing profit.

Net financing profit totaled NIS 172 million in 2019, compared with NIS 156 million in the preceding year. The increase mainly resulted from an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 138 million in 2019, compared with NIS 157 million in the preceding year. The decrease mainly resulted from a decrease in fees from securities activity and in conversion difference fees.

Credit to the public totaled approximately NIS 0.6 billion as at December 31, 2019, compared with approximately NIS 0.9 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 31.2 billion as at December 31, 2019, compared with approximately NIS 33.8 billion as at December 31, 2018.

Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 681 million in 2019, compared with NIS 628 million in the preceding year. The increase primarily resulted from a decrease in the provision for credit losses.

Net financing profit totaled NIS 2,268 million in 2019, compared with NIS 2,221 million in the preceding year. The increase mainly resulted from an increase in average balances of credit and deposits and from an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 824 million in 2019, compared with NIS 791 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions and in credit-card fees.

The provision for credit losses totaled NIS 300 million in 2019, compared with NIS 377 million in the preceding year. The decrease mainly resulted from a decrease in the provision recorded on an individual basis, and from a decrease in the collective allowance.

Operating and other expenses of the segment totaled NIS 1,701 million in 2019, compared with NIS 1,645 million in the preceding year. The increase mainly resulted from an increase in salary expenses, due to the effect of the wage agreement, and from an increase in IT expenses.

Credit to the public totaled approximately NIS 54.8 billion as at December 31, 2019, compared with approximately NIS 54.2 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 61.5 billion as at December 31, 2019, compared with approximately NIS 59.5 billion as at December 31, 2018.

Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-sized Business Segment totaled NIS 481 million in 2019, compared with NIS 441 million in the preceding year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 783 million in 2019, compared with NIS 688 million in the preceding year. The increase resulted from an increase in average balances of credit and deposits, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Credit to the public totaled approximately NIS 29.6 billion as at December 31, 2019, compared with approximately NIS 26.0 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 24.5 billion as at December 31, 2019, compared with approximately NIS 22.3 billion as at December 31, 2018.

Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 354 million in 2019, compared with NIS 912 million in the preceding year. The decrease 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 1,129 million in 2019, compared with NIS 1,082 million in the preceding year. The increase resulted from an increase in average balances of credit and deposits between the periods, and in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Fees and other income totaled NIS 387 million in 2019, compared with NIS 349 million in the preceding year. The increase mainly resulted from an increase in credit-handling fees and in account-management fees.

The provision for credit losses totaled NIS 630 million in 2019, compared with income in the amount of NIS 305 million in the preceding year. The increase mainly resulted from an increase in the provision recorded on an individual basis and a decrease in recovery of charged-off debts, as well as an increase in the collective allowance, mainly in respect of problematic debts.

Credit to the public totaled approximately NIS 67.9 billion as at December 31, 2019, compared with approximately NIS 62.5 billion as at December 31, 2018. The increase mainly resulted from credit to the Isracard Group included for the first time in the second quarter of 2019 due to the discontinuation of consolidation.

Deposits from the public totaled approximately NIS 45.0 billion as at December 31, 2019, compared with approximately NIS 39.1 billion as at December 31, 2018.

Institutional Entity Segment

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 10 million in 2019, compared with NIS 78 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit and in income from fees.

Net financing profit totaled NIS 100 million in 2019, compared with NIS 133 million in the preceding year. The decrease resulted from a decrease in average balances of credit and deposits.

Fees and other income totaled NIS 92 million in 2019, compared with NIS 135 million in the preceding year. The decrease resulted from a decrease in fees from securities activity and from a decrease in operations and trust fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies, beginning in July 2019.

Credit to the public totaled approximately NIS 1.2 billion as at December 31, 2019, compared with approximately NIS 1.6 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 48.8 billion as at December 31, 2019, compared with approximately NIS 43.4 billion as at December 31, 2018.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 810 million in 2019, compared with NIS 1,275 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 1,559 million in 2019, compared with NIS 2,232 million in the preceding year. The decrease mainly resulted from a loss in the amount of NIS 261 million, compared with profit in the amount of NIS 64 million in 2018, due to a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, mainly as a result of a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items; income from linkage differentials decreased, as a result of changes in the rate of increase of the known CPI between the periods; profit from investment in shares decreased; and profit from loan sales decreased. By contrast, profit from investment in bonds increased.

Fees and other income totaled NIS 108 million in 2019, compared with NIS 119 million in the preceding year. The decrease mainly resulted from a decrease in syndication fees and in operating and trust fees of institutional entities.

Other Segment (activity in Israel)

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 409 million in 2019, compared with a loss in the amount of NIS 24 million in 2018.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 705 million in 2019, compared with a loss in the amount of NIS 388 million in the preceding year. The increase in loss resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers.

In addition, the Other Segment includes net profit attributed to a discontinued operation, which totaled NIS 296 million in 2019, compared with NIS 364 million in the preceding year. Profit from a discontinued operation in 2019 includes net profit in the amount of approximately NIS 137 million in respect of the sale of 62.5% of the shares of Isracard; the remainder derives from the Bank's share of the profits of Isracard – NIS 159 million in 2019, compared with NIS 364 million in 2018.

The balances of credit to the public included in this segment in the comparative periods include the activity of the Isracard Group, which constitutes a discontinued operation.

International Activity Segment

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 699 million in 2019, compared with a loss in the amount of NIS 1,150 million in the preceding year. The decrease in loss resulted from a decrease in expenses recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers. The decrease in loss was partly offset by impairment in the amount of approximately NIS 56 million recorded in 2019 in respect of the Bank's investment in Pozitif.

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

- The loss of the New York branch totaled approximately NIS 3 million in 2019, compared with profit of approximately NIS 109 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and an expense recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers, partly offset by an increase in interest income, mainly due to middle-market activity.
- The loss of Hapoalim Switzerland totaled approximately NIS 622 million in 2019, compared with a loss in the amount of approximately NIS 1,209 million in the preceding year. The decrease in loss mainly resulted from a decrease in expenses recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with the expense recorded in the preceding year. This decrease was partly offset by a loss recorded from the sale of the customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg in 2019.
- The loss attributed to shareholders of the Bank in respect of the Bank Pozitif Group totaled approximately NIS 58 million in 2019, compared with approximately NIS 44 million in the preceding year. The increase in loss mainly resulted from impairment in the amount of approximately NIS 56 million recorded in respect of the Bank's investment in Bank Pozitif, in view of the Bank's expectation of selling the investment in the coming year at a price lower than its value in the Bank's books. The increase in loss was partly offset by a significant allowance for credit losses recorded in 2018.

Total credit to the public in international activity amounted to approximately NIS 15.6 billion as at December 31, 2019, compared with approximately NIS 17.5 billion as at December 31, 2018.

- Credit to the public at the New York branch totaled approximately NIS 13.7 billion as at December 31, 2019, compared with approximately NIS 14.6 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 11.2 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.7 billion as at December 31, 2018, of which a total of approximately NIS 5.0 billion in respect of syndication transactions. The decrease resulted from a decrease in the dollar exchange rate.
- The remaining balances of credit to the public at Hapoalim Switzerland were negligible as at December 31, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018. This resulted from the continued reduction of activity of Hapoalim Switzerland and the completion of several phases of the agreement for the transfer of the remaining global private banking customer asset portfolio of Hapoalim Switzerland to Hyposwiss Private Bank Geneva SA, as noted above.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at December 31, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018.

Total deposits from the public in international activity amounted to approximately NIS 16.2 billion as at December 31, 2019, compared with approximately NIS 19.1 billion as at December 31, 2018.

- The balance of deposits from the public at the New York branch totaled approximately NIS 16.1 billion as at December 31, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 7.8 billion, compared with approximately NIS 6.8 billion as at December 31, 2018. The balance of brokered CD deposits from the public totaled approximately NIS 8.3 billion, compared with approximately NIS 11.3 billion as at December 31, 2018.
- Upon the transfer of most of the customer assets, deposits at a negligible volume remained at Hapoalim Switzerland, compared with a balance in the amount of NIS 1.0 billion at the end of 2018.

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 Financial Statements.

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

	For the year ended December 31, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
	NIS millions								
Net financing profit	**2,833**	**1,612**	**838**	**1,101**	**1,471**	**451**	**1,491**	**81**	**9,878**
Fees and other income	**1,500**	**580**	**60**	**370**	**496**	**72**	**128**	**124**	**3,330**
Total income	**4,333**	**2,192**	**898**	**1,471**	**1,967**	**523**	**1,619**	**205**	**13,208**
Provision (income) for credit losses	**220**	**299**	**13**	**89**	**588**	**68**	**(1)**	**-**	**1,276**
Operating and other expenses	**3,748**	**1,179**	**293**	**512**	**611**	**1,124**	**448**	**861**	**8,776**
Profit (loss) from continued operations before taxes	**365**	**714**	**592**	**870**	**768**	**(669)**	**1,172**	**(656)**	**3,156**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**138**	**272**	**223**	**331**	**298**	**(2)**	**407**	**14**	**1,681**
Net profit (loss) from continued operations	**227**	**442**	**369**	**539**	**470**	**(667)**	**776**	**(670)**	**1,486**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**296**	**296**
Net profit (loss) attributed to shareholders of the Bank	**227**	**442**	**369**	**539**	**470**	**(657)**	**783**	**(374)**	**1,799**
Net credit to the public at the end of the reported period	**41,456**	**31,022**	**89,331**	**40,138**	**75,656**	**12,978**	**2,359**	**-**	**292,940**
Deposits from the public at the end of the reported period	**188,766**	**45,959**	**-**	**25,143**	**53,035**	**16,147**	**32,595**	**-**	**361,645**

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

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

	For the year ended December 31, 2018*								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
	NIS millions								
Net financing profit	2,767	1,624	696	1,012	1,483	560	2,126	83	10,351
Fees and other income	1,520	584	61	351	482	136	153	136	3,423
Total income	4,287	2,208	757	1,363	1,965	696	2,279	219	13,774
Provision (income) for credit losses	455	392	37	(37)	(333)	101	(2)	-	613
Operating and other expenses	3,603	1,114	271	506	615	1,757	491	603	8,960
Profit (loss) from continued operations before taxes	229	702	449	894	1,683	(1,162)	1,790	(384)	4,201
Provision for taxes (tax benefit) on profit (loss) from continued operations	85	260	164	333	624	31	557	(45)	2,009
Net profit (loss) from continued operations	144	442	285	561	1,059	(1,193)	1,237	(339)	2,196
Net profit from a discontinued operation	-	-	-	-	-	-	-	364	364
Net profit (loss) attributed to shareholders of the Bank	144	442	285	561	1,059	(1,173)	1,252	25	2,595
Net credit to the public at the end of the reported period	44,099	32,561	81,030	37,489	71,937	14,136	1,255	14,366	296,873
Deposits from the public at the end of the reported period	187,136	42,415	-	25,259	44,150	19,017	34,283	82	352,342

* Some of the data were reclassified in order to properly reflect changes.

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

(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

Pursuant to the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank sold 65.2% of the capital of Isracard in a public sale offering in April 2019, for a total (gross) consideration of approximately NIS 1.76 billion, reflecting a value of NIS 2.7 billion for the company. Immediately prior to the sale, the remaining investment of the Bank in the Isracard Group totaled approximately NIS 2.2 billion (following a reduction due to the distribution of a dividend in the amount of approximately NIS 850 million, and the sale of the activity of American Express to Isracard in the amount of NIS 456 million).

In accordance with the accounting principles applicable to the Bank, the Bank discontinued the consolidation of the Isracard Group beginning in the second quarter of 2019. The following are the main effects of the discontinuation of consolidation:

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

Until the end of the first quarter of 2019, the Bank included its 98.2% share of the profits of Isracard. From the date of the public sale offering to March 9, 2020, the Bank's share in the profit of the Isracard Group stood at 33%.

The investment in the Isracard Group totaled approximately NIS 849 million as at December 31, 2019. The contribution of the Isracard Group to the net profit of the Bank amounted to NIS 296 million in 2019, of which NIS 137 million from the sale of 65.2% of the shares of Isracard, and the remainder from the Bank's share, in the amount of NIS 159 million, of the profits of the Isracard Group, compared with NIS 364 million in 2018.

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 Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition. 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 will recognize 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.

Prior to the decision regarding the distribution, the Bank of Israel notified the Bank that, considering that the distribution might cause certain shareholders of the Bank to hold shares of Isracard, immediately following the distribution, at a rate requiring a permit from the Governor of the Bank of Israel (over 5%), or requiring amendment of their existing permit, the Bank of Israel would not initiate or recommend enforcement measures against shareholders of the Bank who, as a result of the distribution, would hold shares of Isracard at a rate exceeding 5%, or exceeding the rate permitted to them in a permit from the Governor of the Bank of Israel, subject to the sale of the excess holdings within six months of the actual distribution date, and subject to terms and restrictions on the acquisition of additional means of control in Isracard and on the use of the rights attached to the excess means of control.

See section 2.6.1 of the Annual Financial Statements for 2018 for details regarding the notification of Arison Holdings (1998) Ltd. ("Arison") of January 2019, in connection with a possible trajectory for distribution of Isracard shares as a dividend in kind to shareholders of the Bank; regarding the permit for control of Isracard held by the Bank until the distribution of the remaining holdings; and regarding the restrictions on service of employees of the Bank on the boards of directors of the Isracard Group. As of March 2020, no employees of the Bank serve on the boards of directors of the Isracard Group.

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

For details regarding legal claims in connection with the Isracard Group, see Note 25B to the Financial Statements.

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

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 Financial Statements.

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 for the payment of VAT on fees collected on its behalf, see Note 8C(2) to the Financial Statements.

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

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

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

In April 2018, the Bank signed an agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A. for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. In accordance with the agreement, most of the customer assets in Switzerland and Luxembourg were transferred to the buyer in November 2018.

In June 2019, the Bank signed an agreement with Hyposwiss Private Bank Geneva SA for the transfer of most of the remaining global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. During the course of 2019, a substantial part of the remaining accounts at the Switzerland and Luxembourg branches were transferred to Hyposwiss Private Bank Geneva SA, in several phases. Additional transfers may be performed.

The loss of Hapoalim Switzerland totaled CHF 191 million in 2019, compared with a loss in the amount of CHF 314 million in 2018. The loss in 2019 mainly resulted from a provision recorded for the American investigation and FIFA, and from recording of the related legal expenses; a loss from the sale of the private-banking asset portfolio, as noted above; and a loss in operating activity, whereas the loss in 2018 mainly resulted from the provision recorded for the American investigation and from legal expenses recorded in connection with the investigation.

Following the loss that resulted from the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, recognized in the annual financial statements for 2018 and 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested CHF 300 million in the capital of Hapoalim Switzerland in 2019, and an additional amount of CHF 95 million in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

For details regarding the investigation of the Bank Group's business with American customers, see Note 25D to the Financial Statements.

For details regarding the investigation of the Fédération Internationale de Football Association (FIFA), see Note 25E to the 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.

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

In October 2019, the Bank engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. The Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 56 million in 2019.

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. 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.

The balance of credit to the public totaled TRY 641 million (approximately NIS 372 million) as at December 31, 2019, compared with a balance of TRY 723 million (approximately NIS 512 million) at the end of 2018.
The business results of the Bank Pozitif Group amounted to profit of approximately TRY 7 million in 2019, compared with a loss of approximately TRY 76 million in 2018, which mainly resulted from an allowance for credit losses.
The Bank's total investment in the Bank Pozitif Group as at December 31, 2019, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 154 million (NIS 33 million in capital and NIS 121 million in credit lines granted to Bank Pozitif), compared with approximately NIS 320 million (NIS 132 million in capital and NIS 188 million in loans, as noted) at the end of 2018.
For details regarding additional companies and further information concerning the international operations of the Bank, see the International Activity Segment in the section "Segments of activity based on management approach" in the Corporate Governance Report, below.

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.
Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.

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 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 risk-management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.
The structure and organization of the risk system described in this section are applicable to all types of risks and to all units of the Bank. Each type of risk is addressed further, separately, as relevant, later in this section. Additional information is available in the Report on Risks.

3.1.1. Risk governance and risk management method

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.

Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Division, taking into account the unique characteristics of the activity of each company. Any risks in new products or processes are identified through an orderly procedure, based on the policy for the launch of new products and processes. Models used to assess risks are tested prior to implementation and periodically, based on the Bank's model validation policy.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

(1) The first line of defense includes the business units within the divisions, including supporting and operational divisions, that create or take risks, as well as the internal control units within the divisions that provide internal control over the risk creators and risk takers. The management of the business line bears the initial responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.

(2) The second line of defense consists of the control units at the Risk Management Division, which is independent of the business divisions. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analysis of the congruence of products and activities with the risk-appetite framework and risk capacity established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accounting and legal counsel.

(3) The third line of defense consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overall risk-management strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management are:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk-management policy consistent with the risk-appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control concept framework for the Group and ensuring that it meets risk-management needs.
- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
- Supervising and monitoring the implementation of the established risk-management policy; examining the actual risk profile, including at the level of the Group; and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

Board of Directors' Committee on Risk Management and Control – The committee's mission is to assist the plenum of the Board of Directors in formulating the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the **plenum of the Board of Directors** receive reports on risks and on the execution of approved policies at least once each quarter.

US Risk Management Subcommittee – The committee's mission is to supervise risk-management policy in the Bank's activity in the United States. The subcommittee examines the risk-management policy of the Bank's activity in the United States, and ascertains that the Bank's activity in the United States is conducted within the bounds of the established risk-management policy.

Additional committees of the Board of Directors are engaged in matters related to risk management, most notably the Audit Committee and the Corporate Governance and Stakeholders Committee.

The Board of Management of the Bank, including the managements of the divisions, is responsible for formulating, instilling, and implementing the risk-management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management are:

- Designing a risk-management policy consistent with the risk-appetite framework established by the Board of Directors, including risk limits in the various areas of activity and main risk areas, and submitting this policy to the Board of Directors for approval.

- Establishing guidelines and risk limits aligned with the policy, appropriate work methods for risk assessment, and decision-making processes based on an analysis of return / business benefit versus risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
- Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
- Ensuring the existence of adequate resources for risk management at the Bank, including a framework of internal controls, and the existence of independent, effective, comprehensive control and reporting systems for risks.

Board of Management Committee on Risk Management and Compliance, headed by the CEO – Responsible for designing the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors.
Additional committees of the Board of Management operate in specific areas of risk, subject to the risk policies and limits established by the Board of Directors and the Board Committees. Committees have also been established that convene under certain conditions, including the Financial Crises Committee and the Banking Emergency Committee.

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, Mr. R. Stein until November 12, 2019, and Ms. D. Raviv as of that date.
The member of the Board of Management responsible for managing market, investment, and liquidity risks 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 regarding changes of members of the Board of Management of the Bank, see the "Other matters" section of the Corporate Governance Report.

Risk Management Division – The activities and responsibilities of the division are consistent with Proper Conduct of Banking Business Directive 310. The main objectives of the division are: to instill an advanced culture of risk management and monitoring at the Bank Group, supporting informed risk-taking, with the aim of maximizing the profitability of the Group at a risk level aligned with its risk appetite; to establish risk-management and compliance policies at the level of the Group, in line with the goals of the Group and with the requirements of the Basel Committee and of relevant regulation; and to examine and monitor the overall risk profile of the Bank and its congruence with the risk appetite set by the Board of Directors. Towards that end, the division develops and implements comprehensive and quantitative risk-assessment methodologies and models, which are also used to calculate economic capital.

The division ensures the existence and quality of the key risk-management processes of the Group: identification and assessment of risks; establishment of risk capacity and risk appetite limits; and establishment of mechanisms for control, monitoring of risks, and reporting. The division leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and participates in capital management. The division comprises four units, headed by the head of the division, who has the rank of a Member of Management: (1) the Credit Risk Management Unit, (2) the Operational and Market Risk Management Unit, (3) the Chief Compliance Officer and Securities Enforcement Unit, and (4) the Risk Integration Unit.

In general, reports of the Risk Management Division submitted to the Board of Directors' Committee on Risk Management and Control for discussion are also submitted to the plenum, as a written report or for discussion, as relevant. Pursuant to the policy of the Bank, the risk-reporting system has been established in a manner that allows effective communication both across the Group and to higher levels of the management chain. The purpose of the reports is to escalate sensitive issues or weaknesses with the potential to cause risk; the reports are performed both on an individual basis and cumulatively, up to the level of the Group as a whole. The reporting system includes the presentation of weaknesses or limitations in risk estimates, as well as significant assumptions on which the estimates are based, and includes routine reports and ad-hoc reports as needed.

The Risk Management Division also operates several committees, headed by the Chief Risk Officer:

Board of Management Steering Committee on Credit Policy – The committee formulates the credit policy of the Bank.

Board of Management Committee on Credit Review – The committee discusses credit review reports prepared for major borrowers of Bank Hapoalim and for risk-based samples of the overall credit portfolio of the Bank, and examines the reliability of the credit rating and the appropriateness of the classifications and allowances of the Group.

Board of Management Committee on Debt Classification and Determination of the Allowance for Credit Losses – The committee is engaged in formulating methodology for the collective allowance, formulating policy for classifications and individual allowances, classifying credit, and determining individual allowances for credit losses, subject to the hierarchy of authority.

Model Risk Management Committee – The committee formulates the model risk governance framework, manages model risk within the risk appetite, and ensures congruence with model policy and governance. The committee validates models managed in both the first and second lines.

Additional committees include the Regulatory Investment Prioritization Committee, the Board of Management Committee on Compliance and Legal Risk Management, and the New York Risk Management Committee.

For more extensive information regarding risk management, see the section "Review of risks," below, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.

3.1.2. Risk Appetite

Risk appetite is a key tool for linking the organization's strategy, capital allocation, and risk management. The Board of Directors establishes the risk-appetite framework, taking into consideration the recommendations of the Chief Executive Officer, the Chief Risk Officer, and the Chief Financial Officer. The risk appetite is translated into targets and limits for the business lines. The risk-appetite framework includes policies, processes, controls, and systems used to implement, communicate, and supervise risk appetite. The risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and outlines of the responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Bank, and establishes the risk profile in alignment with the Bank's business strategy and risk capacity. An effective risk-appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which the Board of Management is expected to operate in order to realize the business strategy of the Bank.

The framework includes the following main components:

Risk appetite statement: A written formulation of the extent and types of aggregate risk which the Bank is interested in bearing in order to achieve its business objectives, including appropriate reports, as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary.

Risk capacity: The maximum level of risk that the Bank is able to sustain without diverging from capital limits relevant to stress scenarios, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Bank's profit and capital adequacy as a result of the materialization of a stress scenario.

Risk appetite: The maximum total aggregate risk that the banking corporation is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return attributes, etc.).

Risk limits: Quantitative indicators based on forward-looking assumptions, which give practical expression to the aggregate risk-appetite statement of the Bank.

3.1.3. Stress scenarios

In order to understand the possible consequences of various shocks for the financial robustness of the Bank, both given the existing balance sheet and upon the materialization of work plans and other business intentions, a process of stress testing is carried out. Three types of scenarios are examined at the Bank for this purpose: general systemic scenarios applied to the entire Bank Group; reverse scenarios; and single-factor scenarios applied at the level of the sector, transaction, borrower, or portfolio, in certain cases, according to predefined thresholds. The Bank adapts the range and characteristics of the scenarios to financial, political, and environmental developments in Israel and globally. In addition, the Bank implements the directives of the Bank of Israel and applies the uniform stress test established by the Banking Supervision Department, when required.

Goals of analysis of stress scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio;
- Examination of the effect of strategic decisions of the Bank;
- Integration in the planning process and examination of the effects of the business plan on potential exposures;
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types;
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events;
- Assessment of the materiality of the various risks;
- Examination of the Bank's compliance with its risk appetite and risk capacity, and breakdown of risk appetite by division;
- Support for the business divisions in understanding the risk map of the various areas of activity and sectors;
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.

Some of the scenarios are examined daily, while others are examined on a weekly, monthly, quarterly, or annual basis, as relevant. Assumptions, methodology, and results are discussed and approved by the Stress Scenarios and Risk Concentrations Committee and in meetings of the Board of Management and committees of the Board of Directors.

Capital management takes the results of various stress tests into consideration, in several ways: first, the capital target and the business plan of the Bank are determined in view of the risk capacity, which establishes the minimum capital adequacy that the Bank is willing to reach in the event of a stress scenario. Second, capital planning includes contingency plans which the Bank can activate if a stress scenario materializes, in order to improve its capital adequacy. Stress scenarios are tested for each planning year, given the capital targets and expected capital ratio, in order to ascertain that the capital planning ensures compliance with the risk capacity throughout the years of the plan. The Bank also examines the effect of a moderate stress scenario, primarily consisting of changes in the financial markets, including changes in interest rates, spreads, exchange rates, and more, on the capital-adequacy ratio, in order to measure and limit the potential erosion of the capital-adequacy ratio. In liquidity management, the Bank examines internal and regulatory liquidity scenarios.

3.1.4. Additional matters

Coronavirus outbreak

The spread of the coronavirus and its impact on developments in the markets have adverse effects on the financial results of the Bank, as detailed below.

The coronavirus has spread rapidly around the world in recent weeks; in response, many governments, including the government of Israel, have taken defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, and restrictions of the activity of businesses. The spread of the virus and the defensive measures have caused economic damage and negative trends in global capital markets and in the local market.

These events may lead to material worsening of the activity of the Israeli economy, to which the activity of the Bank is exposed; the events have, and are expected to have, implications for the Bank's business, including due to an increase in credit risk and liquidity difficulties of borrowers, 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 in the near term. The scope of these effects depends, among other factors, on the extent of the spread of the virus, the response of the governments and the markets, and the duration of the event; it is therefore not possible yet to estimate or quantify the future impact.

In view of the effects of these events, the Bank recorded an addition to the provision for credit losses in this quarter, which has a negative effect on net profit (after tax) of approximately NIS 450 million. Most of the addition is in respect of a number of borrowers connected to sectors significantly hurt by the crisis or its consequences up to this point, in the various markets (primarily energy, aviation, and tourism). For details regarding the exposure and credit risk by economic sector, see the section "Credit," below.

Events over the last few weeks in the capital markets, and possible additional developments, including decreases in prices of tradable assets, reduction of the Federal Reserve interest rate, change in global and local interest-rate curves, changes in currency exchange rates, and reduction of economic activity, may have a material adverse effect on the financial results of the Bank in 2020. For details regarding the impairment of tradable securities near the reporting date, and regarding the mitigating effects on the capital of the Bank of the decrease in actuarial liabilities for employee benefits due to an increase in the discount rate, see Note 36 to the Financial Statements. The Bank is taking measures to cope with the effects of the coronavirus, with due attention to the regulatory directives on this matter, and preparing on several levels, including continued service to its customers at its branches and other channels, and maintaining business continuity in various scenarios. In order to protect the safety of its employees, work at the Bank has been reduced in accordance with the regulatory directives.

Discontinuation of publication of the LIBOR interest rates

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the IBOR interest rates and cease using these rates. The IBOR rates serve as the basis for calculation of interest rates applicable to financial products with floating rates in principal foreign currencies, or linked to these currencies. 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, examine the impact of the substitution on the activity of the Bank, and update 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 these interest rates have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. 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 effect of 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. For further details, see Note 1F to the Financial Statements.

3.2. Credit risk

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

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

Activities that create credit risk include:

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

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

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

3.2.1. Management of credit risks

The goal of credit-risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Bank's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions overseas. The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

The credit management system monitors customers' credit exposure. Credit review systems identify, monitor, and report to the responsible function and to managers on negative signs related to borrowers.

Credit-risk management is based on principles including the following:

- **Independence –** The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority –** The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.
- **Comprehensive view of the customer/group –** Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide customer managers and their staff with a comprehensive view of the activity of the customer/group, including the level of credit risk, and in accordance with Proper Conduct of Banking Business Directive 313.

- **Credit policies and procedures –** The Board of Directors of the Bank sets forth the credit policy, which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Bank, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Bank. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers.
  Credit policy includes the credit risk management policy of the corporation; it formalizes and defines the rules applicable to all parties at the Bank involved with credit risk, and is designed to serve the business goals of Bank Hapoalim, in alignment with its risk policy and risk appetite, and in compliance with regulatory directives.
  Credit policy documents delineate the aspects relevant to each division (customer type, economic sector, purpose of the loan, etc.), taking risk levels into consideration.
  Adherence to the guidelines of the credit policy in carrying out business operations allows rational management of credit and credit exposures, and serves as a tool for the management of credit risks.
  The credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policy specifies the principles and considerations related to credit granting, the authority to grant credit, prohibitions and limits applied to credit granting, and the internal regulations that establish the Bank's practices and principles in the areas of credit and collateral.
  The Risk Management Division is responsible for the overall policy of the Bank, and for formulating and coordinating the policies of the business units.
- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit item to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit Risk Management Unit leads and coordinates reports to the Board of Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators, in Israel and globally.
  In the third line of defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodologies, including the implementation of risk management and control policies at the Bank.
  The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.
  A quarterly and annual process has been designed in order to identify risk concentrations and examine the potential implications of various shocks (financial, political, and others) for the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of stress scenarios, and mapping of the effects on profit and on capital adequacy.

- **Credit risk is quantified and measured on several levels:** the level of the individual borrower, borrower groups by area of activity, sectors of the economy, borrower segments, products, and the overall portfolio of the Bank and of the Group. Processes for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.
- **Identification and treatment of borrowers in distress –** The Bank has established procedures for the identification and handling of borrowers who, according to the Bank's evaluation, may default on their obligations to the Bank. The Credit Analysis Department and the Credit Review Department in the Risk Management Division determine, in the opinion they prepare, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires classification, and whether an allowance for credit losses is necessary. Customers identified for a watch list are discussed as part of the quarterly process of examining the fairness of classifications. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a unit specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the directives of the Bank of Israel (impaired, substandard, or under special supervision), and records a sufficient allowance for credit losses in respect of the total credit risk at the Bank.
- **Uniform instruction and training –** Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide uniform training to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit. Lessons-learned processes based on various credit events are conducted by the units and communicated to the relevant functions, in accordance with the internal regulations of the Bank.
- **Hedging and risk mitigation –** The Bank manages credit collateral using a collateral system with safety margins that are conservative relative to the safety margins required under the Basel directives, which reduce the value of collateral based on the risk of decline in value and rapid realization. It should be noted that the use of collateral to reduce the Pillar 1 regulatory capital requirement is minor and conservative, relative to the level permitted by the regulator. In this sense, the Pillar 1 capital requirement already reflects a reduction to zero of a considerable part of the collateral against exposures. Concurrently, analysis of the composition of the Bank's collateral portfolio indicates that collateral is highly diversified, including within categories, such as collateral in the form of real estate and collateral in the form of securities. This diversification reduces the probability of a sweeping decline in the value of collateral. In addition to the extensive diversification of this collateral, the Bank conservatively applies safety margins that reduce the value of the collateral.

For additional information regarding credit risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.

3.2.2. Analysis of credit quality and problematic credit risk

Table 3-1: Analysis of credit quality, problematic credit risk, and nonperforming assets of the public[1]

	Balance as at December 31, 2019				Balance as at December 31, 2018			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	NIS millions							
Credit risk at credit execution rating[1]								
Balance sheet credit risk	**166,592**	**87,802**	**35,659**	**290,053**	163,696	79,917	40,537	284,150
Off-balance sheet credit risk	**112,184**	**7,259**	**21,009**	**140,452**	107,304	5,080	20,448	132,832
Total credit risk at credit execution rating	**278,776**	**95,061**	**56,668**	**430,505**	271,000	84,997	60,985	416,982
Credit risk not at credit execution rating								
a. Non-problematic – balance sheet	**3,343**	**1,198**	**2,133**	**6,674**	3,027	775	1,726	5,528
b. Total problematic[2]	**-**	**-**	**-**	**-**	-	-	-	-
1) Special supervision[3]	**3,192**	**-**	**48**	**3,240**	2,368	-	64	2,432
2) Substandard	**680**	**700**	**96**	**1,476**	699	638	114	1,451
3) Impaired	**3,678**	**2**	**762**	**4,442**	2,022	-	707	2,729
Total balance sheet credit risk not at credit execution rating	**10,893**	**1,900**	**3,039**	**15,832**	8,116	1,413	2,611	12,140
Off-balance sheet credit risk not at credit execution rating	**2,931**	**8**	**89**	**3,028**	2,981	4	93	3,078
Total credit risk not at credit execution rating	**13,824**	**1,908**	**3,128**	**18,860**	11,097	1,417	2,704	15,218
Of which: unimpaired debts in arrears of 90 days or more	**121**	**699**	**93**	**913**	63	638	107	808
Total overall credit risk of the public	**292,600**	**96,969**	**59,796**	**449,365**	282,097	86,414	63,689	432,200
Additional information regarding total nonperforming assets								
a. Impaired debts not accruing interest income	**3,487**	**2**	**378**	**3,867**	1,827	-	351	2,178
b. Assets received upon settlement of debts	**34**	**-**	**-**	**34**	81	-	-	81
Total nonperforming assets of the public	**3,521**	**2**	**378**	**3,901**	1,908	-	351	2,259

(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 – 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.

Table 3-2: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance

	For the year ended December 31, 2019		
	Commercial	Private	Total
Change in balance of impaired debts in respect of credit to the public	NIS millions		
Balance of impaired debts at beginning of year	**2,015**	**706**	**2,721**
Debts classified as impaired during the period	**2,632**	**446**	**3,078**
Debts returned to unimpaired classification*	**(53)**	**(9)**	**(62)**
Impaired debts charged off	**(418)**	**(182)**	**(600)**
Impaired debts repaid	**(498)**	**(197)**	**(695)**
Balance of impaired debts at end of period	**3,678**	**764**	**4,442**
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	**676**	**624**	**1,300**
Restructured during the period	**310**	**413**	**723**
Debts in restructuring charged off	**(111)**	**(152)**	**(263)**
Debts in restructuring restored to unimpaired classification or repaid*	**(208)**	**(178)**	**(386)**
Balance in troubled debt restructuring at end of period	**667**	**707**	**1,374**
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	**408**	**163**	**571**
Provision for credit losses – increase in allowance	**1,387**	**232**	**1,619**
Provision for credit losses – reduction of allowance	**(105)**	**(74)**	**(179)**
Recoveries of debts charged off in previous years	**(602)**	**(154)**	**(756)**
Allocated to profit and loss – allowance for credit losses	**680**	**4**	**684**
Charge-offs during the period	**(418)**	**(182)**	**(600)**
Recovery of charged-off debts	**602**	**154**	**756**
Other	**-**	**(3)**	**(3)**
Allowance for credit losses in respect of impaired debts at end of period	**1,272**	**136**	**1,408**
* Of which: debts returned to unimpaired classification due to subsequent restructuring	**(36)**	**-**	**(36)**

Table 3-2: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance (continued)

	For the year ended December 31, 2018		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	1,878	749	2,627
Debts classified as impaired during the period	877	340	1,217
Debts returned to unimpaired classification	(179)	(16)	(195)
Impaired debts charged off	(415)	(226)	(641)
Impaired debts repaid	(146)	(141)	(287)
Balance of impaired debts at end of period	2,015	706	2,721
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	672	636	1,308
Restructured during the period	369	352	721
Debts in restructuring charged off	(110)	(165)	(275)
Debts in restructuring repaid	(255)	(199)	(454)
Balance in troubled debt restructuring at end of period	676	624	1,300
Change in balance sheet allowance for credit losses in respect of impaired debts			
Allowance for credit losses in respect of impaired debts at beginning of year	306	226	532
Provision for credit losses – increase in allowance	594	263	857
Provision for credit losses – reduction of allowance	(77)	(103)	(180)
Recoveries of debts charged off in previous years	(679)	(131)	(810)
Allocated to the statement of profit and loss – allowance for credit losses	(162)	29	(133)
Charge-offs during the period	(415)	(226)	(641)
Recovery of charged-off debts	679	131	810
Other	-	3	3
Allowance for credit losses in respect of impaired debts at end of period	408	163	571

Table 3-3: Credit risk indicators

	As at	
	December 31, 2019	December 31, 2018
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.49%**	0.95%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.31%**	0.28%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.58%**	1.31%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.12%**	1.14%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**105.97%**	138.11%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**87.90%**	106.49%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.42%**	1.89%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**0.44%**	0.22%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.12%**	0.20%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**7.48%**	14.58%

* Before deduction of the allowance for credit losses.

Portfolio quality analysis

The following indicators increased (worsened) in 2019, compared with the end of 2018:

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

Two indicators decreased (improved):

- The collective allowance for credit losses, as a percentage of the 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 increase in most of the indicators of portfolio quality, which is substantial on four of the indicators, reflects effects that occurred after the balance sheet date, among other matters. The measures taken by the Bank to improve underwriting quality in the credit portfolio are reflected in the percentage of net charge-offs. The quality of the credit portfolio was adversely affected, and may continue to be affected, by the future consequences of the coronavirus outbreak, as noted in the section "Additional matters," above.
With regard to other indicators that refer only to the risk in the portfolio of credit for private individuals, see Table 3-18, below.

Table 3-4: Composition of the allowance for credit losses

	Allowance for credit losses			
	Individual	Collective		Total
		According to the extent of arrears	Other*	
	NIS millions			
Composition of the allowance as at December 31, 2019:				
In respect of credit to the public	**1,408**	**446**	**2,853**	**4,707**
In respect of debts other than credit to the public	**-**	**-**	**7**	**7**
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	**65**	**-**	**472**	**537**
Allowance for credit losses as at December 31, 2019	**1,473**	**446**	**3,332**	**5,251**
Composition of the allowance as at December 31, 2018:				
In respect of credit to the public	571	424	2,763	3,758
In respect of debts other than credit to the public	-	-	8	8
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	81	-	487	568
Allowance for credit losses as at December 31, 2018	652	424	3,258	4,334

* Including a collective allowance in respect of debts examined individually and found to be unimpaired.

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are reviewed. The adequacy of the classification and allowance for these customers is examined. In cases in which the customer's situation has changed, changes have occurred in collateral, and/or collection has been performed, the classification is updated accordingly; for impaired customers, the recoverable amount and the allowance are updated.
The allowance for credit losses increased by NIS 917 million in 2019, mostly due to the individual allowance. The allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public, increased by 0.27% relative to the end of 2018.

Method for determining rates of collective allowance

With regard to sound credit or unimpaired problematic credit (substandard or under special supervision), a "collective allowance" is calculated based on the economic sector to which the customer belongs. In order to calculate the collective allowance, the Bank sets two allowance rates for each economic sector, for problematic and sound credit risk, on a quarterly basis, based on an analysis of historical credit losses, net charge-offs, the quality of the credit portfolio in the sector, and an analysis of market trends, in accordance with the instructions of the Bank of Israel.

The process of establishing allowance rates consists of the following three steps, in accordance with the guidelines of the Bank of Israel:

- Calculation of a multi-year average of charge-off rates in the range of years during the period from January 1, 2011, to the quarter preceding the reporting date.
- Adjustments in the event that significant changes occurred over the last quarter.
- Establishment of adjustment coefficients. The purpose of the adjustment coefficients is to reflect changes in the quality of the credit portfolio in the sector, macro-economic trends, and changes in the Bank's procedures and policies for granting credit in the collective allowance rates. The Bank has developed an advanced model for establishing adjustment coefficients, in accordance with the instructions of the Bank of Israel. This model reflects the wide range of environmental risk factors that may affect the rate of credit losses at the Bank. Pursuant to the instructions of the Bank of Israel, the adjustment coefficient of sound balance sheet debt in the sector of credit to private individuals shall not be less than 0.75%, and the rate of the collective allowance in respect of housing loans shall not be less than 0.35% of the balance of loans.

3.2.3. Classification and analysis of credit risk by economic sector

Table 3-5: Credit risk by economic sector

	December 31, 2019						
					Credit losses[4]		
	Total credit risk[1]	Of which: credit execution rating[5]	Of which: problematic credit risk[6]	Of which: impaired credit risk (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**
Total 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**

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

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

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

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

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

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

	December 31, 2018						
					Credit losses[4]		
	Total credit risk*[1]	Of which: credit execution rating*[5]	Of which: problematic credit risk*[6]	Of which: impaired credit risk (excluding derivatives)	Provision (income) for credit losses*	Net charge-offs	Allowance for credit losses*
	NIS millions						
Industry	32,971	31,509	1,151	377	7	(15)	341
Construction and real estate – construction	57,307	55,510	1,114	589	(90)	(134)	541
Construction and real estate – real-estate activities	23,774	23,068	596	313	(150)	(129)	284
Commerce	35,185	33,782	779	215	2	103	764
Financial services	33,495	33,040	87	29	(20)	(1)	144
Other business services	12,177	11,685	123	94	70	57	131
Public and community services	7,440	6,997	46	22	(6)	(4)	49
Other sectors	42,609	40,243	1,690	547	207	156	524
Total commercial	244,958	235,834	5,586	2,186	20	33	2,778
Private individuals – housing loans	85,880	84,473	632	-	33	5	422
Private individuals – other	63,331	60,601	873	694	458	473	892
Total public – activity in Israel	394,169	380,908	7,091	2,880	511	511	4,092
Banks in Israel	3,852	3,852	-	-	-	-	-
Israeli government	34,485	34,485	-	-	-	-	-
Total activity in Israel	432,506	419,245	7,091	2,880	511	511	4,092
Total public – activity overseas	38,031	36,074	1,093	420	100	37	233
Banks and governments overseas	40,000	40,000	-	-	2	-	9
Total activity overseas	78,031	76,074	1,093	420	102	37	242
Total activity in Israel and overseas	510,537	495,319	8,184	3,300	613	548	4,334

* 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[3], including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 302,791, 54,595, 708, 10,534, and 141,909 million, respectively.

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

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

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

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

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

3.2.4. Construction and real estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 101 billion as at December 31, 2019.

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

	Balance as at December 31, 2019			Balance as at December 31, 2018		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Balance sheet credit risk**	Off-balance sheet credit risk**	Total credit risk**
	NIS millions					
Construction for commerce and services	**3,566**	**2,484**	**6,050**	2,053	830	2,883
Construction for industry	**421**	**99**	**520**	383	112	495
Housing construction	**17,960**	***28,208**	**46,168**	16,471	*24,754	41,225
Yield-generating properties	**22,866**	**4,945**	**27,811**	22,991	6,198	29,189
Other	**9,946**	**10,498**	**20,444**	9,568	8,031	17,599
Total construction and real-estate sectors	**54,759**	**46,234**	**100,993**	51,466	39,925	91,391

* Includes off-balance sheet credit risk in the amount of approximately NIS 3,589 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2018: NIS 6,026 million).

** 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."

3.2.5. Credit exposure to foreign countries

Credit exposure to foreign countries reflects the risk that an economic, political, or other event in a foreign country may have a negative effect on the ability of debtors of the various kinds (governments, banks, and others) to meet their obligations to the Bank Group, or may impair the value of the Group's assets, including the possibility that actions taken by foreign governments may eliminate the ability to convert currency and/or transfer currency outside the country (transfer risk).

The risk of exposure to foreign countries is managed at the Bank by individually examining the risks arising from the various countries, taking into consideration the countries' ratings by the international rating agencies S&P, Moody's, and Fitch.

The total exposure to foreign countries includes balance sheet exposures in respect of balance sheet debt balances, net of local liabilities, securities, and other investments attributed to countries other than Israel. The balance sheet exposure was adjusted based on the final risk, taking into account credit reinforcements, which include guarantees, tangible and liquid collateral, insurance contracts, participations in risk, and credit derivatives.

The Bank routinely monitors and examines the macro-economic situation in countries in which it conducts activity.

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

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

	December 31, 2019			December 31, 2018		
	Exposure					
	Balance sheet	Off-balance sheet[3][2]	Total	Balance sheet	Off-balance sheet[3][2]	Total
Country	NIS millions					
United States	**22,900**	**6,557**	**29,457**	21,445	7,177	28,622
Switzerland	**3,626**	**1,097**	**4,723**	2,973	1,774	4,747
England	**7,951**	**2,985**	**10,936**	7,273	4,358	11,631
Germany	**1,165**	**1,463**	**2,628**	795	1,894	2,689
France	**1,995**	**1,512**	**3,507**	1,896	2,205	4,101
Others	**11,204**	**1,689**	**12,893**	13,567	2,921	16,488
Total exposures to foreign countries	**48,841**	**15,303**	**64,144**	47,949	20,329	68,278
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	**144**	**385**	**529**	267	481	748
Of which: total exposure to LDCs	**1,364**	**187**	**1,551**	1,794	259	2,053
Of which: total exposure to countries with liquidity problems	**8**	**-**	**8**	10	-	10

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

3.2.6. Credit exposure to foreign financial institutions

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions.

This risk arises from the range of activities conducted with the financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits of foreign-currency balances and derivatives), purchases of bonds issued by such institutions, foreign-trade transactions, capital-market activity, and account management. The exposure to foreign financial institutions is influenced both by the financial robustness of each institution and by the risk in the political and economic environment in which it operates. It is emphasized that most of the credit exposures of the Bank Group are to financial institutions located in developed markets in Western Europe and North America, rated investment grade or higher.

In the ordinary course of its business, the Bank regularly applies monitoring and controls with respect to developments that may affect the ability of the financial institutions with which it conducts activity to meet their obligations. Concurrently, measures are applied in order to minimize credit risk.

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

	December 31, 2019			December 31, 2018		
	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk	Balance sheet credit risk[2]	Present off-balance sheet credit risk[3]	Total present credit risk
	NIS millions					
External credit rating[5]						
AAA to AA-	**4,032**	**2,949**	**6,981**	4,071	4,868	8,939
A+ to A-	**13,911**	**1,709**	**15,620**	11,237	2,517	13,754
BBB+ to BBB-	**867**	**139**	**1,006**	1,012	298	1,310
BB+ to B-	**12**	**22**	**34**	24	55	79
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**312**	**74**	**386**	252	143	395
Total present credit exposures to foreign financial institutions*	**19,134**	**4,893**	**24,027**	16,596	7,881	24,477
Of which: problematic credit risk[4]	**-**	**-**	**-**	-	-	-
Of which: balance of impaired debts	**-**	**-**	**-**	-	-	-
Individual allowance for credit losses	**-**	**-**	**-**	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**19,134**	**4,893**	**24,027**	16,596	7,881	24,477
Collective allowance for credit losses	**4**	**1**	**5**	8	2	10

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 163 million, rated A- (total exposure at the end of 2018 was approximately NIS 132 million, of which a total of NIS 122 million rated A- and a total of NIS 9 million rated BBB-).
Ireland – No exposure to financial institutions (total exposure at the end of 2018 was approximately NIS 15 million, unrated).
Italy – Total exposure of approximately NIS 83 million, of which a total of NIS 76 million rated BBB and the remaining amount of NIS 7 million rated BBB- (total exposure at the end of 2018 was approximately NIS 149 million, of which a total of NIS 143 million rated BBB and the remaining amount of NIS 6 million rated BBB-).
There is no exposure to financial institutions in Greece or Portugal.

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

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 24.0 billion on December 31, 2019, a decrease of approximately NIS 0.5 billion, compared with approximately NIS 24.5 billion at the end of 2018. This decrease resulted from a decrease in the amount of approximately NIS 3 billion in off-balance sheet exposure, offset by an increase in the amount of approximately NIS 2.5 billion in balance sheet exposure. Approximately 94.07% of the exposure to foreign financial institutions is to financial institutions rated A- or higher.

The Bank Group's exposure to foreign financial institutions is distributed as follows: 82.37% in banks and bank holding companies, 17.25% in insurance companies, and 0.38% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (17.7%) and in Western European countries (66.27%).

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

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

3.2.7. Risks in the housing loan portfolio

Table 3-9: Risks in the housing loan portfolio

	Balance as at	
	December 31, 2019	December 31, 2018
	NIS millions	
Credit balances		
Loans from Bank funds	**89,777**	81,454
Loans from Finance Ministry funds*	**1,173**	1,301
Grants from Finance Ministry funds*	**123**	87
Total	**91,073**	82,842

	For the year ended	
	December 31, 2019	December 31, 2018
	NIS millions	
Execution of housing loans		
Loans from Finance Ministry funds		
Loans	**124**	88
Grants	**42**	30
Total from Finance Ministry funds	**166**	118
Total loans from Bank funds	**18,159**	15,450
Total new loans	**18,325**	15,568
Old loans refinanced from Bank funds	**1,235**	1,004
Total loans extended	**19,560**	16,572

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

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

	Recorded debt balance	Amount over 90 days in arrears, of total problematic debts	Rate of arrears	Allowance for credit losses based on extent of arrears (including collective allowance)	Rate of allowance for credit losses based on extent of arrears	Problematic debt*	Rate of problematic debt*
	NIS millions						
December 31, 2019	**89,777**	**109**	**0.12%**	**446**	**0.50%**	**702**	**0.78%**
December 31, 2018	81,454	115	0.14%	424	0.52%	639	0.78%
December 31, 2017	74,521	140	0.19%	397	0.53%	702	0.94%

* Restated.

The percentage of amounts in arrears and the rate of the allowance for credit losses based on the extent of arrears decreased in 2019. The percentage of problematic debt is identical to 2018.

Development of housing credit balances

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

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		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 %		
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%
December 31, 2017	12,455	16.7%	28,022	37.6%	12,988	17.4%	20,619	27.7%	437	0.6%	74,521	7.6%

Risk quantification and measurement – housing credit portfolio

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

Risk hedging: The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management 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 macro-economic indicators in general, and in the business environment of the industry in particular. Certain events require a reexamination of policy, such as a sharp increase in the floating interest rate or in inflation, an increase in unemployment in the Israeli economy, or a material change in housing prices.

Data are reported on a monthly basis in 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, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate. In addition, insurance arrangements are in place (life insurance and building insurance).

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

	2019	2018	2017	2016	2015
	NIS millions				
Balances at end of period	**89,777**	81,454	74,521	69,254	67,246
Annual change in balances	**10.2%**	9.3%	7.6%	3.0%	8.3%
Execution of new loans	**18,325**	15,568	13,437	11,937	15,180

Housing loan data – percentage of total new loans executed

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

	For the year ended		
	December 31, 2019	December 31, 2018	December 31, 2017
Characteristics			
Financing rate over 60%	**38.5%**	32.5%	27.5%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.0%**	0.1%	0.0%
Percentage with floating interest rates varying at a frequency of less than 5 years	**31.7%**	31.7%	31.4%
Percentage with floating rates	**59.1%**	58.8%	57.1%
Percentage of all-purpose loans	**5.7%**	6.1%	6.4%
Loans for investment purposes as a percentage of purchases of homes	**9.5%**	9.8%	11.1%
Principal planned for repayment after age 67 (excluding investments)	**7.2%**	7.2%	6.6%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.4**	24.4	23.8

The upward trend in balances of housing loans continued in 2019.

Data on housing-loan execution show worsening on two indicators:

- The percentage of loans executed at a financing rate greater than 60% trended up in 2019, due, among other factors, to an increase in the percentage of Mechir Lamishtaken ("Tenant Price") mortgages, which have high financing rates. However, the Bank strictly adheres to near-zero levels of loans granted at payment to income ratios greater than 40%, which, in the opinion of the Bank, constitutes a more significant indicator of credit risk.
- An increase in the percentage of floating-rate loans.

Several indicators showed improvement:

- A decrease in the percentage of all-purpose loans in 2019.
- A decrease in loans for investment purposes as a percentage of total purchases of homes in 2019.

Several indicators were stable:

- The percentage of loans with payment to income ratios greater than 40%.
- The average term to maturity of loans for purchases of homes (excluding bridge loans).
- The percentage of loans with floating interest rates varying at a frequency of less than 5 years.

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

3.2.8. 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. Proactive proposals to grant credit to private customers are directed to defined population segments, following the application of regulatory screening and risk screening criteria. Credit is granted in congruence with the customer's needs and repayment capability. In proactive contacts, the customer's attention is directed to the existing financial assets in his or her account, and to an examination of the worthwhileness of taking the credit, given the existing assets and liabilities in the account and the returns in respect thereof, if any. Customers may be contacted through any of the channels in which they are active. In addition, the rules required by regulation are strictly adhered to in proactive contact with customers.

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:

Risk assessment model – A statistical model for rating the credit risk of private borrowers in the Retail Banking Division. Borrowers are rated on both the risk of default and the expected loss. The data from the model are used by the authorized parties to make decisions regarding credit, as well as for risk control and reporting to management, and for the identification of trends and changes in the risk level of the portfolio. These data also support focused treatment of risk factors in order to reduce risk and exposure.

Risk appetite – The risk appetite of the Retail Banking Division is established and approved by the Board of Directors on an annual basis. Indicators are monitored and reported routinely.

Credit policies and procedures – The credit policy orders and establishes the rules applicable to all personnel within the Retail Banking Division dealing with credit, and is designed to serve the business goals of the division, including the management of the credit portfolio while maintaining a specific risk profile, uniform treatment and analysis of credit, matching of credit products to customers' needs, and adherence to regulatory requirements. The policy of the Retail Banking Division regarding consumer credit for private customers is delineated by business rules and models. This policy establishes the manner in which credit granting is handled, including principles and considerations in granting credit, the management of existing credit, and the necessary monitoring, which also encompasses addressing customers with signs that may indicate a problem in their ability to service the debt, based on credit and collateral procedures, in accordance with the policy of the Bank.

Hierarchy of authority – The hierarchy of credit authority is a fundamental principle in the management of credit and credit risk at the Bank. The hierarchy of authority provides specifications of individual credit approval thresholds and thresholds for transfer to more senior approval committees, as well as the composition of such committees. The credit authority of each position holder involved in credit is determined according to professional training, knowledge, and experience in the area of credit, as well as the needs of their unit.

Controls – Control processes in the area of credit risks are applied from the level of the individual borrower to the level of the credit portfolio as a whole, in conformity with the policy of the Bank. Reports are submitted to the Board of Management and to the Board of Directors concerning the condition of the credit portfolio of the Retail Banking Division and compliance with the established risk indicators. The reports are based on the results of routine monitoring performed using supporting tools, in order to reflect risk centers and exceptional indicators. Controls at the branches and regional administrations are formalized in the procedures of the Bank. Some controls are computerized, and function as preventative controls; some operate through the identification of risks in automated systems and regular control reports. Controls are defined according to the risk centers. Controls are applied at varying volumes, according to the risk level of the unit. The findings of the controls are documented and analyzed in order to draw conclusions and improve risk management.

Poalim Recovery – A process for working with private customers experiencing financial difficulties, in partnership and with the intention of retaining the customer. The Poalim Recovery process is carried out with attention to the enhancement of the customer's financial freedom, and with the provision of a high-quality professional response to the customer's needs and preferences. The service and treatment package for each customer is established differentially, with a focus on matching the package to the characteristics of the customer's activity and financial capabilities. A dedicated unit has been established to manage this process; within the unit, experienced employees have been trained to specialize in working with these customers.

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

	Balance as at		Change	
	December 31, 2019	December 31, 2018		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**3,216**	3,374	(158)	(4.68%)
Loans[1]	**26,918**	30,288	(3,370)	(11.13%)
Of which: bullet and balloon loans	**78**	114	(36)	(31.58%)
Credit for purchases of motor vehicles[2]	**3,511**	4,375	(864)	(19.75%)
Debtors in respect of credit-card activity	**4,958**	4,877	81	1.66%
Total balance sheet credit risk	**38,681**	43,028	(4,347)	(10.10%)
Off-balance sheet				
Off-balance sheet credit risk	**21,092**	20,529	563	2.74%
Total credit risk	**59,773**	63,557	(3,784)	(5.95%)

(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. For additional details, see Section 3.2.10, "Auto loans," below.

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

	December 31, 2019				December 31, 2018			
	Account income			Total	Account income			Total
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions							
Credit per borrower in NIS thousands								
Up to 20	**1,645**	**960**	**982**	**3,587**	1,676	903	909	3,488
20 to 40	**1,710**	**879**	**1,024**	**3,613**	1,869	851	966	3,686
40 to 80	**3,721**	**2,415**	**2,052**	**8,188**	4,112	2,352	2,018	8,482
80 to 150	**3,626**	**4,782**	**4,140**	**12,548**	4,493	4,915	4,303	13,711
150 to 300	**812**	**2,805**	**5,749**	**9,366**	1,216	3,596	6,645	11,457
Over 300	**67**	**154**	**1,158**	**1,379**	143	236	1,825	2,204
Total	**11,581**	**11,995**	**15,105**	**38,681**	13,509	12,853	16,666	43,028

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

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

	December 31, 2019	December 31, 2018
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	**22,491**	24,760
10 to 50	**6,574**	7,539
50 to 200	**4,999**	5,632
200 to 500	**2,219**	2,470
Over 500	**2,398**	2,627
Total	**38,681**	43,028

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

	December 31, 2019			December 31, 2018		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Repayment period						
Up to one year	**3,066**	**5,440**	**8,506**	5,081	5,337	10,418
1 to 3 years	**7,473**	**84**	**7,557**	7,705	93	7,798
3 to 5 years	**13,649**	**115**	**13,764**	15,495	121	15,616
Over 5 years	**8,732**	**122**	**8,854**	9,091	105	9,196
Total	**32,920**	**5,761**	**38,681**	37,372	5,656	43,028

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

	Balance as at		Change	Percentage of total balance sheet credit risk	
				As at	
	December 31, 2019	December 31, 2018		**December 31, 2019**	December 31, 2018
	NIS millions				
Problematic credit risk	**905**	872	3.8%	**2.3%**	2.0%
Of which: impaired credit risk	**760**	694	9.5%	**2.0%**	1.6%
Debts in arrears of more than 90 days	**93**	107	(13.1%)	**0.2%**	0.2%
Net charge-offs for the period	**297**	473	(37.2%)	**1.0%**	1.1%
Allowance for credit losses	**785**	892	(12.0%)	**2.0%**	2.1%

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, decreased by 12.2% in 2019. Total balance sheet credit risk decreased by 10.1%.

The following indicators increased in 2019, compared with the end of 2018:

- The balance of risk of problematic credit to private individuals in Israel rose by 3.8%; of that, the balance of impaired credit risk increased by approximately 9.5%.

The following indicators decreased:

- The balance of debts in arrears of more than 90 days decreased by approximately 13.1%.
- Net charge-offs decreased sharply, by approximately 37.2%.
- The allowance for credit losses decreased by approximately 12.0%.

It is the Bank's view that the steep drop in the amount of net charge-offs demonstrates the continued impact of the measures taken by the Bank to improve underwriting quality in credit for private individuals. The quality of the credit portfolio may be affected by the future consequences of the coronavirus outbreak, as noted in the section "Additional matters."

3.2.9. Leveraged financing

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

Among other matters, leveraged financing includes equity transactions (transactions for the acquisition of an equity interest in another corporation, acquisition of all or a significant part of the assets of another corporation, buybacks of issued shareholders' equity, or capital distribution – payment of a dividend, or another transaction aimed at increasing value for shareholders, as defined in Proper Conduct of Banking Business Directive 323), and financing for borrowers in various segments of specified economic sectors characterized by exceptional levels of certain parameters, relative to the accepted norms in the economic sectors, such as a high financing rate that deviates from the policy for the sector, and financing of mezzanine debt.

The Bank provides leveraged financing to its customers from time to time. An internal limit applies to leveraged financing as a percentage of the Tier 1 capital of the Bank. Developments in leveraged financing and compliance with the established limit are reported each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

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

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

	December 31, 2019			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**1**	**-**	**-**	**-**
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	**9**	**1,807**	**468**	**2,275**

* Net of an individual allowance for credit losses in the amount of approximately NIS 569 million.

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

3.2.10. Credit risk in respect of exposure to major borrowers

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

	December 31, 2019			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
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**

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

* Due to the discontinuation of consolidation of the Isracard Group, credit balances of the group were included beginning in the second quarter of 2019 (as at June 30, 2019: balance sheet credit in the amount of NIS 3,481 million, off-balance sheet credit in the amount of NIS 4,030 million).

3.2.11. Credit risk in respect of exposure to borrower groups

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

Table 3-21: Credit risk balances[1] for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at December 31, 2019

	Balance sheet credit risk	Off-balance sheet credit risk	Of which: off-balance sheet credit risk in respect of derivative instruments[2]	Gross indebtedness[3]	Deductions[4]	Net indebtedness[1]	Percentage of regulatory capital
	NIS millions						
Borrower group A	**3,210**	**2,926**	**219**	**6,136**	**7**	**6,129**	**15.22%**

(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, including:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies;
- **Currency risk –** The risk of loss as a result of changes in exchange rates;
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations;
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices;
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate;
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market;
- **Basis spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

3.3.1. Management of market risks

Market risks are managed based on a global view of the Bank's activity in Israel and at its branches abroad, taking into account the activity of subsidiaries with significant exposures for the Group. The Board of Management and the Board of Directors approve areas of activity and risk limits. Market risk management policy is aimed at increasing expected profits while maintaining approved, controlled risk levels.

Market-risk management at the Bank differentiates between exposures that arise in the course of routine management of the Bank's assets and liabilities, hereinafter referred to as the banking book (non-trading exposures), and exposures in the trading book (primarily managed in the dealing rooms). With regard to the management of investment risks (share and credit spread risk), see Section 3.3.4 below.

Global management is under the responsibility and direction of the Head of Financial Markets and International Banking. Routine management and supervision of asset and liability management in the banking book and in the trading book are under the responsibility of managers in the Asset and Liability Management Area and in the Dealing Rooms and Brokerage Area, respectively, of the Financial Markets Division in Tel Aviv, and in the Asset and Liability Management Unit and the dealing room at the Bank's New York branch. The branch is professionally subordinate in these matters to the Head of Financial Markets and International Banking.

Policies are guided and controlled by the Board of Management Asset and Liability Management Committee, the Board of Management Nostro Committee, and the Board of Management Investment Committee. Policies, including the established limits and objectives, are submitted for discussion and approval to the committees of the Board of Management, the committees of the Board of Directors, and/or the plenum of the Board of Directors, as relevant.

Ongoing activity is conducted by subcommittees, with the participation of senior officers of the Bank.

Market risks are managed separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market risks are assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Division, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. Exposures to market risks of the subsidiaries are examined by the Market and Liquidity Risk Management Department in the Risk Management Division, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level. The Bank has set risk limits for the Group that also apply to subsidiaries the risk level of which has been defined as significant for the Group. For additional information regarding the method of risk management, assessment, and control, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.

3.3.2. Interest-rate risk

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

- **Repricing risk** – Risk arising from timing differences in terms to maturity (for fixed interest rates) and repricing dates (for floating interest rates).
- **Yield curve risk** – Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist);
- **Basis spread risk** – Risk of loss as a result of changes in spreads between different interest-rate curves;

- **Optionality risk** – Risk arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines);
- **Value exposure** – The estimated expected change in economic value (financial capital) as a result of changes in the interest rate;
- **Accounting income exposure** – The expected change in accounting income in the coming year as a result of changes in the interest rate.

The Bank, like banks worldwide, is exposed to interest-rate risk both in the banking book and in the trading book. Interest-rate risk is inherent in banking activity. Most of the exposures to this risk arise from the management of the banking book. Interest-rate risk management is part of the management of exposures to market risks.

Interest-rate risk in the banking book – Refers to the potential effect of changes in the various interest-rate curves on the economic value of capital and/or on accounting income. The risk emerges during the routine and proactive banking activity of the Bank, as a result of the provision of routine services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of investment portfolios. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more. The exposure to this risk is measured on two levels: (a) value exposure – an estimate of the change in the economic value of the banking book as a result of a change in the interest-rate curve; (b) accounting income sensitivity – the expected changes in accounting income in the banking book as a result of changes in the yield curve (assuming a fixed level of balances). Income exposure is also measured on two levels: income sensitivity of the entire banking book in the next twelve months, and immediate income sensitivity of the instruments measured in accounting based on MtM (excluding accounting hedges).

Limits apply at the Bank both to the sensitivity of economic value and to the sensitivity of income to scenarios of change in the shekel, CPI-linked, and dollar interest-rate curves (including financial subsidiaries under the Bank's management and subsidiaries with exposure significant for the Group). In order to calculate the sensitivity of economic value to changes in interest rates, the Bank refers to all financial assets and liabilities, while treating part of the balances of current-account deposits of the public as a long-term liability spread over several years, in accordance with a model approved by the Board of Management and the Board of Directors each year. Assumptions regarding early repayment of mortgages are also used, in accordance with a model based on statistical analyses and approved by the Board of Management and the Board of Directors. Income sensitivity differs from value sensitivity in that unlike the latter, income sensitivity does not take into account changes in the discounted value of long-term assets and liabilities that are not measured in the statement of profit and loss on a fair-value basis, but does take into account changes in spreads of deposits.
Interest-rate risk management policy is aimed, in congruence with the objectives of the Bank, at achieving the desired structure of exposures in each segment (unlinked shekel; CPI-linked shekel; foreign currency and foreign-currency-linked), in accordance with estimates concerning market variables, and subject to limits. Sensitivity to interest rates is measured, in a controlled manner, at least once each month, with more frequent measurements for exposure management purposes. In general, the goal of interest-rate risk management in the Group is to allow service to customers while taking controlled risks.
Derivatives not used for accounting hedges affect the capital of the Bank directly, through the profit and loss account. The Bank uses derivatives and applies hedge accounting rules to hedge some of the interest-rate sensitivity of long-term bonds in foreign currency. The Bank also uses derivatives to hedge sensitivities in the banking book, as well as activity in the trading book. These sensitivities are included in the value sensitivity presented below. In addition to the examination of overall value sensitivity, the Bank also examines the sensitivity of derivatives not used for accounting hedges against designated sensitivity limits that are separate from the overall limits.

Quantitative information about interest-rate risk – sensitivity analysis

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

	December 31, 2019			December 31, 2018**		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value*	**32,183**	**382**	**32,565**	32,971	1,120	34,091
Of which: banking book	**32,307**	**(295)**	**32,012**	32,822	741	33,563

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

For further details regarding assumptions used to calculate the fair value of financial instruments, see Note 32 to the Financial Statements.

Table 3-23: Adjusted net fair value* of the Bank and its consolidated companies after the effect of scenarios of changes in interest rates

	December 31, 2019			December 31, 2018**		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Parallel changes						
1% parallel increase	**56**	**89**	**145**	415	211	626
Of which: banking book	**35**	**106**	**141**	441	227	668
1% parallel decrease	**(19)**	**(96)**	**(115)**	(389)	(270)	(659)
Of which: banking book	**2**	**(105)**	**(103)**	(446)	(238)	(684)
Non-parallel changes						
Steepening(1)	**(339)**	**(138)**	**(477)**	(201)	119	(82)
Flattening(2)	**369**	**129**	**498**	124	(32)	92
Increase in short-term interest rate	**309**	**84**	**393**	122	178	300
Decrease in short-term interest rate	**(340)**	**(89)**	**(429)**	(278)	(207)	(485)

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

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

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

	December 31, 2019			December 31, 2018		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
Parallel changes						
1% parallel increase	**924**	**327**	**1,251**	838	522	1,360
Of which: banking book	**924**	**323**	**1,247**	838	552	1,390
1% parallel decrease	**(746)**	**(406)**	**(1,152)**	(596)	(563)	(1,159)
Of which: banking book	**(746)**	**(395)**	**(1,141)**	(596)	(575)	(1,171)

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

For additional information regarding interest-rate risk, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks.

3.3.3. 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.

The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in tradable currencies in developed markets as well as developing markets.

Currency exposure management, including the use of hedging instruments, is part of the management of exposures to market risks, as described above, and is applied both in activity in the banking book and in trading activity in the dealing rooms. Ongoing management is conducted within the limits set by the Board of Directors on exposures to foreign currency and to the CPI and on overall exposures, main points of which appear in the summary of limits in the Report on Risks.

Table 3-25: Assets and liabilities by linkage base*

	December 31, 2019						
	Israeli currency		Foreign currency(1)			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	**334,049**	**50,197**	**59,916**	**6,893**	**4,808**	**7,825**	**463,688**
Total liabilities	**284,821**	**37,868**	**85,532**	**11,550**	**4,094**	**1,602**	**425,467**
Surplus assets (liabilities)	**49,228**	**12,329**	**(25,616)**	**(4,657)**	**714**	**6,223**	**38,221**
Derivative instruments	**(27,929)**	**(523)**	**24,713**	**4,795**	**(1,056)**	**-**	**-**
Overall total	**21,299**	**11,806**	**(903)**	**138**	**(342)**	**6,223**	**38,221**

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.

	December 31, 2018*						
	Israeli currency		Foreign currency(1)			Non-monetary items**	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	322,715	49,609	67,289	7,560	5,054	8,699	460,926
Total liabilities	275,649	41,422	86,846	11,515	4,594	3,244	423,270
Surplus assets (liabilities)	47,066	8,187	(19,557)	(3,955)	460	5,455	37,656
Derivative instruments	(22,736)	553	18,841	3,996	(654)	-	-
Overall total	24,330	8,740	(716)	41	(194)	5,455	37,656

* Includes balances attributed to a discontinued operation.
** Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.

For further details, see Notes 30 and 31 to the Financial Statements.

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

	December 31, 2019		December 31, 2018	
	NIS millions			
	10% increase	10% decrease	10% increase	10% decrease
USD	**189**	**68**	113	60
EUR	**45**	**26**	15	16
	3% increase	3% decrease	3% increase	3% decrease
CPI	**355**	**(483)**	263	(455)

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 30 to the Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

3.3.4. Share price and credit spread risk: investment risk

Investment risk is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately).

In the management of the investment portfolio, the Bank is exposed to credit risks and credit spreads, in its investments in bonds of companies and of foreign governments. According to the definition at the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the country in which a branch/subsidiary operates, held by the branch/subsidiary, do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

Investment risk arises at the Bank Group in three frameworks:

- An investment portfolio managed under the responsibility of the Financial Markets and International Banking Division, which consists, in general, of products traded on the financial markets for which price quotes can be obtained. The investment framework was established from a global, systemic perspective, with the approval of the Board of Directors of the Bank, and includes limits on the volume of the investment and on risk indicators including risk appetite, risk capacity, and individual limits for the various investment segments, including diversification limits. This risk is managed under the overarching responsibility of the Financial Markets Division, with respect to the implementation of policy in the Group, allocation of the limits approved by the Board of Management and Board of Directors, monitoring, guidance, and reporting. The activity is managed by a specialized unit established for that purpose, and monitored by the Board of Management Investment Committee, which was established for that purpose, as described in the Report on Risks. Investment activity is permitted at a small number of subsidiaries. Managerial responsibility for the activity of each subsidiary rests with the member of the Board of Management who oversees that company.
- Non-tradable investments, usually performed through the subsidiary Poalim Capital Markets (PCM), according to policy established periodically by the board of directors of PCM, in conformity with the policy of the Group.
- Affiliates: strategic holdings in shares of subsidiaries. For details, see Note 15 to the Financial Statements.

The Group holds shares and bonds, primarily for investment purposes, a decrease in the value of which may damage the profit and loss of the Bank and/or the capital of the Bank.

Table 3-27: Details of the Bank Group's investment in shares in the banking book, by balance sheet classification

	December 31, 2019			December 31, 2018		
	Balance sheet value and fair value	Of which: traded on the stock exchange	Of which: privately held	Balance sheet value and fair value	Of which: traded on the stock exchange	Of which: privately held
	NIS millions					
Investments classified into the trading portfolio	**2**	**2**	**-**	41	41	-
Investments classified as not held for trading	**1,771**	**750**	**1,021**	1,480	460	1,020
Total investments in shares	**1,773**	**752**	**1,021**	1,521	501	1,020

For additional information regarding investments, see Note 12 to the Financial Statements.
For details regarding the effect of the spread of the coronavirus, see the section "Additional matters," above, and Note 36 to the Financial Statements.

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.

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.

Management of the risk

Liquidity and refinancing risks are managed based on a global view of the Bank's activity in Israel, at its overseas branches, and at subsidiaries with significant liquidity risk for the Group. The Bank manages routine liquidity and liquidity risk on several levels. The first level is routine liquidity management at the Asset and Liability Management (hereinafter: "ALM") Area, through the NIS and foreign-currency liquidity units, in accordance with the routine needs of the Bank and its customers. Similar activity is carried out at the overseas branches and at the banking subsidiaries. The second level is the management of the Bank's liquidity risk. Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely, in accordance with Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets.

In accordance with Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management," the Bank operates an internal model for the assessment of liquidity risk, in addition to the regulatory model. The internal model reflects the approach of the Board of Management with regard to the behavioral characteristics of financial assets and liabilities. This model is based on the proven stability of deposits at the Bank over long periods, and includes different scenarios with respect to rollover and maturity rates of assets and liabilities. In general, while in the ordinary course of business the Bank assumes very high rollover of deposits and credit, in stress scenarios the Bank assumes an exit of deposits, according to types of customers and deposits; utilization of credit lines beyond the usual levels; declines in value of assets; and additional coefficients. These coefficients are examined annually by the Board of Management and Board of Directors of the Bank. In each scenario, the liquidity gap for a period of up to one month against liquid assets is examined, and a liquidity ratio is calculated; this ratio is not to fall below the minimum level specified in the directive. The scenarios applied in the internal model refer to different market conditions, and specifically to a bank scenario, a system scenario, and a combined scenario. The scenarios differ primarily in the assumptions with regard to rollover of deposits and haircuts for liquid assets. The Bank also applies models for longer and shorter periods; an NSFR-based model for a period of one year; depositor concentration indices; an alert system, including a system that monitors indicators that may point to a risk of a crisis situation, with an action plan; and more. Some of these indicators are subject to internal and/or regulatory limits.

In accordance with Proper Conduct of Banking Business Directive 221, the Bank calculates its stand-alone liquidity ratio on a daily basis, divided into NIS and foreign currency. The Bank tracks this ratio at the subsidiaries (which are required to comply with internal liquidity limits adjusted to the nature of their operations), and calculates the consolidated ratio on a daily basis. The calculation of the consolidated ratio takes into consideration limits that may apply to the transfer of liquidity from some of the subsidiaries during a crisis, particularly banking subsidiaries overseas. The stand-alone ratio of the banking corporation and the consolidated ratio are reported as the average of daily observations. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the stand-alone banking corporation and consolidated.

Refinancing risk is managed at the Bank as part of liquidity risk. The Bank has varied sources of financing, primarily deposits from the public, mostly from private customers. As noted below, these sources create low liquidity and refinancing risk, relative to other resources.

Table 3-28: Liquidity coverage ratio*

	For the three months ended December 31, 2019	For the three months ended December 31, 2018
	%	
A. Consolidated data		
Liquidity coverage ratio	**121%**	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
B. Bank data		
Liquidity coverage ratio	**120%**	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%

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

The Bank is in compliance with all regulatory and internal liquidity limits. These include, among others, short-term models, such as the LCR and an internal thirty-day model; medium-term models, such as the NSFR-based internal model (financing sources stable for over a year divided by financing needs stable for over a year, as defined at the Bank, in the vein of the recommendations of the Basel Committee); and limits that refer to the long term. In accordance with Proper Conduct of Banking Business Directive 221, as at December 31, 2019, the Bank holds consolidated liquid assets (primarily reserves at central banks, tradable securities of sovereigns and central banks, and coins and bills) for times of crisis (after haircuts) in the amount of NIS 114,724 million, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets. Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank itself, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company – the Bank), according to need, and the Bank does not rely on these assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for the required scenarios.

The Bank has varied sources of financing, primarily deposits from the public. The deposits are taken from a very large number of depositors, with no dependence on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked NIS mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked NIS are raised both from the general public and from institutional clients who invest in deposits at the Bank and in bonds and secondary capital issued by the Bank Group. The Bank accords high importance to raising resources that are stable and highly diversified. Funding in foreign currency includes deposits of private customers and corporate clients in Israel, foreign residents, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and additional resources.

Table 3-29: Balance of total deposits of the three largest groups* of depositors**

	Balance as at	
	December 31, 2019	December 31, 2018
	NIS millions	
Group A	**5,924**	10,461
Group B	**5,414**	6,594
Group C	**4,717**	2,641

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.
** The three largest groups of depositors at that report date.

For details and more extensive information regarding liquidity risk, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019, and Note 31, Assets and Liabilities by Currency and by Term to Maturity, in the Annual Financial Statements.

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.

3.5.1. Management of operational risks

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision-making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.

- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital and economic capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the division heads and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department in the Operational Risk and Market Risk Management Unit, within the Risk Management Division. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to division heads or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management Committee on Risk Management and Compliance;
- The Subcommittee on Operational Risk Management.

The operational risk management policy was approved by the Board of Management and the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel 2 Sound Practices standards. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk," which refers, among other matters, to regulatory capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, "Operational Risk Management," which is congruent with the updated guidelines in the Basel document of June 2011 on sound practice for operational risk management.

The Bank operates in accordance with the Basel 2 standardized approach and the corresponding requirements of the Proper Conduct of Banking Business Directives. The following projects and activities, among others, are underway as part of this plan:

- Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
- Analysis of risk scenarios in activities and processes from a forward-looking perspective.
- Key risk indicators (KRIs) for operational risks have been specified, as part of the development of a monitoring and control infrastructure, with respect to products, processes, and institutional risks. A KRI is a metric that can be measured in quantitative terms, and may also include qualitative information indicating the presence of a particular factor or trend. Thresholds have been set for follow-up, escalation, and treatment, as relevant.
- Lessons-learned processes applied to operational events; relevant information shared among units; organizational learning.

- Quarterly reports are submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management and Compliance, the Board of Directors' Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on work plans, the status of projects in progress, information about operational events, assessments of potential risks, trends, changes in the risk profile, and comparative external information.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, and risk analysis of new products and activities and of material contractual engagements for outsourcing of activities and processes.

The goal of this activity is to identify material risk areas, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls.
- Transfer of the risk to a third party (e.g. insurance, outsourcing).
- Absorption of the risk, with quantification thereof.
- Reduction of the activity that creates the risk.

Additional related activities:

- An automated operational risk management system (PAMELA) has been implemented at the units of the Group. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- Formulation and implementation of a comprehensive framework of principles and standards for a uniform control concept within the Bank Group. Within this framework, control committees convene and a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products and activities, in accordance with the defined policy for the launch of a new product in the Bank Group, are accompanied by examination and analysis of the relevant operational risks involved in the product or activity.
- Establishment of a methodological infrastructure for operational risk management in material IT processes.
- Outsourcing of activities taking into consideration the risks unique to outsourcing, in accordance with the guidelines of the dedicated policy on this matter.
- Special attention, including the formulation of a dedicated policy, has been devoted to the management of digital banking risks, in accordance with the guidelines in Proper Conduct of Banking Business Directive 367, "Digital Banking."

The operational risk profile is monitored periodically in relation to the operational risk appetite established in the policy, using various parameters, at the level of the Group as a whole and at the level of specific units and processes. The Bank allocates capital in respect of operational risk assets, on the basis of a standardized model defined by the Bank of Israel. Reports on compliance with risk-appetite limits are submitted on a quarterly basis, within the consolidated risk document.

The Bank uses quantitative measures of operational risk appetite that refer to the following parameters: extent of operational damages relative to gross income, according to the Basel standardized approach; rate of increase in damages from year to year; risk scenarios rated at a very high risk level at the level of the Bank Group; and assessment of stress scenarios. An increase in operational damages was observed in 2019, as compared with 2018; however, the rate of operational damages as a percentage of income was in compliance with the risk-appetite limit.

3.5.2. Information-technology risks

The Bank is dependent upon IT systems and infrastructures for its various activities. Information-technology risk is the risk of damage to the proper activity of the Bank and to customer service, loss, or damage to reputation, due to inadequacy or failure of the IT systems and infrastructures of the Bank. In general, the Bank maintains its information systems and infrastructures, adopts new technologies, and continually acts to provide technological infrastructures in order to allow the operation of its business and the promotion of strategic initiatives at the various divisions, in accordance with the information-technology management policy of the Bank. Dedicated policy documents exist at the Bank addressing information and cyber security aspects, and principles for backup and recovery in cases of malfunction or disaster, as well as policy documents on outsourcing, cloud computing, rules for the realization of new technologies within digital banking, and the management of IT risks. In addition, in order to cope with the challenges of the future, simplify and improve the efficiency of technological platforms, improve response capabilities, and build new abilities, the Bank has decided to carry out a multi-year project for the modernization of its central IT systems.

IT risks are examined routinely, based on accepted methodologies, on the level of material IT processes conducted at the Bank as well as on the level of the information systems and infrastructures used at the Bank. Risks arising from material IT processes are addressed as part of the control approach implemented at the Information Technology Division, by several dedicated professional units reporting to the management of the division. These units act in accordance with the various regulatory guidelines, such as Proper Conduct of Banking Business Directives 357, 361, and 363. The units include the Information Systems Security and Cyber Defense Department, the Planning and Control Unit, the Development Control and Business Continuity Unit, and the IT Risk Management Unit.

3.5.3. 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 were discovered at the Bank in 2019.

The Bank invests 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.

3.5.4. Cloud computing risks

The Bank of Israel issued Proper Conduct of Banking Business Directive Update 362(2) in November 2018. This directive eliminates the need to request the approval of the Bank of Israel for material cloud computing, and transfers the management and decision authority to the bank. The Bank continues to apply cloud computing in certain areas, and is examining additional uses, with appropriate attention to the derived operational risks, and in accordance with regulatory guidelines, with the aim of allowing realization of the business advantages of the use of cloud-computing services while prudently managing the risks and complying with regulatory requirements.

3.5.5. 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. 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 Unit, which reports to the Head of Business Continuity of the Bank and to the head of the Bank Emergency Committee (the Head of Information Technology).

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 established a new 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.

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 business continuity contingency plans are in place. Extreme scenarios are reviewed and discussed periodically by the Committee on Extreme 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.

3.5.6. Insurance

The Bank has a banking insurance policy to hedge operational risks, which includes: (1) banking insurance to cover damages that may arise from embezzlement by employees, loss of documents, forged documents, etc.; this policy includes coverage for damages due to computer crimes caused to the Bank and/or its customers as a result of penetration of the computer systems of the Bank by an unauthorized third party, (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions. These insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).

In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability, directors' and officers' liability insurance, and additional insurance policies.

The liability limits in the policies were established by the Bank based on an assessment of the risk involved in the activity of the Group, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

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.

Imposition of monetary sanctions by the Supervisor of Banks: During the course of 2019, there was an increase in instances of monetary sanctions imposed on banks and credit-card companies (including the Bank and Isracard) by the Banking Supervision Department, in cases in which, according to the position of the Banking Supervision Department, flaws or deficiencies were discovered in the conduct of the financial institutions. For details and more extensive information, see the section "Other matters" in the Corporate Governance Report.

The Bank applies a policy of compliance with all legal and regulatory directives, and works to instill this policy at its units and among its employees. For the purposes of risk management, the key compliance risks against which the Bank seeks to defend itself can be described as the following:

- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with directives concerning the prohibition of money laundering and terrorism financing, or deficiencies in processes designed to ensure such compliance, or the absence of such processes;

- The risk of material damage arising from a regulatory order of a regulatory agency due to improper activity of the Bank or of any of its employees in relation to customers of the Bank, tax issues, or noncompliance with legal directives in these contexts;
- The risk of material damage arising from a regulatory order of a regulatory agency due to noncompliance of the Bank or of any of its employees with securities laws;
- The risk of material damage arising from a class-action suit due to noncompliance with directives that regulate the Bank-customer relationship;
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance with the law.

Risk indicators are used, among other means, to identify key areas of compliance risk and to monitor their development. The key risk areas and the intensity of the risks arising from these areas may change in accordance with changes in regulation, enforcement, the activity of the Bank and of its customers, market developments, etc. The Bank uses quantitative and qualitative indicators to measure this risk. These include developments in regulation and enforcement, changes in customers and in certain products, findings of controls and audits, gap surveys, and more.

The Chief Compliance Officer of the Bank serves in this position, pursuant to Proper Conduct of Banking Business Directive 308, among other matters, as the officer responsible for the duties set forth in the Prohibition of Money Laundering and Prevention of Terrorism Financing Law; as the supervisor of securities enforcement, pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority; and as the responsible officer pursuant to FATCA. The Chief Compliance Officer and Securities Enforcement Unit consists of the Anti-Money Laundering Unit; the Securities Enforcement and International Compliance Unit; the Customer Relations, Consumer Protection Directives, and Subsidiaries Unit; the International Taxation Compliance Unit; and the Administrative Unit.

The mission of the Chief Compliance Officer Unit is to support the achievement of the Group's strategic and business objectives, while minimizing exposure to compliance and reputational risks. The objectives of the Chief Compliance Officer Unit are:

- To lead a policy of full implementation of legislation at all units of the Bank, in Israel and worldwide, with an understanding of the needs of the business units and support for their activity;
- To use a risk-based approach to identify, document, and actively assess compliance risks inherent in the business operations of the Bank;
- To monitor and examine compliance in the Bank Group through sample testing, and to report the findings to the organs of the Bank.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the division heads and the managers of subsidiaries in the Bank Group. Professional responsibility in this field, as a second line of defense, rests with the Chief Compliance Officer Unit in the Risk Management Division. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to division heads or CEOs of subsidiaries and professional subordination to the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer and Securities Enforcement Unit is supervised within corporate governance, through:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management of the Bank, headed by the CEO;
- Reports, at least once annually, to senior management and to the Board of Directors on compliance issues.

The compliance policy of the Group sets rules regarding all of the component areas of the compliance issues described above. This policy includes rules regarding corporate governance and the interaction with subsidiaries and branches outside Israel, and is based on legislation and regulation in Israel and in the relevant locations. The Bank Group has established an infrastructure to oversee the disclosure requirements with respect to individuals and corporations in the context of FATCA, and is continuing the process of automating the requirements arising from this legislation and from the Israeli regulation in this area. Similarly, the Bank Group is establishing infrastructure to address disclosure requirements with respect to individuals and corporations in the area of CRS. The Israeli law requires financial institutions in Israel to report financial accounts of customers with foreign tax residency, within the CRS information exchange treaty signed by Israel. The Income Tax Regulations (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts), 2019, were passed by the Finance Committee of the Knesset on January 1, 2019. The Bank has also established an overall policy of declared funds, including with regard to foreign-resident customers, aimed at reducing exposure to the presence of unreported funds in the accounts of foreign residents throughout the Bank Group.

3.7. Legal risk

Legal risk includes, among other matters, legal claims, rulings, inability to enforce contracts, and exposure to fines, penalties, or enforcement measures as a result of supervisory actions and private settlements that may disrupt or adversely affect the activity of the Bank Group. The Group has a structure of internal and external legal counsel in order to contend with this risk.

The Bank takes a broad approach to legal risks, such that these risks encompass risks arising from primary and secondary legislation and regulatory directives, including risks arising from a lack of knowledge regarding the directives of local or foreign law applicable to the activity of the Bank or of the Group, or misinterpretation thereof; rulings of courts, tribunals, and other entities with quasi-judicial authority; actions that are not backed by legal counsel; flawed legal counsel; and risks arising from legal proceedings.

Pursuant to Proper Conduct of Banking Business Directive 350, legal risk is intertwined with operational risk. Legal risk is managed in accordance with the legal risk exposure management policy document. Subsidiaries in Israel and overseas are required to adopt the aforesaid policy document and formulate their own policy documents accordingly.

Legal counsel submits a quarterly report to the Board of Management and to the Risk Management Committee of the Board of Directors regarding legal risks that have materialized, in comparison to prior estimates on this matter, as well as statistical information regarding the various types of legal proceedings opened or concluded during the relevant period.

For additional information regarding legal risk, see Note 25 to the Financial Statements.

3.8. Reputational risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. This risk, which usually accompanies other activities and other risks, may materialize in various ways, such as customer departures, new regulation, and more.

The reputational risk management policy of the Bank Group has been approved by the Board of Management and the Board of Directors, and is implemented by the units of the Group.

The reputational risk management strategy of the Bank Hapoalim Group states that reputational risks should be prevented, minimized, and controlled. Accordingly, the following objectives have been set at the level of the Group with respect to reputational risk:

- To ensure effective supervision and management of reputational risk;
- To ensure effective communication and identification of reputational risk, with the aim of establishing a reputational risk appetite.
- To establish an internal control structure, with the aim of promoting a culture and values of awareness, transparency, and effectiveness in coping with reputational risks.

The framework for the management of reputational risk includes, among other matters, KRI monitoring, mapping of risk centers, surveys, and an annual dedicated discussion. The Board of Directors and the Board of Management are responsible for promoting high standards of ethics and integrity and for establishing a culture that emphasizes the importance of internal controls.

3.9. Regulatory risk

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

3.9.1. Restrictions and supervision of the activity of the banking corporation

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).

Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.
Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are, among others, execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws; various consumer laws, such as the prohibition of discrimination and accessibility requirements; and social initiatives of Knesset members, in the form of private legislation concerning early repayment fees, excessive collection, and more.
The Bank's activity is subject to supervision and auditing by the Banking Supervision Department, as well as by other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Capital Market, Insurance, and Savings Authority; the Privacy Protection Authority; the Money Laundering Prohibition Authority; and the Competition Authority. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity.
The Bank and its subsidiaries work to comply with the duties imposed upon them under the aforesaid legal provisions.

3.9.2. Methods of management of regulatory risk

The Regulation Unit assesses and manages regulatory risks by monitoring, identifying, collecting information, assessing, reporting, conducting follow-ups, and applying controls with respect to regulatory developments, as they emerge. The unit serves as the liaison between the internal units of the Bank and the regulator during the formulation of legislation, with the aim of giving voice to a professional opinion, to lower the risk of non-optimal regulation. The unit also supplies opinions, as relevant, with regard to the effect of forthcoming regulation on the expected business conduct of the various units of the Bank. The unit operates in full cooperation with the relevant professional units of the Bank and at the subsidiaries and offices in Israel and overseas, in order to ensure that regulation is implemented fully and in an effective manner in business terms. With regard to compliance with regulatory directives, see "Compliance risk," above.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 35 to the Financial Statements.

3.10. Economic risk

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

Concurrently, the department prepares a set of stress scenarios with a possible but low probability of future materialization, which in its opinion may have significant economic and financial consequences for the economy and for the Bank. The stress scenarios are updated annually, according to the risk map, and approved by the authorized parties, in accordance with procedures. The Economics Department also examines a series of warning indicators that may signal an increase in the probability of a stress scenario. Warning indicators are reported routinely to the Board of Management Committee on Risk Management.

The Bank translates the market conditions in the scenarios into the impact on its business activity, according to the various risk areas, and examines the effect on its profitability, capital, and capital adequacy, while monitoring risks and segments that may be affected by economic changes in Israel and worldwide, and adapting its policies and control activities as necessary. Among other factors, the Bank examines the securities in its investment portfolio in Israel and overseas, its exposure to foreign financial institutions, and risk centers in the credit portfolio that may be influenced by such developments, and routinely complies with the liquidity requirements, as required by the supervisory directives.

For details regarding conditions in the Israeli and global economy, see the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.
For details regarding the coronavirus, see the section "Additional matters," above.

3.11. Strategic risk

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

The strategic plan of the Bank is a three-year plan approved by the Board of Management and the Board of Directors, and examined and adjusted annually to changes in the business environment in Israel and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process. Within the annual planning process, the Board of Management of the Bank examines the future competitive landscape, and builds strategic plans accordingly, in order to respond by preparing as necessary for this future.

The annual strategic planning process consists of four main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1 – Identification of the strategic risks to the Bank in its competitive environment. Examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank. In this stage, according to the findings, the Board of Management and the Board of Directors establish the key strategic objectives as well as additional emphases to be addressed during the preparation of the strategic plans.

Stage 2 – Formulation and approval of the strategic plan. The Bank formulates all of its strategic plans in accordance with the strategic emphases established, synchronized with the financial objectives, taking risk aspects into consideration. The Risk Management Division presents challenges with regard to this activity.
Stage 3 – Implementation of strategic planning. The strategy of the Bank is embedded in the strategic maps using the BSC (Balanced Score Card) methodology. The strategic emphases and plans of the Bank are reflected in the BSC maps. The BSC maps consist of goals, indices, and measurable objectives for each index (on both the process level and the level of business results), derived from the strategy, designed to motivate the behavior and performance of the various units, and used to monitor the implementation of the strategic plan and track strategic risk. Significant deviation from the objectives established in the BSC maps may be an indication of partial realization of the strategic plan, and therefore raises concern over an increase in strategic risk.
Stage 4 – Linking of the measurement of the BSC indices to the remuneration of officers and senior executives. In order to ensure the importance of the strategic objectives, most of the BSC indices are linked to the personal objectives of the division heads and senior executives, including risk-management indices.

3.12. Environmental risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputational risk may also materialize as a result of the association of the Bank to a party causing environmental damage.
Environmental risks related to large credit portfolios are monitored by the Corporate Banking Division. Environmental risk related to the Bank's own activity is under the responsibility of the Head of Corporate Social Responsibility.
In recognition of its social responsibility, and based on an understanding of the importance of maintaining environmentally sustainable policies, the Bank has formulated a comprehensive, ordered environmental policy. This policy is implemented through an organizational structure and specified roles, procedures, processes, and monitoring systems. As part of the process of managing and assessing its environmental conduct, the Bank received certification under the ISO 14001 standard, which is revalidated annually, in a comprehensive review by a licensed international firm. An extensive description of activities in connection with the environment is presented in the Corporate Social Responsibility Report of Bank Hapoalim, published annually in accordance with the most advanced GRI standard.

The Bank has established policies, working procedures, and methodologies for the identification, specification, and management of environmental risks, in order to address the effect of environmental risk on the credit risk of major borrowers. During the formulation of the process of writing the policies and working procedures, prevalent methodologies at banks overseas were examined, and experts in this field were consulted. The methodology for identification of environmental risks includes, among other matters, reference to the potential environmental risk in an economic sector, as well as individual reference to environmental risks that may have a material effect on the corporation, based on its business activity. The management of environmental risks is part of the overall management of credit risks at the Bank; an assessment of environmental risk is included in evaluations of the quality of credit granted to customers by the Bank.

The Bank, or any senior officer of the Bank, were not a party, during the reported period, to any material legal or administrative proceedings related to the environment.

3.13. Severity of risk factors

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

- **Low severity level –** The damage to average annual profit in the years of the crisis due to an extreme event would be smaller than the average annual profit before tax in the ordinary course of business, so that there would be no damage to the Tier 1 capital ratio relative to the point of origin; or the annual damage to profit in at least one of the years of the crisis due to an extreme event would not exceed 150% of the average annual profit before tax in the ordinary course of business.
- **Medium severity level –** The damage to average annual profit in the years of the crisis due to an extreme event would be greater than the average annual profit before tax during the ordinary course of business, and would therefore cause a decrease in the common equity Tier 1 capital ratio of the Bank relative to the point of origin, but the common equity Tier 1 capital ratio would not fall below the level of the established risk capacity (6.5%); or the damage to profit in at least one of the years of the crisis due to an extreme event would be greater than 150% of the average annual profit before tax in the ordinary course of business, but lower than 250%.
- **High severity level –** The damage to average annual profit in the years of the crisis due to an extreme event would cause the capital ratio to fall below the level of the risk capacity; or the damage to profit in at least one of the years of the crisis due to an extreme event would exceed 250% of the average annual profit before tax in the ordinary course of business.

The risk level established for each risk factor is the most severe of the level based on the year of the crisis with the maximum loss and the level based on an average of three years of the crisis.

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

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

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

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

Table 3-30: Severity of risk factors

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

* The level of operational risk, as well as the level of IT risks included therein, rose to Medium during 2019, taking into account the complex operating environment, in view of both technological and other aspects.

** In light of the coronavirus outbreak and its possible effect on the economic environment, the severity levels of economic risk in Israel and global economic risk have been raised to High.

*** The level of compliance risk rose to Medium-High during 2019, taking into consideration the increasing strength of regulation and of the enforcement environment, in Israel and worldwide. As a final agreement is formulated with the United States authorities leading to conclusion of the investigation, the effect of compliance risk is expected to decrease to Medium.

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.

Allowance for credit losses

Pursuant to the directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, the Bank applies the American accounting standards on this subject (ASC 310) and the positions of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives of the Banking Supervision Department.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall appropriateness of the allowance for credit losses. For further details regarding the rules for examination of debts within the individual or collective allowance, and for details regarding the calculation of the allowance for credit losses in respect of housing loans, see Note 1E(4) to the Financial Statements concerning the allowance for credit losses.

The individual allowance for credit losses is made on the basis of the Board of Management's estimate of the losses inherent in the credit portfolio, including debts in off-balance sheet items. The Board of Management bases the evaluation process on numerous considerations and estimates.

Each quarter, a process is conducted to identify customers with problematic potential, based on defined criteria, and all borrowers on watch lists and/or classified as problematic are examined individually. An individual examination is performed with regard to these customers, encompassing the condition of the borrower's business, cash flows from the borrower's business, the value and expected realization date of existing collateral, the value and realization date of third-party guarantees, etc. The recoverable amount is assessed according to this examination, and a determination is made, accordingly, regarding the appropriate classification of the debt and the individual allowance for credit losses, which constitutes the difference between the amount of credit given to the borrower and the total amount that can be collected from the borrower, discounted by the original interest rate of the debt, or the net fair value of the collateral provided against the debt, at every reporting date.

In addition, the Bank is required to estimate the volume of debt that cannot be collected via prolonged collection efforts (defined in most cases as a period exceeding two years), and perform charge-offs in respect of such debt.

Some of the data that form the foundation for the individual examination are based on estimates and evaluations, and dependent upon economic variables that are not under the Bank's control, such as the condition of the Israeli economy and global markets, markets for companies' operations and products, interest rates, conditions in the capital market, prices of real estate and other assets, demand in the industry in Israel and worldwide, and more.

The recoverable amount is determined by applying safety margins aimed at addressing situations of uncertainty regarding the ability to repay the debt and the value of collateral. However, because economic and other variables are involved, there is no certainty that the amounts actually received will be identical to the estimates established.

In this context, note that the Bank applies the directive of the Bank of Israel regarding the primary source of repayment, pursuant to which the determination of the appropriate classification for a debt, until default occurs, or until the probability of expected default becomes high, is based on the expected strength of the primary source of repayment of the debt (a current cash-flow based, stable, separate source that is under the borrower's control), notwithstanding the support of secondary and tertiary sources of repayment.

Orderly work processes are used at the Bank to determine the appropriateness of classifications and allowances, and decisions are made according to approved authorizations.

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of balance sheet and off-balance sheet credit risk evaluated on a collective basis is calculated based on historical charge-off rates, by economic sector, with a division between problematic and non-problematic credit, over the period beginning January 1, 2011 and ending in the quarter preceding the reporting date, with adjustments for significant changes during the current quarter. The Bank uses a charge-off rate constituting the average rate of past charge-offs in this range of years. In addition to the calculation of a range of historical charge-off rates in the various economic sectors, the Bank also considers relevant environmental factors in determining the rate of the allowance, including trends in the volume of credit and conditions in the sectors, macro-economic data, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

In this context, in accordance with the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into consideration a qualitative adjustment rate of no less than 0.75% of the balance of non-problematic consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

The Bank has developed a model for the calculation of the collective allowance, taking qualitative adjustment coefficients into account, as required in the directives. The model adopted also includes many estimates related to factors that affect the adjustment coefficient set for each economic sector, above the average past charge-offs; these include trends in credit volumes, conditions in the sectors, macro-economic data, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more.

As the volume and rate of the collective allowance are based, among other factors, on the classification of the debt as problematic, in itself, and on the timing of this classification, in determining the amount of the collective allowance the Bank relies on the same estimates regarding the financial stability and repayment capability of the borrower that are the basis for the classification of the debt as problematic and for the timing of the classification.

The Bank has established procedures for the classification of credit and measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank has established procedures in order to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments (such as contractual engagements to grant credit, unutilized credit facilities, and guarantees).

Fair value measurements

Some of the financial instruments in which the Bank operates, including bonds in the available-for-sale portfolio, securities in the portfolio held for trading, shares not held for trading with readily determinable fair value, and derivative financial instruments, are measured in the financial statements at fair value. The fair value of a financial instrument is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date, i.e. in a transaction that is not a forced sale or a sale in the course of liquidation. Maximum use is made of observable inputs in assessing fair value. Observable inputs represent information available in the market and received from independent sources. When no observable inputs are available for the measurement of fair value, unobservable inputs are used. These data reflect the assumptions of the Bank, and include models that take the risk inherent in the financial instrument into consideration (market risk, credit risk, etc.).

These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Directly or indirectly observable inputs regarding an asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding an asset or liability.

The hierarchy requires the use of observable market inputs when such information is available. In the classification of the data used to measure fair value into the different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement as the lowest level of an input significant for the overall measurement.

The Bank exercises appropriate professional judgment in establishing fair values. Towards that end, the Bank has formulated a plan for the definition of a structured, ordered process for the establishment of fair value. The process encompasses four independent functions:

- The business function – The party responsible for the management of the financial instrument.
- The validation function – The party responsible for validating the models for the fair-value calculation and validating the data and assumptions used in the calculation.
- The control function – The party responsible for applying routine controls to the process of establishing fair value.
- The supervision function – The party responsible for supervising the proper implementation of the process of establishing fair value.

The Bank has also established a limit according to which the Bank shall not enter into a new type of financial instrument in a material amount, or increase the amount of an existing type, if no structured procedure exists for establishing its fair value at a reasonable degree of confidence (hereinafter: "Exceptional Instruments"). It was further established that in cases in which the volume of the Exceptional Instruments reaches 75% of the limit that has been set, the Board of Directors and the Board of Management Committee on Risk Management shall be notified, and the committee shall formulate a plan to reduce the volume of the Exceptional Instruments.

The fair value of bonds traded overseas is based on price quotes from international price suppliers, which are independent of the issuing corporations and governments. These suppliers are leading international companies that provide quoting and revaluation services to leading financial institutions worldwide.

Following the implementation of ASC 820-10 (FAS 157), "Fair Value Measurements," the Bank is required to reflect credit risk and nonperformance risk in assessing the fair value of debt, including derivative instruments, measured at fair value. Nonperformance risk includes the credit risk of the Bank and of the counterparty to the transaction. As at December 31, 2019, the net allowance for credit risk of assets and liabilities in respect of derivative instruments is approximately NIS 104 million.

For further details, see Note 32 to the Financial Statements.

Employee benefit liabilities

Some of the provisions for the Bank's liabilities in connection with employee-employer relationships are based on actuarial calculations, among other factors. These provisions include a liability for 25-year service grants to which employees are entitled when they have worked at the Bank for 25 years; liability for compensation in respect of unutilized sick days; post-retirement benefits; pension liabilities for payments to employees who retire before the legal retirement age; pension liabilities for payments to active employees expected to retire with preferred retirement terms, before the legal retirement age; and severance pay liabilities.

The liabilities, calculated based on actuarial estimates of the Bank as at December 31, 2019, amounted to a total of approximately NIS 5,185 million. The liabilities are discounted at a real factor of 0.44% per annum, based on the yield of government bonds in Israel, plus a margin equal to the difference between rates of yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of US government bonds, at the reporting date, as determined by the Banking Supervision Department.

Actuarial calculations are mainly based on assumptions and estimates, which are based on the evaluations and resolutions of the Board of Management, past experience, and various statistics, such as mortality tables, employee departure rates, the rate of real change in wages over time, etc. These estimates and assumptions are reviewed regularly.

Changes in the various actuarial parameters would lead to different results from those obtained today. For example, a 1% increase in the discount rate would cause a reduction of the liabilities by a total of approximately NIS 423 million, and a 1% decrease in the discount rate would cause these liabilities to grow by a total of approximately NIS 502 million. Further, an increase of 1% in the estimated rate of increase in annual wages would cause the aforesaid liabilities to increase by a total of approximately NIS 318 million. An increase of 1% in the annual estimate of rates of departure for early retirement would cause an increase of the liabilities by a total of approximately NIS 188 million, and a decrease of 1% in the annual estimated rate of departure for early retirement would cause the liabilities to decrease by a total of approximately NIS 184 million.

Following the wage agreement contracted as described in Note 22, the forecast real rate of increase of wages changed, leading to a one-time increase in the actuarial liabilities of the Bank in the amount of approximately NIS 80 million, before tax, which was subtracted from shareholders' equity as at December 31, 2019.

In addition, due to the approval of the efficiency plan for 2020-2022, as detailed in Note 22, the Bank updated its early-retirement departure rates, with an increase in the amount of approximately NIS 535 million before tax in actuarial liabilities. This increase constitutes an actuarial loss subtracted from shareholders' equity as at December 31, 2019.

The actuary estimate for the period ended December 31, 2019, in respect of employee benefit liabilities is attached to this report.

Contingent liabilities

The Bank Group is a party to judicial proceedings taken against it by customers, by former customers, and by various third parties who believe they have suffered harm or damages resulting from the Bank Group's activity. The Group is also under investigation by American government agencies, as described in Note 25 to the Financial Statements concerning the investigation of the Bank Group's business with American customers and FIFA.

The Bank's Board of Management has included sufficient provisions in the financial statements to cover the possible damages, based on legal opinions. In most of the judicial proceedings, and in connection with investigations by various government agencies, opinions are obtained from legal advisors external to the Bank Group, and reviewed by legal counsels employed by the Bank.

These evaluations are based on the best judgment of the legal advisors, taking into consideration the stage at which the proceedings are at present and the legal experience accumulated on these matters in Israel and worldwide.

Estimates regarding provisions for judicial proceedings, investigations, and regulatory matters involve judgment, at a very high level in comparison to other types of provisions. When such proceedings are in initial stages, the determination whether the Bank has any liability, the establishment of a range of estimates, and the determination of the probability that the Bank may incur costs as a result of such liability entail significant uncertainty; in the case of matters with respect to which no judicial proceeding is underway at the reporting date, the uncertainty increases further.

As the proceedings progress, the Board of Management of the Bank and its legal advisors evaluate, periodically, whether it is necessary to include or update provisions in respect of the proceedings, updating the estimate performed in the preceding reporting period. The ability to perform estimates increases as the proceedings advance, but the amount of the provision remains sensitive to changes in assumptions.

In most cases, there is a wide range of possible outcomes for legal proceedings, investigations, and regulatory proceedings.

In addition, it should be taken into account that in most cases, no "certain" or "near certain" assessments can be made with regard to legal matters, not only in the initial stages of a claim or of other proceedings, but until the verdict is handed down or other proceedings are concluded. Accordingly, the outcome of such proceedings may differ, sometimes to a material extent, from the estimates established.

This is especially true in the case of class-action suits, due to factors including the limited legal experience regarding the outcome of such suits in Israel.

The Bank and its legal advisors therefore face greater difficulty than usual when estimating the outcome of legal proceedings involving class-action suits, most notably during the stage in which the court has not yet decided whether to accept or deny the petition to recognize the claim as a class action.

Taking the foregoing into consideration, and taking into consideration the material amounts stated in class-action suits and the significant uncertainty involved in the estimates, the resolution of such proceedings may, from time to time, have a material adverse effect on the results of the Bank Group in the quarterly or annual reporting period in which the proceedings are resolved.

Deferred taxes

Deferred taxes are recognized with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted by the balance sheet date.

Beginning January 1, 2017, the Group applies United States generally accepted accounting principles on the subject of income taxes, in accordance with the circular issued by the Banking Supervision Department on October 22, 2015, on the subject, "Reporting by banking corporations in Israel according to US GAAP on income taxes," and the transitional directives established in the circular issued on October 13, 2016, on the subject, "Reporting by banking corporations according to US GAAP."

Until December 31, 2016, the Bank did not record deferred taxes in respect of profits from investments in affiliates which the Bank intended to hold and not realize, or in respect of dividends not expected to be distributed by affiliates.

Beginning January 1, 2017, the Bank has recorded deferred taxes in respect of accrued profits from investments in affiliates, even if the Bank intends to hold and not realize the investment, and in respect of dividends not expected to be distributed by affiliates.

Deferred-tax assets in respect of losses carried forward, tax benefits, and deductible temporary differences are recognized in the books when it is more likely than not that taxable income against which they can be applied will exist in the future. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

The Bank applies FIN 48, "Accounting for Uncertainty in Income Taxes." Pursuant to these directives, the Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%.

Impairment of securities

Impairment of bonds available for sale and bonds held to maturity

Each reporting period, the Board of Management of the Bank determines whether decreases in the fair value of bonds classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

(1) A determination of whether the impairment is other than temporary, and of the amount of the impairment:
- Bonds which, at the balance sheet date, the Bank does not intend to hold, or bonds sold after the balance sheet date at less than cost, constitute bonds in which other-than-temporary impairment has occurred.
- Bonds the value of which has decreased by more than 15% relative to the adjusted cost, when the decrease in value has persisted for more than six months, constitute bonds in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
- Bonds the value of which has decreased by more than 30% relative to the adjusted cost, at or after the balance sheet date, constitute bonds in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
- Bonds that have undergone a downgrade in rating to below Investment Grade constitute bonds in which other-than-temporary impairment has occurred.
- Bonds classified as problematic (impaired, substandard, under special supervision) by the Bank.

(2) Preparation of a watch list – a quantitative and qualitative examination is performed to identify and evaluate bonds whose value has decreased, where other-than-temporary impairment may have occurred.

(3) Specific examination – specific examination is performed with respect to all bonds on the watch list, including the following parameters, among others:
- The Bank's ability and intention to hold the bond for a sufficient period to allow the value of the bond to return to the level of its cost.
- The value of backing collateral and safety cushions.

- The rating of the bond by international and local rating agencies, including developments in these ratings after the balance sheet date.
- The rate of impairment relative to the cost.
- The amount of time for which the fair value is lower than the cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

(4) Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

When other-than-temporary impairment occurs in a bond, the cost of the bond is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss. Appreciation in subsequent periods, for bonds in the portfolio available for sale, is recognized in a separate item of capital within accumulated other comprehensive income, and is not allocated to profit and loss.

Impairment of shares without readily determinable fair value

Each reporting period, the Bank performs a qualitative assessment, taking impairment indicators into consideration, in order to assess whether impairment has occurred in investments in shares without readily determinable fair value. If impairment of the investment in the shares has occurred according to this assessment, the Bank assesses the fair value of the investment in the shares, in order to determine the amount of loss from the impairment.

Beginning January 1, 2019, in accordance with the directives of the Banking Supervision Department, the Bank adopted new standards concerning the presentation and measurement of financial instruments, which changed the accounting treatment of shares in the portfolio available for sale. In addition, beginning January 1, 2022, in accordance with the directives of the Banking Supervision Department, the Bank will adopt new standards concerning credit losses, which change the accounting treatment of allowances for credit losses in the portfolio of bonds held to maturity and impairments of bonds in the portfolio available for sale. For further details, see Notes 1D and 1F to the Financial Statements.

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.
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 updated the documentation of the material control processes for 2019, as in every year, according to the prevalent methodologies, with the assistance of a consulting firm, and examined the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for the current year.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at December 31, 2019. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on December 31, 2019, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Oded Eran
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 18, 2020

5. Report of the Board of Directors and the Board of Management on internal control over financial reporting

The Board of Directors and the Board of Management of Bank Hapoalim B.M. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of assurance to the Board of Directors and the Board of Management of the Bank with regard to the adequate preparation and presentation of financial reports published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if these systems are found to be effective, such systems can provide only a reasonable degree of assurance with regard to the preparation and presentation of the financial reports.

The Board of Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Board of Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Board of Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Board of Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as at December 31, 2019, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Board of Management believes that as at December 31, 2019, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at December 31, 2019 was audited by the Bank's external auditors, Ziv Haft Certified Public Accountants (Isr.) and Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report on page 146. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control over financial reporting as at December 31, 2019.

Oded Eran
Chairman of the
Board of Directors

Dov Kotler
President and
Chief Executive Officer

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel-Aviv, March 18, 2020

CEO Declaration

I, Dov Kotler, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2019 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   - A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   - B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and 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 can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   - B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

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

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 18, 2020

Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2019 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control over financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   A. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   B. We have established such internal control over financial reporting, or caused such internal control over financial reporting to be established under our supervision, intended to provide a reasonable degree of assurance with regard to the reliability of the financial reporting, and 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 can reasonably be expected to impair the Bank's ability to record, process, summarize, and report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control over financial reporting at the Bank.

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

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel-Aviv, March 18, 2020

Bank Hapoalim

Financial Statements

2019

Contents

Auditors' Report to the Shareholders of Bank Hapoalim B.M. according to Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Hapoalim B.M. and its subsidiaries (hereinafter together – "the Bank") as at December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the USA, regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the bank (including their removal from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including removal from its possession) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatement. Also, future conclusions based on any current effectiveness assessment are exposed to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material aspects, effective internal control over financial reporting as at December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

We also have audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the consolidated financial statements of the Bank as at December 31, 2019 and 2018 and for each of the three-year period ended December 31, 2019, and our report dated March 18, 2020, expressed an unqualified opinion on the said financial statements as well as drew attention to the exposure to class actions that were filed against the Bank Group, an investigation of the Bank Group's business with American customers and an investigation with respect to FIFA.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel Aviv, March 18, 2020

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

We have audited the accompanying consolidated balance sheets of Bank Hapoalim B.M. (hereinafter: "the Bank") as at December 31, 2019 and 2018 and the consolidated statements of profit and loss, statements of comprehensive income, statements of changes in equity and statements of cash flows, for each of the three years in the period ended December 31, 2019. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards whose application in the audit of banking corporations was prescribed in directives and guidelines of the Supervisor of Banks. According to those standards it is required from us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and Management of the Bank, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material aspects, the financial position of the Bank and its subsidiaries as at December 31, 2019 and 2018 and the results of operations, changes in equity and cash flows of the Bank and its subsidiaries for each of the three years in the period ended December 31, 2019, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion above, we draw attention to that mentioned in Note 25C(b) regarding exposures to class actions that were filed against the Bank Group, to Note 25D regarding the investigation of the business of the Bank Group with American customers and to Note 25E regarding the investigation with respect to FIFA.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report , dated March 18, 2020 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel-Aviv, March 18, 2020

Consolidated Statement of Profit and Loss
for the year ended December 31, 2019

NIS millions

	Note	2019	2018	2017
Interest income	2	**11,920**	11,672	10,613
Interest expenses	2	**(2,601)**	(2,766)	(2,189)
Net interest income		**9,319**	8,906	8,424
Provision (income) for credit losses	13	**1,276**	613	202
Net interest income after provision for credit losses		**8,043**	8,293	8,222
Non-interest income				
Non-interest financing income	3	**559**	1,445	652
Fees	4	**3,240**	3,318	3,338
Other income	5	**90**	105	163
Total non-interest income		**3,889**	4,868	4,153
Operating and other expenses				
Salaries and related expenses	6	**4,018**	4,097	4,209
Maintenance and depreciation of buildings and equipment		**1,334**	1,376	1,350
Other expenses	7	**3,424**	3,487	2,562
Total operating and other expenses		**8,776**	8,960	8,121
Profit from continued operations before taxes		**3,156**	4,201	4,254
Provision for taxes on profit from continued operations	8	**1,681**	2,009	1,959
Profit from continued operations after taxes		**1,475**	2,192	2,295
The Bank's share in profits of equity-basis investees, after taxes	15(B)	**11**	4	17
Net profit from continued operations		**1,486**	2,196	2,312
Net profit from a discontinued operation	1G	**296**	364	314
Net profit				
Before attribution to non-controlling interests		**1,782**	2,560	2,626
Loss (profit) attributed to non-controlling interests		**17**	35	34
Attributed to shareholders of the Bank		**1,799**	2,595	2,660
Earnings per ordinary share in NIS	9			
Basic earnings				
Net profit attributed to shareholders of the Bank		**1.35**	1.95	2.00
Net profit attributed to shareholders of the Bank from continued operations		**1.13**	1.68	1.76
Diluted earnings				
Net profit attributed to shareholders of the Bank		**1.35**	1.94	1.99
Net profit attributed to shareholders of the Bank from continued operations		**1.13**	1.67	1.75

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

Oded Eran
Chairman of the
Board of Directors

Dov Kotler
President and
Chief Executive Officer

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, March 18, 2020

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2019

NIS millions

	Note	**2019**	2018	2017
Net profit before attribution to non-controlling interests		**1,782**	2,560	2,626
Net loss (profit) attributed to non-controlling interests		**17**	35	34
Net profit attributed to shareholders of the Bank		**1,799**	2,595	2,660
Other comprehensive income (loss) before taxes:	10			
Net adjustments in respect of bonds available for sale at fair value[(1)]		**581**	(920)	212
Net adjustments from translation of financial statements,* after hedge effects		**-**	(2)	4
Adjustments of employee benefit liabilities**		**(876)**	379	(122)
Net gains in respect of cash-flow hedges		**-**	-	1
Other comprehensive income (loss) before taxes		**(295)**	(543)	95
Effect of related tax		**119**	135	(39)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes		**(176)**	(408)	56
Net of other comprehensive loss (income) attributed to non-controlling interests		**-**	-	(2)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**(176)**	(408)	54
Comprehensive income (loss) before attribution to non-controlling interests		**1,606**	2,152	2,682
Comprehensive loss (income) attributed to non-controlling interests		**17**	35	32
Comprehensive income attributed to shareholders of the Bank		**1,623**	2,187	2,714

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

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

Consolidated Balance Sheet
as at December 31, 2019

NIS millions

		December 31	
	Note	**2019**	2018
Assets			
Cash and deposits with banks	11	**88,122**	84,459
Securities(1)(2)	12	**59,486**	56,116
Securities borrowed or purchased under agreements to resell		**471**	708
Credit to the public		**297,647**	286,265
Allowance for credit losses		**(4,707)**	(3,758)
Net credit to the public	29,13	**292,940**	282,507
Credit to governments	14	**1,971**	2,428
Investments in equity-basis investees	15	**192**	103
Buildings and equipment	16	**3,233**	3,111
Assets in respect of derivative instruments	27	**11,143**	10,534
Other assets(1)	17	**5,281**	5,850
Assets attributed to a discontinued operation(3)	1G	**849**	15,110
Total assets		**463,688**	460,926
Liabilities and capital			
Deposits from the public	18	**361,645**	352,260
Deposits from banks	19	**3,520**	4,528
Deposits from the government		**685**	208
Securities lent or sold under agreements to repurchase		**3**	-
Bonds and subordinated notes	20	**26,853**	30,024
Liabilities in respect of derivative instruments	27	**12,050**	9,676
Other liabilities (of which: 537; 568, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)(1)	21	**20,711**	11,841
Liabilities attributed to a discontinued operation	1G	**-**	14,733
Total liabilities		**425,467**	423,270
Shareholders' equity	24	**38,181**	37,544
Non-controlling interests		**40**	112
Total capital		**38,221**	37,656
Total liabilities and capital		**463,688**	460,926

(1) With regard to amounts measured at fair value, see Note 32B.
(2) For details regarding securities pledged to lenders, see Note 26.
(3) Beginning in the second quarter of 2019, the balance of the investment in the Isracard Group, which is accounted for using the equity method, is stated in the item "assets attributed to a discontinued operation."

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

Statement of Changes in Equity
for the year ended December 31, 2019

NIS millions

	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, 2017	8,146	74	8,220	(840)	26,667	34,047	178	34,225
Net profit (loss) for the year	-	-	-	-	2,660	2,660	(29)	2,631
Dividends	-	-	-	-	(861)	(861)	-	(861)
Buyback of shares	(39)	-	(39)	-	-	(39)	-	(39)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	2	2	-	-	2	-	2
Exercise of equity compensation into shares	17	(17)	-	-	-	-	-	-
Net other comprehensive income (loss) after tax effect	-	-	-	54	-	54	2	56
Increase in non-controlling interests	-	-	-	-	-	-	2	2
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(12)	(12)
Balance as at January 1, 2018	8,124	59	8,183	(786)	28,466	35,863	141	36,004
Net profit (loss) for the year	-	-	-	-	2,595	2,595	(29)	2,566
Dividends	-	-	-	-	(496)	(496)	-	(496)
Buyback of shares	(24)	-	(24)	-	-	(24)	-	(24)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	14	14	-	-	14	-	14
Exercise of equity compensation into shares	35	(35)	-	-	-	-	-	-
Net other comprehensive income (loss) after tax effect	-	-	-	(408)	-	(408)	-	(408)
Balance as at December 31, 2018	8,135	38	8,173	(1,194)	30,565	37,544	112	37,656

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

Statement of Changes in Equity
for the year ended December 31, 2019 (continued)

NIS millions

	Share capital and premium*	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2019	**8,135**	**38**	**8,173**	**(1,194)**	**30,565**	**37,544**	**112**	**37,656**
Cumulative effect of initial implementation of US GAAP(1)	**-**	**-**	**-**	**18**	**(18)**	**-**	**-**	**-**
Adjusted balance as at January 1, 2019, after initial implementation	**8,135**	**38**	**8,173**	**(1,176)**	**30,547**	**37,544**	**112**	**37,656**
Net profit (loss) for the 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 income (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 (December 31, 2018: excluding a balance of 3,673,637 treasury shares; December 31, 2017: excluding a balance of 4,311,952 treasury shares).

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

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2019

NIS millions

	2019	2018	2017
Cash flows from (for) operating activity			
Net profit for the period	**1,782**	2,566	2,631
Adjustments necessary to present cash flows from operating activity			
The Bank's share in losses (profits) of equity-basis investees	**(11)**	(4)	(17)
Depreciation of buildings and equipment	**520**	590	602
Amortizations	**21**	19	21
Provision (income) for credit losses	**1,276**	765	323
Loss (gain) from sale of bonds available for sale and shares not held for trading*	**(421)**	(531)	(255)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	**(140)**	(25)	(24)
Gain from realization and impairment of affiliates (including discontinued operation)	**(81)**	-	-
Gain from realization of buildings and equipment	**(4)**	(28)	(51)
Change in benefit due to share-based payment transactions	**64**	(40)	(2)
Net change in liabilities in respect of employee benefits	**(483)**	(98)	(65)
Deferred taxes, net	**(21)**	(21)	22
Loss (gain) from sale of credit portfolios	**(9)**	(56)	(4)
Dividends received from equity-basis investees	**-**	22	10
Adjustments in respect of exchange-rate differences	**1,527**	(409)	1,930
Accumulation differentials included in investing and financing activities	**7,956**	(2,247)	968
Net change in current assets			
Assets in respect of derivative instruments	**(609)**	1,481	(103)
Securities held for trading	**(259)**	(1,142)	3,375
Other assets	**889**	(371)	211
Net change in current liabilities			
Liabilities in respect of derivative instruments	**2,374**	(2,426)	(468)
Other liabilities	**(6,891)**	1,180	1,188
Net cash from (for) operating activity	**7,480**	(775)	10,292

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

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2019 (continued)

NIS millions

	2019	2018	2017
Cash flows for investing activity			
Deposits with banks	**7**	1,018	(1,248)
Credit to the public	**(7)**	(7,487)	1,677
Credit to governments	**457**	(136)	267
Securities borrowed or purchased under agreements to resell	**237**	(24)	(309)
Acquisition of bonds held to maturity	**(15)**	-	(130)
Proceeds from redemption of bonds held to maturity	**126**	35	131
Acquisition of bonds available for sale and shares not held for trading*	**(56,555)**	(34,725)	(38,829)
Proceeds from sale of bonds available for sale and shares not held for trading*	**43,958**	36,622	12,559
Proceeds from redemption of bonds available for sale*	**9,671**	10,515	27,795
Acquisition of credit portfolios	**(7,804)**	(11,768)	(9,110)
Proceeds from sale of credit portfolios	**113**	382	190
Acquisition of interests in equity-basis investees	**(136)**	-	-
Investment in equity-basis investees	**-**	(5)	(3)
Proceeds from realization of investment in deconsolidated subsidiary (Appendix A)	**1,356**	-	-
Acquisition of buildings and equipment	**(642)**	(683)	(662)
Proceeds from realization of buildings and equipment	**(52)**	47	80
Net cash from (for) investing activity	**(9,286)**	(6,209)	(7,592)

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

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2019 (continued)

NIS millions

	2019	2018	2017
Cash flows from (for) financing activity			
Deposits from banks	**242**	1,003	(174)
Deposits from the public	**9,878**	4,761	9,367
Deposits from the government	**477**	(112)	(25)
Securities lent or sold under agreements to repurchase	**3**	(380)	(89)
Issuance of bonds and subordinated notes	**3,539**	6,359	316
Redemption of bonds and subordinated notes	**(6,161)**	(5,390)	(4,399)
Dividend paid to shareholders of the Bank	**(1,000)**	(496)	(861)
Buyback of shares	**-**	(24)	(39)
Dividend paid to minority interests in consolidated companies	**16**	-	(12)
Net cash from (for) financing activity	**6,994**	5,721	4,084
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	**5,188**	(1,263)	6,784
Net of the increase (decrease) in cash and cash equivalents attributed to a discontinued operation	**(8)**	1	10
Increase (decrease) in cash	**5,196**	(1,264)	6,774
Balance of cash from continued operations at beginning of year	**82,217**	82,856	78,317
Effect of changes in exchange rates on cash balances	**(1,527)**	625	(2,235)
Balance of cash from continued operations at end of year	**85,886**	82,217	82,856

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2019 (continued)

NIS millions

	2019	2018	2017
Interest and taxes paid and/or received			
Interest received	**13,120**	11,747	11,391
Interest paid	**(3,330)**	(2,466)	(2,525)
Dividends received	**17**	49	42
Income tax paid	**(2,285)**	(2,615)	(1,533)
Income tax received	**373**	232	178

Appendix A – Proceeds from realization of investments in formerly consolidated subsidiaries			
Cash subtracted	**178**	-	-
Assets (excluding cash)	**23,415**	-	-
Liabilities	**(21,339)**	-	-
Assets and liabilities subtracted	**2,254**	-	-
Assets and liabilities attributed to non-controlling interests	**(39)**	-	-
Investment in equity-basis investee – Isracard	**(891)**	-	-
Total consideration received from realization of investments in formerly consolidated subsidiaries	**1,324**	-	-
Capital gain from realization of investments in formerly consolidated subsidiary	**210**	-	-
Proceeds received from realization of investment	**1,534**	-	-
Cash subtracted	**(178)**	-	-
Cash flow from realization of investment in deconsolidated subsidiary	**1,356**	-	-

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

Note 1 Significant Accounting Policies

A. General information

Bank Hapoalim B.M. (hereinafter: the "Bank") is a corporation incorporated in Israel.

The Bank has received approval from the Banking Supervision Department to publish the annual financial statements on a consolidated basis only. Note 34 presents the condensed stand-alone financial statements of the Bank, including the balance sheet, statement of profit and loss, and statement of cash flows.

The financial statements were approved for publication by the Board of Directors of the Bank on March 18, 2020.

B. Definitions

In these financial statements:

GAAP for US banks – Accounting principles that American banks traded in the United States are required to implement, in accordance with the hierarchy established in Accounting Standards Codification (ASC) Topic 105-10 (FAS 168) of the Financial Accounting Standards Board and in accordance with the guidelines and position statements of the Securities and Exchange Commission and of the banking supervision agencies in the United States.

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB).

Consolidated companies/subsidiaries – Companies whose financial statements are consolidated in full, directly or indirectly, with the financial statements of the Bank.

Equity-basis investees – Companies measured using the equity method.

Affiliates – Consolidated companies and equity-basis investees of the Group.

Overseas offices – Representative offices, agencies, branches, or subsidiaries of the Bank outside Israel.

The Group – The Bank and its consolidated companies.

Functional currency – The currency of the principal economic environment of the Bank's operations.

CPI – The consumer price index as published by the Central Bureau of Statistics in Israel.

Related parties and interested parties – As defined in Section 80 of the Public Reporting Directives.

Recorded debt balance – The balance of a debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of the debt.

Fair value – The price that would be obtained from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

C. Basis for preparation of the financial statements

1. Reporting principles

The consolidated financial statements of the Bank are prepared in accordance with the Public Reporting Directives and guidelines of the Banking Supervision Department. On most matters, these directives are based on generally accepted accounting principles in the United States. On the remaining matters, which are less material, the directives are based on International Financial Reporting Standards (IFRS) and on Israeli GAAP. When the IFRS allow several alternatives, or do not specifically address a particular situation, specific implementation guidelines have been established in the directives, mainly based on GAAP for US banks.

Note 1 Significant Accounting Policies (continued)

2. Functional currency and presentation currency

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates, and therefore constitutes the functional currency of the Bank. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted.

3. Use of estimates

The preparation of the financial statements in conformity with the directives and guidelines of the Banking Supervision Department requires the Board of Management of the Bank to exercise judgment and to use estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Bank, the Board of Management of the Bank is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Board of Management of the Bank bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

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

As of January 1, 2019, the Bank has implemented new accounting directives and standards on the following subjects:

(1) Update regarding the presentation and measurement of financial instruments.

(2) Update regarding derivatives and hedging, primarily concerning the requirement for hedge effectiveness testing and hedge documentation (ASU 2017-12).

(3) Inclusion of the overnight index swap (OIS) rate, which is based on the Secured Overnight Financing Rate (SOFR), as a benchmark interest rate for hedge accounting purposes (ASU 2018-16).

Note 1 Significant Accounting Policies (continued)

Set out below is a description of the essence of the changes in accounting policies applied in these consolidated financial statements, and a description of the manner and effect of the initial implementation, if any.

1. Financial instruments – presentation and measurement

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

The new directives have been implemented beginning January 1, 2019, through adjusted retrospective implementation, with the cumulative effect allocated to the opening balance of retained earnings at the initial implementation date. The directives concerning investments in equity instruments that do not have readily available fair value were implemented prospectively. Changes in the required disclosures in the financial statements were implemented prospectively.

The implementation of these directives had no material effect on the financial statements.

2. Derivatives and hedging

A circular on the subject, "Reporting by banking corporations and credit-card companies in Israel according to US GAAP on derivative instruments and hedging, classification and measurement of financial instruments, cash-flow statements, and additional matters" was issued on August 30, 2018. The circular adopts ASU 2017-12. The update facilitates and simplifies the application of accounting guidelines concerning hedging, mainly in connection with the requirements for testing the effectiveness of hedges and documenting hedges. The update also expands the ability of banks to hedge certain risk components, thereby creating congruence between the manner of recording hedging instruments and hedged items in the financial statements.

The new directives have been implemented beginning January 1, 2019, through adjusted retrospective implementation, with the cumulative effect allocated to the opening balance of retained earnings at the initial implementation date.

The implementation of these directives had no material effect on the financial statements.

Note 1 Significant Accounting Policies (continued)

3. Inclusion of the overnight index swap (OIS) rate, which is based on the Secured Overnight Financing Rate (SOFR), as a benchmark interest rate for hedge accounting purposes

ASU 2018-16, which updates Codification Topic 815, Derivatives and Hedging, was published in October 2018. The update allows the use of the overnight index swap (OIS) rate, based on the Secured Overnight Financing Rate (SOFR), as a United States benchmark interest rate for hedge accounting purposes, in accordance with Topic 815.

The update is applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption of the update.

E. Accounting policies implemented in the preparation of the financial statements

1. Foreign currency and linkage

Transactions in foreign currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate in effect on the date of the transaction. Exchange-rate differences arising from translation of transactions in foreign currency are recognized in profit and loss, with the exception of cash-flow hedges, which are recognized in other comprehensive income.

In this context, note that according to the US standard applied at the Bank, exchange-rate differences in respect of bonds available for sale are classified into the capital reserve. However, the Banking Supervision Department has instructed banks in Israel to continue, until January 1, 2021, to treat exchange-rate differences in respect of bonds available for sale according to international standards, where these exchange-rate differences are classified into the statement of profit and loss.

Overseas banking branches/subsidiaries

In accordance with the criteria established by the Banking Supervision Department, in determining the functional currency of overseas banking branches/subsidiaries, the Bank is required to examine compliance/non-compliance with each of the following criteria:

- The primary environment in which the branch/subsidiary generates and expends cash is foreign currency, whereas the branch/subsidiary's activity in NIS is marginal;
- Autonomous recruitment of customers by the branch/subsidiary – the activity of the branch/subsidiary with customers of the Bank and/or closely affiliated parties thereof and/or parties referred to the branch/subsidiary by the Bank is not significant;

Note 1 Significant Accounting Policies (continued)

- The activity of the branch/subsidiary with the Bank and/or with its related parties is not significant. In addition, the branch/subsidiary is not significantly dependent upon financing sources from the Bank and/or its related parties;
- The activity of the branch/subsidiary is independent in essence and stands in its own right, and is not an extension or supplement to the local activity of the Group. In addition, the branch/subsidiary conducts its activities with a significant degree of autonomy.

Clear non-compliance with one of the aforesaid criteria is an indication that the branch/subsidiary should be treated as a foreign operation whose functional currency is the NIS. In other situations, the determination shall be made based on an examination of the criteria in aggregate. In accordance with these criteria, the Bank classified its overseas branches/subsidiaries as foreign operations whose functional currency is the NIS, with the exception of Bank Hapoalim Switzerland, which was classified until December 31, 2018, as a foreign operation whose functional currency is the Swiss franc.

In light of the decision of the Board of Directors of the Bank to act to discontinue the private-banking activity of Bank Hapoalim Switzerland, and in light of the sale of most of the global private banking customer asset portfolio of Bank Hapoalim Switzerland, the nature of the activity of Bank Hapoalim Switzerland changed, and it can no longer be said that its activity is independent and stands in its own right, or that there is no significant dependence of the office on financing sources from the Bank. Accordingly, beginning December 31, 2018, Hapoalim Switzerland was classified as a foreign operation whose functional currency is the NIS.

Hedge of net investment in a foreign operation

The Bank applied hedge accounting to exchange-rate differences between the functional currency of Bank Hapoalim Switzerland and the functional currency of the Bank (NIS).

Exchange-rate differences in respect of the effective part of the hedge resulting from the translation of the financial liability hedging the net investment in Bank Hapoalim Switzerland were allocated to other comprehensive income and presented in equity under "translation adjustments." The ineffective part of the hedge was allocated to profit and loss. In light of the change in the functional currency of Bank Hapoalim Switzerland, the accounting hedge was not renewed, as of December 31, 2018. The balance of the net negative capital reserve at the date of the change, in the amount of approximately NIS 35 million, was locked in, and will be reclassified to profit and loss upon realization of the foreign operation resulting in a loss of control or liquidation.

Note 1 Significant Accounting Policies (continued)

CPI and exchange rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and rates of change thereof.

	2019	2018	2017	**2019**	2018
	Points			Change in % for the year	
Consumer price index					
November CPI ("known")	**102.7**	102.4	101.2	**0.3**	1.2
	NIS				
Exchange rate as at December 31					
USD exchange rate (in NIS per 1 USD)	**3.456**	3.748	3.467	**(7.8)**	8.1
GBP exchange rate (in NIS per 1 GBP)	**4.560**	4.793	4.682	**(4.9)**	2.4
EUR exchange rate (in NIS per 1 EUR)	**3.878**	4.292	4.153	**(9.6)**	3.3
CHF exchange rate (in NIS per 1 CHF)	**3.575**	3.807	3.555	**(6.1)**	7.1
TRY exchange rate	**0.581**	0.708	0.921	**(18.0)**	(23.1)

	2019	2018	2017
As at December 31			
Bank of Israel interest rate	**0.25%**	0.25%	0.10%

2. Investments in affiliates

a. Consolidated financial statements and non-controlling interests

The financial statements of subsidiaries are included in the consolidated financial statements from the date of attainment of control to the date of cessation of control.

Accordingly, mutual balances and transactions between these entities and unrealized profits or losses between the entities are canceled in full.

Non-controlling interests represent the share of the capital of a subsidiary that cannot be directly or indirectly attributed to the Bank. Non-controlling interests are measured at the date of combination of the businesses, at fair value, and stated as a separate item within the equity of the Bank.

Profit or loss and any component of other comprehensive income are attributed to the shareholders of the Bank and to non-controlling interests.

Transactions between the Group and non-controlling interests that do not lead to a loss of control are treated as equity-level transactions. Any difference between the consideration paid or received and the change in non-controlling interests is allocated to the ownership share of the Bank, directly in capital.

Note 1 Significant Accounting Policies (continued)

b. Loss of control of a subsidiary

When control is lost, the Bank subtracts the assets and liabilities of the subsidiary, any non-controlling interests, and other components of capital attributed to the subsidiary, including amounts previously recognized in accumulated other comprehensive income. If the Bank retains any investment in the former subsidiary, the remaining investment is measured at fair value at the date of the loss of control.

The difference between the consideration received and the fair value of the remaining investment in the former subsidiary, and the balances subtracted, is recognized in profit and loss. Beginning on that date, the remaining investment is accounted for using the equity method or as a financial asset, according to the degree of influence of the banking corporation on the referenced company. Amounts recognized in capital through other comprehensive income in respect of that subsidiary are reclassified into profit or loss.

c. Treatment of variable interest entities

A variable interest entity (VIE) is an entity that complies with one or more of the tests specified in ASC 810-10 (FAS 167): (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without needing additional subordinated financial support provided by involved parties, including shareholders; or (2) the investors in equity, as a group, do not have the power to direct activities with a highly significant effect on the economic performance of the entity, through voting rights or similar rights, or they are not obligated to absorb their proportional share of the expected losses, or of the expected residual profits, of the entity.

The Bank shall be considered the primary beneficiary and the VIE shall be consolidated in the financial statements if the Bank has the power to direct activities with a highly significant effect on the economic performance of the VIE, and if the Bank has the right to receive benefits from the VIE or an obligation to absorb its losses, which could potentially be significant for the VIE.

The Bank has other variable interests in VIEs which are not consolidated because the Bank is not the primary beneficiary.

For further details regarding variable interest entities, see Note 25F.

d. Investment in equity-basis investees

Equity-basis investees are entities in which the Bank has material influence over financial and operational policy, but has not attained control. The assumption is that a stake of 20% to 50% in an affiliate grants material influence.

Investments in equity-basis investees are accounted for using the equity method, and are recognized for the first time according to the cost of the investment, including transaction costs. The financial statements include the Bank's share of income and expenses, profit or loss, and other comprehensive income of affiliated entities accounted for using the equity method.

An investment in an equity-basis investee is examined for impairment, as a whole, when events or changes in circumstances indicate that the book value of the investment is not recoverable. Impairment is recognized when the impairment is other than temporary.

Note 1 Significant Accounting Policies (continued)

3. Basis for recognition of income and expenses

As a rule, income and expenses are included in the statement of profit and loss on an accrual basis.

The Bank accounts for the income and expense items noted below as established in the directives and guidelines of the Banking Supervision Department:

a. Beginning on the date of classification of a debt as impaired (as detailed below), the Bank stops accruing interest income in respect of the debt (including CPI linkage differentials). In addition, upon classification of the debt as impaired, the Bank cancels all uncollected accrued interest income that has been recognized as income in the statement of profit and loss. The debt continues to be classified as debt that does not accrue interest income, as long as its classification as an impaired debt is not rescinded. However, a debt that has undergone formal troubled debt restructuring is treated as an impaired debt accruing interest income, based on the following cumulative conditions: (1) the debt is expected to be paid in full, according to the new amortization schedule of the loan; (2) in the case of an amortization schedule involving continuous monthly principal and interest payments, at least six continuous monthly payments have been made, or in the case of an amortization schedule without continuous monthly principal and interest payments, at least six months have elapsed from the origination of the loan, or at least 20% of the balance of the principal has been paid; (3) the customer has not been assigned an alert for a debt in arrears; (4) all of the customer's debt restructurings are accruing.

b. Payments received on problematic debts classified as impaired are used to reduce the principal of the loan when there is doubt regarding the collection of the recorded balance. As long as the remaining recorded balance of an impaired debt is considered fully recoverable, interest payments received in cash are recognized as income on a cash basis. In such situations, the amount of income recognized as interest income is limited to the amount that would have accrued during the reporting period on the remaining recorded balance of the debt, at the contractual interest rate. In addition, interest on amounts in arrears in respect of housing loans is recognized in the statement of profit and loss based on actual collection.

c. Fees charged for credit origination, with the exception of fees in respect of loans for a period of up to three months, are not recognized immediately as income in the statement of profit and loss; instead, they are deferred and recognized over the life of the loan as an adjustment of the return. Income from such fees is allocated according to the effective interest rate method, and reported as part of interest income.

d. Credit allocation fees are treated according to the probability of realization of the commitment to grant the credit. If the probability is remote, the fee is recognized on a straight-line basis over the period of the commitment. Otherwise, the recognition of income from such fees is deferred until the realization of the commitment or until it expires, whichever is earlier. If the commitment is realized, the fees are recognized by adjustment of the return over the life of the loan, as noted above. If the commitment expires without being realized, the fees are recognized at the date of expiration and reported within income from fees. For this purpose, the Bank assumes that the probability of realization of the commitment is not remote.

Note 1 Significant Accounting Policies (continued)

e. In the case of refinancing or restructuring of non-problematic debts, it is necessary to determine whether the change in the terms of the loan is minor or otherwise. In cases where the change is not minor, all unamortized fees as well as early repayment fees collected from the customer in respect of changes in the terms of the credit are recognized in profit and loss. Otherwise, the aforesaid fees are included as part of the net investment in the new loan, and recognized as an adjustment of return, as noted above. For this purpose, the Bank assumes that the changes in the terms of the debt are minor.

f. Early repayment fees are recognized immediately within interest income.

g. Income from fees in respect of the delivery of services (e.g. from activity in securities and derivative instruments, credit cards, account management, conversion differences, and foreign trade) is recognized in profit and loss when the Bank gains the entitlement to receive it. Certain fees, such as fees in respect of guarantees and certain fees in respect of project financing, are recognized proportionally over the period of the transaction.

h. Securities – see Section E(5) below.

i. Derivative financial instruments – see Section E(6) below.

4. Impaired debts, credit risk, and allowance for credit losses

Application of the directives

The Bank implements the directives of the Banking Supervision Department concerning classification, measurement, and disclosure of impaired debts, credit risk, and allowance for credit losses, which are primarily based on the accounting principles implemented at banks in the United States. The directives are implemented with regard to credit to the public and other debt balances in respect of which no specific rules have been established in the Public Reporting Directives, such as deposits with banks, bonds, securities borrowed or purchased in agreements to resell, credit to the public, credit to the government, etc.

a. Classification of problematic credit

The Bank has established procedures for the identification of problematic credit, and for the classification of debts and of items of off-balance sheet problematic credit as impaired, substandard, or under special supervision. In this context, note that the Bank applies the directive of the Bank of Israel regarding the primary source of repayment, pursuant to which the determination of the appropriate classification for a debt, until default occurs, or until the probability of expected default becomes high, is based on the expected strength of the primary source of repayment of the debt (a current cash-flow based, stable, separate source that is under the borrower's control), notwithstanding the support of secondary and tertiary sources of repayment. In the context of the classification of problematic credit, debt in arrears is debt in which principal or interest have not been paid on time, in reference to the contractual repayment terms. A current account or a current drawing account shall be reported as debt in arrears when the account remains continuously at a negative balance (in the absence of an approved credit facility), or in deviation from the approved credit facility, for 30 days or more; or if, within the credit facility, amounts credited to the account are lower than the negative balance and the credit facility, for a period of 180 days. Loans shall be reported as debt in arrears when the principal or interest have not been paid after 30 days have elapsed from the scheduled date of payment according to the contractual repayment terms of the debt.

Note 1 Significant Accounting Policies (continued)

Impaired credit

Credit risk is classified as impaired when, based on current information and events, the Bank expects to be unable to collect the full amounts owed to it according to the original contractual terms with the client. The decision to classify credit as impaired is based, among other factors, on the arrears of the debt; an assessment of the financial condition and repayment capability of the borrower; the existence and condition of collateral; and the financial condition of guarantors, if any, and their commitment to supporting the debt. In any case, debt assessed on an individual basis (as detailed below) is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. In addition, any debt the terms of which have been changed in the course of troubled debt restructuring is classified as impaired debt, unless a minimum allowance for credit losses was recorded before and after the restructuring, according to the method of the extent of arrears (as detailed below).

Impaired debt regains the status of unimpaired debt only when there are no principal or interest components in respect of the debt that are due but have not been paid, and the Bank expects the remaining principal and interest to be repaid in full, in accordance with the terms of the contract.

Substandard credit

Substandard credit risk includes balance sheet and off-balance sheet credit risk insufficiently protected by the repayment capability of the borrower or of the pledged collateral, if any. Credit risk assigned this classification must have well-defined weaknesses that jeopardize the realization of repayment of the debt, such that there is a clear possibility that the Bank may incur some degree of loss if the deficiencies are not remedied. Off-balance sheet credit risk is classified as substandard if there is at least a possibility that the liability in respect of the off-balance sheet item will be realized.

Credit assessed on a collective basis (lower than NIS 1 million) is classified as substandard when it is in arrears of 90 days or more.

Credit under special supervision

Credit risk under special supervision includes balance sheet and off-balance sheet credit risk with potential weaknesses that should be given special attention by management. If not addressed, these potential weaknesses could result in deterioration of the probability of repayment of the credit or of the status of the Bank as a creditor at a certain future date. Off-balance sheet credit risk is classified as under special supervision if there is at least a possibility that the liability in respect of the off-balance sheet item will be realized. Credit evaluated on a collective basis (lower than NIS 1 million) is classified as credit under special supervision when the debt is in arrears of more than 60 days, up to 89 days.

b. Allowance for credit losses

The Bank is required to maintain an allowance for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank is required to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to grant credit, unutilized credit facilities, and guarantees.

Note 1 Significant Accounting Policies (continued)

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall appropriateness of the allowance for credit losses.

Individual allowance

Debts in respect of which the allowance for credit losses is examined on an individual basis include debts with a total contractual balance (without deducting charge-offs, unrecognized interest, allowance for credit losses, or collateral), at the level of the customer, of more than NIS 1 million, as well as debts of customers undergoing troubled debt restructuring. An individual allowance for credit losses is considered for every debt classified as impaired.

The individual allowance for credit losses is assessed based on expected future cash flows, discounted at the original interest rate of the debt. When it has been determined that repayment of the debt is contingent upon collateral, or when the Bank determines that seizure of an asset is expected, the individual allowance is assessed based on the fair value of the collateral pledged to secure the debt, following the application of cautious, consistent coefficients that reflect, among other factors, the volatility of the fair value of the collateral, the time that will elapse until the actual date of realization, and the expected costs of selling the collateral.

Collective allowance

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of balance sheet and off-balance sheet credit evaluated on a collective basis is calculated based on average historical loss rates, in a breakdown by economic sector and by problematic and non-problematic credit, in the range of years in the period beginning January 1, 2011 and ending in the quarter preceding the reporting date, with adjustments for significant changes during the current quarter. The Bank also considers relevant ambient factors in determining the rate of the allowance, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

In this context, in accordance with the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into consideration a qualitative adjustment rate of no less than 0.75% of the balance of non-problematic consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

Note 1 Significant Accounting Policies (continued)

In accordance with the guidelines of the Banking Supervision Department, the collective allowance required in respect of off-balance sheet credit risk is based on the rates of allowance established for balance sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of the off-balance sheet credit risk. The rate of realization as credit is calculated based on credit conversion coefficients, as detailed in Proper Conduct of Banking Business Directive 203, "Capital Measurement and Adequacy – Credit Risk – The Standardized Approach," with certain adjustments. This allowance is included in the item "other liabilities" in the balance sheet.

Allowance in respect of housing loans

A minimum allowance in respect of housing loans is calculated according to a formula established by the Banking Supervision Department, taking the extent of arrears into consideration, such that the rate of the allowance increases with greater arrears. Calculation of the allowance according to the formula based on the extent of arrears is to be performed, if necessary, for all housing loans, with the exception of loans not repaid in periodic installments and loans used to finance activities of a business nature.

Pursuant to the directives of the Supervisor, the collective allowance for credit losses in respect of housing loans shall not fall below 0.35% of the balance of such loans at the reporting date.

The Bank examines the overall appropriateness of the allowance for credit losses. This evaluation of appropriateness is based on the judgment of the Board of Management, which takes the risks inherent in the credit portfolio into consideration.

c. Charge-offs

The Bank performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Bank has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). In cases of debts contingent upon collateral in respect of which the individual allowance is assessed based on the fair value of the collateral, the Bank performs a charge-off for any debt balance exceeding the fair value of the collateral, deducting realization costs. With regard to debts not evaluated on an individual basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days) and other problematic indicators. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books. Notwithstanding the foregoing, with regard to debts examined on a collective basis that have undergone failed troubled debt restructuring, the need for an immediate charge-off is examined. In any case, charge-offs are performed with respect to such debts no later than the date when the debt becomes a debt in arrears of 60 days or more, in reference to the terms of the restructuring.

Note 1 Significant Accounting Policies (continued)

d. Troubled debt restructuring

Troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Bank has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower), or in the form of the acceptance of other assets as partial or full settlement of the debt.

In order to determine whether a debt arrangement executed by the Bank constitutes troubled debt restructuring, the Bank performs a qualitative examination of all of the terms of the arrangement and the circumstances under which it was executed, with the aim of determining whether the debtor is experiencing financial difficulties and whether the Bank granted the debtor a concession within the arrangement. In order to make this determination, the Bank examines the ability to collect from the customer and considers whether there are signs indicating that the borrower is experiencing difficulties at the time of the arrangement, or that there is a reasonable probability that the borrower would fall into financial difficulties without the arrangement.

The Bank does not classify debt as having undergone troubled debt restructuring if the debtor is granted a postponement of payments within the arrangement that is not material considering the frequency of payments, the contractual term to maturity, and the expected average duration of the original debt. In this context, if several arrangements involving changes in the terms of the debt have been executed, the Bank takes the cumulative effect of the previous restructurings into consideration in order to determine whether the postponement of payments is immaterial.

Restructured debts, including those which prior to the restructuring were not examined on an individual basis, are classified as impaired debt, and are evaluated on an individual basis, in order to record an allowance for credit losses or a charge-off. In general, restructured troubled debt continues to be measured and classified as impaired debt until it is paid in full. However, under certain circumstances, when troubled debt restructuring has been performed, and the banking corporation and the debtor subsequently enter into an additional restructuring agreement, the banking corporation is no longer required to treat the debt as a debt that has undergone troubled debt restructuring, if the following two conditions are fulfilled:

(a) The debtor is no longer experiencing financial difficulties at the date of the subsequent restructuring;

(b) According to the terms of the subsequent restructuring, the banking corporation has not granted a concession to the debtor (including a concession on the principal, on a cumulative basis, from the date of the original loan).

Such debt, which has undergone subsequent restructuring and which has been declassified as impaired, shall be assessed on a collective basis for the purpose of quantification of the allowance for credit losses, and the recorded debt balance of the debt shall not change at the time of the subsequent restructuring (unless cash is received or paid).

If such debt is examined individually in subsequent periods, and it is found that impairment should be recognized in respect of the debt, or the debt undergoes troubled debt restructuring, the Bank restores the impaired classification of the debt and treats it as a troubled debt restructuring.

Note 1 Significant Accounting Policies (continued)

e. Foreclosed assets

In cases of troubled debt restructuring in which the Bank receives assets as full or partial settlement of the debt, such as rights to capital, third-party receivables, or other assets to be sold at a later date, these assets shall be recognized, at the fair value of the assets, at the date of the foreclosure. If the assets received constitute full settlement of the debt, and at the foreclosure date the recorded debt balance exceeds the fair value of the assets, the Bank recognizes an allowance for credit losses.

5. Securities

a. Investments in bonds are classified upon acquisition into one of three portfolios: bonds held to maturity, bonds available for sale, and securities held for trading. Investments in shares are classified upon acquisition into one of two portfolios: securities held for trading and shares not held for trading.

- Bonds held to maturity – Bonds which the Bank has the intention and ability to hold until their maturity date. Bonds held to maturity are stated in the balance sheet at cost, plus interest and accrued linkage and exchange-rate differentials, taking into account the proportional part of the premium or discount, less losses in respect of other-than-temporary impairment.
- Bonds available for sale – Bonds not classified as bonds held to maturity or as securities held for trading. The bonds are included in the balance sheet at their fair value on the reporting date. Unrealized profits or losses from adjustments to fair value are reported net of an appropriate reserve for tax, in a separate item of equity within accumulated other comprehensive income. Realized profits or losses are stated in the item of non-interest financing income from non-trading activity.
- Securities held for trading – Securities acquired and held with the aim of selling them in the near future, and securities which the Bank has chosen to measure at fair value through profit and loss, using the fair-value option. Securities held for trading are stated in the balance sheet at fair value on the reporting date. Profits and losses from adjustments to fair value are allocated to the statement of profit and loss, in the item of non-interest financing income from trading activity.
- Shares not held for trading
  - Shares with readily available fair value – Measured at fair value on the reporting date; profits and losses from adjustments to fair value are allocated to the statement of profit and loss.
  - Shares with no readily available fair value are measured at cost net of impairment, if any, plus or minus observable price changes in ordinary transactions for identical or similar investments of the same issuer. Unrealized profits or losses from adjustments to such observable price changes are allocated to the statement of profit and loss.

b. Income from dividends, interest accrual, linkage and exchange-rate differentials, premium reduction or discounts (according to the effective interest-rate method), and losses from other-than-temporary impairment are allocated to the statement of profit and loss.

c. The cost of realized securities is calculated on an average basis.

d. With regard to the treatment of other-than-temporary impairment, see Section E(8) below.

Note 1 Significant Accounting Policies (continued)

6. Derivative financial instruments, including hedge accounting

a. The Bank holds derivative financial instruments for the purpose of hedging foreign-currency risks and interest-rate risks, as well as derivatives not used for hedging, including embedded derivatives.

b. At the date of creation of the hedge, the Bank formally documents the hedging relationship between the hedging instrument and the hedged item, including the risk-management goal and strategy of the Bank in performing the hedge, and the manner in which the Bank plans to assess the effectiveness of the hedging relationship. The Bank assesses the effectiveness of the hedging relationship both at the inception of the hedge and on an ongoing basis, in accordance with its risk-management policy.

c. Fair-value hedges

Changes in the fair value of a derivative financial instrument designated for hedging fair value are allocated to the statement of profit and loss. The hedged item is also stated at fair value, with reference to the hedged risks, and the changes in fair value are allocated to the statement of profit and loss. The full changes in the fair value of derivatives designated and qualifying for fair-value hedges are classified into the interest income/expense line, consistently with the classification of the income/expense in respect of the hedged item.

If the hedged instrument no longer complies with the criteria for an accounting hedge, or if it expires or is sold, canceled, or realized, or the Bank cancels the designation of the fair-value hedge, hedge accounting is discontinued.

d. Economic hedges

Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Bank. Changes in the fair value of these derivatives are recognized in profit and loss as they arise.

e. Hedging of the net investment in a foreign operation – see Section E(1) above.

f. Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are allocated immediately to profit and loss.

g. Embedded derivatives

Embedded derivative instruments are separated from the host contract and treated separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks arising from certain embedded credit derivatives; (b) a separate instrument with the same terms as the embedded derivative instrument would comply with the definition of a derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss.

An embedded derivative that has been separated is presented in the balance sheet together with the host contract. Changes in the fair value of embedded derivatives that have been separated are allocated immediately to profit and loss.

Note 1 Significant Accounting Policies (continued)

7. Establishing the fair value of financial instruments

Pursuant to ASC 820-10 (FAS 157), fair value is defined as the price that would be obtained from the sale of an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Bank. ASC 820-10 specifies a hierarchy of measurement techniques, based on whether the inputs used to establish fair value are observable or unobservable. These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Bank at the measurement date.
- Level 2 data: Directly or indirectly observable inputs regarding the asset or liability other than quoted prices included in Level 1.
- Level 3 data: Unobservable inputs regarding the asset or liability.

The hierarchy requires the use of observable market inputs when such information is available. In the classification of the data used to measure fair value into the different levels of the fair-value hierarchy, the Bank classifies the overall fair-value measurement as the lowest level of an input significant for the overall measurement.

Fair-value measurements of financial instruments are performed without taking a blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair-value measurement by market participants in the absence of Level 1 data.

Securities

The fair value of securities held for trading, bonds available for sale, and shares not held for trading with readily available fair value is determined based on market prices quoted in the principal market. When the security is traded in several markets, the evaluation is performed according to the market price quoted in the most advantageous market. If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative financial instruments

Derivative financial instruments that have an active market were evaluated according to the market value established in the principal market, or in the absence of a principal market, according to the market price quoted in the most advantageous market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.).

Note 1 Significant Accounting Policies (continued)

Assessment of credit risk and nonperformance risk

ASC 820 (FAS 157) requires the Bank to reflect credit risk and nonperformance risk in measuring the fair value of debt, including derivative instruments, issued by the Bank and measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone.

The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank takes such collateral into consideration in determining the credit risk.
- When exposure in respect of the counterparty is material, the Bank performs a fair-value assessment based on indications of the quality of credit of the counterparty from transactions in an active market, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other matters, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings (e.g. estimates of expected default rates and rates of credit losses in the event of default).

The calculation is performed based on an internal model that assumes various scenarios regarding the value of the transactions. For further details regarding the main methods and assumptions used to estimate the fair value of financial instruments, see Note 32 below concerning balances and fair-value estimates of financial instruments.

8. Impairment of financial assets

a. Credit to the public and debt balances – see Section E(4) above.

b. Bonds available for sale or held to maturity:

Each reporting period, the Board of Management of the Bank determines whether decreases in the fair value of bonds classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

(1) A determination of whether the impairment is other than temporary, and of the amount of the impairment:

- Bonds which, at the balance sheet date, the Bank does not intend to hold, or bonds sold after the balance sheet date at less than cost, constitute bonds in which other-than-temporary impairment has occurred.
- Bonds the value of which has decreased by more than 15% relative to the adjusted cost, when the decrease in value has persisted for more than six months, constitute bonds in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.

Note 1 Significant Accounting Policies (continued)

- Bonds the value of which has decreased by more than 30% relative to the adjusted cost, at or after the balance sheet date, constitute bonds in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
- Bonds that have undergone a downgrade in rating to below Investment Grade constitute bonds in which other-than-temporary impairment has occurred.
- Bonds classified as problematic (impaired, substandard, under special supervision) by the Bank.

(2) Preparation of a watch list – a quantitative and qualitative examination is performed to identify and evaluate bonds whose value has decreased, where other-than-temporary impairment may have occurred.

(3) Specific examination – specific examination is performed with respect to all bonds on the watch list, including the following parameters, among others:

- The Bank's ability and intention to hold the bond for a sufficient period to allow the value of the bond to return to the level of its cost.
- The value of backing collateral and safety cushions.
- The rating of the bond by international and local rating agencies, including developments in these ratings after the balance sheet date.
- The rate of impairment relative to the cost.
- The amount of time for which the fair value is lower than the cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

(4) Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

When other-than-temporary impairment occurs in a bond, the cost of the bond is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss. Appreciation in subsequent periods, for bonds in the portfolio available for sale, is recognized in a separate item of capital within accumulated other comprehensive income, and is not allocated to profit and loss.

c. Shares without readily determinable fair value:

Each reporting period, the Bank performs a qualitative assessment, taking impairment indicators into consideration, in order to assess whether impairment has occurred in investments in shares without readily determinable fair value. If impairment of the investment in the shares has occurred according to this assessment, the Bank assesses the fair value of the investment in the shares, in order to determine the amount of loss from the impairment.

Note 1 Significant Accounting Policies (continued)

9. Offsetting financial assets and liabilities

The Bank offsets assets and liabilities arising from the same counterparty and presents the net balance thereof in the balance sheet, when the following cumulative conditions are fulfilled:

- A legally enforceable right exists to offset the liabilities against the assets;
- The Bank intends to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counterparty owe one another determinable amounts.

The Bank offsets deposits where the repayment to the depositor is contingent upon the extent of collection from credit and credit granted from such deposits, when the Bank has no risk of loss from the credit.

In accordance with the directives of the Banking Supervision Department, the Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments. The Bank therefore continues to present exposures in respect of transactions in a gross amount in its financial statements.

10. Transfers and servicing of financial assets and extinguishment of liabilities

Transfers of financial assets

Transfers of financial assets are accounted for as sales if, and only if, all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient may pledge or exchange the assets received, and there is no condition that also restricts the recipient in exercising the right to pledge or exchange, and grants the transferring party a benefit that is greater than a trivial benefit; (3) the transferring party does not retain effective control of the financial assets transferred.

In order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of participatory rights. Participatory rights meet the following criteria: the right must represent proportional rights relative to the full financial asset; all cash flows obtained from the assets are distributed among the participatory rights in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participatory rights (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participatory rights); and the transferring party and the holder of participatory rights have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participatory rights agree to pledge or exchange the financial asset in its entirety.

If the transaction complies with the conditions for treatment of a transaction as a sale, the transferred financial assets or the participatory right are subtracted from the balance sheet of the Bank. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participatory right is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Bank, and the consideration from the sale is recognized as a liability of the Bank.

Note 1 Significant Accounting Policies (continued)

Securities lending or borrowing transactions

The Bank implements specific directives established in the Public Reporting Directives for the treatment of securities lending or borrowing transactions in which the loan is executed against the general credit quality and the general collateral of the borrower, or when the borrower does not transfer liquid instruments, which the lender is entitled to sell or pledge, to the lender, as collateral referring specifically to the securities lending transaction. When the banking corporation lends securities, it subtracts the securities loaned and recognizes, in credit, the amount of the market value of the transferred securities. In subsequent periods, the credit is recognized in the same manner in which the security was measured prior to the loan. At the end of the loan, the credit is subtracted and the banking corporation recognizes the security again. When the banking corporation borrows securities in unsecured borrowing, the banking corporation recognizes the security, and recognizes a deposit against it, according to the value of the security received in the borrowing transaction. The security borrowed by the banking corporation is classified as a security in the trading portfolio.

Short selling

When a banking corporation shorts a security that it has borrowed, cash is recognized against a deposit. The deposit is revalued only if the value of the security increases during this period, and is recognized in the statement of profit and loss, within the item of "non-interest financing income."

Subtraction of a liability

The Bank subtracts liabilities only when the liability is extinguished. Extinguishment of a liability may be performed through payment to the lender or through judicial release.

11. Fixed assets

Recognition and measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. Cost includes expenses directly attributable to the acquisition of the asset.
Costs of acquired software that constitute an integral part of the operation of the related equipment are recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Bank classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "buildings and equipment."
Profit or loss from the disposal of a fixed-asset item is recognized as a net amount under the item "other income" in the statement of profit and loss.

Software costs

Software acquired by the Bank is measured at cost, with the deduction of amortization and losses from impairment.

Note 1 Significant Accounting Policies (continued)

Capitalization of costs related to the development of software for in-house use begins only when the initial stage of the project has been completed, and when management with the appropriate authority has approved and has undertaken a commitment to finance the project, and it is expected that the development will be completed and that future economic benefits will arise from the software.

Overhead costs that cannot be directly attributed to the development of the software and research costs in the initial stage of the project are recognized as expenses as incurred. In addition, the Bank has implemented the guidelines of the Banking Supervision Department concerning capitalization of software costs, pursuant to which a materiality threshold has been set for capitalization. Further, for deliverables with total capitalizable costs not lower than the materiality threshold, a capitalization coefficient lower than 1 has been established, in order to take into account the potential for inefficiency and common deviations in software development projects. The rank of employees whose costs are capitalized to assets has been restricted to the level of manager of the software project. Capitalizable software development costs of all development employees are recorded through individual hour reports.

Subsequent costs

The cost of replacing part of a fixed-asset item and other subsequent costs are recognized as part of the book value of fixed assets, if the future economic benefits inherent therein are expected to flow to the Group, and if the cost thereof is reliably measurable. The book value of the replaced part of a fixed-asset item is subtracted. Costs of upgrades and improvements of software for internal use are only capitalized if the expenses that arise are expected to lead to added functionality. Routine maintenance costs and other costs are allocated to profit and loss as incurred.

Depreciation and amortization

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each component of the fixed-asset items. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Bank is not depreciated. Improvements to rented properties are depreciated over the shorter of the period of the lease or the period of use of the property. Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life, starting on the date when the software is available for use. Software in development is not amortized systematically as long as it is not available for use. Accordingly, a test of impairment is performed at least once a year, until it becomes available for use.

The depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

Note 1 Significant Accounting Policies (continued)

12. Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Bank materially bears all of the risks and returns from the asset, are classified as finance leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees. Future payments for the exercise of an option to extend the term of the lease from the Israel Land Administration are not recognized as part of the asset and liability. After the initial recognition, the asset is accounted for as a fixed asset.

Other leases are classified as operational leases, while the leased assets are not recognized in the balance sheet of the Bank.

Payments for operational leases are allocated to profit and loss using the straight-line method, over the period of the lease.

With regard to the expected adoption of GAAP for US banks regarding leases beginning January 1, 2020, see Section F below.

13. Impairment of non-financial assets

The Bank examines non-current assets for impairment when events or changes in circumstances indicate that the book value of the asset may not be recoverable. Losses from impairment are recognized only if the book value of the asset exceeds its fair value.

The book value is unrecoverable if it exceeds the total uncapitalized cash flows expected to derive from the use and realization of the asset.

The loss is recognized in the amount of the difference between the book value and the fair value of the asset. This loss is not canceled in subsequent periods.

Impairment of in-house software development costs

Impairment of in-house software development costs is recognized and measured upon the occurrence of the events or changes in circumstances that indicate a possibility that the book value of the asset may not be recovered. Examples of events or changes in circumstances indicating impairment:

a. The software is not expected to provide significant potential services;
b. The manner or volume of use or expected use of the software has changed substantially;
c. The software has been or will be substantially changed;
d. Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;
e. The development of the software is not expected to be completed and the software is not expected to be used.

Note 1 Significant Accounting Policies (continued)

14. Realization group held for sale and discontinued operation

Realization group held for sale

The Bank classifies a realization group asset as held for sale if its book value will be recovered primarily through sale, rather than through ongoing use, in a period in which all of the following criteria are fulfilled: (1) the management authorized to approve the activity is committed to the plan to sell the realization group; (2) the realization group is available for immediate sale in its present condition; (3) an active plan to find a buyer and other actions to complete the sale plan have been initiated; (4) the sale of the realization group is probable and expected to be completed within one year of the date of the classification; (5) the realization group is being actively marketed for the purpose of its sale, at a reasonable price relative to its present fair value; (6) actions required in order to complete the planning indicate that it is unlikely that the planning will change significantly or be canceled.

At the date of classification of the realization group as held for sale, the need to recognize impairment of the relevant assets is examined, according to the standards applicable to such assets. Non-current assets subject to deprecation or amortization which are associated with the realization group (e.g. fixed assets or other assets) will no longer accrue depreciation, and all assets and liabilities attributed to the realization group will be presented in two separate lines. A subsidiary classified as a realization group held for sale will continue to be consolidated, but all assets and liabilities attributed to the activity will be presented in two separate lines in the balance sheet of the Bank, as noted.

Discontinued operation

The Bank classifies a realization group as a discontinued operation when all of the following criteria are fulfilled: (1) the realization group constitutes a component of an entity; (2) the realization group has been realized, or fulfills the conditions for classification as an asset held for sale; (3) the realization group represents a strategic change that has (or will have) a material effect on the activities and financial results of the Bank.

The Bank restates comparative figures with respect to a discontinued operation in the statement of profit and loss as though the operation had been discontinued at the beginning of the earliest comparative period.

15. Employee benefits

Pursuant to the law, agreements, and common practice, the Bank is required to pay retirement benefits to employees, including payments in accordance with defined benefit plans in respect of pensions (e.g. pension allowances, severance pay, and retirement compensation); payments according to other post-retirement and post-employment plans (e.g. holiday gifts, and other well-being and health payments paid to or in respect of retirees); and payments in accordance with defined deposit plans (e.g. payments to provident funds or pension funds, pursuant to Section 14 of the Severance Pay Law, 1963). In addition, pursuant to the directives of the Banking Supervision Department, a banking corporation that expects a group of employees to be paid benefits beyond their contractual terms should take into account the percentage of employees expected to depart (including employees expected to retire under voluntary retirement programs or upon receiving other preferred terms) and the benefits that they are expected to receive upon departure.

Note 1 Significant Accounting Policies (continued)

The Bank's liabilities for severance pay to employees of the Bank, pursuant to Section 14 of the Severance Pay Law, are treated as a defined deposit plan. The banking corporation recognizes the net cost of the pension for the period, according to the deposit required for that period.
Liabilities of the Bank for severance pay, pensions, and other benefits, other than pursuant to Section 14 of the Severance Pay Law; other long-term benefits; and other post-employment and post-retirement benefits are treated as a defined benefit plan and calculated on an actuarial basis, taking probabilities into consideration, based on past experience. The discount rate for employee benefits is calculated based on the yield of government bonds in Israel, plus the average spread over corporate bonds rated AA (international) or higher, which is determined based on the difference between rates of yield to maturity, by maturity periods, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of United States government bonds, all at the reporting date.
Service cost, interest cost, return on plan assets, amortization of net actuarial profit or loss, amortization of cost or credit in respect of prior service, and amortization of actuarial profit or loss included in accumulated other comprehensive income are allocated to profit and loss in respect of the aforesaid benefits.
Actuarial profit or loss is the change in value of a liability in respect of a forecast benefit, or of plan assets, due to a difference between actual experience and estimates, or due to a change in an actuarial assumption. Actuarial profits and losses are included in accumulated other comprehensive income, and depreciated using the straight-line method over the average remaining service period of the employees expected to receive benefits according to the plan.
Cost or credit in respect of prior service is depreciated as a component of the net pension cost for the period, in a straight line, over the average remaining service period of the employees expected to receive benefits according to the plan.
Short-term employee benefits (such as labor wages, vacations, and bonuses) are measured on an uncapitalized basis, and the expense is allocated when the related service is rendered.

16. Share-based payment

Share-based payment transactions encompass services received from employees in consideration for the issuance of shares of the Bank, stock options, or other capital instruments. These transactions also include liabilities to employees, given one of the two following conditions: (1) the amount is based, at least in part, on the share price of the Bank, or on another equity instrument of the Bank; (2) the grant requires, or may require, settlement through issuance of shares of the banking corporation or other capital instruments of the banking corporation. Transactions including a liability to be extinguished in cash, or through the issuance of a variable number of shares of the Bank based on a fixed monetary value, are classified as liabilities.

Note 1 Significant Accounting Policies (continued)

With regard to share-based payment transactions classified as equity grants, the value of the benefit is measured at the date of the grant, with reference to the fair value of the capital instruments granted. The value of the benefit is recognized in profit and loss as a salary expense, against a corresponding increase in equity. For the purpose of the recognition of the expense and its attribution over the appropriate service periods of the employees, the Bank takes service conditions and execution conditions (which are not market conditions) into consideration, such that the recognition of the expense is based on the number of instruments for which the service conditions and the execution conditions are expected to be fulfilled. An execution target that can be achieved after the service period is treated as an execution condition.
With regard to share-based payment transactions classified as liability grants, the Bank remeasures the fair value of the liability at the end of each reporting period, and at the date of extinguishment. Any changes in the fair value are recognized in profit and loss for the period, against the liability.

17. Acquisition of shares of the Bank by the Bank

When the Bank buys its own shares, the amount of the consideration paid, including direct costs, is deducted from equity. When the shares are sold or reissued, the amount of the consideration received is recognized as an increase in equity, and the surplus or deficit arising from the transaction is allocated to the balance of the premium.

18. Contingent liabilities

The Bank Group is a party to various legal proceedings, within its activities in a wide range of types of financial services, including claims filed by customers and petitions by various parties to certify claims as class actions. The Group is also a party to examinations or investigations by legal and regulatory agencies. The Group applies the directives of the Banking Supervision Department regarding contingent liabilities, which are based on the directives of ASC 450. Such proceedings are examined individually, with the assistance of legal advisors, who assess the risk of realization of the exposure.
Probable risk refers to a situation in which the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of contingent liabilities in this risk group.
Reasonably possible risk refers to a situation in which the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of contingent liabilities in this risk group, but disclosure is given.
Remote risk refers to a situation in which the probability of realization of the exposure to risk is lower than 20%. No provision is included in the financial statements in respect of contingent liabilities in this risk group and no disclosure is given.

Note 1 Significant Accounting Policies (continued)

A provision for contingent liabilities is recorded if the following two conditions are fulfilled: (a) the value of an asset (or liability) is expected to decrease at the reporting date; (b) the amount of the loss can be estimated in a reasonable manner. If the Bank estimates, based on the opinion of its legal advisors, that it is not possible to reliably estimate the amount of a loss, a range of exposure scenarios is prepared, and if a particular amount within that range constitutes, at that date, a better estimate than the other amounts within the same range, that amount is accrued as a provision. If there is no amount within the range that constitutes a better estimate than any other amount, the requirement is to record the minimum amount in the range as a provision.

Legal claims regarding which the Banking Supervision Department has determined that the Bank is required to pay reimbursement are classified as "probable," and a provision is made in respect of each claim commensurate with the amount that the Bank is required to reimburse.

In rare cases in which, in the opinion of the Bank's Board of Management, based on legal counsel, the probability of realization of the exposure to risk in respect of an ordinary claim or in respect of a claim certified as a class action cannot be estimated, in cases in which the Bank has not yet published four financial statements since the first inclusion of the claim, no provision has therefore been made.

Note 25C contains disclosure of every claim in an amount greater than 1% of the capital of the Bank. With regard to claims the outcome of which cannot be estimated at this stage, disclosure is given for every claim in an amount greater than 0.5% of capital.

As noted, the requirement pursuant to the directives is to provide disclosure of loss amounts the probability of realization of which is not remote.

According to the assessment of the Board of Management and based on the opinions of its legal advisors, the financial statements include sufficient provisions for contingent liabilities.

19. Expenses for income taxes

The financial statements of the Bank include current taxes and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity or in other comprehensive income. In such cases, the expense for income taxes is allocated to equity or to other comprehensive income, as relevant. The provision for taxes on the income of the Bank and its consolidated companies which are financial institutions for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The wage tax applied to financial institutions pursuant to the Value Added Tax Law is included in the statement of profit and loss under the item, "salaries and related expenses."

Current taxes

Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws enacted at the balance sheet date, including changes in tax payments referring to previous years.

Note 1 Significant Accounting Policies (continued)

Deferred taxes

The Bank recognizes deferred taxes with reference to temporary differences between the book value of taxable assets and liabilities for the purposes of financial reporting and their value for tax purposes.

The Bank did not recognize deferred-tax liabilities in respect of temporary differences created up to December 31, 2016, in respect of investments in local subsidiaries. These temporary differences may be taxable if the Bank realizes its investment in the local subsidiaries. Beginning January 1, 2017, the Bank recognized a deferred-tax liability for taxable temporary differences in respect of local subsidiaries.

The Bank recognizes deferred-tax assets in respect of all deductible temporary differences and losses carried forward. A deferred-tax asset is reduced by the amount of the valuation allowance if it is more likely than not that all or part of the deferred-tax asset will not be realized.

The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted at the balance sheet date.

The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which taxable income is expected to exist in the future against which they can be used.

Offsets of deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities if an enforceable legal right exists to offset current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

20. Earnings per share

The Bank presents data on basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the profit or loss (such as adjustments in respect of the effect of dividends after tax, any financing costs, and other changes) attributed to the holders of ordinary shares and adjusting the weighted average of ordinary shares outstanding, after adjustment for shares in treasury and for the effects of all potentially dilutive ordinary shares, which include share options and share options granted to employees.

Note 1 Significant Accounting Policies (continued)

21. Reporting on segments of activity

Supervisory activity segments

The Bank reports on supervisory activity segments according to a uniform comparable format established by the Banking Supervision Department. Supervisory activity segments are primarily defined based on customer classifications. Private customers are classified, based on the volume of their financial assets, into the household segment and the private-banking segment. Customers other than private individuals are classified, primarily based on annual revenue, into the business segments (separated into microbusinesses and small businesses, mid-sized businesses, and large businesses), institutional entity segment, and financial management segment.

Management approach activity segments

Pursuant to the directives of the Banking Supervision Department, a bank whose activity segments based on the approach of its management are substantially different from the supervisory activity segments shall provide additional disclosure of segments of activity based on the management approach. A segment of activity is a component of the Bank engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by the Board of Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate performance, and in respect of which separate financial information exists.
The division into segments at the Bank is based on characteristics of customer segments. These segments also include banking products. The results of products that cannot be attributed to the relevant customer segments are included in "Others and Adjustments."

22. Related party disclosures

Information regarding balance sheet and off-balance sheet balances and information regarding business results with interested and related parties is provided in accordance with the Public Reporting Directives, with respect to all persons defined as interested parties, related parties, or related persons, based on the definition in Section 80 of the Public Reporting Directives.

23. Transactions with controlling parties

The Bank implements US GAAP for accounting for transactions between a banking corporation and its controlling party or a company controlled by the bank. In situations where these rules do not address the treatment method, the Bank applies the rules established in Standard 23 of the Israel Accounting Standards Board, "Accounting Treatment of Transactions between an Entity and its Controlling Party."
Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Group allocates the difference between the fair value and the consideration from the transaction, if any, to equity.

Note 1 Significant Accounting Policies (continued)

F. New accounting standards and new directives of the Banking Supervision Department in the period prior to implementation

Subject	Main points	Inception date and transitional directives	Effect on the Bank
ASU 2016-02, "Leases" (ASC 842)	Adoption of GAAP for US banks concerning leases. The main objective of the new rules is to fully reflect, in the financial statements, the level of leverage created by long-term lease contracts. The main changes following the application of these rules are the following: Banks that lease assets for a period exceeding one year shall recognize them in the balance sheet, even if the lease is classified as an operating lease. An asset shall be recorded in the balance sheet in respect of operating lease transactions reflecting the right to use the leased asset, and conversely, the liability for payment for the lease shall be recorded.	January 1, 2020.	According to the estimates of the Bank, based on the existing data as at the date of the report, the implementation of the new directives is expected to lead to an increase in the amount of approximately NIS 1.1 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, according to the estimates of the Bank, the implementation of the new directives is expected to lead to a decrease in the rate of common equity Tier 1 capital and of total capital, by approximately 0.04% and approximately 0.05%, respectively.
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.	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 IBOR interest rates and cease using these rates. The IBOR 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. 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.

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

	Total transactions as at December 31, 2019		Of which: transactions continuing beyond 2021	
	Amount in NIS millions	Number of transactions	Amount in NIS millions	Number of transactions
Loans	**16,086**	**5,923**	11,840	5,115
Deposits	**2,831**	**554**	391	122
Derivatives (gross) – par value	**129,600**	**1,451**	61,223	927
Unutilized credit facilities	**4,202**	**33**	2,945	25
Total	**152,719**	**7,961**	76,399	6,189

Note 1 Significant Accounting Policies (continued)

G. Discontinued operation

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group has been classified as a "discontinued operation." Accordingly, at the classification date of the discontinued operation:

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

The Bank sold approximately 65.2% of the capital of Isracard in a public sale offering on April 8, 2019. Following the sale, the Bank recognized net profit (after tax and expenses related to the sale offering) in the amount of approximately NIS 137 million in respect of the part of the investment that was sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date, after adjustment to market prices as at June 30, 2019.

After the sale, the Bank retained a holding of approximately 33% of the shares of Isracard, which is accounted for in these financial statements using the equity method, and presented within the item "assets attributed to a discontinued operation."

The Bank distributed its remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank on March 9, 2020, and no longer has holdings in Isracard.

Note 1 Significant Accounting Policies (continued)

NIS millions

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

	December 31, 2019	December 31, 2018
Net credit to the public	**-**	14,366
Buildings and equipment	**-**	356
Others	**-**	388
Total assets of the Isracard Group	**-**	15,110
Investments in equity-basis investees	**849**	-
Other liabilities	**-**	13,951
Deposits	**-**	782
Total liabilities of the Isracard Group	**-**	14,733

b. Profit and loss attributed to a discontinued operation*

	For the year ended December 31		
	2019**	2018	2017
Income			
Net interest income	**88**	312	273
Fees	**407**	1,717	1,634
Others	**12**	(4)	7
Expenses			
Provision for credit losses	**26**	152	121
Salaries and related expenses	**85**	321	346
Other expenses	**257**	983	885
Maintenance and depreciation of buildings	**13**	71	125
Profit before taxes	**126**	498	437
Provision for taxes on profit	**33**	128	118
Net profit before attribution to non-controlling interests	**93**	370	319
Profit attributed to non-controlling interests	**2**	6	5
Net profit	****91**	364	314
Equity profits and profit from realization	**205**	-	-
Net profit from a discontinued operation	**296**	364	314

* Without netting of intercompany transactions between the Bank and the Isracard Group.
** Data on income and expenses refer to the three months ended March 31, 2019 (the date of discontinuation of consolidation); from that date forward, the data refer to the Bank's share in the profits of Isracard, based on the equity method.

Note 2 Interest Income and Expenses

NIS millions

	2019	2018	2017
A. Interest income*			
From credit to the public	**10,511**	10,524	9,618
From credit to governments	**66**	70	57
From deposits with banks	**361**	266	270
From deposits with the Bank of Israel and from cash	**110**	56	43
From bonds	**871**	755	625
From other assets	**1**	1	-
Total interest income	**11,920**	11,672	10,613

	2019	2018	2017
B. Interest expenses*			
On deposits from the public	**(1,766)**	(1,636)	(1,117)
On deposits from the government	**(6)**	(6)	(7)
On deposits from banks	**(21)**	(29)	(10)
On securities lent or sold under agreements to repurchase	**(1)**	-	2
On bonds and subordinated notes	**(803)**	(1,085)	(1,051)
On other liabilities	**(4)**	(10)	(6)
Total interest expenses	**(2,601)**	(2,766)	(2,189)
Total net interest income	**9,319**	8,906	8,424

	2019	2018	2017
C. Details of net effect of hedging derivative instruments on interest income and expenses**			
Interest income	**(6)**	(43)	(78)
Interest expenses	**6**	(4)	(11)

	2019	2018	2017
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**11**	13	13
Available for sale	**825**	701	588
Held for trading	**35**	41	24
Total included in interest income	**871**	755	625

* Includes the effect of hedge relationships (2018, 2017: includes the effective component of hedge relationships).
** Details of the effect of hedging derivative instruments on subsections A and B.

Note 3 Non-Interest Financing Income

NIS millions

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

	2019	2018	2017
1. From activity in derivative instruments			
Total from activity in derivative instruments(1)	**(1,513)**	**2,006	**(1,241)
2. From investment in bonds			
Gains from sale of bonds available for sale	**269**	188	119
Losses from sale of bonds available for sale	**(13)**	(35)	(11)
Total from investment in bonds	**256**	153	108
3. Net exchange-rate differences	**1,288**	(1,518)	1,288
4. Gains (losses) from investment in shares			
Net realized and unrealized gains (losses) from adjustments to fair value of shares not held for trading(2)(3)(4)	**335**	378	147
Dividend from shares not held for trading(4)	**17**	27	32
Loss from impairment of affiliates*	**(56)**	-	-
Total from investment in shares	**296**	405	179
5. Net gains (losses) in respect of securitization transactions	**-**	-	-
6. Net gains in respect of loans sold	**9**	56	4
Total non-interest financing income (expenses) in respect of non-trading activities	**336**	1,102	338

* Provision for impairment in respect of the Bank's investments in Bank Pozitif.
** 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 provisions for impairment in the amount of approximately NIS 23 million for the year ended December 31, 2019 (2018: approximately NIS 71 million; 2017: approximately NIS 75 million).
(3) 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.
(4) Until December 31, 2018, shares available for sale.

Note 3 Non-Interest Financing Income (continued)

NIS millions

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

	2019	2018	2017
Net income in respect of derivative instruments held for trading	**253**	**318	**290
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading(1)	**(31)**	27	18
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading	**1**	(2)	6
Total non-interest financing income (expenses) in respect of trading activities***	**223**	343	314
Total non-interest financing income (expenses)	**559**	1,445	652
Details of non-interest financing income in respect of trading activities, by risk exposure:			
Interest rate exposure	**9**	***83	***82
Foreign currency exposure	**201**	***245	***207
Share exposure	**13**	***15	***25
Total	**223**	343	314

* 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 68 million (2018: NIS(6) million; 2017: NIS 2 million).

Note 4 Fees by Management Approach Segment

NIS millions

	For the year ended December 31, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total
Account management	**456**	**277**	**-**	**45**	**49**	**8**	**35**	**-**	**870**
Credit cards	**253**	**59**	**-**	**7**	**2**	**-**	**-**	**-**	**321**
Securities activity	**446**	**34**	**-**	**10**	**69**	**2**	**56**	**81**	**698**
Financial product distribution fees[(1)]	**157**	**8**	**-**	**3**	**3**	**-**	**-**	**-**	**171**
Management, operations, and trust services for institutional entities[(2)]	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**17**
Credit handling	**-**	**18**	**1**	**106**	**88**	**9**	**-**	**-**	**222**
Conversion differences	**153**	**101**	**-**	**13**	**6**	**-**	**5**	**3**	**281**
Foreign-trade activity	**2**	**33**	**-**	**23**	**19**	**3**	**1**	**-**	**81**
Net income from credit portfolio services	**2**	**-**	**12**	**-**	**14**	**-**	**-**	**-**	**28**
Management fees and fees from life insurance and home insurance	**-**	**-**	**45**	**-**	**-**	**-**	**-**	**-**	**45**
Financing transaction fees	**8**	**44**	**-**	**163**	**245**	**19**	**-**	**-**	**479**
Other fees	**14**	**2**	**-**	**-**	**1**	**-**	**2**	**8**	**27**
Total fees	**1,491**	**576**	**58**	**370**	**496**	**41**	**116**	**92**	**3,240**

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds, which are discontinued as of July 2019.

Note 4 Fees by Management Approach Segment (continued)

NIS millions

	For the year ended December 31, 2018									2017
	Retail activity			Business activity						
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total	Total
Account management	471	288	-	45	46	31	39	-	920	943
Credit cards	219	54	-	7	2	-	-	-	282	269
Securities activity	462	33	-	10	76	12	59	89	741	761
Financial product distribution fees(1)	170	8	-	3	1	1	-	-	183	183
Management, operations, and trust services for institutional entities(2)	-	-	-	-	-	-	37	-	37	31
Credit handling	-	18	1	108	86	10	-	-	223	234
Conversion differences	158	101	-	14	6	1	7	4	291	279
Foreign-trade activity	3	33	-	27	14	6	1	-	84	88
Net income from credit portfolio services	5	-	15	-	13	-	-	-	33	38
Management fees and fees from life insurance and home insurance	-	-	45	-	-	-	-	-	45	45
Financing transaction fees*	8	46	-	137	238	21	-	-	450	436
Other fees	17	2	-	-	-	2	-	8	29	31
Total fees	1,513	583	61	351	482	84	143	101	3,318	3,338

* Reclassified in order to properly reflect improvements in segment measurement methods.
(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds, which are discontinued as of July 2019.

Note 5 Other Income

NIS millions

Composition

	2019	2018	2017
Capital gains from sale of buildings and equipment	**4**	28	51
Income from sale of global private banking customer portfolios	**12**	28	51
Others	**74**	49	61
Total other income	**90**	105	163

Note 6 Salaries and Related Expenses

Composition

	2019	2018	2017
Salaries	**2,387**	2,562	2,587
Expense incurred from share-based payment transactions(1)	**158**	65	96
Other related expenses, including study funds, vacation, and sick days	**647**	665	659
Long-term benefits	**7**	2	5
National Insurance and wage tax	**669**	648	683
Pension expenses (including severance pay and allowances)	**146**	151	173
Other post-employment benefits	**4**	4	6
Total salaries and related expenses(2)	**4,018**	4,097	4,209
(1) Of which: expenses arising from transactions accounted for as share-based payment transactions settled in capital instruments	**14**	14	11
(2) Of which: salaries and related expenses abroad	**301**	321	399

Note 7 Other Expenses

NIS millions

Composition

	2019	2018	2017
Pension expenses (including severance pay and allowances), defined benefit (excluding service cost)	**241**	270	288
Marketing and advertising	**165**	141	117
Communications	**191**	191	221
Computers[1]	**553**	450	430
Office	**36**	39	48
Insurance	**20**	11	12
Professional services[2]	**724**	784	320
Wages and reimbursement of expenses for members of the Board of Directors	**7**	7	12
Training and further education	**65**	63	53
Fees	**225**	195	161
Contribution to the community	**35**	36	41
Provision in respect of the investigation of the Bank Group's business with American customers and FIFA[3]	**822**	1,049	503
Others	**340**	251	356
Total other expenses	**3,424**	3,487	2,562

(1) Excluding salaries, depreciation, and amortization.
(2) Includes expenses in connection with the investigation of the Bank Group's business with American customers (including attorney fees, fees of other consultants, and related services; fees of the independent examiner appointed by the United States Department of Justice; and financing of representation of Bank Group employees) and the investigation concerning FIFA, in the amount of NIS 406 million (2018: NIS 526 million; 2017: NIS 89 million).
(3) Of which, expenses (income) for exchange-rate differences in respect of revaluation of the provision in the amount of NIS (177) million (2018: NIS 67 million; 2017: NIS (54) million). The Bank hedges currency exposures arising from these provisions, the offsetting effect of which is allocated to the item "non-interest financing income.".

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss)

NIS millions

A. Composition

	2019	2018	2017
Current taxes:			
In respect of current year	**1,602**	1,879	1,869
In respect of previous years	**100**	138	51
Total current taxes	**1,702**	2,017	1,920
Additions (deductions):			
Deferred taxes:			
In respect of current year	**(21)**	118	46
In respect of previous years	**-**	(126)	(7)
Total deferred taxes	**(21)**	(8)	39
Total provision for taxes[1]	**1,681**	2,009	1,959
(1) Of which: provision for taxes for tax authorities overseas	**10**	5	21

The above table does not include the effect of tax on other comprehensive income. See Note 10.

B. Reconciliation of the theoretical amount of tax for which the Bank would have been liable at the statutory tax rate with the provision for taxes on profit, as recorded in the statement of profit and loss

	2019	2018	2017
Profit before taxes	**3,156**	4,201	4,254
Rate of tax applicable to the Bank in Israel (%)	**34.19**	34.19	35.04
Amount of tax based on statutory tax rate	**1,079**	1,436	1,491
Added (deducted) tax expenses (tax savings) in respect of:			
Income of subsidiaries abroad	**45**	82	35
Exempt income and income taxable at limited rates	**(3)**	(40)	(9)
Depreciation differences, depreciation adjustment, and capital gain	**-**	(1)	3
Non-deductible expenses	**336**	378	222
Timing differences for which deferred taxes were not recorded	**87**	94	52
Taxes in respect of previous years:			
Additional amounts payable in respect of problematic debts	**38**	34	32
Others	**62**	(22)	12
Income of subsidiaries in Israel	**(3)**	49	77
Translation differences in respect of consolidated companies abroad	**40**	(1)	44
Change in balance of deferred taxes due to change in tax rate	**-**	-	-
Change in the balance of the provision for a deferred tax asset	**-**	-	-
Provision for taxes on profit	**1,681**	2,009	1,959

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

C. Tax assessments

1. The Bank has final tax assessments up to and including the year 2015. The subsidiaries have final tax assessments up to and including the year 2013.
2. In December 2016, Isracard received tax assessments from the Customs and VAT Division of the Israel Tax Authority (hereinafter: the "Tax Assessment Notification"), further to a lateral sectoral audit which primarily concerned account settlement of Isracard with respect to issuer fees received from international organizations in connection with cardholders' transactions with businesses overseas, in reference to the period from 2012 to June 2016. The Tax Assessment Notification is in a total amount, in respect of all of its components, of approximately NIS 70 million, excluding interest and linkage. Isracard filed an objection to the VAT assessments on March 9, 2017. The VAT authorities rejected the objection on March 8, 2018. In the ruling regarding the objection, Isracard's arguments were essentially rejected, and in addition, the amounts of the tax assessments were updated to approximately NIS 93 million, excluding interest and linkage. The updated assessments included expansion in respect of the same matters included in the original tax assessment. Based on the opinion of its legal advisors, Isracard filed an appeal statement with the District Court at the end of January 2019. To the extent that Isracard's position is not accepted by the court, Isracard will also be exposed to similar demands in respect of the period following the period of the VAT assessments. In October 2019, Premium Express (formerly Poalim Express, a subsidiary of Isracard) received VAT assessments similar in essence to the tax assessments issued to Isracard, as described above. The tax assessments refer to the period from September 2014 to June 2019. The amount owed according to the VAT assessments for Premium Express, in respect of all of the components thereof, totals approximately NIS 42 million, excluding interest and linkage. Premium Express, also based on the opinion of its legal advisors, filed an objection to the tax assessments with the VAT authorities in December 2019. On November 3, 2019, the Supreme Court approved a consensual petition of Isracard and the VAT Administration to consolidate the appeal with the appeals of Max It Finances Ltd. and Cartisei Ashrai LeIsrael Ltd., which concern similar issues, such that they are heard jointly by the District Court of Tel-Aviv-Jaffa. Isracard includes a provision in its financial statements where such provision is required, and for components in respect of which, according to the opinion of its legal advisors, there is a "possible" risk of future materialization of some of the items in the tax assessment, all in accordance with the directives of the Banking Supervision Department. As at December 31, 2019, Isracard included a provision in its financial statements in respect of the additional period, among other matters, based on the opinion of its legal advisors. Isracard estimates the amount of the exposure of Isracard and of Premium Express in respect of which it did not include a provision in its financial statements at approximately NIS 268 million. The Bank has notified Isracard that to the extent that Isracard and Premium Express are obligated, in a final judicial ruling that cannot be appealed, to pay VAT for the foreign-currency fees collected from customers of the Bank for the Bank, which were transferred to the Bank in full, the Bank will bear the VAT payment in respect of these foreign-currency fees, which is estimated at a total of approximately NIS 55 million (before tax effect), among other matters, subject to granting of the right to the Bank to participate in proceedings pertaining to the dispute concerning the imposition of VAT on such foreign-currency fees.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

3. Within the tax-assessment discussions conducted by the Bank, the Tax Assessment Officer argued that in the sale of a subsidiary classified as an authorized dealer for the purposes of value-added tax, profit tax should also be applied to distributable profits that are exempt from corporate tax under the directives of the Income Tax Ordinance. If the Tax Assessment Officer's position, as described above, is accepted, it will lead to an increase in the tax liability imposed on the Bank in sales of shares of companies classified as authorized dealers in the context of the Value Added Tax Law. As described in Note 15E to the Financial Statements, the Bank included a provision for tax in respect of the expected sale of the Isracard Group. If the position of the Tax Assessment Officer, described above, is accepted, the tax liability for the expected sale will increase by a total of approximately NIS 300 million. According to the estimates of the Bank, based on the opinion of its legal advisors, it is more likely than not that the Bank's position, pursuant to which the basis for imposition of profit tax should not include the amount of distributable profits that are exempt from corporate tax, will be accepted, and therefore, no provision for tax was included in this regard.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes

	Balance as at December 31, 2018	Changes allocated to profit and loss	Changes allocated to other comprehensive income	Balance as at December 31, 2019	Average tax rate December 31, 2019
	NIS millions				%
Deferred tax assets					
From allowance for credit losses	1,856	**(98)**	**-**	**1,758**	**34.2**
From the provision for vacation and bonuses	201	**110**	**-**	**311**	**34.2**
From employee benefits	1,576	**(36)**	**305**	**1,845**	**34.2**
Losses carried forward for tax purposes	307	**82**	**-**	**389**	**26.4**
From securities and other monetary items	60	**(28)**	**(17)**	**15**	**21.4**
From intangible assets	62	**10**	**-**	**72**	**34.0**
From other non-monetary items	45	**(13)**	**-**	**32**	**34.0**
Gross balance of deferred tax assets	4,107	**27**	**288**	**4,422**	**33.2**
Unrecognized deferred tax assets	271	**66**	**-**	**337**	**26.9**
Balance of deferred tax assets net of unrecognized deferred tax assets	3,836	**(39)**	**288**	**4,085**	**28.1**
Deferred tax liabilities					
From securities	6	**7**	**19**	**32**	**17.6**
Fixed assets and leases	144	**(1)**	**-**	**143**	**26.3**
From intangible assets	-	**-**	**-**	**-**	**0.0**
In respect of investments in affiliates*	238	**(104)**	**-**	**134**	**13.5**
Other	1	**-**	**-**	**1**	**33.3**
Gross balance of deferred tax liabilities	389	**(98)**	**19**	**310**	**18.0**
Net balance of deferred tax assets**	3,447	**59**	**269**	**3,775**	**29.4**
* Effects included in discontinued operation	-	**(38)**	**-**	**(38)**	
** Of which: in respect of activity overseas	3	**(1)**	**-**	**2**	

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes (continued)

	Balance as at December 31, 2017	Changes allocated to profit and loss	Changes allocated to other comprehensive income	Balance as at December 31, 2018	Average tax rate Balance as at December 31, 2018
	NIS millions				%
Deferred tax assets					
From allowance for credit losses	1,825	31	-	1,856	34.2
From the provision for vacation and bonuses	234	(33)	-	201	34.2
From employee benefits	1,717	(9)	(132)	1,576	34.2
Losses carried forward for tax purposes	184	123	-	307	26.1
From securities and other monetary items	19	(10)	51	60	24.3
From intangible assets	-	62	-	62	34.1
From other non-monetary items	11	34	-	45	33.3
Gross balance of deferred tax assets	3,990	198	(81)	4,107	33.2
Unrecognized deferred tax assets	143	128	-	271	26.5
Balance of deferred tax assets net of unrecognized deferred tax assets	3,847	70	(81)	3,836	28.7
Deferred tax liabilities					
From securities	43	4	(41)	6	14.3
Fixed assets and leases	138	6	-	144	26.6
From intangible assets	40	(40)	-	-	0.0
In respect of investments in affiliates	146	92	-	238	13.2
Other	1	-	-	1	20.0
Gross balance of deferred tax liabilities	368	62	(41)	389	16.3
Net balance of deferred tax assets*	3,479	8	(40)	3,447	31.3
* Of which: in respect of activity overseas	2	1	-	3	

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

E. Legislative amendments

Income tax

The rate of corporate tax was 25% in 2016.

Following an amendment of the Income Tax Ordinance in December 2016, the rate of corporate tax decreased to 24% in 2017 and 23% from 2018 forward.

Value Added Tax Law, 1975

The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes a wage tax and a profit tax on such institutions. Profit is defined as taxable income, as defined in the Income Tax Ordinance, before offsetting losses from tax years preceding the tax year in which the income was received, and after deducting wage tax, excluding income from dividends received from a financial institution, and including income from interest, from dividends, from the sale or redemption of a unit, or from profit distribution to a unit owner for which an exemption from income tax has been granted under any law.

The rate of profit tax, beginning October 1, 2015, is 17%.

Combined tax rates

As a result of the changes described above, the statutory tax rate applicable to the Bank changed, as detailed in the table below.

Taxes paid on profits of banking corporations include corporate tax, pursuant to the Income Tax Ordinance, and profit tax, pursuant to the Value Added Tax Law, as explained above. Accordingly, the combined tax rates are as follows:

	Profit tax rate	Income tax rate	Combined tax rate
Year			
2017	17.00%	24.00%	35.04%
2018 forward	17.00%	23.00%	34.19%

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

NIS millions

F. Unrecognized deferred tax liabilities in respect of temporary differences related to investments in subsidiaries in Israel

In accordance with the transitional directives established in the directives of the Supervisor of Banks, the Bank did not recognize a deferred tax liability in respect of certain temporary differences formed up to December 31, 2016, which are related to the Bank's investments in subsidiaries that are permanent in essence. These temporary differences may only be taxable at the time of a realization event, including dividend distribution, sale, or liquidation of any of the subsidiaries. If the Bank had been required to recognize a deferred tax liability in respect of the aforesaid undistributed profits, the amount of the liability would have been NIS 1.3 billion as at December 31, 2016, mostly in respect of dividends not expected to be distributed by the affiliates. Beginning January 1, 2017, the Bank recognized a deferred tax liability in respect of temporary differences related to the Bank's investments in subsidiaries.

G. Unrecognized deferred tax liabilities in respect of temporary differences related to investments in foreign subsidiaries

The Bank did not recognize a deferred tax liability in respect of undistributed profits of a foreign subsidiary. In 2019, the cumulative amounts of the undistributed profits before tax at the aforesaid foreign subsidiary totaled approximately NIS 233 million. If the Bank had been required to recognize a deferred tax liability in respect of the aforesaid undistributed profits, the amount of the liability would have been approximately NIS 80 million as at December 31, 2019.

H. Losses carried forward for tax purposes

	December 31, 2019				
	Balance of losses	Deferred tax assets on losses	Unrecognized deferred tax assets	Recognized deferred tax assets	First expiration year
Losses for tax purposes					
Subsidiaries in Israel	**335**	**76**	**(26)**	**50**	**-**
Subsidiaries overseas	**1,139**	**313**	**(311)**	**2**	**2023**

	December 31, 2018				
	Balance of losses	Deferred tax assets on losses	Unrecognized deferred tax assets	Recognized deferred tax assets	First expiration year
Losses for tax purposes					
Subsidiaries in Israel	352	81	(47)	34	-
Subsidiaries overseas	825	226	(224)	2	2023

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

I. Provision for credit losses

In February 2012, the Bank and the Tax Assessment Officer signed an agreement of principles regarding the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded beginning January 1, 2011. In July 2017, an agreement of principles was signed with the Tax Assessment Officer regarding the method of recognition for tax purposes of the allowance for credit losses for debts measured according to the extent of arrears, with respect to debts the allowance for which was included in the books of the Bank beginning January 1, 2014. Principles of the agreements:

1. Allowances for individually examined impaired debts shall be deductible as an expense for tax purposes in the year in which the provision is recorded in the financial statements of the Bank. In a tax year in which the allowance for impaired debts is reduced (other than as a result of "charge-offs" or "debt forgiveness"), additional tax shall be added to the Bank's tax liability, based on the formula agreed upon in the agreement.
2. Half of the annual provision for credit losses in respect of allowances for impaired debts not examined individually shall be deductible as an expense for tax purposes in the first year after the year in which it is recorded, and half shall be deductible in the second tax year after the year in which it is recorded.
3. The annual provision for credit losses in respect of allowances measured on a collective basis is not deductible as an expense for tax purposes.
4. 65% of the increase in the annual allowance for credit losses in respect of housing loans measured according to the extent of arrears, in respect of debts the allowance for which was included in the books of the Bank beginning January 1, 2014, is not deductible.

Note 9 Earnings per Ordinary Share

Composition

	For the year ended December 31		
	2019	2018	2017
Basic earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**1,799**	2,595	2,660
Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions	**1,503**	2,231	2,346

Weighted average number of ordinary shares			
In shares of par value NIS 1			
Balance as at January 1 of issued and paid-up share capital	**1,333,703,474**	1,333,065,159	1,333,550,613
Effect of RSU	**1,029,783**	1,269,814	721,154
Effect of shares purchased during the period	**-**	(562,192)	(803,836)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,334,733,257**	1,333,772,781	1,333,467,931

Diluted earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**1,799**	2,595	2,660
Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions	**1,503**	2,231	2,346

Weighted average number of ordinary shares (diluted)			
In shares of par value NIS 1			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,334,733,257**	1,333,772,781	1,333,467,931
Effect of RSU	**830,756**	2,103,931	2,158,892
Weighted average number of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,335,564,013**	1,335,876,712	1,335,626,823

Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**1.35**	1.95	2.00
Net earnings per share from continued operations	**1.13**	1.68	1.76
Diluted earnings			
Net earnings per share	**1.35**	1.94	1.99
Net earnings per share from continued operations	**1.13**	1.67	1.75

Note 10 Accumulated Other Comprehensive Income (Loss)

NIS millions

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

	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, 2017	356	(35)	(1,160)	(839)	1	(840)
Net change during the year	157	(19)	(82)	56	2	54
Balance as at January 1, 2018	513	(54)	(1,242)	(783)	3	(786)
Net change during the year	(673)	16	249	(408)	-	(408)
Balance as at January 1, 2019	**(160)**	**(38)**	**(993)**	**(1,191)**	**3**	**(1,194)**
Cumulative effect of initial implementation of US GAAP[(1)]	**18**	**-**	**-**	**18**	**-**	**18**
Adjusted balance as at January 1, 2019, after initial implementation	**(142)**	**(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)**

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.

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

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

(1) Cumulative effect of initial implementation of GAAP for US banks regarding financial instruments (ASU 2016-01) and regarding derivatives and hedging (ASU 2017-12), including the related updates. See also Note 1C(1).

Note 10 Accumulated Other Comprehensive Income (Loss) (continued)

NIS millions

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

	For the year ended								
	December 31, 2019			December 31, 2018			December 31, 2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests									
Adjustments for presentation of bonds (2018-2017 – securities) available for sale at fair value[3]									
Net unrealized gains (losses) from adjustments to fair value	**834**	**(275)**	**559**	(495)	163	(332)	389	(107)	282
(Gains) losses in respect of bonds (2017-2018 – securities) available for sale reclassified to the statement of profit and loss[1]	**(253)**	**86**	**(167)**	(425)	84	(341)	(177)	52	(125)
Net change during the year	**581**	**(189)**	**392**	(920)	247	(673)	212	(55)	157
Adjustments from translation*									
Adjustments from translation of financial statements	**-**	**-**	**-**	51	-	51	(64)	-	(64)
Hedges**	**-**	**-**	**-**	(53)	18	(35)	69	(24)	45
Net change during the year	**-**	**-**	**-**	(2)	18	16	5	(24)	(19)
Net actuarial profit (loss) for the year	**(993)**	**348**	**(645)**	233	(85)	148	(268)	90	(178)
Net (gains) losses reclassified to the statement of profit and loss[2]	**117**	**(40)**	**77**	146	(45)	101	146	(50)	96
Net change during the year	**(876)**	**308**	**(568)**	379	(130)	249	(122)	40	(82)
Total net change during the year	**(295)**	**119**	**(176)**	(543)	135	(408)	95	(39)	56
Changes in components of other comprehensive income (loss) attributed to non-controlling interests									
Total net change during the year	**-**	**-**	**-**	-	-	-	2	-	2
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank									
Total net change during the year	**(295)**	**119**	**(176)**	(543)	135	(408)	93	(39)	54

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.

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

(1) 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."

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

Note 11 Cash and Deposits with Banks

NIS millions

Composition

	December 31	
	2019	2018
Cash and deposits with central banks	**83,316**	81,240
Deposits with commercial banks	**4,806**	3,219
Total*,**	**88,122**	84,459
* Of which: cash, deposits with banks, and deposits with central banks for an original period of up to three months	**85,886**	82,217
** Excluding collective allowance for credit losses	**1**	1

Note
With regard to liens, see Note 26.

Note 12 Securities

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 (in shares – 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**
Financial institutions in Israel	**-**	**-**	**-**	**-**	**-**
Foreign financial institutions	**6,830**	**6,722**	**108**	**-**	**6,830**
Others in Israel	**-**	**-**	**-**	**-**	**-**
Foreign others	**2,454**	**2,426**	**31**	**(3)**	**2,454**
Total bonds and debentures available for sale	**50,809**	**50,449**	**(1) 426**	**(1) (66)**	**50,809**

* 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. For details regarding events after the balance sheet date and the effect of the coronavirus, see Note 36, below.

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

Notes

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

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

Note 12 Securities (continued)

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*
3) Investments in shares not held for trading	**1,771**	**1,626**	**(1)150**	**(1)(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**
4) Securities held for trading					
Bonds and debentures					
Israeli government	**6,602**	**6,533**	**69**	**-**	**6,602**
Foreign governments	**3**	**3**	**-**	**-**	**3**
Foreign others	**-**	**-**	**-**	**-**	**-**
Total bonds and debentures held for trading	**6,605**	**6,536**	**69**	**-**	****6,605**
Shares					
Others	**2**	**2**	**-**	**-**	**2**
Total securities held for trading	**6,607**	**6,538**	**(1)69**	**(1)-**	**6,607**
Total securities(2)	**59,486**	**58,912**	**649**	**(71)**	**59,490**

* 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. For details regarding events after the balance sheet date and the effect of the coronavirus, see Note 36, below.

** 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. See Note 26.

Notes

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

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

Note 12 Securities (continued)

NIS millions

	December 31, 2019							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of bonds available for sale in an unrealized loss position								
Bonds and debentures								
Israeli government	**567**	**(2)**	**-**	**(2)**	**-**	**-**	**-**	**-**
Foreign governments	**3,244**	**(39)**	**-**	**(39)**	**2,005**	**(22)**	**-**	**(22)**
Financial institutions in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign financial institutions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign others	**97**	**(2)**	**-**	**(2)**	**319**	**(1)**	**-**	**(1)**
Total bonds and debentures available for sale	**3,908**	**(43)**	**-**	**(43)**	**2,324**	**(23)**	**-**	**(23)**

Notes

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

Note 12 Securities (continued)

NIS millions

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

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

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

(1) Including shares and options without readily determinable fair value, which are stated at cost, in the amount of NIS 1,020 million.

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

Notes

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

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

Note 12 Securities (continued)

NIS millions

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

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities. For details regarding events after the balance sheet date and the effect of the coronavirus, see Note 36, below.
(1) Including shares and options without readily determinable fair value, which are stated at cost, in the amount of NIS 1,020 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 3.8 billion were pledged to lenders. See Note 26.

Notes

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

Note 12 Securities (continued)

NIS millions

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

Notes

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

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

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

NIS millions

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

	December 31, 2019					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	**144,239**	**2**	**862**	**145,103**	**20,042**	**165,145**
Debts examined on a collective basis(1)	**25,011**	**89,700**	**37,833**	**152,544**	**-**	**152,544**
(1) Of which: allowance calculated based on the extent of arrears	**75**	**89,533**	**-**	**89,608**	**-**	**89,608**
Total(2)	**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**
Allowance for credit losses in respect of debts						
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(3)	**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(4)	**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 granted to purchasing groups in the process of construction (December 31, 2018: NIS 124 million).

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

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

NIS millions

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

	December 31, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**[5]	Housing[5]	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	134,459	-	962	135,421	16,526	151,947
Debts examined on a collective basis[1]	27,338	81,330	42,176	150,844	-	150,844
(1) Of which: allowance calculated based on the extent of arrears	124	81,137	-	81,261	-	81,261
Total[2]	161,797	81,330	43,138	286,265	16,526	302,791
(2) Of which:						
Debts in restructuring	676	-	624	1,300	-	1,300
Other impaired debts	1,339	-	82	1,421	-	1,421
Total impaired debts	2,015	-	706	2,721	-	2,721
Debts in arrears of 90 days or more	63	638	107	808	-	808
Other problematic debts	2,997	-	71	3,068	-	3,068
Total problematic debts	5,075	638	884	6,597	-	6,597
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	2,040	-	159	2,199	8	2,207
In respect of debts examined on a collective basis[3]	425	424	710	1,559	-	1,559
(3) Of which: allowance calculated based on the extent of arrears***	-	424	-	424	-	424
Total allowance for credit losses(4)	2,465	424	869	3,758	8	3,766
(4) Of which: allowance in respect of impaired debts	408	-	163	571	-	571

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

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 75 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2018: NIS 124 million).

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

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

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

NIS millions

2. Change in allowance for credit losses*

	Credit to the public				Banks and governments	Total
	Commercial(1)	Housing(1)	Other private	Total		
Allowance for credit losses as at January 1, 2017	3,396	430	794	4,620	7	4,627
Provision for credit losses	(332)	(15)	549	202	-	202
Charge-offs	(1,178)	(25)	(718)	(1,921)	-	(1,921)
Recoveries of debts charged off in previous years	1,037	6	317	1,360	-	1,360
Net charge-offs	(141)	(19)	(401)	(561)	-	(561)
Adjustments from translation of financial statements	-	-	(2)	(2)	-	(2)
Allowance for credit losses as at December 31, 2017	2,923	396	940	4,259	7	4,266
Provision for credit losses	121	33	457	611	2	613
Charge-offs	(801)	(8)	(821)	(1,630)	-	(1,630)
Recoveries of debts charged off in previous years	754	3	325	1,082	-	1,082
Net charge-offs	(47)	(5)	(496)	(548)	-	(548)
Adjustments from translation of financial statements	-	-	3	3	-	3
Allowance for credit losses as at December 31, 2018	2,997	424	904	4,325	9	4,334
Provision for credit losses	**1,055**	**31**	**191**	**1,277**	**(1)**	**1,276**
Charge-offs	**(721)**	**(13)**	**(665)**	**(1,399)**	**-**	**(1,399)**
Recoveries of debts charged off in previous years	**678**	**4**	**365**	**1,047**	**-**	**1,047**
Net charge-offs	**(43)**	**(9)**	**(300)**	**(352)**	**-**	**(352)**
Adjustments from translation of financial statements	**-**	**-**	**-**	**-**	**-**	**-**
Other	**(2)**	**-**	**(5)**	**(7)**	**-**	**(7)**
Allowance for credit losses as at December 31, 2019	**4,007**	**446**	**790**	**5,243**	**8**	**5,251**
Of which: in respect of off-balance sheet credit instruments						
December 31, 2017	559	-	48	607	1	608
December 31, 2018	532	-	35	567	1	568
December 31, 2019	**497**	**-**	**39**	**536**	**1**	**537**

* With regard to the policy of the Bank on this subject, see Note 1E to the Financial Statements.

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

Note 14 Credit to Governments

NIS millions

Composition

	December 31	
	2019	2018
Credit to the government of Israel	**794**	1,092
Credit to foreign governments	**1,177**	1,336
Total credit to governments*	**1,971**	2,428
* Excluding collective allowance for credit losses	**6**	7

Note 15 Investments in Affiliates and Information Regarding the Affiliates*

A. Composition

	2019	2018
	Equity-basis investees	
Investments in shares stated on an equity basis	**175**	92
Other investments		
Investment in subordinated notes	**-**	-
Investment in owner loans	**17**	11
Total investments	**192**	103
Of which:		
Accrued post-acquisition profits, net	**49**	38
Details of the book value and market value of marketable investments		
Book value	**38**	36
Market value	**73**	40

B. Share in profits of equity-basis investees, net

	2019	2018	2017
The Bank's share in net profits (losses) of equity-basis investees	**11**	4	17

* For further details, see Note 1G.

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

NIS millions

C. Details of principal affiliates

	Share in voting rights and in right to receive profits		Investment in shares on an equity basis		Other capital investments		Contribution to net profit attributed to shareholders of the Bank		Dividend recorded		Other items accrued in equity[1]	
	December 31											
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Consolidated companies												
Hapoalim Switzerland Ltd.[2]	**100%**	100%	**315**	(88)	**-**	-	**(689)**	(1,181)	**-**	-	**2**	231
Bank Pozitif Kredi ve Kalkinma Bankasi A.S., a commercial bank in Turkey[3]	**69.8%**	69.8%	**33**	132	**-**	-	**(42)**	(84)	**-**	-	**(1)**	1
Poalim Capital Markets - Investment House Ltd.	**100%**	100%	**997**	952	**-**	-	**45**	34	**-**	-	**-**	9
Tarshish Holdings and Investments Poalim Ltd., financial company	**100%**	100%	**4,740**	4,652	**-**	-	**(16)**	102	**-**	-	**48**	(179)
Opaz Ltd., investments and holdings	**100%**	100%	**1,461**	1,410	**-**	-	**21**	4	**-**	-	**30**	(3)
Continental Poalim Ltd., financial company	**100%**	100%	**531**	528	**-**	-	**3**	1	**-**	-	**-**	-
Hapoalim Nechasim (Menayot) Ltd., holding company	**100%**	100%	**697**	654	**-**	-	**32**	171	**-**	(680)	**11**	(116)
Zohar Hashemesh Lehashkaot Ltd.	**100%**	100%	**918**	813	**850**	850	**84**	12	**-**	-	**21**	(10)
Equity-basis investees												
Isracard Ltd., credit-card services[4]	**33.0%**	98.2%	**849**	2,960	**-**	-	**296**	311	**(851)**	-	**(4)**	1

(1) Including adjustments in respect of the presentation of certain securities of affiliates at fair value.
(2) For details, see Section D below.
(3) The Bank is acting to sell its investment in Bank Pozitif. For details, see Section F below.
(4) Classified as a discontinued operation as of the second quarter of 2018. For details, see Section E below.

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

D. Hapoalim Switzerland

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.

In April 2018, the Bank signed an agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A. for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. In accordance with the agreement, most of the customer assets in Switzerland and Luxembourg were transferred to the buyer in November 2018.

In June 2019, the Bank signed an agreement with Hyposwiss Private Bank Geneva SA for the transfer of most of the remaining global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. During the course of 2019, a substantial part of the remaining accounts at the Switzerland and Luxembourg branches were transferred to Hyposwiss Private Bank Geneva SA, in several phases. Additional transfers may be performed.

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 annual financial statements for 2018 and 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested CHF 300 million in the capital of Hapoalim Switzerland in 2019, and an additional amount of CHF 95 million in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

For further information regarding contingent liabilities and special commitments, see Note 25D.

E. Isracard Group

Pursuant to the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank sold 65.2% of the capital of Isracard in a public sale offering in April 2019, for a total (gross) consideration of approximately NIS 1.76 billion, reflecting a value of NIS 2.7 billion for the company. Immediately prior to the sale, the remaining investment of the Bank in the Isracard Group totaled approximately NIS 2.2 billion (following a reduction due to the distribution of a dividend in the amount of approximately NIS 850 million, and the sale of Premium Express to Isracard in the amount of NIS 456 million).

In accordance with the accounting principles applicable to the Bank, the Bank discontinued the consolidation of the Isracard Group beginning in the second quarter of 2019. The following are the main effects of the discontinuation of consolidation:

- Recognition of profit in the amount of approximately NIS 210 million (after tax and expenses related to the sale offering), in respect of the part of the investment that was sold and in respect of revaluation of the remaining balance of the investment according to the value of the shares at the issuance date. This profit was offset, according to the market price as at June 30, 2019, by a total of approximately NIS 73 million.

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

- First-time recognition of balance sheet and off-balance sheet balances of credit to the Isracard Group in the amount of approximately NIS 3,593 million and approximately NIS 4,466 million, respectively, which were netted as mutual balances prior to the discontinuation of consolidation. In addition, a collective allowance in the amount of approximately NIS 47 million was recognized in respect of these balances.
- A decrease in the balance sheet in the amount of approximately NIS 14 billion in respect of the subtraction of assets and liabilities attributed to a discontinued operation.
- Recording of the investment in the Isracard Group on an equity basis, with the attribution of the surplus cost of the investment over the book value of the assets, identified intangible assets, and goodwill.

Until the end of the first quarter of 2019, the Bank included its 98.2% share of the profits of Isracard. From the date of the public sale offering to March 9, 2020, the Bank's share in the profit of the Isracard Group stood at 33%.

The investment in the Isracard Group totaled approximately NIS 849 million as at December 31, 2019. The contribution of the Isracard Group to the net profit of the Bank amounted to NIS 296 million in 2019, of which NIS 137 million from the sale of 65.2% of the shares of Isracard, and the remainder from the Bank's share, in the amount of NIS 159 million, of the profits of the Isracard Group, compared with NIS 364 million in 2018.

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 Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition. 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 at the distribution date falling below the balance of the investment in the Bank's books at the end of 2019, the Bank will recognize 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.

Prior to the decision regarding the distribution, the Bank of Israel notified the Bank that, considering that the distribution might cause certain shareholders of the Bank to hold shares of Isracard, immediately following the distribution, at a rate requiring a permit from the Governor of the Bank of Israel (over 5%), or requiring amendment of their existing permit, the Bank of Israel would not initiate or recommend enforcement measures against shareholders of the Bank who, as a result of the distribution, would hold shares of Isracard at a rate exceeding 5%, or exceeding the rate permitted to them in a permit from the Governor of the Bank of Israel, subject to the sale of the excess holdings within six months of the actual distribution date, and subject to terms and restrictions on the acquisition of additional means of control in Isracard and on the use of the rights attached to the excess means of control.

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

In April 2019, the Bank of Israel updated the permit for control of Isracard, such that the controlling core which the Bank must hold in Isracard would not fall below 30% of any type of means of control, instead of 50% in the previous permit. Restrictions were imposed on the appointment of directors at the Isracard Group, and restrictions applied to directors who were employees of the Bank serving on the boards of directors of the Isracard Group with regard to the transmission of information from the board of directors to the management of the Bank.

As of March 2020, no employees of the Bank serve on the boards of directors of the Isracard Group.

For further details regarding the presentation of the Isracard Group as a discontinued operation, see Note 1G.

For details regarding legal claims in connection with the Isracard Group, see Note 25B.

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

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).

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 for the payment of VAT on fees collected on its behalf, see Note 8C(2).

F. 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.

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

In October 2019, the Bank engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. The Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 56 million in 2019.

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. 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 Note 24N.

Note 16 Buildings and Equipment

NIS millions

A. Composition

	Buildings and land (including installations and improvements to rented properties)	Equipment, including computers, furniture, and vehicles	Software[(1)]	Total
Cost of assets				
Balance as at December 31, 2017	4,081	2,218	4,144	10,443
Additions	113	119	326	558
Subtractions	(117)	(25)	(22)	(164)
Adjustments from translation of financial statements	-	8	7	15
Balance as at December 31, 2018	4,077	2,320	4,455	10,852
Additions	**71**	**144**	**427**	**642**
Subtractions	**(55)**	**(1)**	**(11)**	**(67)**
Adjustments from translation of financial statements	**-**	**-**	**-**	**-**
Balance as at December 31, 2019*	**4,093**	**2,463**	**4,871**	**11,427**
Depreciation and losses from impairment				
Balance as at December 31, 2017	2,327	1,717	3,276	7,320
Annual depreciation	137	137	263	537
Loss from impairment	3	4	7	14
Subtractions	(97)	(24)	(23)	(144)
Adjustments from translation of financial statements	-	7	7	14
Balance as at December 31, 2018	2,370	1,841	3,530	7,741
Annual depreciation	**160**	**140**	**216**	**516**
Loss from impairment	**-**	**-**	**4**	**4**
Subtractions	**(55)**	**(1)**	**(11)**	**(67)**
Adjustments from translation of financial statements	**-**	**-**	**-**	**-**
Balance as at December 31, 2019	**2,475**	**1,980**	**3,739**	**8,194**
Book value				
Balance as at December 31, 2017	1,754	501	868	3,123
Balance as at December 31, 2018	1,707	479	925	3,111
Balance as at December 31, 2019	**1,618**	**483**	**1,132**	**3,233**
Weighted average depreciation rate, in %, as at December 31, 2018	4.4	13.6	20.0	
Weighted average depreciation rate, in %, as at December 31, 2019	**4.7**	**14.0**	**20.0**	

* Balance of fully depreciated assets included in balance of cost of assets:
Buildings and land, including installations and improvements to rented properties: NIS 1,556 million.
Equipment, including computers, furniture, and vehicles: NIS 1,459 million; software costs: NIS 3,395 million.

(1) Of which: capitalized costs of software developed in-house with a net balance sheet balance in the amount of NIS 959 million (December 31, 2018: NIS 784 million; December 31, 2017: NIS 813 million).

Note 16 Buildings and Equipment (continued)

B. Additional details regarding depreciation:

The depreciation method and the main depreciation rates implemented by the Bank for the various groups of assets are set out below.

Buildings – 2% per year in a straight line.

Land leased from the Israel Land Administration – according to the term of the lease.

Installations and improvements to rental properties – according to the rental period, taking into consideration the Bank's intention to exercise the option to extend the rental period, if such an option exists.

Computers – 20% per year in a straight line.

Office equipment and furniture – 6-15% per year in a straight line.

Software – 20% per year in a straight line.

C. The Bank holds rights in the form of rental or leases in buildings and equipment, for a period not exceeding 49 years from the balance sheet date, in the amount of NIS 131 million (December 31, 2018: NIS 144 million).

D. The balance sheet balance of buildings available for sale, in the amount of NIS 36 million (December 31, 2018: NIS 8 million), is presented after deduction of the provision for impairment. No loss is expected from the realization of the buildings available for sale, beyond the provisions recorded in respect thereof. In addition, the balance sheet balance of buildings sold, possession of which has not yet been transferred, is in the amount of NIS 3 million.

E. Rights to land in the amount of NIS 31 million (December 31, 2018: NIS 28 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delays in the unification of lots, or the rights are in the process of being recorded.

F. The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 39 million (December 31, 2018: NIS 35 million), representing investment property rented to others, in both periods.

Note 17 Other Assets

NIS millions

Composition

	December 31	
	2019	2018
Deferred tax assets, net*	**3,856**	3,512
Current taxes – excess of advances paid over current liability for income tax	**48**	75
Assets received in respect of credit settled	**30**	66
Expenses for issuance of bonds and subordinated notes	**61**	47
Income receivable	**202**	218
Prepaid expenses**	**296**	285
Assets in respect of activity in the Maof market[(1)]	**24**	1,010
Other receivables and debit balances	**764**	637
Total other assets	**5,281**	5,850

* See also Note 8D.
** Includes prepaid expenses in the amount of NIS 21 million in respect of operating leases in which the Bank is the lessee (2018: NIS 16 million).
(1) Stated at fair value.

Note 18 Deposits from the Public

NIS millions

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

	December 31	
	2019	2018
In Israel		
On demand		
Non-interest bearing	**145,695**	134,527
Interest bearing	**86,408**	90,919
Total on demand	**232,103**	225,446
Fixed term	**113,332**	107,694
Total deposits from the public in Israel*	**345,435**	333,140
Outside Israel		
On demand		
Non-interest bearing	**1,193**	2,116
Interest bearing	**5,306**	3,902
Total on demand	**6,499**	6,018
Fixed term	**9,711**	13,102
Total deposits from the public outside Israel	**16,210**	19,120
Total deposits from the public	**361,645**	352,260
* Of which:		
Deposits of private individuals	**165,615**	168,932
Deposits of institutional entities	**48,817**	43,402
Deposits of corporations and others	**131,003**	120,806

B. Deposits from the public by size

	2019	2018
Deposit ceiling		
Up to 1	**122,404**	124,117
Over 1 up to 10	**90,385**	89,745
Over 10 up to 100	**55,261**	52,811
Over 100 up to 500	**35,698**	33,202
Over 500	**57,897**	52,385
Total	**361,645**	352,260

Note 19 Deposits from Banks

NIS millions

Composition

	December 31	
	2019	2018
In Israel		
Commercial banks		
On-demand deposits	**2,105**	2,861
Fixed-term deposits	**532**	161
Acceptances	**339**	526
Central banks		
On-demand deposits	**122**	-
Fixed-term deposits	**-**	-
Outside Israel		
Commercial banks		
On-demand deposits	**8**	3
Fixed-term deposits	**196**	256
Acceptances	**14**	28
Central banks		
On-demand deposits	**-**	-
Fixed-term deposits	**204**	693
Total deposits from banks	**3,520**	4,528

Note 20 Bonds and Subordinated Notes

A. Composition

	December 31			
	2019			2018
	Average duration[1]	Internal rate of return[2]	NIS millions	
Bonds and subordinated notes not convertible into shares				
In Israeli currency[3]				
Unlinked	**1.1**	**6.1%**	**955**	1,857
CPI-linked	**2.9**	**2.5%**	**23,972**	24,643
Linked to foreign currency	**-**	**0.0%**		
In foreign currency				
USD	**0.6**	**4.1%**	**152**	339
Other	**0.3**	**3.6%**	**22**	32
Bonds and subordinated notes convertible into shares				
In Israeli currency[3]				
Unlinked	**-**	**0.0%**		
CPI-linked	**2.5**	**5.8%**	**1,752**	3,153
Linked to foreign currency	**-**	**0.0%**		
Total bonds and subordinated notes*	**2.8**	**2.9%**	**26,853**	30,024
Of which: subordinated notes				
Included in Tier 1 capital	-	-	**733**	977
Included in Tier 2 capital	-	-	**5,929**	6,131
Others not included in capital	-	-	**6,156**	8,263
Total subordinated notes	**2.0**	**4.9%**	**12,818**	15,371

* According to the terms of the issue, under certain circumstances, the bonds are eligible for early redemption.
In order to guarantee bonds issued by consolidated companies, liens were recorded on the companies' assets. For further details, see Note 26 below.

(1) The average duration is the average maturity period, weighted by the cash flow discounted at the internal rate of return.

(2) The internal rate of return is the interest rate that discounts the expected flow of payments to the balance sheet balance included in the financial statements.

(3) Of which: listed on the Tel-Aviv Stock Exchange in the amount of NIS 24,927 million (December 31, 2018: NIS 26,501 million), and the remaining amount not listed.

Note 20 Bonds and Subordinated Notes (continued)

B. Additional details regarding subordinated notes

(1) Subordinated capital notes Series 1 issued in June 2009 for a period of 50 years, which can be redeemed early on July 1, 2020. The subordinated notes have been approved by the Banking Supervision Department as "hybrid capital instruments" included in the Bank's Tier 2 capital. The aforementioned notes are listed for trading on the Tel Aviv Stock Exchange.
Subordinated capital notes (Series C) issued in November 2007 and September 2008 for a period of 99 years, which can be redeemed early beginning in the fifteenth year from their issue, and are included in the Tier 1 capital of the Bank.

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

(3) In April 2019, Hapoalim Hanpakot issued CPI-linked subordinated notes (Series T) to the public, bearing annual interest at a rate of 2.02%, with principal in a total amount of approximately NIS 1 billion, maturing in 2030 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2025). The 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 notes constitute part of the Tier 2 capital of the Bank.

Note 21 Other Liabilities

NIS millions

Composition

	December 31	
	2019	2018
Deferred tax liability, net*	**81**	65
Current taxes – surplus current income-tax liability over advances paid	**309**	268
Income in advance	**286**	285
Employees, in respect of salaries	**1,124**	1,166
Provision for severance pay, retirement compensation, and pensions**	**5,198**	4,296
Expenses payable	**2,246**	1,964
Creditors in respect of credit-card activity	**8,118**	-
Allowance for credit losses in respect of off-balance sheet credit risk	**537**	568
Liabilities in respect of activity in the Maof market[(1)]	**24**	1,010
Other creditors and credit balances	**2,788**	2,219
Total other liabilities	**20,711**	11,841

* See also Note 8D.
** See also Note 22.
(1) Stated at fair value.

Note 22 Employee Benefits

The employees of the Bank include:

a. Permanent and temporary employees – Employees whose terms of employment are established in collective agreements and arrangements formulated from time to time between the Bank and the Employee Union of the Bank;
b. Employees under personal contract – Employees whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them;
c. Employees under executive personal contract – Certain employees within the senior management stratum of the Bank (including the Chairman of the Board of Directors, the CEO, members of the Board of Management, and other senior executives), whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them.

The terms of employment of the employees of the Bank are described in detail below.

A. Terms of employment of permanent and temporary employees

In accordance with the rules customary at the Bank, several processes affect the cost of wages. These processes include, among other matters, promotions and changes in job descriptions; salary raises resulting from accrued seniority; and employee rank increases due to the range of ranks appropriate to a position.

The principal benefits, beyond the regular salary components, to which the aforesaid employees of the Bank are entitled are set out below.

1. Annual bonus contingent upon rate of return

The annual bonus is influenced by the rate of return of net profit on equity. The basic threshold for the distribution of this bonus is a rate of return of 7.5%. Bonuses not dependent on the rate of return, or under circumstances in which the aforesaid rate of return is not attained, can be granted with the approval of the Remuneration Committee and the Board of Directors.

2. Share-based compensation

Pursuant to the wage agreement signed in March 2013 by the Board of Management of the Bank and the Employee Union of the Bank for 2013-2017, the Bank adopted a plan for the allocation of phantom units to employees, in 2013 to 2017, without cost, to be exercised into cash after a vesting period of four years from the year in respect of which each allocation is granted. In 2018 and 2019, following approval by the Remuneration Committee, the Board of Directors approved the extension of this plan. For further information regarding the terms of the phantom units, see Note 23 below.

In light of the new wage agreement, as described in Section 5 below, the phantom option plan for employees, which was the customary practice at the Bank, as noted, was converted to payments of salaries and benefits for entitled employees, at a similar cost. In 2020, the existing liability was extinguished based on its value in the financial statements as at December 31, 2019.

3. Other benefits

In addition to the benefits described above, employees of the Bank are entitled to additional benefits, during and after the period of their employment, primarily the following:

Note 22 Employee Benefits (continued)

Vacation

Bank employees are entitled, by law and according to labor agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses.

25-year service grant

Employees are entitled to a grant at the end of 25 years of employment at the Bank. This liability is calculated based on actuarial calculations, taking into account real salary gains influenced by the employee's age, and capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

Other post-employment benefits

After retirement or after taking early retirement, Bank employees are entitled to a grant in respect of unutilized sick days, benefits for holiday gifts, and participation in well-being costs.

These liabilities are calculated based on actuarial calculations that take into account, as relevant, among other things, a real salary increment, and are capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

4. Retirement compensation and pensions

General information

The pension rights of employees reaching retirement age are covered by the amounts accumulated in pension funds and in allowance-based provident funds. Employees who retire or who take early retirement are not entitled to severance pay.

Pensions for employees taking early retirement

Employees who take early retirement in an allowance-based track are entitled to a monthly bridge pension, until the date established in the retirement agreement.

The provision is based on an actuarial calculation, and is capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

Early retirement of active employees

In addition to the rights described above, in its actuarial calculation of the liability in respect of employee benefits, the Bank includes a liability in respect of employees who the Board of Management of the Bank expects to take early retirement or to depart with other preferred terms.

The liability was calculated based on an actuarial calculation, taking the following into consideration, among other factors:

(1) A real wage increment influenced by the employee's age.

(2) The forecast retirement date and retirement track, taking into consideration rates of departure with enlarged severance pay and early retirement, according to the experience of the Bank and management expectations and decisions, in view of factors including the age and gender of the employee.

(3) A discount rate calculated according to the yield of CPI-linked government bonds in Israel, plus a spread determined according to the directives of the Banking Supervision Department.

(4) A mortality and disability rate based on current mortality tables published by the Chief Actuary of the Ministry of Finance.

Note 22 Employee Benefits (continued)

5. Collective wage agreement for 2018-2022

The wage agreement between the Board of Management of the Bank and the Employee Union of the Bank, which was in effect in 2013-2017 and applied to the permanent and temporary employees of the Bank as specified in the agreement, concluded at the end of 2017. 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.

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 will receive a one-time signing bonus at a total cost of NIS 210 million.

c. The plan for granting phantom units to employees, which was the customary practice at the Bank, will be converted to wages and benefits paid to the entitled employees at a similar cost.

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.

e. 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 are rescinded.

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 210 million, before tax (approximately NIS 138 million after tax), in respect of the one-time bonus.

B. Terms of employment of employees under personal contracts

The customary terms of remuneration for these employees usually include a basic salary, employer contributions to a pension arrangement and study fund, an annual bonus, and other benefits during the period of employment.

Note 22 Employee Benefits (continued)

C. Terms of employment of employees under executive personal contracts

1. General information

On December 19, 2016, the general meeting of shareholders of the Bank approved the officer remuneration plan of the Bank for 2016, valid for three years, pursuant to the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (hereinafter: the "Remuneration Limit Law") and the ceiling established therein (the "Remuneration Ceiling"); the Companies Law, 1999 (the "Companies Law"); and the Banking Corporation Remuneration Policy Directive (the "2016 Remuneration Policy"). On November 29, 2016, the Bank adopted a comprehensive new remuneration policy for its senior executives who are not officers (all parts of the remuneration policy for the different populations within the Bank shall hereinafter be referred to, jointly, as the "2016 Remuneration Policy"), as well as a remuneration plan consistent with this policy (the "2016 Plan"). The 2016 Remuneration Policy and the 2016 Plan were amended from time to time, as necessary. The Bank later adopted additional chapters of the 2016 Remuneration Policy referring to additional categories of employees.

The Bank has also applied some of the principles of its 2016 Remuneration Policy to its subsidiaries in Israel and overseas and to its branches overseas.

At the general meeting held on December 26, 2019, it was resolved to approve extension of the term of the remuneration policy for officers of the Bank for a period of up to twelve additional months, i.e. no later than December 31, 2020.

The main rights and benefits to which the employees of the Bank under executive personal contracts are entitled during the period of their employment, subject to the directives of the 2016 Remuneration Policy, are described below.

2. Chairman of the Board of Directors

Mr. Oded Eran serves as Chairman of the Board of Directors of the Bank, beginning January 1, 2017, under a three-year employment contract ended December 31, 2019. On July 18, 2019, the general meeting of the Bank approved the appointment of Mr. Oded Eran as a director of the Bank for an additional term of service of three years (until December 31, 2022). On November 5, 2019, and November 19, 2019, the Remuneration Committee and the Board of Directors, respectively, approved the extension of the term of the employment agreement of the Chairman until December 31, 2022, with the terms of employment and service of the Chairman to be extended for a period of up to one year (i.e. until December 31, 2020), according to the terms of the existing contract, with no change, except with regard to the linkage of the remuneration to the CPI.

At the general meeting held on December 26, 2019, it was resolved to approve the terms of service and employment of Oded Eran as Chairman of the Board of Directors of the Bank, in accordance with the foregoing.

The employment agreement with the Chairman conforms with the directives of the 2016 Remuneration Policy, the 2016 Remuneration Plan, and the applicable laws, including the Banking Corporation Remuneration Policy Directive, pursuant to which the Chairman shall be entitled to the payment of fixed remuneration only, including a salary (approximately NIS 167,000 per month), related benefits, and fixed equity compensation (at a value of approximately NIS 503,000 per annum).

Note 22 Employee Benefits (continued)

3. CEO of the Bank

Mr. Dov Kotler took office as CEO of the Bank on October 1, 2019. In September 2019, the Remuneration Committee and the Board of Directors of the Bank approved the terms of employment of the CEO for the period from the date on which he took office to the date on which the general meeting convenes, and determined that the terms of service and employment of the CEO are not beneficial compared with the terms of service and employment of the previous CEO of the Bank.

At the general meeting held on December 26, 2019, it was resolved to approve the existing terms of employment of the CEO. The CEO gave notice to the Board of Directors of the Bank that he unilaterally and irrevocably waives the linkage of his remuneration to the maximum ceiling permitted by law. Accordingly, his actual remuneration will be lower than the terms of employment approved.

On November 5, 2019, and November 19, 2019, the Remuneration Committee and the Board of Directors, respectively, approved the extension of the term of the employment agreement of the CEO until December 31, 2022, with the terms of employment and service of the CEO to be extended for a period of up to one year (i.e. until no later than December 31, 2020), according to the terms of the existing contract (after the waiver described above).

The terms of remuneration of the CEO conform with the remuneration policy of the Bank, which was approved by its shareholders on December 26, 2019, pursuant to which the CEO receives (taking into consideration the aforesaid waiver) fixed remuneration only, including salary (approximately NIS 201,500 per month), related benefits, and fixed equity compensation (at a value of approximately NIS 102,000 per annum). The Bank intends to formulate and present for approval new terms of service and employment for the CEO of the Bank during 2020.

4. Previous CEO of the Bank

Pursuant to the employment agreement with the previous CEO, which was in effect until December 31, 2019, he was entitled to fixed remuneration in the amount of approximately NIS 2.5 million, composed of salary and related benefits, as well as equity compensation in restricted shares in the amount of approximately NIS 100,000, all linked to the consumer price index of April 2016. In addition, the outgoing CEO was also entitled to added remuneration in respect of the years 2019 and 2018 up to a ceiling of 35 times the lowest remuneration at the Bank, pursuant to the Remuneration Law, which was paid in restricted shares in the amount of approximately NIS 411 thousand and approximately NIS 84 thousand in those years, respectively. The aforesaid amounts are within the definition of "remuneration" in the Remuneration Law, and do not include employer contributions for retirement and severance pay in accordance with the law. The terms of employment of the outgoing CEO were established in his employment agreement, which was approved by the general meeting in December 2016, and updated immaterially, with the approval of the Board of Directors and the Remuneration Committee, in May 2019, with regard to the salary linkage method.

The remuneration of the outgoing CEO in 2019 also includes NIS 1.7 million in respect of retirement allowance payments, entitlement to which was accrued prior to the Remuneration Law (past rights).

Note 22 Employee Benefits (continued)

5. Members of the Board of Management

Pursuant to the 2016 Plan, the members of the Board of Management are entitled to the following rights and benefits:

1. Fixed remuneration

1.1. General information – Fixed remuneration may include the following components: a monthly salary; a monthly payment without benefits; employer contributions and related benefits; and fixed equity compensation, as described in Section 1.2 below. Retirement payments up to the level of the common practice for other employees of the Bank are classified as fixed remuneration.

1.2. Fixed equity compensation – Each executive shall be granted shares, at no cost, exercise of which is restricted for a period of 36 months from the end of the year in respect of which they are granted. The quantity of shares shall be calculated by dividing the value noted in the 2016 Remuneration Plan, which is established according to the rank of the executive, by the average closing price of the Bank's share on the stock exchange in the 30 trading days preceding the day of the publication of the Bank's annual financial statements. See Note 23 to the Financial Statements.

2. Variable remuneration – risk-adjusted performance-based annual bonus

2.1. Establishment of the personal bonus budget for members of the Board of Management – The annual bonus for members of the Board of Management consists of a performance-based component, which is calculated according to the performance of the Bank and influenced by the personal performance of the member of the Board of Management, and a bonus component at the discretion of the CEO or the supervising forum (for the control and supervision functions, as detailed in the 2016 Remuneration Policy).

2.2. Performance-based component – Each member of the Board of Management shall be assigned a personal bonus budget, based on the difference between the actual ROE and the required cost of capital, as defined in the 2016 Plan (hereinafter: the "ROE Difference"). In a year in which the actual ROE Difference is positive, members of the Board of Management are entitled to a bonus based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5%, to 3% or more, up to a ceiling of four monthly salaries (according to the executive's rank and categorization as a business function or a control and supervision function). Of the personal bonus budget, 50% shall be calculated according to a grade based on the attainment of performance indicators, and 50% shall be fixed.

2.3. Discretionary bonus component – An additional component in the amount of up to three monthly salaries, to be granted at the discretion of the CEO, or the supervising officer for control and supervision functions. This component shall be granted from the "bonus pool," the amount of which shall not exceed two monthly salaries for each member of the Board of Management. If the Bank has "special profits," as defined in the 2016 Plan, the Remuneration Committee and the Board of Directors are permitted to decide to increase the bonus pool to the amount of up to 2.5 monthly salaries for each member of the Board of Management. In a year in which the actual ROE Difference is negative, the recommendation of the CEO or of the supervising officer (for control and supervision functions) shall be subject to approval by the Remuneration Committee and the Board of Directors.

Note 22 Employee Benefits (continued)

2.4. Additional terms – The 2016 Plan includes additional directives relevant to the bonus, in connection with the termination of employment, the postponement and spreading of part of the payment of the bonus, and reduction or reimbursement of the bonus under certain circumstances.

2.5. Legal ceiling – In accordance with the 2016 Plan, variable remuneration may be capped so that it does not exceed the Remuneration Ceiling pursuant to the Remuneration Limit Law.

3. Retirement arrangements

3.1. Pursuant to the 2016 Remuneration Policy, and subject to the transitional directives therein with respect to rights accrued and/or to be accrued (as detailed below), according to the agreements with the members of the Board of Management (including the CEO of the Bank) (hereinafter: the "Senior Employees"), upon the termination of employment as a result of dismissal or resignation, a Senior Employee shall be entitled to severance pay at a rate of 100% in respect of the period from the inception date of the agreement.

3.2. Pursuant to arrangements in previous employment agreements with the Senior Employees, insofar as such agreements exist, it has been determined, with respect to the relevant period of such agreements, that in the event that the Bank decides, on its own initiative, to dismiss one of the Senior Employees or to terminate his or her employment at the end of the period of the agreement, the Senior Employee shall be entitled to severance pay at a rate of 250%. In addition, pursuant to the previous arrangements, when the Senior Employee reaches the date on which the sum of his/her age and his/her period of employment at the Bank exceeds 75 years (for a member of the Board of Management serving at least seven years in his/her position, the number of years of service on the Board of Management shall be added as additional years of employment for the purpose of the accrual of 75 years, as described above), the Senior Employee shall be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his/her last relevant monthly salary, according to the relevant agreement, multiplied by the number of years of employment at the Bank, or a monthly pension (at the rate accrued on his/her behalf, up to a maximum rate of 70% of the salary to which the pension entitlement applies), to be paid from the date of his/her early retirement until he/she reaches the retirement age specified by law. A member of the Board of Management who has reached the age of 62 may choose to receive only a monthly allowance, or severance pay at a rate of 100%.

In addition, pursuant to previous remuneration plans and in respect of previous years, Senior Employees were granted deferred variable remuneration in the form of restricted stock units ("RSU"), the extent of vesting of which is contingent upon the ROE attained (in the three years after the RSU are granted), provided that the Bank is not in material deviation in that year from the required capital-adequacy ratios.

Note 22 Employee Benefits (continued)

6. Senior executives other than members of the Board of Management

The 2016 Plan applies to the Bank's senior executives who are not members of the Board of Management, according to principles similar to those specified above with regard to members of the Board of Management, but at different volumes, including with regard to the weight of each factor in calculating the personal grade for the senior executive. The terms of the plan for senior executives who are not members of the Board of Management (in this item, the "Senior Executives") differ from the terms for members of the Board of Management in the identity of the officials who set targets and assess the attainment thereof, and in the identity of the officials who approve the distribution of the bonus budget and the bonus for each executive. Senior Executives who are on assignment overseas for the Bank will be granted restricted phantom units instead of fixed equity compensation.

With regard to senior executives who are not members of the Board of Management, the following will apply:

a. Annual bonus

2016 Plan

Establishment of the bonus budget for senior executives (who do not belong to the control and supervision functions) – In a year in which the actual ROE Difference is greater than 0.5%, the total bonus budget for each group of area managers, senior unit managers, department managers, and corresponding positions shall be calculated according to the actual ROE Difference, and adjusted to the manager's rank and proportional salary within his or her category. The budget is calculated based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5% to an actual ROE Difference of 4% or more. The ceiling on the annual bonus for these executives is 8-10 monthly salaries (depending on rank).

The 2016 Plan contains directives concerning the distribution of the bonus budget among the senior executives (who do not belong to the control and supervision functions), and concerning the establishment of the personal bonus budget for senior executives in the control and supervision functions and derivation of the personal bonus from this budget.

b. Retirement arrangements

Notwithstanding the foregoing with regard to retirement arrangements for Senior Employees who are members of the Board of Management, senior executives who are not members of the Board of Management shall be entitled to all of the rights accrued up to the end of the arrangements that existed in previous employment agreements with them, insofar as such agreements existed, provided that the forecast expense, as defined in the Remuneration Limit Law, does not exceed the ceiling in the law.

Note 22 Employee Benefits (continued)

Within the previous employment agreements and within the new employment agreements, it is possible for a senior executive to continue to accrue seniority and rights in connection with an early-retirement track, based on the determinant salary in the relevant previous agreement with the senior executive, insofar as such an agreement existed. In the event of retirement in a severance-pay track, the executive may be entitled, in respect of the years of service up to the end of 2016, to severance pay of up to 250% based on the determinant salary according to the relevant previous agreement with the executive. In respect of years of service from 2017 forward, in the event of retirement in a severance-pay track, the executive may be entitled to the higher of 250% severance pay, based on the salary for severance pay, or 100% of the last salary of the executive. Subject to the discretion of the Remuneration Committee and the Board of Directors of the Bank, based on a recommendation of the CEO, and subject to the directives of the law, severance pay can be approved for a senior executive in the amount of up to 175% of his or her last salary, in respect of all of the years of his or her employment. In determining eligibility for the choice of an early-retirement track, a condition of a minimum age of 55 shall be added, and additional conditions may also be added. The choice of an early-retirement track will not be available to senior executives who join the ranks of the senior executives of the Bank for the first time.

The foregoing notwithstanding, senior executives who were subject to a collective agreement on April 12, 2016, and who transitioned or transition from a collective agreement to an executive personal contract after that date, shall be entitled, under certain conditions, to participate in the retirement plans of the Bank, such as they are at that time, or they shall be entitled to severance compensation of 150% in respect of the period during which they were subject to a collective agreement, according to their most recent relevant salary for that period.

Note 22 Employee Benefits (continued)

NIS millions

D. Employee benefit liabilities

	December 31	
	2019	2018
Early retirement and severance pay		
Amount of liability	**8,262**	7,131
Fair value of plan assets	**(4,138)**	(3,722)
Surplus liability over plan assets (included in other liabilities)	**4,124**	3,409
Grant for non-utilization of sick days		
Amount of liability	**395**	339
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**395**	339
25-year service grant		
Amount of liability	**36**	36
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**36**	36
Other benefits at end of employment and post-employment		
Amount of liability	**664**	571
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**664**	571
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**5,219**	4,355
* Of which: in respect of benefits for employees overseas	**34**	54

Note 22 Employee Benefits (continued)

NIS millions

E. Post-retirement benefit plan

(1) Commitments and financing status

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

	For the year ended December 31	
	2019	2018
Net commitment in respect of forecast benefit at beginning of period	**4,319**	4,760
Service cost	**139**	135
Interest cost	**128**	136
Deposits by plan participants	**(29)**	(13)
Actuarial loss (profit)	**1,013**	(237)
Changes in foreign-currency exchange rates	**(5)**	4
Benefits paid	**(343)**	(466)
Subtraction of balances attributed to a discontinued operation	**(39)**	-
Net commitment in respect of forecast benefit at end of period	**5,183**	4,319
Net commitment in respect of cumulative benefit at end of period	**5,005**	4,123

b. Amounts recognized in the consolidated balance sheet

	December 31	
	2019	2018
Amounts recognized in the item "other liabilities"	**5,183**	4,319

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

	December 31	
	2019	2018
Net actuarial loss	**2,374**	1,498
Closing balance in accumulated other comprehensive income	**2,374**	1,498

For details regarding events after the balance sheet date and the effect of the coronavirus, see Note 36, below.

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

	December 31	
	2019	2018
Commitment in respect of forecast benefit	**9,321**	8,041
Commitment in respect of cumulative benefit	**9,143**	7,845
Fair value of plan assets	**(4,138)**	(3,722)

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

Note 22 Employee Benefits (continued)

NIS millions

E. Post-retirement benefit plan (continued)

(2) Expense for the period

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

	For the year ended December 31		
	2019	2018	2017
Service cost	**139**	135	152
Interest cost	**128**	136	153
Subtraction of unrecognized amounts:			
Net actuarial loss (profit)	**117**	146	146
Net total benefit cost	**384**	417	451

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

	For the year ended December 31		
	2019	2018	2017
Net actuarial loss (profit) for the period	**1,013**	(237)	273
Subtraction of actuarial profit (loss)	**(117)**	(146)	(146)
Changes in foreign-currency exchange rates	**(5)**	4	(5)
Subtraction of balances attributed to a discontinued operation	**(15)**	-	-
Total recognized in other comprehensive income (loss)	**876**	(379)	122
Net total benefit cost	**384**	417	451
Total recognized in net benefit cost for the period and in other comprehensive income	**1,260**	38	573

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	**172**
Total expected to be subtracted from accumulated other comprehensive income	**172**

Note 22 Employee Benefits (continued)

E. 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

	December 31	
	2019	2018
Capitalization rate	**0.44%**	1.89%
Rate of increase in the CPI	**2.0%**	2.0%
Rate of increase in remuneration[(1)]	**0.0%-7.5%**	0.0%-7.5%

Departure rates vary by age and gender, and reflect a weighted departure rate of approximately 7.6% per annum.

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

	For the three months ended December 31		For the three months ended September 30		For the three months ended June 30		For the three months ended March 31	
	2019	2018	2019	2018	2019	2018	2019	2018
Capitalization rate	**0.69%**	1.42%	1.24%	1.58%	1.25%	1.32%	1.89%	1.25%
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%	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	
	December 31		December 31	
	2019	2018	**2019**	2018
	NIS millions			
Capitalization rate	**(423)**	(332)	**502**	390
Rate of increase in the CPI	**(42)**	(32)	**52**	39
Departure rate	**188**	165	**(184)**	(161)
Rate of increase in remuneration	**318**	249	**(271)**	(214)

(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 22 Employee Benefits (continued)

E. Post-retirement benefit plan (continued)

(4) Plan assets

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

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

	December 31	
	2019	2018
Liability for severance pay	**3,933**	3,469
Amounts funded for severance pay	**(3,841)**	(3,359)
Net liability	**92**	110

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a compensation track, is immaterial, in light of the low probability of retirement in an increased compensation track. Amounts funded for severance pay are deposited in severance-pay funds in the employees' names. Approximately 45% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. (KGM). The remaining amounts are deposited with a large number of severance-pay provident funds, according to employees' choice.

Note 22 Employee Benefits (continued)

NIS millions

F. Cash flows

(1) Deposits

	Forecast	Actual deposits	
		For the year ended December 31	
	2020*	**2019**	2018
Deposits	**183**	**182**	182

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2020.

(2) Future benefit payments expected by the Bank

Year	
2020	480
2021	509
2022	512
2023	356
2024	331
2025-2029	1,336
2030 forward	2,057
Total	5,581

G. Efficiency plan

On January 12, 2016, the Banking Supervision Department issued a letter concerning improvement of the operational efficiency of the banking system in Israel, requiring banking corporations to examine and approve a multi-year efficiency plan for the five years beginning in 2016 and principles for a long-term improvement in efficiency. Pursuant to the letter, banking corporations that meet the conditions that have been established will receive a relief permitting them to spread the effect of the costs of the plan, for the purpose of calculating capital adequacy, over five years. On December 16, 2019, the term of the letter of the Banking Supervision Department was extended by an additional two years, until December 31, 2021.

On October 27, 2016, the Board of Directors of the Bank approved an efficiency plan for the departure of approximately 1,500 employees of the Bank Group in 2017-2020.

On January 8, 2020, the Board of Directors of the Bank approved an additional efficiency plan, pursuant to which more than 900 additional employees of the Bank will be allowed to take early retirement with preferred terms in 2020-2022. The retirement terms depend on the employee's age and seniority; if the desires of both parties align, the terms allow an early pension, until legal retirement age, for employees who meet the conditions established in the plan.

Note 22 Employee Benefits (continued)

The costs of the update of the actuarial liability in respect of the efficiency plan for 2020-2022, in the amount of approximately NIS 535 million before tax (approximately NIS 352 million after tax), constitute an actuarial loss allocated to other comprehensive income. This amount is subtracted from shareholders' equity as at December 31, 2019, and will be recorded as an expense in the statement of profit and loss over the average remaining term of service of the existing employees, which presently stands at approximately 14 years.
This is in addition to a total of approximately NIS 1.2 billion, before tax, allocated to other comprehensive income and subtracted from shareholders' equity as at December 31, 2016, in respect of the efficiency plan announced in 2016.
In accordance with the reliefs permitted in the letters of the Banking Supervision Department, the effect of the costs of the efficiency plan on the ratio of common equity Tier 1 capital to risk components, which is estimated at approximately 0.22% as at December 31, 2019, will be allocated in equal parts over five years from the date of approval of each plan.

Note 23 Share-Based Payment Transactions

A. Details of share-based payment transactions

Set out below are details regarding share-based payment arrangements that existed at the Bank during the period ended December 31, 2019.

1. Share-based payment for employees of the Bank

2013-2017 plan for employees of the Bank

As noted in Note 22A(2) above, pursuant to the wage agreements that were customary at the Bank, phantom units were allocated to permanent Bank employees and to some employees under personal contracts.
In light of the wage agreement for 2018-2022, the phantom share allocation mechanism for eligible permanent employees will be converted into a salary increment not based on the share price, which will include employer contributions to benefits, at no additional cost to the Bank. 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.
The consideration for the remaining phantom shares that have not been exercised, as noted above, i.e. the part for which a liability has not yet been recorded, shall be realized upon the retirement of each employee, with an age pension or within voluntary retirement, based on the exercise price as at December 31, 2019, as noted above, linked to the consumer price index.
The Bank intends to also apply a similar mechanism to employees under personal contract who are entitled to phantom units.

Note 23 Share-Based Payment Transactions (continued)

2. Restricted shares for members of the Board of Management and senior executives

Within the 2016 Plan, each executive is granted shares, at no cost, exercise of which is restricted for a period of 36 months from the end of the year in respect of which they are granted. The quantity of shares is calculated by dividing the value noted in the 2016 Remuneration Plan, which is established according to the rank of the executive, by the average closing price of the Bank's share on the stock exchange in the 30 trading days preceding the day of the publication of the Bank's annual financial statements.

B. Estimates of fair value of capital instruments granted

Share-based payment transactions settled in capital instruments granted to senior executives

The fair value of restricted shares, RSU, and contingent RSU that have been granted and are to be settled in capital instruments is equal to the price of the Bank's share on the day of the grant, due to the fact that the exercise increment in respect thereof is equal to zero, and they include adjustments for dividend distribution. The Bank adjusts the quantity of contingent RSU expected to vest, according to the forecast ROE difference over the cost of capital.

Note 23 Share-Based Payment Transactions (continued)

C. Additional information regarding share-based payment transactions settled in capital instruments

1. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2019

	Number of units									
	Chairman		Former CEO		Members of the Board of Management		Senior executives		Other key employees	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at beginning of year	-	-	-	4,787	-	49,992	-	223,149	-	27,515
Granted during the year(1)	20,552	-	7,457	-	138,794	-	380,507	-	-	26,106
Forfeited during the year	-	-	-	(1,707)	-	(16,067)	-	(71,997)	-	-
Exercised during the year(2)	(20,552)	-	(7,457)	(3,080)	(138,794)	(33,925)	(380,507)	(151,152)	-	(30,698)
Expired during the year	-	-	-	-	-	-	-	-	-	-
Outstanding at end of year(3)	-	-	-	-	-	-	-	-	-	22,923
(1) Weighted average fair value of shares granted during the year at the date of measurement, in NIS	24.77		24.77		24.77		24.77		24.77	
(2) Weighted average share price at the exercise date of the units exercised during the year, in NIS	24.77		26.29		25.88		26.18		28.65	
(3) Shares outstanding at end of year:										
Number of shares	-	-	-	-	-	-	-	-	-	22,923
Weighted average balance of contractual lifetime (in years)	-	-	-	0.00	-	0.00	-	0.00	-	1.38

Note 23 Share-Based Payment Transactions (continued)

C. Additional information regarding share-based payment transactions settled in capital instruments (continued)

2. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2018

	Number of units									
	Chairman		CEO		Members of the Board of Management		Senior executives		Other key employees	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at beginning of year	-	-	-	9,574	-	233,372	-	933,359	-	60,705
Granted during the year(1)	20,384	-	4,052	-	38,031	-	365,523	-	-	16,557
Forfeited during the year	-	-	-	-	-	-	-	(4,705)	-	-
Exercised during the year(2)	(20,384)	-	(4,052)	(4,787)	(38,031)	(183,380)	(365,523)	(705,505)	-	(49,747)
Expired during the year	-	-	-	-	-	-	-	-	-	-
Outstanding at end of year(3)	-	-	-	4,787	-	49,992	-	223,149	-	27,515
(1) Weighted average fair value of shares granted during the year at the date of measurement, in NIS	24.68		24.68		24.68		24.68		24.68	
(2) Weighted average share price at the exercise date of the units exercised during the year, in NIS	24.68		24.12		23.83		24.00		23.65	
(3) Shares outstanding at end of year:										
Number of shares	-	-	-	4,787	-	49,992	-	223,149	-	27,515
Weighted average balance of contractual lifetime (in years)	-	-	-	1	-	1.00	-	1.00	-	1.20

Note 23 Share-Based Payment Transactions (continued)

D. Liabilities arising from share-based payment transactions settled in cash

1. Further details regarding phantom units granted to employees as at December 31, 2019

Exercise price range in NIS	**-**
Number of phantom units granted but not yet exercised	**10,432,251**
Of which: exercisable	**-**
Average years to expiration	**0.0**

Further details regarding phantom units granted to employees as at December 31, 2018

Exercise price range in NIS	-
Number of phantom units granted but not yet exercised	16,819,754
Of which: exercisable	-
Average years to expiration	1.5

2. Further details regarding restricted phantom units and contingent restricted phantom units for senior executives settled in cash as at December 31, 2019

	Restricted	Contingent	Total
Exercise price range in NIS	**-**	**-**	**-**
Number of phantom units granted but not yet exercised	**66,903**	**-**	**66,903**
Of which: exercisable	**-**	**-**	**-**
Average years to expiration	**1.04**	**-**	**1.04**

Further details regarding restricted phantom units and contingent restricted phantom units for senior executives settled in cash as at December 31, 2018

	Restricted	Contingent	Total
Exercise price range in NIS	-	-	-
Number of phantom units granted but not yet exercised	75,957	54,650	130,607
Of which: exercisable	-	-	-
Average years to expiration	1.30	1.25	1.28

3. Further details regarding the total liability arising from share-based payment transactions and regarding the internal value of liabilities in respect of which the counterparty's right to cash vested by the end of the year

	December 31	
	2019	2018
	NIS millions	
Total liabilities arising from share-based payment transactions	**295**	239
Internal value of liabilities in respect of which the counterparty's right to cash or other assets vested by the end of the year	**295**	107

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity

A. Share capital

	December 31		December 31	
	2019	2018	**2019**	2018
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,335,168,159**	1,333,703,474

* Issued capital after the deduction of 2,208,952 ordinary shares (December 31, 2018: 3,673,637 ordinary shares) purchased by the Bank, as detailed below. The shares are registered for trading on the Tel Aviv Stock Exchange.

B. Dividends

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

C. Dividend payments

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

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019 (see Note 15E to the Financial Statements), the Bank accumulated additional capital surplus in the amount of approximately NIS 1.3 billion (of which approximately NIS 0.3 billion in respect of a decrease in the operational risk of Isracard, which will be recognized gradually, over a period of three years). With respect to this capital surplus, in September 2019 the Board of Directors of the Bank declared the distribution of dividends in the amount of NIS 1 billion, paid in October 2019.

The 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.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

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
May 23, 2018	June 12, 2018	18.825	251
March 25, 2018	April 11, 2018	18.345	245

* 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..

D. Basel 3 directives

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

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

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital adequacy in consolidated data

	December 31, 2019	December 31, 2018
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital(1)	**38,795**	38,004
Additional Tier 1 capital	**733**	977
Total Tier 1 capital(1)	**39,528**	38,981
Tier 2 capital	**9,707**	10,042
Total overall capital(1)	**49,235**	49,023
2. Weighted balances of risk-adjusted assets		
Credit risk(2)	**309,303**	312,900
Market risks	**3,528**	3,429
Operational risk	**23,556**	24,268
Total weighted balances of risk-adjusted assets(2)	**336,387**	340,597
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components	**11.53%**	11.16%
Ratio of Tier 1 capital to risk components	**11.75%**	11.44%
Ratio of total capital to risk components	**14.64%**	14.39%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**10.27%**	10.24%
Minimum total capital ratio required by the Banking Supervision Department(3)	**13.77%**	13.74%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency 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 J below.

(2) A total of NIS 883 million as at December 31, 2019, and NIS 640 million as at December 31, 2018, was deducted from the total weighted balances of risk-adjusted assets, due to adjustments in respect of efficiency plans, which, in accordance with the approval of the Banking Supervision Department, are allocated gradually over five years, beginning at the inception date thereof.

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

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital adequacy in consolidated data (continued)

	December 31, 2019	December 31, 2018
	NIS millions	
4. Significant subsidiaries		
Hapoalim Switzerland[(1)(2)]		
Ratio of common equity Tier 1 capital to risk components	**18.27%**	(24.27%)
Ratio of Tier 1 capital to risk components	**18.27%**	(24.27%)
Ratio of total capital to risk components	**18.31%**	(24.18%)
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
	Basel 2[(3)]	
Bank Pozitif[(1)]		
Ratio of Tier 1 capital to risk components	**33.09%**	31.96%
Ratio of total capital to risk components	**33.09%**	31.96%
Minimum total capital ratio required by local regulation	**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 annual financial statements for 2018 and 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested CHF 300 million in the capital of Hapoalim Switzerland in 2019, and an additional amount of CHF 95 million in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.
(3) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Capital components for the calculation of the capital ratio (continued)

	December 31, 2019	December 31, 2018
	NIS millions	
Common equity Tier 1 capital		
Total capital	**38,221**	37,656
Differences between total capital and common equity Tier 1 capital	**(25)**	(72)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**38,196**	37,584
Supervisory adjustments and deductions:		
Goodwill and intangible assets	**(7)**	-
Deferred tax assets	**(50)**	(34)
Other supervisory adjustments and deductions – common equity Tier 1 capital	**(1)**	(3)
Total supervisory adjustments and deductions, before efficiency plan adjustments – common equity Tier 1 capital	**(58)**	(37)
Total efficiency plan adjustments – common equity Tier 1 capital*	**657**	457
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**38,795**	38,004
Additional Tier 1 capital		
Total additional Tier 1 capital	**733**	977
Total Tier 1 capital, after supervisory adjustments and deductions	**39,528**	38,981
Tier 2 capital		
Tier 2 capital – instruments, before deductions	**5,929**	6,131
Tier 2 capital – allowance for credit losses, before deductions	**3,778**	3,911
Total Tier 2 capital	**9,707**	10,042
Total overall capital	**49,235**	49,023

* 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. Effect of efficiency plan adjustments on the common equity Tier 1 capital ratio

	December 31, 2019	December 31, 2018
	%	
Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components before the effect of the efficiency plan adjustments	**11.31%**	11.00%
Effect of efficiency plan adjustments*	**0.22%**	0.16%
Ratio of common equity Tier 1 capital to risk components	**11.53%**	11.16%

* 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 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

H. 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 December 31, 2019

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

I. Capital-adequacy target

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

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at December 31, 2019, stand at 10.27% and 13.77%, respectively.

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

On March 1, 2020, the Banking Supervision Department issued a circular on the subject, "Capital measurement and adequacy – introduction, application, and calculation of requirements and leverage ratio," updating Proper Conduct of Banking Business Directives 201 and 218. Pursuant to the circular, a banking corporation of significant importance is a banking corporation whose total balance sheet assets on a consolidated basis are equal to or greater than 24% of the total balance sheet assets of the banking system.

The circular is not expected to change the status of the Bank as a banking corporation of significant importance.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

J. 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.

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. 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 0.22% as at December 31, 2019.

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

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

In March 2020, the Board of Directors of the Bank approved the facility for raising debt instruments and secondary capital for 2020. The Bank is preparing to raise debt and secondary capital according to requirements.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

L. Early redemption of capital notes in Tier 1 capital

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

M. Buybacks by banking corporations

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

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

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

N. 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%.

The effect of this instruction on the common equity Tier 1 capital ratio, based on data as at December 31, 2019, is a decrease of approximately 0.03%, under the assumption of weighting of the risk-adjusted assets at 300%, and a decrease of approximately 0.09%, under the assumption of weighting of the risk-adjusted assets at 600%.
Within the strategic plan, a decision was made to gradually reduce the credit portfolio.
The Bank has commenced activities towards selling its full holdings in Bank Pozitif (for further information, see Note 15F, above).

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

O. Leases

The effect of the implementation of the new accounting standard concerning leases, implemented as of 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 1F above.

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 20% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, "Leverage Ratio." The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction. Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

On March 1, 2020, the Banking Supervision Department issued a circular on the subject, "Capital measurement and adequacy – introduction, application, and calculation of requirements and leverage ratio," updating Proper Conduct of Banking Business Directives 201 and 218. Pursuant to the circular, a banking corporation of significant importance is a banking corporation whose total balance sheet assets on a consolidated basis are equal to or greater than 24% of the total balance sheet assets of the banking system.

The circular is not expected to change the status of the Bank as a banking corporation of significant importance.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

	December 31, 2019	December 31, 2018
	NIS millions	
a. Consolidated data		
Tier 1 capital*	**39,528**	38,981
Total exposures*	**519,648**	518,980
	%	
Leverage ratio	**7.61%**	7.51%
Minimum leverage ratio required by the Banking Supervision Department	**6.00%**	6.00%
b. Significant subsidiary		
Bank Pozitif		
Leverage ratio	**29.73%**	26.56%
Minimum required leverage ratio according to local regulation	**3.00%**	3.00%

* 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 December 31, 2019, estimated at approximately 0.13%, is allocated in equal parts over five years, beginning at the inception date thereof.

	Effect of decrease of NIS 100 million in Tier 1 capital	Effect of increase of NIS 1 billion in total exposures
	%	
c. Effects on the leverage ratio as at December 31, 2019		
The Bank in consolidated data	**(0.02%)**	**(0.01%)**

Note 24 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 58.

	For the three months ended December 31, 2019	For the three months ended December 31, 2018
	%	
a. Consolidated data		
Liquidity coverage ratio	**121%**	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
b. Bank data		
Liquidity coverage ratio	**120%**	118%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
c. Significant subsidiary*		
Hapoalim Switzerland		
Liquidity coverage ratio according to local regulation	**710%**	266%
Minimum liquidity coverage ratio required by local regulation**	**100%**	90%

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

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

Note 25 Contingent Liabilities and Special Commitments

NIS millions

A. Off-balance sheet commitment in respect of activity, based on extent of collection[1] at year end

	December 31	
	2019	2018
Credit balance from deposits based on extent of collection[2]		
Israeli currency unlinked	**24**	28
Israeli currency linked to the CPI	**1,183**	1,313
Foreign currency	**175**	202
Total	**1,382**	1,543

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Standing loans and government deposits granted in respect thereof, in the amount of NIS 123 million (2018: NIS 87 million), were not included in this table.

Flows in respect of collection fees and interest margins in respect of this activity, based on extent of collection[1]:

	December 31, 2019							December 31, 2018
	Up to one year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total	Total
CPI-linked segment[2]								
Future contractual flows	**10**	**12**	**7**	**7**	**4**	**1**	**41**	54
Expected future cash flows after management estimate of early repayments	**10**	**11**	**5**	**5**	**2**	**-**	**33**	44
Capitalized expected cash flows after management estimate of early repayments[3]	**10**	**11**	**6**	**5**	**2**	**-**	**34**	44

Information on loans granted during the year at mortgage banks:

	December 31	
	2019	2018
Loans from deposits, based on extent of collection	**124**	88
Standing loans	**42**	36

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with a margin or collection fee (instead of a margin).
(2) Including the foreign-currency segment.
(3) The capitalization was performed based on a rate of -0.59% (2018: a rate of 0.32%).

Note 25 Contingent Liabilities and Special Commitments (continued)

B. Contingent liabilities and other special commitments

	December 31	
	2019	2018
1. Commitment to purchase securities	**577**	460
2. Construction and acquisition of buildings and equipment	**19**	11
3. Long-term rent contracts – rent for buildings and equipment in commitments payable in future years:		
First year	**147**	139
Second year	**142**	134
Third year	**133**	124
Fourth year	**123**	115
Fifth year	**106**	107
Over five years	**763**	887
Total rent on buildings and equipment	**1,414**	1,506

4. In March 2008, the Bank sold provident fund member portfolios to Psagot Provident and Pension Funds Ltd. (hereinafter: "Psagot"). Subsequent to the sale, the Bank guaranteed the payment on the date of entitlement of at least the nominal amount of the fund's receipts in the member's account, less deductions permitted by law to cover the fund's expenses, tax deductions, and any amount that the fund was obligated to repay to the member's employer, all in accordance with the approved articles of association of each fund.
As part of the sale, Psagot undertook a commitment to transfer the Bank's guarantee to an insurer or other party approved by the Supervisor when seven years have elapsed from the date of completion of the transaction, in a manner granting the Bank final and absolute release from its guarantee. The articles of the funds of Psagot state that as long as the Supervisor has not approved the replacement or assignment of the Bank's guarantee, the Bank's guarantee for some of the members of the provident funds shall remain in effect. As at the balance sheet date, the guarantee granted to Psagot has been extended until the end of 2020, subject to an indemnity letter received from Psagot by the Bank. The balance of nominal amounts for which the Bank is a guarantor amounted to NIS 1,460 million at the balance sheet date, and the balance of members' accounts amounted to NIS 6,847 million at the balance sheet date. It is emphasized that the "fair value" of the Bank's liability in respect of the aforesaid guarantees as at December 31, 2019, is immaterial.

Note 25 Contingent Liabilities and Special Commitments (continued)

5. All of the directors and officers serving at the Bank (as well as past directors and officers) have letters of indemnity, pursuant to which the Bank undertakes a commitment to indemnify the officers, among other matters, for monetary indebtedness imposed upon them in connection with specified events (up to a cumulative indemnity amount for all officers of 25% of the shareholders' equity of the Bank, according to its most recent known financial statements before the actual indemnity payment), and to indemnify them for reasonable litigation expenses, including attorneys' fees, in various proceedings (including administrative proceedings), all as specified in the letter of indemnity and in accordance with the directives thereof. In 2019, the Bank bore litigation costs of past and present officers in various proceedings (attorneys' fees for derivative proceedings and the investigation of the American authorities), in negligible amounts. The granting of the letters of indemnity was approved by the general meeting of the Bank on January 3, 2012 (and, with respect to directors and officers of the Bank in the granting of letters of indemnity to whom the controlling shareholder of the Bank, at the time, could be considered to have an interest, also renewed on February 18, 2016; the Bank's commitment pursuant to the letters of indemnity will also apply to events that occurred prior to the issuance and renewal of the letters). Occasionally, the Bank, with the approval of the Board of Directors, undertakes a commitment to indemnify certain employees who are not officers of the Bank, under special circumstances (such as in connection with their service as directors at an affiliate of the Bank). Such letters of indemnity were granted in 2019 to two employees serving as officers at an affiliate, in connection with their service, limited to an indemnity ceiling of up to 10% of the shareholders' equity of the Bank.

6. The Bank has undertaken a commitment to indemnify subsidiaries, for all of their liabilities, in order to comply with the limits of the Proper Conduct of Banking Business Directives (the ratio of capital to risk components and the limits on indebtedness of a single borrower and of related persons), and in order to receive an exemption from implementation of Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy." This indemnification will expire automatically, without the need for any action to be taken by any of the parties, when the Bank ceases to hold any means of control in the company, on its own or through companies under its full ownership.

7. Hapoalim Hanpakot Ltd. (hereinafter: "Hapoalim Hanpakot") made decisions, in 1988-2019, to approve indemnification in respect of prospectuses according to which shelf offer reports for the issuance of bonds (Series 32-36), subordinated notes (Series J-T), and subordinated capital notes (Series 1) were published during these years, including all matters arising from and/or related thereto, directly or indirectly (hereinafter: the "Event"), for directors and other officers, as well as for the legal advisors of the issuances (hereinafter: the "Indemnification Recipients"), in respect of monetary indebtedness to be imposed upon them due to actions they performed in their capacity as officers of the company and/or in providing services to the company, as detailed in the prospectuses published in respect of the issuances. The indemnity ceiling in respect of these issuances for all of the Indemnification Recipients in aggregate was set at a maximum amount not to exceed 10% of the total amount of the facility established for the issuance pursuant to the aforesaid prospectuses and shelf offer reports. Note that the Bank is a guarantor for the indemnification of the directors and officers. In addition, Hapoalim Hanpakot commits from time to time to grant indemnification to trustees of the debt certificates that it issues, within the relevant trust notes.

Note 25 Contingent Liabilities and Special Commitments (continued)

8. Within the shelf offer report for the listing of bonds (Series 35) and subordinated notes (Series R) published by Hapoalim Hanpakot on June 4, 2018 (hereinafter: the "Shelf Offer Report"), Hapoalim Hanpakot undertook a commitment to grant the pricing underwriter, Poalim IBI (a related party), indemnification for a monetary indebtedness imposed upon the underwriter in favor of another person pursuant to a verdict due to a misleading detail in the Shelf Offer Report or in the shelf prospectus, and in respect of reasonable litigation expenses, or in connection with a criminal indictment in which the underwriter was acquitted, or in which the underwriter was convicted of an offense that does not require mens rea, or due to an investigation or proceeding conducted against the underwriter by the government agency authorized to conduct the investigation or proceeding, and which concluded without an indictment, and without any financial obligation imposed as a substitute for a criminal proceeding, or which concluded without an indictment, but with the imposition of a financial obligation as a substitute for a criminal proceeding, for an offense that does not require proof of mens rea, all due to a misleading detail in the Shelf Offer Report. The total indemnity amount, in any event, shall not exceed the total value of the securities listed pursuant to the Shelf Offer Report at the date of listing thereof (linked to the consumer price index, beginning with the known CPI at the date of signing of the underwriting agreement) (hereinafter: the "Maximum Indemnity Amount"). The foregoing notwithstanding, the amount paid in respect of the indemnity shall not exceed, in aggregate, 25% of the shareholders' equity of Hapoalim Hanpakot, according to its most recent consolidated financial statements (audited or reviewed) at the time of the demand for indemnification by the underwriter (hereinafter: the "Interim Amount"), if there is a reasonable concern that the payment thereof would prevent it from meeting its existing and expected obligations (with the exception of the obligations of Hapoalim Hanpakot towards its controlling parties) at the date of the demand for indemnification by the underwriter (hereinafter: the "Condition"). However, when such reasonable concern ceases to exist, the underwriter shall be entitled to supplementation of the indemnity up to the amount of the difference between the Maximum Indemnity Amount and the Interim Amount, all as stated in the underwriting agreement and subject to the directives thereof.

9. Under an agreement, a contingent liability exists between the TASE Clearing House and the members of the Tel-Aviv Stock Exchange Ltd. (including the Bank) with regard to mutual indemnification among the members of the TASE Clearing House to pay money, in full or in part, or securities cleared, in full or in part, which one of the members of the TASE is obligated to pay or deliver, or if the Clearing House has paid the said unpaid monies or purchased the undelivered cleared securities and delivered them to the designated recipient to which they are owed.

Each member's share of the indemnification is equivalent to the ratio of the member's financial turnover to the total financial turnover of all of the members responsible for payment to the Clearing House for the loss, for a period of twelve months ending on the last day of the month preceding the month in which the event that caused the loss occurred.

Note 25 Contingent Liabilities and Special Commitments (continued)

10. Consolidated companies of the Bank are engaged in a range of trust services, both in the business field and in the private and personal fields, in favor of various beneficiaries who own monies, rights, and other assets, which are held and managed according to the instructions of the owners. In the area of business trusts, the companies mainly serve as trustees for the Corporate Banking Division, to safeguard collateral used to secure credit transactions; the companies also serve as trustees to ensure that the terms of business agreements between parties are fulfilled.

11.a. In October 1985, Hapoalim Switzerland leased a building used for its activity, 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 disputes this position, and according to the position of its legal advisors, it is unlikely that it will be held responsible for the share of the banking corporation in the lease, taking into consideration, among other matters, the fact that it sold part of the rights to the lease, as noted, and taking into account the robustness of the lessee and the fact that it is a banking corporation. Hapoalim Switzerland has a provision in the amount of approximately CHF 23 million in respect of the difference between the contractual leasing fee for its share of the property and the fair value of the liability in respect of its share for the remainder of the period of the lease. The additional exposure in respect of the leasing fee for the share of the banking corporation stands at approximately CHF 23 million, in respect of which no provision was made, based on the evaluation of the legal advisors of Hapoalim Switzerland, as noted above. It should also be noted that in connection with creditors calls issues in the course of the closing processes of Hapoalim Switzerland, the Third Party, which also serves as the administrative manager of the property, demanded to secure Hapoalim Switzerland's obligation to pay rent and related costs for the portion of the property in its use for the entire lease period. According to Hapoalim Switzerland's legal counsels, this demand does not increase the extent of the exposure of Hapoalim Switzerland in respect of rent (for its part) beyond the provision already made, as noted above, as it can, in fact, be considered part of the lessor's requirement for Hapoalim Switzerland.

Note 25 Contingent Liabilities and Special Commitments (continued)

b. In the fourth quarter of 2018, a transaction was completed for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg to Bank J. Safra Sarasin AG and Banque Safra Sarasin (Luxembourg) SA (jointly, "Safra Sarasin"). As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland will indemnify Safra Sarasin for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser.
c. An agreement between Hapoalim Switzerland and Hyposwiss Private Bank Geneva SA was signed, in June 2019, for the sale of the remaining customer portfolio at the Switzerland and Luxembourg branches. The sale is being performed in several phases. In accordance with the trajectory in the transaction, the Bank paid the buyer for this transfer. As part of the transaction, indemnity arrangements were agreed upon, pursuant to which, among other matters, Hapoalim Switzerland will indemnify Hyposwiss Private Bank Geneva SA, including for payments and expenses of the purchaser in connection with legal proceedings and investigations of government agencies, in the amount of up to CHF 50 million, arising from events preceding the completion of the transaction. The Bank is a guarantor for the commitments of Hapoalim Switzerland towards the purchaser.

C. 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 December 31, 2019, that have a "reasonably possible" probability of materialization amounts to approximately NIS 302 million.
a. Set out below are details of the claims, including petitions to certify and administer claims as class actions, in which the amount claimed (at the filing date) is material (claim amounts listed below are the amounts noted in the claims). In the opinion of the Bank's Board of Management, based on the opinion of the management of the relevant consolidated companies and equity-basis investees, and based on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, where necessary, in accordance with generally accepted accounting principles, in respect of all probable losses arising from these claims.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

1. On February 19, 2019, the District of Columbia Court of Appeals in the United States accepted an appeal filed with regard to the verdict of the Federal Court of Washington DC, which dismissed in limine the claim filed by several Palestinian claimants against a long list of defendants, including the Bank. According to the claimants, the claim concerns "war crimes in East Jerusalem, the Judea and Samaria regions, and the Gaza Strip," and assistance allegedly granted by the defendants for these activities. With respect to the Bank, the allegation is that this assistance takes the form, among other matters, of monetary transfers performed through the Bank's branches in the United States, financing of activity in Judea and Samaria, etc. The claim is in the amount of USD 1 billion, against all of the defendants. In contradiction of the position of the lower court, the appellate court ruled that the claim was not entirely political and nonjusticiable, and that at least some of the sections of the claim could be examined by judicial means. Upon acceptance of the appeal, the case was remanded for hearing by the Federal Court of Washington DC.

2. A claim and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on January 11, 2017. The claimant set the amount of the claim at approximately NIS 591 million, but requested permission to amend this amount according to the facts that emerge.

The petitioner alleges that the Bank collects fees for bounced checks from customers whose accounts have been restricted with respect to check drawing, in contradiction of the directives of the law, or in accordance with regulations enacted without authority and in contradiction of the directives of primary legislation. Among other matters, the petitioner argues that if a person's account has been restricted, checks drawn by that person should not be considered checks, but are merely pieces of paper; thus, refusal to accept them does not constitute a service for which the collection of a fee is permitted. The petitioner argues that the collection of fees for a bounced check due to the fact that the account is restricted, in both the drawn account and the credited account, constitutes a violation of the duties that apply to the Bank in its relationships with its customers. The District Court handed down its ruling on February 21, 2019, dismissing the claim (hereinafter: the "Ruling"). On April 3, 2019, the claimant filed an appeal of the Ruling. On January 5, 2020, the Supreme Court denied the appeal, thereby concluding the proceeding.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

3. A claim and an amended petition to certify the claim as a class action against three credit-card companies, including Isracard Ltd. (which is held at a rate of 33% by the Bank at the balance sheet date), were filed with the Central District Court on June 9, 2016. The damage claimed against all of the respondents is estimated by the petitioners at approximately NIS 4.2 billion in a "conservative" scenario, approximately NIS 6.9 billion in a "reasonable" scenario, and approximately NIS 8.4 billion in an "extreme" scenario. The claimants allege that the three credit-card companies are parties to a restrictive arrangement that has not been approved as required by law, in which, in immediate debit and prepaid transactions, they unlawfully delay funds owed to the merchants, and they charge the merchants a fee calculated based on the interchange fee, as is the practice for deferred-payment transactions. It is further alleged that sections of the merchant agreement constitute depriving conditions in a uniform contract. After the district court expressed its position concerning its lack of jurisdiction to hear some of the matters raised in the petition, in October 2017 the petitioner and the non-profit organization Hatzlacha filed an originating motion with the Restrictive Trade Practices Tribunal requesting a declaration by the tribunal that the interchange fee for debit cards had not been approved by the tribunal within the approval granted for the interchange fee for deferred-debit cards. This proceeding was dismissed in limine in October 2018 (hereinafter: the "Originating Motion Ruling"). An appeal of the Originating Motion Ruling was filed by the petitioner and Hatzlacha with the Supreme Court, in which the court is asked to rescind the Originating Motion Ruling and order the hearing to be returned to the Restrictive Trade Practices Tribunal (hereinafter: the "Appeal"). The proceeding at the district court is stayed at this time. Concurrently with the filing of the Appeal, a petition was also filed with the High Court of Justice demanding that the Antitrust Commissioner address a request to the Restrictive Trade Practices Tribunal to change/cancel the interchange fee arrangement as approved by the tribunal (hereinafter: the "Petition"). A hearing of the Appeal was held on June 18, 2019, in which, at the recommendation of the court, the Appeal was denied, with the consent of the parties. In view of the denial of the Appeal, the petitioner notified the district court that he was interested in renewing the hearing of the certification petition. On July 22, 2019, the district court ruled to continue the stay of the proceedings before it until a ruling is given on the Petition. A hearing of the Petition by a panel is scheduled for March 19, 2020.

4. A claim and a petition to certify the claim as a class action against the Bank were filed with the District Court of Tel Aviv on June 24, 2015. The amount of the claim noted in the claim statement is approximately NIS 500 million. The petition concerns the allegation that customers of the Bank who were, or who are, entitled to be included in the category of a "small business," as defined in the Banking Rules (Service to Customers) (Fees), 2008, paid fees that were not in accordance with the fee list applicable to small businesses, and the Bank did not notify these customers that the possibility of classifying them as small businesses existed. A mediation proceeding between the parties was unsuccessful. A motion to consolidate the hearing with similar petitions filed against other banks was approved. The Bank has given notice that it is not interested in an additional mediation proceeding in the consolidated claims. A preliminary hearing of the case was held on December 19, 2018. An additional pretrial hearing has been scheduled for June 3, 2020.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

5. A claim and a petition to certify the claim as a class action against the Bank were filed with the Central District Court on January 12, 2014. The amount of the claim noted in the claim statement is NIS 546 million. According to the petitioners, the Bank entered into an arrangement with the Isracard Group to issue bank credit cards for its customers, the terms established in which caused the customers of the Bank to pay the highest rate of card fees to the Isracard Group, compared to the rate of fees paid by customers of other banks that contracted with the Isracard Group for the issuance of bank credit cards. According to the petitioners, the Bank is acting in a conflict of interest and preferring the interests of the Bank and of the Isracard Group over the interests of the customers of the Bank. A mediation proceeding conducted between the parties was unsuccessful, and the parties informed the court that the mediation proceeding had concluded. In accordance with the ruling of the court, the summations of the petitioners were submitted, and the Bank must submit its summations by March 25, 2020.

6. A claim and a petition to certify the claim as a class action against Psagot Provident and Pension Funds Ltd. ("Psagot"), in its capacity as manager of the provident fund Gadish, were filed with the District Court of Tel Aviv in April 2012. The amount of the class-action suit was set at approximately NIS 3,860 million. The petition was approved by the court. The petitioner's arguments concern the management of money in the accounts of deceased members. Among other matters, it is alleged that Psagot does not make sufficient effort to inform beneficiaries of the existence of the fund; that Psagot imposes difficulties on beneficiaries who seek information about the fund; and that Psagot raised management fees in the accounts of deceased members without sending notification in advance. Psagot has notified the Bank that to the extent that causes emerge during the investigation of the claim that pertain to the manner of management of the Gadish fund while it was managed by Gadid Poalim Ltd., formerly Gad-Gmulim Provident Fund Management Company Ltd., which is a subsidiary of the Bank (hereinafter: "Gadish"), during the period prior to March 24, 2008 (the date of completion of the sale of the management rights of the provident fund Gadish by Gad-Gmulim to Psagot Gemel), Psagot retains its rights to indemnification by Gadish, backed by the Bank, in accordance with the sale agreement signed by the parties.

In March 2016, a petition was filed to amend the claim statement, requesting an increase of the amount of the claim against Psagot to approximately NIS 10 billion (hereinafter: the "Enlarged Claim Amount"). It is noted that the Enlarged Claim Amount refers to all of the provident funds managed by Psagot (as opposed to Gadish alone), and with respect to Gadish, also refers to the period subsequent to its acquisition by Psagot (in March 2008). It is further noted that approximately half of the Enlarged Claim Amount refers to money located in the member accounts managed by Psagot, and that the remedy requested in respect of this money is declarative only. A mediation proceeding between the parties is in progress. On January 16, 2020, a motion to approve a settlement signed by the parties was filed with the court (hereinafter: the "Settlement"). On January 30, 2020, the court ordered the publication of a notice regarding the Settlement (hereinafter: the "Notice"), and the transfer of the court documents in this proceeding, including the Notice and the motion to approve the Settlement, to the Attorney General, the Director of Courts, and the Israel Securities Authority.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

7. On October 27, 2016, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv against Psagot Provident and Pension Funds Ltd. (hereinafter: "Psagot"), in its capacity as a manager of provident funds. The amount of the claim has been set at NIS 1 billion. The petitioners allege that the claim is complementary to the class-action suit described in Section 6 above. The claim concerns (alleged) violations against members, beneficiaries, and the heirs thereof in connection with risk-type collective life insurance acquired by Psagot, or by its predecessors, as manager of various provident funds, financed by the members. Psagot has informed the Bank that it retains all of its rights in accordance with the agreement for the sale of the management rights of the provident fund Gadish by Gad-Gmulim Provident Fund Management Company Ltd., a subsidiary of the Bank, to Psagot.

The petitioners allege violation of the duties of Psagot and its predecessors, in that they failed to act to obtain insurance compensation from the insurer, and thereby obstructed the transfer of such compensation to the beneficiaries/heirs of the member. The petitioners further allege that Psagot and its predecessors avoided notifying the beneficiaries/heirs of the member of the existence of the life-insurance policy, of Psagot's right to file a claim to receive insurance compensation, and of the short limitation period. At the request of Psagot, the certification petition has been transferred for hearing by the Labor Tribunal. A pretrial hearing was held in May 2018. On November 29, 2018, the motion of Psagot to remove the banking secrecy of the petitioners was approved, and it was determined that the parties would submit an order designated for the Bank for the signature of the court. On December 9, 2018, the Bank was given an order for the disclosure of information and transfer thereof to the representative of the petitioner. The Bank responded to this order on January 6, 2019. On February 11, 2019, a hearing of the petition to certify the class action was held, and declarants on behalf of the parties were questioned. The proceeding is in the stage of submission of summations; concurrently, the parties are conducting settlement negotiations.

8. On August 16, 2010, a claim was 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 (hereinafter: "Hapoalim Switzerland"), and against others. The claimant, Fairfield Sentry Limited, through its liquidators (hereinafter: the "Fund"), was a fund in which customers of Hapoalim Switzerland invested. This claim has been amended and expanded. The amount of the claim stands at approximately USD 27 million.

The claim against Hapoalim Switzerland is one of many similar claims filed by the Fund, demanding that various defendants return to the Fund all redemptions that they withdrew from the Fund during the several years preceding its liquidation (hereinafter: the "Fairfield Claims").

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

A ruling of the court in the British Virgin Islands (where the Fund is incorporated) in September 2011 determined that the Fund received fair consideration at the time for redemptions withdrawn from the Fund. An appeal of this ruling filed with the Eastern Caribbean Court of Appeals was denied. A petition for permission to appeal, filed by the Fund with the Privy Council in England, was also denied. In addition, in September 2011, the Federal Court of New York ruled that the Bankruptcy Court does not have material jurisdiction to hear the Fairfield Claims. However, in a discussion of a similar recovery claim related to the Madoff affair, the Federal Court of New York ruled in January 2013 that the Bankruptcy Court has jurisdiction to recommend proposed factual findings and juridical conclusions. On August 6, 2018, the Bankruptcy Court determined that it did not have jurisdiction with respect to the claims of the liquidators, as the only basis for such jurisdiction was the registration agreements of the Fund, which include choice of law and forum selection clauses. The Bankruptcy Court stayed the dismissal of any of the Fairfield claims, including the claims against Bank Hapoalim (Switzerland) Ltd., until an additional factual development, based on which it will be determined whether the Bankruptcy Court has jurisdiction to hear these arguments.

In a separate ruling on December 6, 2018, the Bankruptcy Court dismissed the component of the Fairfield Claims based on the common law and contract law of the Virgin Islands, but denied the motion to dismiss with respect to the causes based on the Insolvency Act in the Virgin Islands. Thus, the component pertaining to the claim of the liquidators against Hapoalim Switzerland based on the Insolvency Act in the Virgin Islands remains in effect, subject to additional rulings of the court, including with regard to the jurisdiction of the Bankruptcy Court on the matter of Hapoalim Switzerland.

In addition to the aforesaid claim, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff"), filed a claim with the Bankruptcy Court against the Bank and against Hapoalim Switzerland. The claim is in the amount of approximately USD 27.5 million, of which approximately USD 26 million is against Hapoalim Switzerland. The claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fund and from the Kingate Fund during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Bank and of Hapoalim Switzerland invested at the time, which in turn invested in Madoff. On November 11, 2016, the Bankruptcy Court dismissed the restitution demands of the liquidator against all of the defendants (including the Bank and Hapoalim Switzerland) that received redemptions from the foreign-based feeder funds, but on February 25, 2019, the Court of Appeals in the United States handed down a ruling rescinding the aforesaid ruling of the Bankruptcy Court. A substantial part of the amount of the reimbursement demanded in this claim (approximately USD 22 million of the total USD 27.5 million) corresponds to the amounts claimed by the Fund in the claim described above.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

9. A claim and a petition to certify the claim as a class action against the Bank and five additional banks were filed with the District Court of Tel-Aviv-Jaffa on June 5, 2019. According to the contentions, in foreign-currency conversion transactions, in addition to the transaction fee (which is disclosed in the fee lists of the Bank and in the transaction printout), customers are charged a "conversion differences fee," which is not listed in the fee lists of the respondents, and, according to the argument, is charged unlawfully and without due disclosure. The petitioners argue that the collection of the aforesaid conversion differences fee constitutes a violation of the directives of the law, including contract law, banking law, and laws concerning unjust enrichment, and of the banks' fiduciary duty. It is further argued that in charging this fee, the respondents maintain a restrictive arrangement, in violation of the Economic Competition Law, 1988. The petitioners estimate the total amount of the claim at approximately NIS 8 billion, of which a total of approximately NIS 1.96 billion is attributed to the Bank. The respondents filed motions for dismissal in limine. A hearing of the dismissal motions was held on March 9, 2020, and the court allotted the petitioners 15 days to give notice of whether they intend to insist on conducting the proceeding. The petitioners gave notice that they insist on conducting the proceeding, and the parties are awaiting the ruling of the court on the dismissal motions.

b. Also pending against the Bank Group are claims, including petitions to certify claims as class actions, as detailed below, in which the probable outcome of the legal proceedings cannot be assessed at this stage, in the opinion of the Bank's Board of Management, based on the opinion of the management of the relevant consolidated companies and on legal opinions; accordingly, no provision has been made in respect thereof:
A petition to certify a class action against the Bank was filed with the District Court of Tel-Aviv-Jaffa on December 10, 2019. 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 has not yet submitted its response to the certification petition.

c. Other proceedings and petitions to certify derivative claims

Most of the sections of this chapter, below, describe proceedings that include petitions to certify derivative claims on behalf of the Bank against past and/or present officers of the Bank. It is noted, with regard to these proceedings, that even in the event that any of the petitions is accepted, the Bank is, in general, expected to be a potential beneficiary of the proceeding rather than a potential indebted party therein.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

1. A petition to certify a derivative claim against the Bank and past and present officers of the Bank (hereinafter: the "Respondents") was filed with the Economic Department of the District Court of Tel Aviv on September 6, 2017. The certification petition was filed after the petitioner's motion for disclosure of documents was denied, within the motion for permission to appeal filed on behalf of the Bank, and concerns arguments against the conduct of the Respondents in connection with credit granted to companies in the group of Mr. Eliezer Fishman (hereinafter: the "Fishman Group") and the collection thereof. It is argued in the petition that due to the actions and inactions of the Respondents, the Bank incurred damage estimated at more than NIS 1.5 billion. At the request of the parties, a procedural agreement was approved, pursuant to which proceedings in the case would be stayed until completion of the mediation proceeding to which the dispute was referred. On June 30, 2019, the parties notified the court that the mediation proceeding was unsuccessful and requested renewal of the proceedings. Pursuant to the ruling of the court, the responses of the Bank and of the additional respondents to the petition were submitted on July 14, 2019. The petitioner's response to the response of the Bank and of the additional respondents was submitted on January 28, 2020. The case is scheduled for a pretrial hearing on May 10, 2020.

2. On July 13, 2017, a petition 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, 1999, in connection with the investigation in progress in the United States concerning the suspicion that the Bank Group served as a channel for holding and transferring bribes paid to senior FIFA officials (hereinafter: the "Disclosure Petition"). On September 14, 2017, a consensual motion was filed with the court on behalf of the parties to stay the hearing of the Disclosure Petition until the completion of the investigation referenced in the petition. On September 17, 2017, the court ruled to stay the hearing of the petition, as requested. On February 3, 2020, the respondents submitted notification that the investigative proceedings had not yet concluded and that a continued stay of the proceedings should be ordered. In response, on February 4, 2020, the petitioner submitted a response and a motion to continue the proceedings and the investigation of the Disclosure Petition (hereinafter: the "Motion"). The Bank responded to the Motion on February 11, 2020; a ruling has not yet been given. See Section E below with regard to developments in the investigation.

3. A petition to certify a derivative claim against the Bank and against several officers who served or serve during the years 2000-2015, or during part of that period, and against the external auditors of the Bank (hereinafter, jointly: the "Formal Respondents"), was filed with the District Court of Tel Aviv on March 1, 2015. The petitioner has petitioned the court to determine that the respondents must compensate, indemnify, and benefit the Bank in respect of damage they allegedly caused to the Bank by their actions and inactions, in a total amount of USD 228 million, which the petitioner estimates the Bank will be required to pay to American enforcement agencies in connection with the accounts of American customers at Bank Hapoalim Switzerland. The petitioner further alleges that the Bank failed to act and set aside appropriate accounting provisions in its financial statements, as required according to generally accepted accounting principles and according to the directives of the law, in respect of the anticipated payment.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

As part of the derivative claim, the petitioner filed a petition for disclosure and perusal of documents related to the investigation, including investigation materials and correspondence between the Bank and law-enforcement authorities in the United States.

The court has accepted the procedural agreement reached between the parties, pursuant to which the hearing of the petition will be stayed until the proceedings in the investigation of the Bank being conducted by the United States authorities are completed, and the outcome of these proceedings becomes known (hereinafter: the "First Claim").

On March 1, 2015, a petition was filed with the District Court of Tel Aviv for the disclosure of documents prior to filing a derivative claim, in connection with the investigation by United States authorities of the activity of Bank Hapoalim Switzerland regarding American customers (hereinafter: the "Second Claim"). The First Claim and the Second Claim shall be referred to hereinafter, jointly, in this section, as the "Aforesaid Proceedings."

On March 5, 2017, the petitioners in the Aforesaid Proceedings filed a petition for consolidation of the petitions and joint representation, in which the court was asked to consolidate the hearing of both petitions before one of the panels of judges. Pursuant to a ruling of April 5, 2017, the petition for consolidation of the petitions and joint representation was accepted, and it was determined that the question of the implications of the consolidation for the manner of continuation of the proceedings would be resolved following the renewal of the proceedings in the case.

Further to the notifications given by the Bank that the investigation proceedings in the United States had not yet concluded and the results thereof were not yet known, the court ruled that the hearing of the proceedings in the consolidated claims would be stayed until June 1, 2019, and that by that date the parties would give notice of their position regarding the continued administration of the petition. The most recent update notification was submitted on September 8, 2019, in which the Bank gave notice that the investigation proceedings against the Bank in the United States had not yet concluded, and the results of these proceedings were not yet known, and requested that the court stay the hearing of the proceedings in the consolidated claims until December 1, 2019. In its ruling of September 10, 2019, the court ordered that the case would be scheduled for monitoring on April 5, 2020, and that by that date the parties must give notice of their positions regarding the continued administration of the case. With regard to developments concerning the investigation of the United States authorities, see Section D below.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

4. On February 6, 2017, a petition 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 petition concerns the complaint of a former employee of the Bank against the former CEO of the Bank on the subject of sexual harassment, and the compensation received by the employee when she left the Bank. After the completion of the examination of this matter by the Banking Supervision Department and the Bank, the Bank submitted its position to the court, on March 13, 2018, pursuant to which there is no justification to undertake any proceedings in connection with this matter, and the demands addressed to the Bank concerning this matter should be denied, including the petition filed for disclosure of documents. A hearing of the petition was held on April 24, 2018, in which the petitioner consented to the recommendation of the court to expunge the petition. On December 6, 2018, the petitioner filed a motion, within the document disclosure proceeding, which had concluded, to certify a derivative claim on behalf of the Bank. On the same day, the court instructed the petitioner to file the derivative claim certification petition within a new and separate proceeding, in view of the expungement of the document disclosure proceeding. To the best of the Bank's knowledge, at this time, the certification petition has not been filed in a separate proceeding.

5. On August 12, 2019, a motion was filed with the Supreme Court, sitting as the High Court of Justice, requesting an interim order, a conditional order, and a petition against the Bank of Israel Supervisor of Banks and the Head of the Money Laundering Division (the "Bank of Israel"), the Bank, and six additional banks (hereinafter: the "Respondent Banks"). The petition concerns the manner of implementation of the Income Tax Regulations (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts), 2019 (hereinafter: the "Reporting Regulations"), and the request of the petitioners to obligate the Bank of Israel to establish clear procedures and rules according to which the Respondent Banks should implement the Reporting Regulations. The remedies requested, among other matters, are for the court to issue rulings with regard to all of the respondents, or through an instruction of the Bank of Israel, pursuant to which uniform and clear rules and procedures would be established for implementation of the duties imposed upon the Respondent Banks under the Reporting Regulations, with the approval of the Bank of Israel, and for the Respondent Banks to be ordered to implement them in accordance with the law. It is also requested that such rules and procedures be published in the various media channels and in different languages. A ruling was given on August 12, 2019 denying the motion for a conditional order and instructing the respondents to respond to the petition. On November 7, 2019, the Bank submitted its response to the petition and to the interim order. On December 13, 2019, a preliminary response was submitted on behalf of the Bank of Israel, in which it was argued, among other matters, that the Reporting Regulations do not impose any duty upon the Bank of Israel to establish additional rules, and that the Bank of Israel does not see a regulatory need to establish additional rules at this stage. On February 9, 2020, the court ruled to dismiss the petition in limine, thereby concluding the proceeding.

Note 25 Contingent Liabilities and Special Commitments (continued)

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

From the beginning of 2015, following demands and requests received at the Bank from the United States Department of Justice (the "DOJ"), the New York Department of Financial Services (the "NYDFS"), and the Federal Reserve (together with the DOJ and the NYDFS, the "U.S. Authorities"), the Bank Group, assisted by its legal counsel, has provided the U.S. Authorities with data, information, and documents from the Bank Group in relation to the activities of the Bank Group with American customers, to the extent permitted by law.

Recently, the Bank Group and each of the DOJ and bank regulatory teams handling the investigations have extensively negotiated the terms of resolutions, which, once approved by the U.S. Authorities and the Bank Group and finalized, would resolve the investigations. Reaching agreed resolutions with each of the said authorities is subject to reaching agreed upon and final terms as well as receiving requisite approvals at each of the U.S. Authorities, and with respect to the resolutions with the DOJ, also approval from the federal district court for the Southern District of New York. Until received, such approvals are not certain, and therefore it is not presently certain that the final terms of resolution (including the amounts that the Bank Group will be required to pay) will be identical to those described below.

Based upon the terms that have been negotiated and that are subject to the above described approvals, the Bank will enter into a Deferred Prosecution Agreement (DPA) with the DOJ, which relates to the Bank's activities and business with its American customers as far as it relates to the Bank in Israel, Poalim Fiduciary Services Ltd., as well as branches and subsidiaries of Bank Hapoalim outside of Israel (except for Hapoalim Switzerland). Hapoalim Switzerland will enter into a Plea Agreement with the DOJ, which relates to Hapoalim Switzerland's activities and business with its American customers. Additionally, a Consent Order with the NYDFS and an enforcement action with the Board of Governors of the Federal Reserve System will be signed.

Note 25 Contingent Liabilities and Special Commitments (continued)

According to the current indications received from the teams handling the investigations from each of the U.S. Authorities, and subject to the requisite above described approvals, to resolve the investigations, the Bank Group will be required to pay a total amount (for all three U.S. Authorities) of approximately USD 870 million (approximately NIS 3,007 million, based on the exchange rate as of December 31, 2019).

As a result, and based on the opinion of its legal counsels, in the fourth quarter of 2019, the Bank increased the provision in relation to the exposure in connection with the investigations of the U.S. Authorities by approximately USD 259 million (approximately NIS 897 million). This provision is in addition to the previous provisions totaling approximately USD 611 million. As of December 31, 2019, the total provision for this matter is equal to an aggregate amount of approximately USD 870 million (approximately NIS 3,007 million, based on the exchange rate as of the said date).

It is emphasized that the provision made up to this point or the specification of the extent of the exposure, as noted, do not constitute admission of any claim that may be directed at the Bank Group by any party other than the U.S. Authorities.

Pursuant to the instructions of the Supervisor of Banks, the Board of Directors of the Bank decided to establish an independent committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"). Based on the Supervisor's instructions, 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 U.S. Authorities, including a petition to approve a derivative claim and a petition for disclosure of documents prior to a derivative claim (see Section C.3 in this note), the Board of Directors of the Bank decided that the Committee will 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. The Committee will commence its work upon conclusion of the investigations and after the approval of the agreed resolutions with U.S. Authorities as stated above.

Note 25 Contingent Liabilities and Special Commitments (continued)

E. During 2015, the Department of Justice in the United States filed an indictment with the Federal Court in New York, charging high-ranking officials of the Fédération Internationale de Football Association (FIFA) and others with allegations of committing bribery, fraud, and related offenses. A superseding indictment was published in December 2015, replacing the original indictment. According to the original indictment and the superseding indictment, certain defendants held accounts at the Bank Group, and executed financial transactions allegedly related to the affair in these accounts. According to reports, as part of this affair, the American authorities are also investigating various financial institutions. As part of this process, the U.S. Department of Justice ("DOJ") investigated whether the Bank Group violated criminal statutes in the United States relating to fraud and money laundering in connection with bank accounts held at the Bank Group by certain defendants involved in the affair. Within this framework, the Bank was served with orders for discovery of documents and other various requests for data and information. Subject to the directives of the relevant laws that apply to the various entities within the Bank Group, information and documents of a significant volume were submitted to the authorities. The DOJ also conducted interviews with some employees of the Bank.

Recently, the Bank Group and the DOJ prosecution team handling the investigation have extensively negotiated the terms of a resolution, which, once approved by the DOJ and the Bank Group and finalized, would resolve the investigation against the Bank Group in connection with the FIFA matter. Based upon the terms that have been negotiated and that are subject to the above-mentioned approvals, the Bank and Hapoalim (Switzerland) Ltd. will enter into a non-prosecution agreement (which does not involve criminal charges, an indictment, or a criminal conviction against the Bank Group) with the DOJ. In connection with that agreement, the Bank would admit, among other things, that certain employees of the Bank Group participated in a scheme to launder funds constituting bribes paid to soccer officials. Pursuant to the non-prosecution agreement, the Bank Group will pay the U.S. Government an amount of approximately USD 30 million (approximately NIS 103 million).

In light of the above, the Bank included in its annual financial statements for the year 2019 a provision in the sum of USD 30 million (approximately NIS 103 million), in connection with the exposure in this matter.

F. Contractual engagements with credit-card companies

Pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Competition Increase Law"), beginning in February 2019, the Bank is obligated to operate the issuance of new credit cards issued to customers of the Bank through at least two issuance operators. The share of any issuance operator shall not exceed 52% of the new cards issued by the Bank.

In April 2019, the Bank signed an agreement for the joint issuance and issuance operation of charge cards with Max IT Finance Ltd. ("Max"). Pursuant to the agreement, the parties will issue credit cards to customers of the Bank, operated by Max. The aforesaid agreement establishes the distribution of income between the parties, as well as the rights and obligations of the parties and additional arrangements with respect to the described activity.

Note 25 Contingent Liabilities and Special Commitments (continued)

In November 2018, the Bank signed an agreement for the joint issuance and issuance operation of charge cards with Cartisei Ashrai LeIsrael Ltd. ("CAL"). Pursuant to the agreement, the parties issue credit cards to customers of the Bank, operated by CAL. The aforesaid agreement establishes the distribution of income between the parties, as well as the rights and obligations of the parties and additional arrangements with respect to the described activity.

G. It has come to the attention of the Bank that during the course of the operation of the service of sending text messages to customers containing updates regarding their accounts (the "OnTime" service), some of the messages may not have been delivered to customers registered for the service. The Bank acted to map the error, including the identification of customers entitled to reimbursement. The relevant customers were reimbursed during the first quarter of 2020.

Note 26 Liens and Other Restrictions

A. Securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 1.1 billion as at December 31, 2019 (December 31, 2018: NIS 1.7 billion), were pledged mainly to secure deposits from the public (through the FDIC), in accordance with the directives of government authorities in the United States, and in respect of monetary loans received from central banks in those countries.

B. The Bank is a member of the Euroclear clearing house, which is a clearing system for securities traded in international markets. For its securities activity through this clearing house and as collateral for a credit line established by the clearing-house operator in the Bank's favor, the Bank pledged cash and securities with a total balance of USD 60 million (NIS 207 million) as at December 31, 2019 (December 31, 2018: approximately USD 60 million (NIS 225 million)).

C. Bonds with a balance in the amount of NIS 3 million as at December 31, 2019 (December 31, 2018: NIS 0 million) were pledged to secure deposits received within sale transactions of assets under repurchase agreements.

D. The Bank is a member of the Maof Clearing House Ltd. and the TASE Clearing House Ltd. For the purpose of the operation of these clearing houses in securing transactions under the Bank's responsibility, the Bank has pledged bonds in accounts opened for that purpose at these clearing houses.
The balance of bonds pledged as at December 31, 2019 totaled NIS 1.3 billion (maximum balance during 2019: NIS 2.1 billion).
The balance of bonds pledged as at December 31, 2018 totaled NIS 2.0 billion (maximum balance during 2018: NIS 2.1 billion).

Note 26 Liens and Other Restrictions (continued)

In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 27 million (December 31, 2018: NIS 27 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 32 million (December 31, 2018: NIS 103 million) in favor of the risk fund of the Maof Clearing House. The amount of collateral that clearing-house members are required to deposit is updated from time to time, in accordance with the clearing houses' codes of rules.

E. The Bank and its consolidated companies enter into CSA (Credit Support Annex) agreements with counterparties, aimed at minimizing the mutual credit risks that arise between banks in the course of derivatives trading. Under these agreements, the fair value of the obligations and rights of the parties in connection with transactions in derivatives is measured periodically, and if the net exposure of one of the parties exceeds a predetermined threshold, that party provides a transfer to the other party in order to limit the exposure, until the date of the next measurement.
As at December 31, 2019, the Bank Group provided deposits to counterparties at a value of USD 746 million (December 31, 2018: USD 540 million), and pledged securities in the amount of NIS 177 million (December 31, 2018: NIS 369 million).

F. In July 2008, an agreement was signed between the Bank and the Bank of Israel in which the Bank of Israel made a commitment to provide the Bank with a credit line of up to a total amount of NIS 1 billion, for the purpose of complying with the Bank's commitment as a liquidity supplier in NIS for CLS Bank International.
As a condition for the provision of the loans, the Bank signed a bond in which it applied a first-rank floating lien in favor of the Bank of Israel on its rights to receive monetary amounts and charges in NIS owed at present and/or owed to the Bank in the future from time to time by its customers that are corporations incorporated under the laws of the State of Israel (hereinafter: the "Indebted Customers") and whose repayments to the Bank of any credit received from the Bank are not in arrears, in respect of credit in NIS, where the average duration of each credit does not exceed three years, granted and/or to be granted by the Bank to the Indebted Customers, up to a total amount of NIS 1.1 billion.

Note 26 Liens and Other Restrictions (continued)

	December 31, 2019	December 31, 2018
	NIS millions	
G. Sources of securities received which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets		
Securities purchased under agreements to resell	**471**	708
H. Applications of securities received as collateral and of securities of the Bank, at fair value, before the effect of offsets		
Securities sold under agreements to repurchase	**3**	-
I. Details of securities pledged to lenders*		
Bonds available for sale	**31**	28

* These securities were provided as collateral to lenders, who are entitled to sell or pledge them.

J. Other than these securities, additional securities, which are presented in the item of bonds in the portfolio available for sale, in the amount of NIS 2,131 million (December 31, 2018: NIS 3,074 million), have been submitted as collateral, which the lenders are not permitted to sell or pledge.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

NIS millions

A. Nominal amount of derivative instruments

	December 31, 2019		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	3,449	43,714	47,163
Options written	-	13,944	13,944
Options bought	104	14,613	14,717
Swaps[1]	18,552	437,766	456,318
Total[2]	22,105	510,037	532,142
Of which: hedging derivatives	11,050	-	11,050
Foreign-currency contracts			
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[3]	18,515	293,522	312,037
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	13,192	13,192
Options written	2,043	11,259	13,302
Options bought[4]	594	11,259	11,853
Swaps	1,258	12,315	13,573
Total	3,895	48,025	51,920
Commodity and other contracts			
Future and forward contracts	-	260	260
Options written	-	723	723
Options bought	-	684	684
Swaps	-	-	-
Total	-	1,667	1,667
Credit contracts			
Bank as guarantor	-	-	-
Bank as beneficiary	-	-	-
Total	-	-	-
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.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

A. Nominal amount of derivative instruments (continued)

	December 31, 2018		
	Derivatives not held for trading*	Derivatives held for trading*	Total
Interest contracts			
Future and forward contracts	4,007	42,454	46,461
Options written	-	24,426	24,426
Options bought	-	23,066	23,066
Swaps[(1)]	24,313	674,812	699,125
Total[(2)]	28,320	764,758	793,078
Of which: hedging derivatives	14,877	-	14,877
Foreign-currency contracts			
Future and forward contracts	14,144	173,713	187,857
Options written	-	17,936	17,936
Options bought	228	18,555	18,783
Swaps	5,948	33,599	39,547
Total[(3)]	20,320	243,803	264,123
Of which: hedging derivatives	-	-	-
Share-related contracts			
Future and forward contracts	-	11,872	11,872
Options written	2,399	13,197	15,596
Options bought[(4)]	761	13,197	13,958
Swaps	2,124	7,873	9,997
Total	5,284	46,139	51,423
Commodity and other contracts			
Future and forward contracts	-	325	325
Options written	-	478	478
Options bought	-	477	477
Swaps	-	-	-
Total	-	1,280	1,280
Credit contracts			
Bank as guarantor	-	-	-
Bank as beneficiary	-	-	-
Total	-	-	-
Total nominal amount	53,924	1,055,980	1,109,904

* 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 353,808 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 25,706 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 16,452 million.
(4) Of which: traded on the stock exchange in the amount of NIS 13,197 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

B. Gross fair value of derivative instruments

	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**
Of which: hedging derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Share-related contracts	**53**	**938**	**991**	**50**	**941**	**991**
Commodity and other contracts	**-**	**15**	**15**	**-**	**15**	**15**
Credit contracts	**-**	**-**	**-**	**-**	**-**	**-**
Total gross assets (liabilities) in respect of derivatives(1)	**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.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

B. Gross fair value of derivative instruments (continued)

	December 31, 2018					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading*	Derivatives held for trading*	Total	Derivatives not held for trading*	Derivatives held for trading*	Total
Interest contracts	634	4,175	4,809	569	4,242	4,811
Of which: hedging derivatives	31	62	93	107	85	192
Foreign-currency contracts	727	3,558	4,285	664	2,759	3,423
Of which: hedging derivatives	-	-	-	-	-	-
Share-related contracts	49	1,328	1,377	44	1,336	1,380
Commodity and other contracts	-	63	63	-	64	64
Credit contracts	-	-	-	-	-	-
Total gross assets (liabilities) in respect of derivatives(1)	1,410	9,124	10,534	1,277	8,401	9,678
Amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance	1,410	9,124	10,534	1,277	8,401	9,678
Of which: not subject to a netting arrangement or similar arrangements	64	2,196	2,260	93	1,722	1,815

* 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 2 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

C. Accounting hedges

1. Effect of accounting hedges

	For the year ended December 31 2019
	Interest income (expenses)
Profit (loss) from fair-value hedges	
Hedged items	**407**
Hedging derivatives	**(405)**

2. Items hedged in fair-value hedges

	Balance as at December 31, 2019	
	Book value	Cumulative fair-value adjustments that increased the book value
Securities	**10,527**	**455**

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty

	December 31, 2019					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
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(1)	**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(2)	**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 43 million (December 31, 2018: NIS 2 million).

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

D. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2018					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	527	4,641	1,358	3	4,005	10,534
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,030)	(1,027)	(3)	(723)	(5,783)
Credit risk mitigation in respect of cash collateral received	-	(509)	(139)	-	(1,219)	(1,867)
Net total assets in respect of derivative instruments	527	102	192	-	2,063	2,884
Off-balance sheet credit risk in respect of derivative instruments(1)	321	4,217	1,620	43	4,059	10,260
Off-balance sheet credit risk mitigation	-	(2,231)	(603)	(26)	(696)	(3,556)
Total gross credit risk in respect of derivative instruments	848	8,858	2,978	46	8,064	20,794
Balance sheet balance of liabilities in respect of derivative instruments(2)	264	5,197	1,528	123	2,566	9,678
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,030)	(1,027)	(3)	(723)	(5,783)
Cash collateral pledged	-	*(783)	*(156)	*(120)	*(496)	*(1,555)
Net total liabilities in respect of derivative instruments	264	*384	*345	-	*1,347	*2,340

* Restated.

(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 43 million (December 31, 2018: NIS 2 million).

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

E. Details of maturity dates (nominal value amounts)

	December 31, 2019				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	**2,312**	**7,944**	**10,901**	**7,098**	**28,255**
Other	**112,317**	**117,991**	**207,384**	**66,195**	**503,887**
Foreign-currency contracts	**192,350**	**79,534**	**30,123**	**10,030**	**312,037**
Share-related contracts	**38,822**	**10,245**	**1,615**	**1,238**	**51,920**
Commodity and other contracts (including credit derivatives)	**1,419**	**211**	**37**	**-**	**1,667**
Total	**347,220**	**215,925**	**250,060**	**84,561**	**897,766**

	December 31, 2018				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Total	343,661	207,537	439,457	119,249	1,109,904

F. Derivative financial instruments – risk control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges.

(2) The principal types of transactions in which the Bank operates are:

- Forward

A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.

- Future

A future contract traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.

- Swap

A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

- Option

A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.

- Spot

An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not comply with the terms of the contract.

Market risk – Risk arising from fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions, from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach.

The operational issues arising from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms.

Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations.

The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts.

In certain cases, the procedure also prescribes limiting losses by means of a stop-loss order.

Note 28 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 below.

- **Private Banking Segment –** Private individuals the balance of whose portfolio of financial assets exceeds NIS 3 million.
- **Household Segment –** Private individuals other than those customers included in the Private Banking Segment.
- **Microbusiness and Small Business Segment –** Businesses with an annual revenue lower than NIS 50 million.
- **Mid-sized Business Segment –** Businesses with an annual revenue greater than or equal to NIS 50 million, and lower than NIS 250 million.
- **Large Business Segment –** Businesses with an annual revenue greater than or equal to NIS 250 million.
- **Financial Management Segment –** Includes trading activity, asset and liability management, non-financial investment, and additional activities, as defined in the directives of the Supervisor of Banks.
- **Institutional Entity Segment –** Includes provident funds, mutual funds, pension funds, study funds, and insurance companies, in accordance with the definitions of the Supervisor of Banks.
- **Other Segment –** Includes activities of the Bank Group with negligible volumes not assigned to the other segments, as well as provisions and legal expenses in connection with the investigation of the Bank Group's business with American customers. The segment also includes the activity of the Isracard Group, which is classified as a discontinued operation, as detailed in Note 1G.

Pursuant to the directive of the Banking Supervision Department, when the annual revenue of a business client does not reflect the volume of the client's activity, the classification is performed as follows:
If the total indebtedness of the business client is greater than or equal to NIS 100 million, the client can be assigned to the Large Business Segment. If the client's indebtedness is lower than NIS 100 million, the client can be assigned to the appropriate supervisory activity segment based on its total balance sheet assets, in accordance with the rules set forth in the directive.
If the Bank does not have information regarding the annual revenue of a business client that has no indebtedness to the Bank, the client can be classified based on its total financial assets at the Bank (including monetary deposits, securities portfolios, and other monetary assets), in accordance with the rules detailed in the directive.
Note that the Bank takes various actions to obtain information regarding the annual revenue of its business clients. However, in certain cases, in the absence of information regarding the annual revenue, customer classifications are determined using evaluations and estimates based on the Bank's familiarity with the client and its activity. The Bank endeavors to obtain complete data regarding these customers.

For details regarding the division of the results of operations among the various segments, which is performed according to the rules for such division used by the Bank in the management approach, see Note 28A below.
Information regarding supervisory activity segments

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments

	For the year ended December 31, 2019				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	4,596	22	2,332	910	1,667
Interest expenses for externals	(317)	(227)	(180)	(135)	(355)
Net interest income:					
From externals	4,279	(205)	2,152	775	1,312
Inter-segmental	(922)	376	103	(4)	(235)
Total net interest income	3,357	171	2,255	771	1,077
Non-interest income:					
Non-interest financing income	4	1	13	12	52
Fees and other income	1,316	138	824	275	387
Total non-interest income	1,320	139	837	287	439
Total income	4,677	310	3,092	1,058	1,516
Provision (income) for credit losses	224	-	300	(48)	630
Operating and other expenses:					
For externals	3,688	134	1,583	338	278
Inter-segmental	(22)	51	118	(8)	41
Total operating and other expenses	3,666	185	1,701	330	319
Profit (loss) from continued operations before taxes	787	125	1,091	776	567
Provision for taxes (tax benefit) on profit (loss) from continued operations	294	47	410	295	213
Profit (loss) from continued operations after taxes	493	78	681	481	354
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	493	78	681	481	354
Net profit from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	493	78	681	481	354
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	493	78	681	481	354

NIS millions

For the year ended December 31, 2019								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
33	1,178	-	10,738	2	887	293	1,182	11,920
(287)	(691)	-	(2,192)	-	(127)	(282)	(409)	(2,601)
(254)	487	-	8,546	2	760	11	773	9,319
328	613	-	259	-	(77)	(182)	(259)	-
74	1,100	-	8,805	2	683	(171)	514	9,319
26	459	3	570	-	-	(11)	(11)	559
92	108	133	3,273	13	42	2	57	3,330
118	567	136	3,843	13	42	(9)	46	3,889
192	1,667	136	12,648	15	725	(180)	560	13,208
(2)	(1)	-	1,103	(2)	175	-	173	1,276
125	641	855	7,642	425	300	409	1,134	8,776
43	(202)	(6)	15	-	(15)	-	(15)	-
168	439	849	7,657	425	285	409	1,119	8,776
26	1,229	(713)	3,888	(408)	265	(589)	(732)	3,156
16	437	(8)	1,704	38	84	(145)	(23)	1,681
10	792	(705)	2,184	(446)	181	(444)	(709)	1,475
-	11	-	11	-	-	-	-	11
10	803	(705)	2,195	(446)	181	(444)	(709)	1,486
-	-	296	296	-	-	-	-	296
10	803	(409)	2,491	(446)	181	(444)	(709)	1,782
-	7	-	7	-	-	10	10	17
10	810	(409)	2,498	(446)	181	(434)	(699)	1,799

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[(1)]	123,671	734	51,746	27,822	60,354
Of which: investments in equity-basis investees[(1)]	-	-	-	-	-
Average balance of gross credit to the public[(1)]	125,075	742	53,576	28,348	62,030
Balance of gross credit to the public at the end of the reported period	127,833	618	54,834	29,615	67,905
Balance of impaired debts	757	-	1,043	329	1,693
Balance of debts in arrears of more than 90 days	786	-	121	-	-
Average balance of liabilities[(1)]	135,266	32,109	60,750	21,967	40,528
Of which: average balance of deposits from the public[(1)]	135,256	32,108	60,587	21,826	40,049
Balance of deposits from the public at the end of the reported period	134,366	31,249	61,478	24,549	44,976
Average balance of risk-adjusted assets[(1)(2)]	93,025	1,358	63,993	40,259	82,425
Balance of risk-adjusted assets at the end of the reported period[(2)]	94,086	1,210	63,971	41,765	85,710
Average balance of assets under management[(1)(3)]	69,585	47,358	33,857	15,440	85,526
Segmentation of net interest income:					
Spread from credit granting activity	2,872	14	1,965	684	984
Spread from deposit taking activity	485	157	290	87	93
Other	-	-	-	-	-
Total net interest income	3,357	171	2,255	771	1,077

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) The average balances include balances attributed to a discontinued operation.

NIS millions

	For the year ended December 31, 2019								
	Activity in Israel				Activity overseas				Total
	Institutional entities	Financial management	Other[4]	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
	1,937	**153,326**	**3,917**	**423,507**	**51**	**16,057**	**16,054**	**32,162**	**455,669**
	-	**122**	**-**	**122**	**-**	**-**	**-**	**-**	**122**
	1,624	**-**	**3,777**	**275,172**	**51**	**15,486**	**153**	**15,690**	**290,862**
	1,199	**-**	**-**	**282,004**	**14**	**15,615**	**14**	**15,643**	**297,647**
	-	**-**	**-**	**3,822**	**5**	**615**	**-**	**620**	**4,442**
	-	**-**	**-**	**907**	**6**	**-**	**-**	**6**	**913**
	44,249	**57,042**	**4,313**	**396,224**	**96**	**8,236**	**12,249**	**20,581**	**416,805**
	44,113	**-**	**144**	**334,083**	**96**	**8,146**	**8,428**	**16,670**	**350,753**
	48,817	**-**	**-**	**345,435**	**5**	**7,866**	**8,339**	**16,210**	**361,645**
	5,143	**20,464**	**9,299**	**315,966**	**354**	**19,736**	**461**	**20,551**	**336,517**
	4,585	**20,968**	**4,718**	**317,013**	**233**	**18,856**	**285**	**19,374**	**336,387**
	518,667	**50,225**	**2,870**	**823,528**	**45**	**182**	**-**	**227**	**823,755**
	17	**3,102**	**-**	**9,638**	**2**	**704**	**167**	**873**	**10,511**
	49	**(2,310)**	**-**	**(1,149)**	**-**	**(21)**	**(596)**	**(617)**	**(1,766)**
	8	**308**	**-**	**316**	**-**	**-**	**258**	**258**	**574**
	74	**1,100**	**-**	**8,805**	**2**	**683**	**(171)**	**514**	**9,319**

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	**2,277**	**24**	**2,295**	**4,596**	**7**	**-**	**15**	**22**	**4,618**
Interest expenses for externals	**-**	**-**	**(317)**	**(317)**	**-**	**-**	**(227)**	**(227)**	**(544)**
Net interest income:									
From externals	**2,277**	**24**	**1,978**	**4,279**	**7**	**-**	**(212)**	**(205)**	**4,074**
Inter-segmental	**(1,441)**	**(2)**	**521**	**(922)**	**(4)**	**-**	**380**	**376**	**(546)**
Total net interest income	**836**	**22**	**2,499**	**3,357**	**3**	**-**	**168**	**171**	**3,528**
Non-interest income:									
Non-interest financing income	**-**	**-**	**4**	**4**	**-**	**-**	**1**	**1**	**5**
Fees and other income	**60**	**240**	**1,016**	**1,316**	**-**	**5**	**133**	**138**	**1,454**
Total non-interest income	**60**	**240**	**1,020**	**1,320**	**-**	**5**	**134**	**139**	**1,459**
Total income	**896**	**262**	**3,519**	**4,677**	**3**	**5**	**302**	**310**	**4,987**
Provision (income) for credit losses	**31**	**-**	**193**	**224**	**-**	**-**	**-**	**-**	**224**
Operating and other expenses:									
For externals	**298**	**210**	**3,180**	**3,688**	**1**	**4**	**129**	**134**	**3,822**
Inter-segmental	**-**	**-**	**(22)**	**(22)**	**-**	**-**	**51**	**51**	**29**
Total operating and other expenses	**298**	**210**	**3,158**	**3,666**	**1**	**4**	**180**	**185**	**3,851**
Profit (loss) from continued operations before taxes	**567**	**52**	**168**	**787**	**2**	**1**	**122**	**125**	**912**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**214**	**18**	**62**	**294**	**1**	**-**	**46**	**47**	**341**
Net profit (loss) attributed to shareholders of the Bank	**353**	**34**	**106**	**493**	**1**	**1**	**76**	**78**	**571**

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets(1)	84,723	4,425	34,523	123,671	279	111	344	734	124,405
Average balance of gross credit to the public(1)	85,155	4,425	35,495	125,075	280	111	351	742	125,817
Balance of gross credit to the public at the end of the reported period	89,440	5,240	33,153	127,833	262	154	202	618	128,451
Balance of impaired debts	2	-	755	757	-	-	-	-	757
Balance of debts in arrears of more than 90 days	693	-	93	786	-	-	-	-	786
Average balance of liabilities(1)	-	-	135,266	135,266	-	-	32,109	32,109	167,375
Of which: average balance of deposits from the public(1)	-	-	135,256	135,256	-	-	32,108	32,108	167,364
Balance of deposits from the public at the end of the reported period	-	-	134,366	134,366	-	-	31,249	31,249	165,615
Average balance of risk-adjusted assets(1)(2)	49,675	4,927	38,423	93,025	162	127	1,069	1,358	94,383
Balance of risk-adjusted assets at the end of the reported period(2)	52,017	5,669	36,400	94,086	147	210	853	1,210	95,296
Average balance of assets under management(1)(3)	-	-	69,585	69,585	-	-	47,358	47,358	116,943
Segmentation of net interest income:									
Spread from credit granting activity	836	22	2,014	2,872	3	-	11	14	2,886
Spread from deposit taking activity	-	-	485	485	-	-	157	157	642
Other	-	-	-	-	-	-	-	-	-
Total net interest income	836	22	2,499	3,357	3	-	168	171	3,528

(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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	721	1,611	2,332	425	485	910	403	1,264	1,667	4,909
Interest expenses for externals	(13)	(167)	(180)	(9)	(126)	(135)	(10)	(345)	(355)	(670)
Net interest income:										
From externals	708	1,444	2,152	416	359	775	393	919	1,312	4,239
Inter-segmental	(82)	185	103	(67)	63	(4)	(81)	(154)	(235)	(136)
Total net interest income	626	1,629	2,255	349	422	771	312	765	1,077	4,103
Non-interest income:										
Non-interest financing income	2	11	13	-	12	12	7	45	52	77
Fees and other income	174	650	824	141	134	275	118	269	387	1,486
Total non-interest income	176	661	837	141	146	287	125	314	439	1,563
Of which: income from credit cards	-	69	69	-	4	4	-	2	2	75
Total income	802	2,290	3,092	490	568	1,058	437	1,079	1,516	5,666
Provision (income) for credit losses	35	265	300	(39)	(9)	(48)	(150)	780	630	882
Operating and other expenses:										
For externals	340	1,243	1,583	145	193	338	88	190	278	2,199
Inter-segmental	65	53	118	4	(12)	(8)	4	37	41	151
Total operating and other expenses	405	1,296	1,701	149	181	330	92	227	319	2,350
Profit (loss) from continued operations before taxes	362	729	1,091	380	396	776	495	72	567	2,434
Provision for taxes (tax benefit) on profit (loss) from continued operations	137	273	410	146	149	295	187	26	213	918
Net profit (loss) attributed to shareholders of the Bank	225	456	681	234	247	481	308	46	354	1,516

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets[1]	**17,858**	**33,888**	**51,746**	**12,788**	**15,034**	**27,822**	**14,569**	**45,785**	**60,354**	**139,922**
Average balance of gross credit to the public[1]	**18,550**	**35,026**	**53,576**	**12,973**	**15,375**	**28,348**	**14,799**	**47,231**	**62,030**	**143,954**
Balance of gross credit to the public at the end of the reported period	**18,014**	**36,820**	**54,834**	**14,270**	**15,345**	**29,615**	**16,826**	**51,079**	**67,905**	**152,354**
Balance of impaired debts	**304**	**739**	**1,043**	**96**	**233**	**329**	**429**	**1,264**	**1,693**	**3,065**
Balance of debts in arrears of more than 90 days	**15**	**106**	**121**	**-**	**-**	**-**	**-**	**-**	**-**	**121**
Average balance of liabilities[1]	**9,754**	**50,996**	**60,750**	**4,032**	**17,935**	**21,967**	**5,740**	**34,788**	**40,528**	**123,245**
Of which: average balance of deposits from the public[1]	**9,629**	**50,958**	**60,587**	**3,909**	**17,917**	**21,826**	**5,675**	**34,374**	**40,049**	**122,462**
Balance of deposits from the public at the end of the reported period	**9,785**	**51,693**	**61,478**	**3,929**	**20,620**	**24,549**	**8,171**	**36,805**	**44,976**	**131,003**
Average balance of risk-adjusted assets[1][2]	**25,929**	**38,064**	**63,993**	**21,468**	**18,791**	**40,259**	**22,124**	**60,301**	**82,425**	**186,677**
Balance of risk-adjusted assets at the end of the reported period[2]	**26,540**	**37,431**	**63,971**	**22,783**	**18,982**	**41,765**	**25,204**	**60,506**	**85,710**	**191,446**
Average balance of assets under management[1][3]	**-**	**33,857**	**33,857**	**-**	**15,440**	**15,440**	**-**	**85,526**	**85,526**	**134,823**
Segmentation of net interest income:										
Spread from credit granting activity	**595**	**1,370**	**1,965**	**339**	**345**	**684**	**300**	**684**	**984**	**3,633**
Spread from deposit taking activity	**31**	**259**	**290**	**10**	**77**	**87**	**12**	**81**	**93**	**470**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net interest income	**626**	**1,629**	**2,255**	**349**	**422**	**771**	**312**	**765**	**1,077**	**4,103**

(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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	**35**	**1,143**	**-**	**-**	**1,178**
Interest expenses for externals	**-**	**(691)**	**-**	**-**	**(691)**
Net interest income:					
From externals	**35**	**452**	**-**	**-**	**487**
Inter-segmental	**-**	**629**	**(11)**	**(5)**	**613**
Total net interest income	**35**	**1,081**	**(11)**	**(5)**	**1,100**
Non-interest financing income					
From externals	**(1,397)**	**1,495**	**352**	**9**	**459**
Inter-segmental	**1,590**	**(1,590)**	**-**	**-**	**-**
Fees and other income	**-**	**63**	**-**	**45**	**108**
Total non-interest income	**193**	**(32)**	**352**	**54**	**567**
Total income	**228**	**1,049**	**341**	**49**	**1,667**
Provision for credit losses	**-**	**(1)**	**-**	**-**	**(1)**
Operating and other expenses:					
For externals	**192**	**136**	**35**	**278**	**641**
Inter-segmental	**-**	**4**	**-**	**(206)**	**(202)**
Total operating and other expenses	**192**	**140**	**35**	**72**	**439**
Profit (loss) from continued operations before taxes	**36**	**910**	**306**	**(23)**	**1,229**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**12**	**328**	**105**	**(8)**	**437**
Profit (loss) from continued operations after taxes	**24**	**582**	**201**	**(15)**	**792**
The Bank's share in profits of equity-basis investees	**-**	**-**	**11**	**-**	**11**
Net profit (loss) before attribution to non-controlling interests	**24**	**582**	**212**	**(15)**	**803**
Loss (profit) attributed to non-controlling interests	**-**	**7**	**-**	**-**	**7**
Net profit (loss) attributed to shareholders of the Bank	**24**	**589**	**212**	**(15)**	**810**
Average balance of assets(1)	**15,275**	**136,026**	**1,626**	**399**	**153,326**
Of which: investments in equity-basis investees(1)	**-**	**-**	**122**	**-**	**122**

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2019				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of liabilities[1]	**9,730**	**47,210**	**-**	**102**	**57,042**
Average balance of risk-adjusted assets[1][2]	**5,359**	**13,149**	**1,956**	**-**	**20,464**
Balance of risk-adjusted assets at the end of the reported period[2]	**5,449**	**13,502**	**2,017**	**-**	**20,968**
Average balance of assets under management[1][3]	**-**	**50,225**	**-**	**-**	**50,225**

Components of net interest income and non-interest income		
Net exchange-rate differences[4]	**50**	**(56)**
Net CPI differences[4]	**-**	**22**
Net interest exposures[4]	**53**	**301**
Net share exposures[4]	**13**	**-**
Interest spreads attributed to financial management	**-**	**787**
Total net interest income and non-interest income based on accrual base	**116**	**1,054**
Profits or losses from sale or other-than-temporary impairment of bonds	**-**	**256**
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	**-**	**(261)**
Other non-interest income	**112**	**-**
Total net interest income and non-interest income	**228**	**1,049**

(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) Including in respect of securities and derivative instruments.

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	4,763	39	2,317	840	1,676
Interest expenses for externals	(318)	(183)	(149)	(105)	(222)
Net interest income:					
From externals	4,445	(144)	2,168	735	1,454
Inter-segmental	(1,222)	299	44	(58)	(412)
Total net interest income	3,223	155	2,212	677	1,042
Non-interest income:					
Non-interest financing income	7	1	9	11	40
Fees and other income	1,336	157	791	281	349
Total non-interest income	1,343	158	800	292	389
Total income	4,566	313	3,012	969	1,431
Provision (income) for credit losses	498	-	377	(48)	(305)
Operating and other expenses:					
For externals	3,789	127	1,278	306	294
Inter-segmental	(272)	52	367	13	15
Total operating and other expenses	3,517	179	1,645	319	309
Profit (loss) from continued operations before taxes	551	134	990	698	1,427
Provision for taxes on profit from continued operations	201	49	362	257	515
Profit (loss) from continued operations after taxes	350	85	628	441	912
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	350	85	628	441	912
Net profit from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	350	85	628	441	912
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	350	85	628	441	912

* 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.

NIS millions

For the year ended December 31, 2018*								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
56	916	-	10,607	8	780	277	1,065	11,672
(396)	(1,030)	-	(2,403)	(21)	(302)	(40)	(363)	(2,766)
(340)	(114)	-	8,204	(13)	478	237	702	8,906
437	1,095	-	183	36	(78)	(141)	(183)	-
97	981	-	8,387	23	400	96	519	8,906
36	1,251	-	1,355	-	-	90	90	1,445
135	119	136	3,304	45	72	2	119	3,423
171	1,370	136	4,659	45	72	92	209	4,868
268	2,351	136	13,046	68	472	188	728	13,774
(14)	2	-	510	(1)	104	-	103	613
114	699	593	7,200	1,149	320	291	1,760	8,960
45	(206)	(6)	8	4	(15)	3	(8)	-
159	493	587	7,208	1,153	305	294	1,752	8,960
123	1,856	(451)	5,328	(1,084)	63	(106)	(1,127)	4,201
45	601	(63)	1,967	19	34	(11)	42	2,009
78	1,255	(388)	3,361	(1,103)	29	(95)	(1,169)	2,192
-	4	-	4	-	-	-	-	4
78	1,259	(388)	3,365	(1,103)	29	(95)	(1,169)	2,196
-	-	364	364	-	-	-	-	364
78	1,259	(24)	3,729	(1,103)	29	(95)	(1,169)	2,560
-	16	-	16	-	11	8	19	35
78	1,275	(24)	3,745	(1,103)	40	(87)	(1,150)	2,595

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	118,790	910	50,699	24,101	57,651
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public[1]	119,410	1,364	51,581	24,525	58,182
Balance of gross credit to the public at the end of the reported period	123,575	900	54,182	26,023	62,488
Balance of impaired debts	689	-	1,019	223	437
Balance of debts in arrears of more than 90 days	633	-	107	56	9
Average balance of liabilities[1]	127,069	31,842	57,237	20,204	36,719
Of which: average balance of deposits from the public[1]	127,065	31,840	57,127	20,085	36,186
Balance of deposits from the public at the end of the reported period	135,120	33,812	59,452	22,278	39,076
Average balance of risk-adjusted assets[1][2]	88,224	1,385	61,178	37,578	78,504
Balance of risk-adjusted assets at the end of the reported period[2]	90,886	1,280	62,128	37,802	81,940
Average balance of assets under management[1][3]	71,989	47,462	33,151	13,553	83,171
Segmentation of net interest income:					
Spread from credit granting activity	2,882	22	1,994	611	975
Spread from deposit taking activity	341	133	218	66	67
Other	-	-	-	-	-
Total net interest income	3,223	155	2,212	677	1,042

* 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) The data include balances attributed to a discontinued operation.

NIS millions

For the year ended December 31, 2018*								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other[4]	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
2,583	149,578	14,003	418,315	256	17,112	16,179	33,547	451,862
-	120	-	120	-	-	-	-	120
2,192	-	13,883	271,137	254	17,173	-	17,427	288,564
1,568	-	14,605	283,341	109	17,420	-	17,529	300,870
-	-	65	2,433	17	336	-	353	2,786
-	-	-	805	3	-	-	3	808
50,097	52,322	15,691	391,181	2,861	9,087	11,817	23,765	414,946
49,804	-	65	322,172	2,861	9,034	9,684	21,579	343,751
43,402	-	82	333,222	181	7,967	10,972	19,120	352,342
7,294	20,258	18,362	312,783	1,101	19,003	471	20,575	333,358
6,341	21,980	16,078	318,435	460	21,145	557	22,162	340,597
629,101	63,990	2,870	945,287	4,698	14,323	-	19,021	964,308
34	3,210	-	9,728	6	426	364	796	10,524
53	(2,011)	-	(1,133)	17	(27)	(493)	(503)	(1,636)
10	(218)	-	(208)	-	1	225	226	18
97	981	-	8,387	23	400	96	519	8,906

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	2,319	25	2,419	4,763	20	-	19	39	4,802
Interest expenses for externals	-	-	(318)	(318)	-	-	(183)	(183)	(501)
Net interest income:									
From externals	2,319	25	2,101	4,445	20	-	(164)	(144)	4,301
Inter-segmental	(1,628)	(2)	408	(1,222)	(15)	-	314	299	(923)
Total net interest income	691	23	2,509	3,223	5	-	150	155	3,378
Non-interest income:									
Non-interest financing income	-	-	7	7	-	-	1	1	8
Fees and other income	61	212	1,063	1,336	-	7	150	157	1,493
Total non-interest income	61	212	1,070	1,343	-	7	151	158	1,501
Total income	752	235	3,579	4,566	5	7	301	313	4,879
Provision (income) for credit losses	33	-	465	498	-	-	-	-	498
Operating and other expenses:									
For externals	269	201	3,319	3,789	2	4	121	127	3,916
Inter-segmental	-	-	(272)	(272)	-	-	52	52	(220)
Total operating and other expenses	269	201	3,047	3,517	2	4	173	179	3,696
Profit (loss) from continued operations before taxes	450	34	67	551	3	3	128	134	685
Provision for taxes (tax benefit) on profit (loss) from continued operations	164	12	25	201	1	1	47	49	250
Net profit (loss) attributed to shareholders of the Bank	286	22	42	350	2	2	81	85	435

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets[(1)]	76,899	4,418	37,473	118,790	367	64	479	910	119,700
Average balance of gross credit to the public[(1)]	76,858	4,418	38,134	119,410	813	64	487	1,364	120,774
Balance of gross credit to the public at the end of the reported period	81,029	5,357	37,189	123,575	301	154	445	900	124,475
Balance of impaired debts	-	-	689	689	-	-	-	-	689
Balance of debts in arrears of more than 90 days	526	-	107	633	-	-	-	-	633
Average balance of liabilities[(1)]	-	-	127,069	127,069	-	-	31,842	31,842	158,911
Of which: average balance of deposits from the public[(1)]	-	-	127,065	127,065	-	-	31,840	31,840	158,905
Balance of deposits from the public at the end of the reported period	-	-	135,120	135,120	-	-	33,812	33,812	168,932
Average balance of risk-adjusted assets[(1)(2)]	44,937	3,679	39,608	88,224	403	-	982	1,385	89,609
Balance of risk-adjusted assets at the end of the reported period[(2)]	47,445	3,679	39,762	90,886	177	-	1,103	1,280	92,166
Average balance of assets under management[(1)(3)]	-	-	71,989	71,989	-	-	47,462	47,462	119,451
Segmentation of net interest income:									
Spread from credit granting activity	691	23	2,168	2,882	5	-	17	22	2,904
Spread from deposit taking activity	-	-	341	341	-	-	133	133	474
Other	-	-	-	-	-	-	-	-	-
Total net interest income	691	23	2,509	3,223	5	-	150	155	3,378

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	707	1,610	2,317	374	466	840	426	1,250	1,676	4,833
Interest expenses for externals	(11)	(138)	(149)	(8)	(97)	(105)	(9)	(213)	(222)	(476)
Net interest income:										
From externals	696	1,472	2,168	366	369	735	417	1,037	1,454	4,357
Inter-segmental	(78)	122	44	(59)	1	(58)	(103)	(309)	(412)	(426)
Total net interest income	618	1,594	2,212	307	370	677	314	728	1,042	3,931
Non-interest income:										
Non-interest financing income	1	8	9	1	10	11	9	31	40	60
Fees and other income	144	647	791	142	139	281	110	239	349	1,421
Total non-interest income	145	655	800	143	149	292	119	270	389	1,481
Of which: income from credit cards	-	56	56	-	4	4	-	2	2	62
Total income	763	2,249	3,012	450	519	969	433	998	1,431	5,412
Provision (income) for credit losses	73	304	377	(41)	(7)	(48)	(275)	(30)	(305)	24
Operating and other expenses:										
For externals	340	938	1,278	129	177	306	86	208	294	1,878
Inter-segmental	50	317	367	11	2	13	9	6	15	395
Total operating and other expenses	390	1,255	1,645	140	179	319	95	214	309	2,273
Profit before taxes	300	690	990	351	347	698	613	814	1,427	3,115
Provision for taxes on profit	110	252	362	129	128	257	225	290	515	1,134
Net profit attributed to shareholders of the Bank	190	438	628	222	219	441	388	524	912	1,981

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets[1]	17,429	33,270	50,699	10,864	13,237	24,101	12,841	44,810	57,651	132,451
Average balance of gross credit to the public[1]	17,569	34,012	51,581	11,010	13,515	24,525	13,009	45,173	58,182	134,288
Balance of gross credit to the public at the end of the reported period	17,881	36,301	54,182	11,809	14,214	26,023	13,832	48,656	62,488	142,693
Balance of impaired debts	320	699	1,019	128	95	223	182	255	437	1,679
Balance of debts in arrears of more than 90 days	28	79	107	-	56	56	9	-	9	172
Average balance of liabilities[1]	8,978	48,259	57,237	3,984	16,220	20,204	6,037	30,682	36,719	114,160
Of which: average balance of deposits from the public[1]	8,893	48,234	57,127	3,892	16,193	20,085	5,970	30,216	36,186	113,398
Balance of deposits from the public at the end of the reported period	9,204	50,248	59,452	3,918	18,360	22,278	5,112	33,964	39,076	120,806
Average balance of risk-adjusted assets[1][2]	23,186	37,992	61,178	19,551	18,027	37,578	21,712	56,792	78,504	177,260
Balance of risk-adjusted assets at the end of the reported period[2]	23,668	38,460	62,128	20,004	17,798	37,802	22,069	59,871	81,940	181,870
Average balance of assets under management[1][3]	-	33,151	33,151	-	13,553	13,553	-	83,171	83,171	129,875
Segmentation of net interest income:										
Spread from credit granting activity	598	1,396	1,994	300	311	611	306	669	975	3,580
Spread from deposit taking activity	20	198	218	7	59	66	8	59	67	351
Total net interest income	618	1,594	2,212	307	370	677	314	728	1,042	3,931

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	41	874	-	1	916
Interest expenses for externals	-	(1,030)	-	-	(1,030)
Net interest income:					
From externals	41	(156)	-	1	(114)
Inter-segmental	-	1,110	(9)	(6)	1,095
Total net interest income	41	954	(9)	(5)	981
Non-interest income:					
From externals	1,594	(804)	405	56	1,251
Inter-segmental	(1,428)	1,428	-	-	-
Fees and other income	-	64	-	55	119
Total non-interest income	166	688	405	111	1,370
Total income	207	1,642	396	106	2,351
Provision for credit losses	-	2	-	-	2
Operating and other expenses:					
For externals	188	162	34	315	699
Inter-segmental	-	8	-	(214)	(206)
Total operating and other expenses	188	170	34	101	493
Profit (loss) from continued operations before taxes	19	1,470	362	5	1,856
Provision for taxes (tax benefit) on profit (loss) from continued operations	6	469	124	2	601
Profit (loss) from continued operations after taxes	13	1,001	238	3	1,255
The Bank's share in profits of equity-basis investees	-	-	4	-	4
Net profit before attribution to non-controlling interests	13	1,001	242	3	1,259
Net profit attributed to non-controlling interests	-	16	-	-	16
Net profit attributed to shareholders of the Bank	13	1,017	242	3	1,275

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2018*				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	14,311	133,374	1,804	89	149,578
Of which: investments in equity-basis investees[1]	-	-	120	-	120
Average balance of liabilities[1]	8,997	43,238	-	87	52,322
Average balance of risk-adjusted assets[1][2]	6,891	11,186	2,181	-	20,258
Balance of risk-adjusted assets at the end of the reported period[2]	5,699	14,567	1,714	-	21,980
Average balance of assets under management[1][3]	-	63,990	-	-	63,990
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	64	106	-	-	-
Net CPI differences[4]	-	127	-	-	-
Net interest exposures[4]	35	566	-	-	-
Net share exposures[4]	9	-	-	-	-
Interest spreads attributed to financial management	-	626	-	-	-
Total net interest income and non-interest income based on accrual base	108	1,425	-	-	-
Profits or losses from sale or other-than-temporary impairment of bonds	-	153	-	-	-
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	-	64	-	-	-
Other non-interest income	99	-	-	-	-
Total net interest income and non-interest income	207	1,642	-	-	-

* 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) Including in respect of securities and derivative instruments.

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	4,115	37	2,281	802	1,574
Interest expenses for externals	(292)	(122)	(74)	(54)	(146)
Net interest income:					
From externals	3,823	(85)	2,207	748	1,428
Inter-segmental	(886)	211	(67)	(110)	(431)
Total net interest income	2,937	126	2,140	638	997
Non-interest income:					
Non-interest financing income	6	1	9	14	35
Fees and other income	1,328	148	808	268	344
Total non-interest income	1,334	149	817	282	379
Total income	4,271	275	2,957	920	1,376
Provision (income) for credit losses	534	-	497	(255)	(613)
Operating and other expenses:					
For externals	3,691	122	1,314	291	253
Inter-segmental	(249)	49	314	19	43
Total operating and other expenses	3,442	171	1,628	310	296
Profit (loss) from continued operations before taxes	295	104	832	865	1,693
Provision for taxes (tax benefit) on profit (loss) from continued operations	118	39	317	332	658
Profit (loss) from continued operations after taxes	177	65	515	533	1,035
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	177	65	515	533	1,035
Net profit from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	177	65	515	533	1,035
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	177	65	515	533	1,035

* 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.

NIS millions

For the year ended December 31, 2017*								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
50	800	-	9,659	19	653	282	954	10,613
(348)	(908)	-	(1,944)	(11)	(86)	(148)	(245)	(2,189)
(298)	(108)	-	7,715	8	567	134	709	8,424
377	1,061	-	155	30	(112)	(73)	(155)	-
79	953	-	7,870	38	455	61	554	8,424
18	508	3	594	-	(1)	59	58	652
129	114	149	3,288	51	105	57	213	3,501
147	622	152	3,882	51	104	116	271	4,153
226	1,575	152	11,752	89	559	177	825	12,577
2	-	-	165	4	34	(1)	37	202
118	713	494	6,996	317	432	376	1,125	8,121
40	(211)	(2)	3	4	(17)	10	(3)	-
158	502	492	6,999	321	415	386	1,122	8,121
66	1,073	(340)	4,588	(236)	110	(208)	(334)	4,254
26	395	38	1,923	(1)	53	(16)	36	1,959
40	678	(378)	2,665	(235)	57	(192)	(370)	2,295
-	17	-	17	-	-	-	-	17
40	695	(378)	2,682	(235)	57	(192)	(370)	2,312
-	-	314	314	-	-	-	-	314
40	695	(64)	2,996	(235)	57	(192)	(370)	2,626
-	15	-	15	3	(2)	18	19	34
40	710	(64)	3,011	(232)	55	(174)	(351)	2,660

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	114,264	958	49,045	24,173	51,803
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public[1]	114,403	970	50,830	24,723	52,694
Balance of gross credit to the public at the end of the reported period	118,949	866	51,192	25,363	55,561
Balance of impaired debts	714	-	925	389	512
Balance of debts in arrears of more than 90 days	686	1	218	-	-
Average balance of liabilities[1]	122,879	29,204	52,691	21,628	37,235
Of which: average balance of deposits from the public[1]	122,868	29,202	52,577	21,524	36,721
Balance of deposits from the public at the end of the reported period	123,722	31,101	56,964	21,513	37,013
Average balance of risk-adjusted assets[1][2]	86,376	1,754	57,136	33,779	72,897
Balance of risk-adjusted assets at the end of the reported period[2]	88,398	1,510	59,374	35,510	73,369
Average balance of assets under management[1][3]	71,467	43,780	23,678	16,459	86,007
Segmentation of net interest income:					
Spread from credit granting activity	2,670	25	2,026	597	939
Spread from deposit taking activity	267	101	114	41	58
Other	-	-	-	-	-
Total net interest income	2,937	126	2,140	638	997

* 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) The data include balances attributed to a discontinued operation.

NIS millions

For the year ended December 31, 2017*								
Activity in Israel				Activity overseas				Total
Institutional entities	Financial management	Other[(4)]	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
2,300	153,117	13,005	408,665	655	15,963	24,848	41,466	450,131
-	169	5	174	-	-	-	-	174
1,904	-	12,298	257,822	655	16,175	-	16,830	274,652
2,417	-	13,002	267,350	462	14,695	-	15,157	282,507
-	-	37	2,577	35	52	-	87	2,664
-	-	-	905	4	4	-	8	913
52,949	54,834	15,310	386,730	4,697	12,331	11,037	28,065	414,795
52,422	-	7	315,321	4,697	12,321	8,438	25,456	340,777
56,173	-	7	326,493	3,333	9,962	7,563	20,858	347,351
5,711	24,513	17,511	299,677	1,600	19,007	469	21,076	320,753
6,550	21,107	18,690	304,508	1,628	17,973	663	20,264	324,772
655,069	59,768	2,532	958,760	6,788	13,653	-	20,441	979,201
28	2,653	-	8,938	16	444	277	737	9,675
41	(1,438)	-	(816)	22	11	(354)	(321)	(1,137)
10	(262)	-	(252)	-	-	138	138	(114)
79	953	-	7,870	38	455	61	554	8,424

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	1,766	25	2,324	4,115	19	-	18	37	4,152
Interest expenses for externals	-	-	(292)	(292)	-	-	(122)	(122)	(414)
Net interest income:									
From externals	1,766	25	2,032	3,823	19	-	(104)	(85)	3,738
Inter-segmental	(1,223)	(2)	339	(886)	(13)	-	224	211	(675)
Total net interest income	543	23	2,371	2,937	6	-	120	126	3,063
Non-interest income:									
Non-interest financing income	-	-	6	6	-	-	1	1	7
Fees and other income	66	202	1,060	1,328	-	7	141	148	1,476
Total non-interest income	66	202	1,066	1,334	-	7	142	149	1,483
Total income	609	225	3,437	4,271	6	7	262	275	4,546
Provision (income) for credit losses	(14)	-	548	534	-	-	-	-	534
Operating and other expenses:									
For externals	259	197	3,235	3,691	2	4	116	122	3,813
Inter-segmental	-	-	(249)	(249)	-	-	49	49	(200)
Total operating and other expenses	259	197	2,986	3,442	2	4	165	171	3,613
Profit (loss) from continued operations before taxes	364	28	(97)	295	4	3	97	104	399
Provision for taxes (tax benefit) on profit (loss) from continued operations	148	10	(40)	118	1	-	38	39	157
Net profit (loss) attributed to shareholders of the Bank	216	18	(57)	177	3	3	59	65	242

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets[1]	71,405	6,110	36,749	114,264	914	(6)	50	958	115,222
Average balance of gross credit to the public[1]	70,489	6,110	37,804	114,403	918	(6)	58	970	115,373
Balance of gross credit to the public at the end of the reported period	73,565	6,072	39,312	118,949	828	5	33	866	119,815
Balance of impaired debts	-	-	714	714	-	-	-	-	714
Balance of debts in arrears of more than 90 days	591	-	95	686	1	-	-	1	687
Average balance of liabilities[1]	6	-	122,873	122,879	-	-	29,204	29,204	152,083
Of which: average balance of deposits from the public[1]	-	-	122,868	122,868	-	-	29,202	29,202	152,070
Balance of deposits from the public at the end of the reported period	-	-	123,722	123,722	-	-	31,101	31,101	154,823
Average balance of risk-adjusted assets[1][2]	41,007	4,186	41,183	86,376	516	32	1,206	1,754	88,130
Balance of risk-adjusted assets at the end of the reported period[2]	42,841	4,186	41,371	88,398	448	30	1,032	1,510	89,908
Average balance of assets under management[1][3]	-	-	71,467	71,467	-	-	43,780	43,780	115,247
Segmentation of net interest income:									
Spread from credit granting activity	543	23	2,104	2,670	6	-	19	25	2,695
Spread from deposit taking activity	-	-	267	267	-	-	101	101	368
Other	-	-	-	-	-	-	-	-	-
Total net interest income	543	23	2,371	2,937	6	-	120	126	3,063

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Interest income from externals	650	1,631	2,281	351	451	802	371	1,203	1,574	4,657
Interest expenses for externals	(6)	(68)	(74)	(8)	(46)	(54)	(10)	(136)	(146)	(274)
Net interest income:										
From externals	644	1,563	2,207	343	405	748	361	1,067	1,428	4,383
Inter-segmental	(73)	6	(67)	(63)	(47)	(110)	(87)	(344)	(431)	(608)
Total net interest income	571	1,569	2,140	280	358	638	274	723	997	3,775
Non-interest income:										
Non-interest financing income	-	9	9	-	14	14	-	35	35	58
Fees and other income	205	603	808	161	107	268	163	181	344	1,420
Total non-interest income	205	612	817	161	121	282	163	216	379	1,478
Of which: income from credit cards	-	55	55	-	3	3	-	1	1	59
Total income	776	2,181	2,957	441	479	920	437	939	1,376	5,253
Provision (income) for credit losses	66	431	497	(241)	(14)	(255)	(249)	(364)	(613)	(371)
Operating and other expenses:										
For externals	324	990	1,314	147	144	291	100	153	253	1,858
Inter-segmental	62	252	314	10	9	19	10	33	43	376
Total operating and other expenses	386	1,242	1,628	157	153	310	110	186	296	2,234
Profit (loss) from continued operations before taxes	324	508	832	525	340	865	576	1,117	1,693	3,390
Provision for taxes (tax benefit) on profit (loss) from continued operations	123	194	317	202	130	332	222	436	658	1,307
Net profit (loss) attributed to shareholders of the Bank	201	314	515	323	210	533	354	681	1,035	2,083

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*									
	Small Business and Microbusiness Segment			Mid-sized Business Segment			Large Business Segment			Total
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	
Average balance of assets[(1)]	16,203	32,842	49,045	9,913	14,260	24,173	12,054	39,749	51,803	125,021
Average balance of gross credit to the public[(1)]	16,487	34,343	50,830	10,048	14,675	24,723	12,237	40,457	52,694	128,247
Balance of gross credit to the public at the end of the reported period	17,309	33,883	51,192	10,620	14,743	25,363	13,330	42,231	55,561	132,116
Balance of impaired debts	315	610	925	240	149	389	72	440	512	1,826
Balance of debts in arrears of more than 90 days	74	144	218	-	-	-	-	-	-	218
Average balance of liabilities[(1)]	8,066	44,625	52,691	5,506	16,122	21,628	5,213	32,022	37,235	111,554
Of which: average balance of deposits from the public[(1)]	7,977	44,600	52,577	5,413	16,111	21,524	5,141	31,580	36,721	110,822
Balance of deposits from the public at the end of the reported period	8,828	48,136	56,964	4,162	17,351	21,513	4,783	32,230	37,013	115,490
Average balance of risk-adjusted assets[(1)(2)]	22,016	35,120	57,136	16,786	16,993	33,779	19,165	53,732	72,897	163,812
Balance of risk-adjusted assets at the end of the reported period[(2)]	23,636	35,738	59,374	17,307	18,203	35,510	19,696	53,673	73,369	168,253
Average balance of assets under management[(1)(3)]	(43)	23,721	23,678	192	16,267	16,459	52	85,955	86,007	126,144
Segmentation of net interest income:										
Spread from credit granting activity	571	1,455	2,026	280	317	597	274	665	939	3,562
Spread from deposit taking activity	-	114	114	-	41	41	-	58	58	213
Other	-	-	-	-	-	-	-	-	-	-
Total net interest income	571	1,569	2,140	280	358	638	274	723	997	3,775

* 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.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	24	774	-	2	800
Interest expenses for externals	-	(908)	-	-	(908)
Net interest income:					
From externals	24	(134)	-	2	(108)
Inter-segmental	-	1,070	(6)	(3)	1,061
Total net interest income	24	936	(6)	(1)	953
Non-interest income:					
From externals	(427)	754	179	2	508
Inter-segmental	595	(595)	-	-	-
Fees and other income	-	77	-	37	114
Total non-interest income	168	236	179	39	622
Total income	192	1,172	173	38	1,575
Operating and other expenses:					
For externals	192	257	17	247	713
Inter-segmental	-	(42)	-	(169)	(211)
Total operating and other expenses	192	215	17	78	502
Profit (loss) from continued operations before taxes	-	957	156	(40)	1,073
Provision for taxes (tax benefit) on profit (loss) from continued operations	-	354	55	(14)	395
Profit (loss) from continued operations after taxes	-	603	101	(26)	678
The Bank's share in profits of equity-basis investees	-	-	17	-	17
Net profit (loss) before attribution to non-controlling interests	-	603	118	(26)	695
Loss (profit) attributed to non-controlling interests	-	16	(1)	-	15
Net profit (loss) attributed to shareholders of the Bank	-	619	117	(26)	710

* Some data were reclassified in order to properly reflect improvements in segment measurement methods.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2017*				
	Financial Management Segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	14,856	135,792	2,172	297	153,117
Of which: investments in equity-basis investees[1]	-	-	169	-	169
Average balance of liabilities[1]	11,774	42,962	-	98	54,834
Of which: average balance of deposits from the public	-	-	-	-	-
Balance of deposits from the public at the end of the reported period	-	-	-	-	-
Average balance of risk-adjusted assets[1][2]	9,607	12,493	2,413	-	24,513
Balance of risk-adjusted assets at the end of the reported period[2]	10,226	8,508	2,373	-	21,107
Average balance of assets under management[1][3]	-	59,768	-	-	59,768
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	38	(26)	-	-	-
Net CPI differences[4]	-	38	-	-	-
Net interest exposures[4]	39	564	-	-	-
Net share exposures[4]	18	-	-	-	-
Interest spreads attributed to financial management	-	528	-	-	-
Total net interest income and non-interest income based on accrual base	95	1,104	-	-	-
Profits or losses from sale or other-than-temporary impairment of bonds	-	108			
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	-	(40)	-	-	-
Other non-interest income	97	-	-	-	-
Total net interest income and non-interest income	192	1,172	-	-	-

* 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) Including in respect of securities and derivative instruments.

Note 28A Segments of Activity Based on Management Approach

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

Assignment of customers to segments based on management approach

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units that serve them, which is performed in accordance with the criteria described below. However, it is clarified that customer assignments occasionally take additional criteria into consideration, as in the case of a private customer or a company with a profile or potential for future activity that justifies an assignment to the Private Customer Segment or to the Corporate Segment, as relevant. In assigning a business client to an organizational unit, the client's association with a group of companies is also taken into consideration.

The following reportable segments have been identified by the Bank, in accordance with the management approach:

Retail activity

Private Customer Segment – Customers included in this segment are private customers to whom the Bank provides a range of banking services and financial products, including investment advising services.

Small Business Segment – Provides a range of banking services to business customers with a total indebtedness (to the Bank or to other lenders) of less than NIS 10 million, or a total indebtedness (to the Bank or to other lenders) of more than NIS 10 million but an indebtedness to the Bank of less than NIS 6 million and annual revenue of less than NIS 30 million.

Housing Loan Segment – This segment is responsible for providing housing credit services to retail customers.

Business activity

Commercial Segment – This segment includes business customers with total indebtedness (to the Bank or to other lenders) of more than NIS 10 million, up to a total of NIS 100 million; or annual revenue of over NIS 30 million, up to NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with a total indebtedness higher than NIS 10 million, up to a total of NIS 350 million; or a total credit balance of NIS 150 million or less.

Corporate Segment – Provides financial services to large corporations in Israel and overseas with total indebtedness of NIS 250 million or more, or annual revenue of over NIS 1 billion. Customers in the construction and real-estate sector included in this segment are customers with a total indebtedness of NIS 550 million or more, or a total credit balance of NIS 250 million or more.

Note 28A Segments of Activity Based on Management Approach (continued)

Groups with a total indebtedness of NIS 100 million to NIS 250 million, and groups in the construction and real-estate sector with a total indebtedness of NIS 350 million to NIS 550 million, or total credit balances of NIS 150 million to NIS 250 million, are assigned either to the Corporate Segment or to the Commercial Segment, depending on various parameters examined individually for each group.

International Activity Segment – Includes the activity of the subsidiaries overseas and of the Bank's overseas branches, including Bank Hapoalim (Switzerland) Ltd., the US branches, and Bank Pozitif.

Financial Management Segment – Responsible for the management of the Bank's assets and liabilities, management of the Nostro activity of the Bank, activity of the dealing rooms (foreign currency and securities), overall business with management companies of provident funds (excluding management companies of provident funds managed within insurance companies) and mutual funds, contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank.

The segment is responsible for the management of market and liquidity risks, performed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Adjustments – Includes adjustments between total items attributed to the segments and total items in the consolidated financial statements, and other activities of the Bank Group, each of which does not form a reportable segment, including the results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., and Peilim Investment Portfolio Management Ltd. In addition, legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers are included in this segment. The segment also includes the activity of the Isracard Group, which is classified as a discontinued operation, as detailed in Note 1G.

Rules for the distribution of results of operations among the segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes, among other things: (1) the spread between the interest rate received from the segment's customers and the wholesale interest rate which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest rate at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the allowance is recorded belongs.

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Note 28A Segments of Activity Based on Management Approach (continued)

Fees and other income – Attributed to the segment to which the customer belongs.

Operating and other expenses – Expenses are attributed to each segment of activity according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for inter-segmental services – The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. The charge is determined by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, taking into consideration the tax effects applicable to certain segments, as follows: (1) effects of translation differences in respect of consolidated companies overseas – attributed to the Financial Management Segment; (2) expenses not recognized for tax purposes are attributed to the relevant segment; when no specific attribution of the expenses is possible, the expenses are allocated to the segments proportionally; (3) effect of changes in the tax rate – attributed to the Others and Adjustments Segment; (4) tax expenses of subsidiaries, including tax supplementation performed at the Bank – attributed to the segment to which the company is assigned.

Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

A. Information regarding activity segments

	For the year ended December 31, 2019								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
Net interest income:									
From externals	**1,737**	**1,503**	**2,284**	**1,166**	**1,847**	**686**	**85**	**11**	**9,319**
Inter-segmental	**1,091**	**107**	**(1,446)**	**(75)**	**(451)**	**(223)**	**997**	**-**	**-**
Non-interest financing income	**5**	**2**	**-**	**10**	**75**	**(12)**	**409**	**70**	**559**
Total net financing profit	**2,833**	**1,612**	**838**	**1,101**	**1,471**	**451**	**1,491**	**81**	**9,878**
Fees and other income	**1,500**	**580**	**60**	**370**	**496**	**72**	**128**	**124**	**3,330**
Total income	**4,333**	**2,192**	**898**	**1,471**	**1,967**	**523**	**1,619**	**205**	**13,208**
Provision (income) for credit losses	**220**	**299**	**13**	**89**	**588**	**68**	**(1)**	**-**	**1,276**
Operating and other expenses:									
From externals	**3,511**	**959**	**452**	**512**	**617**	**1,119**	**697**	**909**	**8,776**
Inter-segmental	**237**	**220**	**(159)**	**-**	**(6)**	**5**	**(249)**	**(48)**	**-**
Profit (loss) from continued operations before taxes	**365**	**714**	**592**	**870**	**768**	**(669)**	**1,172**	**(656)**	**3,156**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**138**	**272**	**223**	**331**	**298**	**(2)**	**407**	**14**	**1,681**
Profit (loss) from continued operations after taxes	**227**	**442**	**369**	**539**	**470**	**(667)**	**765**	**(670)**	**1,475**
The Bank's share in profits of equity-basis investees, after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**11**	**-**	**11**
Net profit (loss) from continued operations	**227**	**442**	**369**	**539**	**470**	**(667)**	**776**	**(670)**	**1,486**
Net profit from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**296**	**296**
Net profit (loss):									
Before attribution to non-controlling interests	**227**	**442**	**369**	**539**	**470**	**(667)**	**776**	**(374)**	**1,782**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**10**	**7**	**-**	**17**
Attributed to shareholders of the Bank	**227**	**442**	**369**	**539**	**470**	**(657)**	**783**	**(374)**	**1,799**
Net credit to the public at the end of the reported period	**41,456**	**31,022**	**89,331**	**40,138**	**75,656**	**12,978**	**2,359**	**-**	**292,940**
Deposits from the public at the end of the reported period	**188,766**	**45,959**	**-**	**25,143**	**53,035**	**16,147**	**32,595**	**-**	**361,645**

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

Note 28A 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

* Some of the data were reclassified in order to properly reflect the changes.

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

(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. The data also include balances attributed to a discontinued operation.

NIS millions

For the year ended December 31, 2018*								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
1,896	1,568	2,318	1,069	1,856	625	(443)	17	8,906
860	53	(1,622)	(63)	(486)	(154)	1,410	2	-
11	3	-	6	113	89	1,159	64	1,445
2,767	1,624	696	1,012	1,483	560	2,126	83	10,351
1,520	584	61	351	482	136	153	136	3,423
4,287	2,208	757	1,363	1,965	696	2,279	219	13,774
455	392	37	(37)	(333)	101	(2)	-	613
3,356	943	403	478	648	1,744	729	659	8,960
247	171	(132)	28	(33)	13	(238)	(56)	-
229	702	449	894	1,683	(1,162)	1,790	(384)	4,201
85	260	164	333	624	31	557	(45)	2,009
144	442	285	561	1,059	(1,193)	1,233	(339)	2,192
-	-	-	-	-	-	4	-	4
144	442	285	561	1,059	(1,193)	1,237	(339)	2,196
-	-	-	-	-	-	-	364	364
144	442	285	561	1,059	(1,193)	1,237	25	2,560
-	-	-	-	-	20	15	-	35
144	442	285	561	1,059	(1,173)	1,252	25	2,595
44,099	32,561	81,030	37,489	71,937	14,136	1,255	14,366	296,873
187,136	42,415	-	25,259	44,150	19,017	34,283	82	352,342

Note 28A Segments of Activity Based on Management Approach (continued)

A. Information regarding activity segments (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses:
From externals
Inter-segmental
Profit (loss) from continued operations before taxes
Provision for taxes (tax benefit) on profit (loss) from continued operations
Profit (loss) from continued operations after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss) from continued operations
Net profit from a discontinued operation
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to shareholders of the Bank
Net credit to the public at the end of the reported period
Deposits from the public at the end of the reported period

* Some of the data were reclassified in order to properly reflect the changes.
(1) The Financial Management Segment includes, among other matters, activity with institutional entities, most of which are presented in the information regarding supervisory activity segments as a separate segment.
(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. The data also include balances attributed to a discontinued operation.

NIS millions

For the year ended December 31, 2017*								
Retail activity			Business activity					
Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management[1]	Adjustments[2]	Total
1,964	1,551	1,768	1,038	1,971	625	(506)	13	8,424
638	(12)	(1,219)	(110)	(622)	(119)	1,443	1	-
13	1	-	7	67	58	444	62	652
2,615	1,540	549	935	1,416	564	1,381	76	9,076
1,500	573	65	304	514	234	146	165	3,501
4,115	2,113	614	1,239	1,930	798	1,527	241	12,577
466	528	(3)	(3)	(824)	37	1	-	202
3,305	916	380	460	653	1,114	717	576	8,121
224	169	(119)	43	(28)	24	(222)	(91)	-
120	500	356	739	2,129	(377)	1,031	(244)	4,254
47	193	138	286	825	21	372	77	1,959
73	307	218	453	1,304	(398)	659	(321)	2,295
-	-	-	-	-	-	17	-	17
73	307	218	453	1,304	(398)	676	(321)	2,312
-	-	-	-	-	-	-	314	314
73	307	218	453	1,304	(398)	676	(7)	2,626
-	-	-	-	-	19	16	(1)	34
73	307	218	453	1,304	(379)	692	(8)	2,660
45,857	32,393	74,124	33,859	65,494	12,902	1,224	12,810	278,663
171,518	38,227	-	24,653	42,207	20,858	49,881	7	347,351

Note 28A Segments of Activity Based on Management Approach (continued)

NIS millions

B. Information regarding geographical segments[1]

	For the year ended December 31			For the year ended December 31			December 31	
	2019	2018	2017	**2019**	2018	2017	**2019**	2018
	Income[2]			Net profit (loss) attributed to shareholders of the Bank			Total assets	
Israel	**12,696**	13,032	11,785	**2,173**	3,373	2,739	**429,330**	411,414
North America	**478**	480	507	**33**	65	49	**27,897**	27,373
Europe	**37**	259	284	**(699)**	(1,209)	(429)	**5,523**	6,962
Other	**(3)**	3	1	**(4)**	2	(13)	**89**	67
Total outside Israel	**512**	742	792	**(670)**	(1,142)	(393)	**33,509**	34,402
Total consolidated	**13,208**	13,774	12,577	**1,503**	2,231	2,346	**462,839**	445,816

(1) The division into geographical areas was performed according to the location of the assets.
(2) Income: net interest income and non-interest income.

C. 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 year ended December 31, 2019, and in the year ended December 31, 2018, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 741 million and approximately NIS 732 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 954 million and approximately NIS 1,312 million, respectively; and net profit in the amount of approximately NIS 220 million and approximately NIS 303 million, respectively, would be recorded in the Adjustments Segment.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses

NIS millions

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses*

	2019					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	(3)2,997	(3)424	904	4,325	9	4,334
Provision (income) for credit losses(1)	1,055	31	191	1,277	(1)	1,276
Charge-offs	(721)	(13)	(665)	(1,399)	-	(1,399)
Recoveries of debts charged off in previous years	678	4	365	1,047	-	1,047
Net charge-offs	(43)	(9)	(300)	(352)	-	(352)
Adjustments from translation of financial statements	-	-	-	-	-	-
Other	(2)	-	(5)	(7)	-	(7)
Allowance for credit losses at year end(2)	4,007	446	790	5,243	8	5,251
(1) Of which: in respect of off-balance sheet credit instruments	(35)	-	4	(31)	-	(31)
(2) Of which: in respect of off-balance sheet credit instruments	497	-	39	536	1	537
(3) Of which: in respect of other debt instruments	-	-	-	-	-	-

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

Note 29 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)

	2018					
	Credit to the public				Banks and governments	Total
	Commercial[3]	Housing[3]	Other private	Total		
Allowance for credit losses at beginning of year	2,923	396	940	4,259	7	4,266
Provision (income) for credit losses[1]	121	33	457	611	2	613
Charge-offs	(801)	(8)	(821)	(1,630)	-	(1,630)
Recoveries of debts charged off in previous years	754	3	325	1,082	-	1,082
Net charge-offs	(47)	(5)	(496)	(548)	-	(548)
Adjustments from translation of financial statements	-	-	3	3	-	3
Allowance for credit losses at year end[2]	2,997	424	904	4,325	9	4,334
(1) Of which: in respect of off-balance sheet credit instruments	(27)	-	(13)	(40)	-	(40)
(2) Of which: in respect of off-balance sheet credit instruments	532	-	35	567	1	568

* 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.

Note 29 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)

	2017					
	Credit to the public				Banks and governments	Total
	Commercial[3]	Housing[3]	Other private	Total		
Allowance for credit losses at beginning of year	3,396	430	794	4,620	7	4,627
Provision (income) for credit losses[1]	(332)	(15)	549	202	-	202
Charge-offs	(1,178)	(25)	(718)	(1,921)	-	(1,921)
Recoveries of debts charged off in previous years	1,037	6	317	1,360	-	1,360
Net charge-offs	(141)	(19)	(401)	(561)	-	(561)
Adjustments from translation of financial statements	-	-	(2)	(2)	-	(2)
Allowance for credit losses at year end[2]	2,923	396	940	4,259	7	4,266
(1) Of which: in respect of off-balance sheet credit instruments	(62)	-	12	(50)	1	(49)
(2) Of which: in respect of off-balance sheet credit instruments	559	-	48	607	1	608

* 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.

Note 29 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)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*

	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[1]	**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[2]	**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**

	December 31, 2018					
	Credit to the public				Banks and governments	Total
	Commercial**[3]	Housing[3]	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	134,459	-	962	135,421	16,526	151,947
Examined on a collective basis[1]	27,338	81,330	42,176	150,844	-	150,844
Total debts*	161,797	81,330	43,138	286,265	16,526	302,791
(1) Of which: allowance for which was calculated according to the extent of arrears	124	81,137	-	81,261	-	81,261
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	2,040	-	159	2,199	8	2,207
Examined on a collective basis[2]	425	424	710	1,559	-	1,559
Total allowance for credit losses	2,465	424	869	3,758	8	3,766
(2) Of which: allowance for which was calculated according to the extent of arrears***	-	424	-	424	-	424

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

** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 75 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2018: NIS 124 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 314 million (December 31, 2018: NIS 284 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 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts*

1. Credit quality and arrears

	December 31, 2019					
	Non-problematic	Problematic[(1)]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[(2)]		In arrears of 90 days or more[(3)]	In arrears of 30 to 89 days[(4)]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**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[(5)]	**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 29B.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 167 million (December 31, 2018: NIS 227 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 62 million (December 31, 2018: NIS 66 million).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2019					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	**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 29B.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 167 million (December 31, 2018: NIS 227 million), were classified as unimpaired problematic debts.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2018					
	Non-problematic[6]	Problematic[1]		Total[6]	Unimpaired debts** – additional information	
		Unimpaired[6]	Impaired[2]		In arrears of 90 days or more[3][6]	In arrears of 30 to 89 days[4][6]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	24,511	359	259	25,129	12	40
Construction and real estate – real-estate activities	18,306	270	284	18,860	2	11
Financial services	14,933	58	28	15,019	-	1
Commercial – other	78,453	1,967	1,085	81,505	49	101
Total commercial	136,203	2,654	1,656	140,513	63	153
Private individuals – housing loans[5]	80,186	632	-	80,818	632	658
Private individuals – other	42,097	178	688	42,963	107	176
Total public – activity in Israel	258,486	3,464	2,344	264,294	802	987
Banks in Israel	111	-	-	111	-	-
Israeli government	1,092	-	-	1,092	-	-
Total activity in Israel	259,689	3,464	2,344	265,497	802	987

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

** For this purpose, "unimpaired debts" include non-problematic debts.

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

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 29B.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 167 million (December 31, 2018: NIS 227 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 62 million (December 31, 2018: NIS 66 million).

(6) 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."

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2018					
	Non-problematic[5]	Problematic[1]		Total[5]	Unimpaired debts** – additional information	
		Unimpaired[5]	Impaired[2]		In arrears of 90 days or more[3][5]	In arrears of 30 to 89 days[4][5]
Borrower activity overseas						
Public – commercial						
Construction and real estate	7,109	130	87	7,326	-	54
Commercial – other	13,410	276	272	13,958	-	83
Total commercial	20,519	406	359	21,284	-	137
Private individuals	663	6	18	687	6	28
Total public – activity overseas	21,182	412	377	21,971	6	165
Banks overseas	13,980	-	-	13,980	-	-
Governments overseas	1,343	-	-	1,343	-	-
Total activity overseas	36,505	412	377	37,294	6	165
Total public	279,668	3,876	2,721	286,265	808	1,152
Total banks	14,091	-	-	14,091	-	-
Total governments	2,435	-	-	2,435	-	-
Total	296,194	3,876	2,721	302,791	808	1,152

* 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 29B.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 167 million (December 31, 2018: NIS 227 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 the commercial economic sectors to the sector "private individuals – housing loans."

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit quality – the status of debts in arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Concessions and troubled debt restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc.

Concessions are granted only in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2019				
	Balance[(1)] of impaired debts for which an individual allowance exists[(2)]	Individual allowance[(2)]	Balance[(1)] of impaired debts for which no individual allowance exists[(2)]	Total balance[(1)] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	**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**
Borrower activity overseas					
Public – commercial					
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.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	December 31, 2018				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	175	42	84	259	2,898
Construction and real estate – real-estate activities	161	13	123	284	1,336
Financial services	6	2	22	28	334
Commercial – other	816	300	269	1,085	4,648
Total commercial	1,158	357	498	1,656	9,216
Private individuals – other	498	145	190	688	1,433
Total public – activity in Israel	1,656	502	688	2,344	10,649
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	-	86	87	163
Commercial – other	91	51	181	272	522
Total commercial	92	51	267	359	685
Private individuals	18	18	-	18	20
Total public – activity overseas	110	69	267	377	705
Total public*	1,766	571	955	2,721	11,354
* Of which:					
Measured at the present value of cash flows	1,420	437	620	2,040	-
Debts in troubled debt restructuring	787	183	513	1,300	-

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

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income

	For the year ended December 31, 2019		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	**280**	**4**	**2**
Construction and real estate – real-estate activities	**257**	**4**	**1**
Financial services	**28**	**-**	**-**
Commercial – other	**1,478**	**23**	**12**
Total commercial	**2,043**	**31**	**15**
Private individuals – other	**703**	**49**	**14**
Total public – activity in Israel	**2,746**	**80**	**29**
Borrower activity overseas			
Public – commercial			
Construction and real estate	**135**	**-**	**-**
Commercial – other	**269**	**3**	**-**
Total commercial	**404**	**3**	**-**
Private individuals	**7**	**-**	**-**
Total public – activity overseas	**411**	**3**	**-**
Total public	**3,157**	**83**	**29**

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

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 435 million would have been recorded for the year ended December 31, 2019 (2018: NIS 284 million; 2017: NIS 243 million).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	For the year ended December 31, 2018		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	293	4	3
Construction and real estate – real-estate activities	271	5	2
Financial services	31	-	-
Commercial – other	1,086	17	9
Total commercial	1,681	26	14
Private individuals – other	707	48	14
Total public – activity in Israel	2,388	74	28
Borrower activity overseas			
Public – commercial			
Construction and real estate	62	-	-
Commercial – other	255	-	-
Total commercial	317	-	-
Private individuals	33	-	-
Total public – activity overseas	350	-	-
Total public	2,738	74	28

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

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 435 million would have been recorded for the year ended December 31, 2019 (2018: NIS 284 million; 2017: NIS 243 million).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	For the year ended December 31, 2017		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	363	4	3
Construction and real estate – real-estate activities	326	5	3
Financial services	76	1	1
Commercial – other	1,511	18	11
Total commercial	2,276	28	18
Private individuals – other	729	50	19
Total public – activity in Israel	3,005	78	37
Borrower activity overseas			
Public – commercial			
Construction and real estate	25	-	-
Commercial – other	119	-	-
Total commercial	144	-	-
Private individuals	32	-	-
Total public – activity overseas	176	-	-
Total public	3,181	78	37

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

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 435 million would have been recorded for the year ended December 31, 2019 (2018: NIS 284 million; 2017: NIS 243 million).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring

	December 31, 2019			
	Recorded debt balance			
	Not accruing interest income	Accruing[1], in arrears of 30 to 89 days	Accruing[1], not in arrears	Total[2]
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	**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**
Borrower activity overseas				
Public – commercial				
Construction and real estate	**10**	**-**	**-**	**10**
Commercial – other	**48**	**-**	**-**	**48**
Total commercial	**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 23 million as at December 31, 2019 (December 31, 2018: NIS 5 million).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	December 31, 2018			
	Recorded debt balance			
	Not accruing interest income	Accruing(1), in arrears of 30 to 89 days	Accruing(1), not in arrears	Total(2)
Borrower activity in Israel				
Public – commercial				
Construction and real estate – construction	30	-	17	47
Construction and real estate – real-estate activities	59	-	67	126
Financial services	3	-	1	4
Commercial – other	327	-	102	429
Total commercial	419	-	187	606
Private individuals – other	269	-	355	624
Total public – activity in Israel	688	-	542	1,230
Borrower activity overseas				
Public – commercial				
Construction and real estate	15	-	-	15
Commercial – other	54	-	1	55
Total commercial	69	-	1	70
Total public	757	-	543	1,300

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2019		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	291	43	43
Construction and real estate – real-estate activities	31	16	15
Financial services	14	4	3
Commercial – other	1,571	252	249
Total commercial	1,907	315	310
Private individuals – other	8,406	434	413
Total public – activity in Israel	10,313	749	723
Borrower activity overseas			
Public – commercial			
Construction and real estate	2	-	-
Private individuals	9	-	-
Total public – activity overseas	11	-	-
Total public	10,324	749	723

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2018		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	257	64	56
Construction and real estate – real-estate activities	35	13	11
Financial services	14	6	6
Commercial – other	1,305	228	226
Total commercial	1,611	311	299
Private individuals – other	7,139	362	352
Total public – activity in Israel	8,750	673	651
Borrower activity overseas			
Public – commercial			
Construction and real estate	2	15	15
Commercial – other	2	55	55
Private individuals	9	-	-
Total public – activity overseas	13	70	70
Total public	8,763	743	721

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2017		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	243	43	36
Construction and real estate – real-estate activities	38	11	10
Financial services	19	2	2
Commercial – other	1,187	325	236
Total commercial	1,487	381	284
Private individuals – other	8,143	474	442
Total public – activity in Israel	9,630	855	726
Borrower activity overseas			
Public – commercial			
Construction and real estate	1	-	-
Commercial – other	1	-	-
Private individuals	16	-	-
Total public – activity overseas	18	-	-
Total public	9,648	855	726

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts*					
	In the year ended December 31, 2019		In the year ended December 31, 2018		In the year ended December 31, 2017	
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	**153**	**5**	140	10	91	7
Construction and real estate – real-estate activities	**14**	**5**	18	1	13	-
Financial services	**5**	**-**	5	1	3	-
Commercial – other	**645**	**28**	552	31	391	32
Total commercial	**817**	**38**	715	43	498	39
Private individuals – other	**3,234**	**44**	3,136	60	3,187	66
Total public – activity in Israel	**4,051**	**82**	3,851	103	3,685	105
Borrower activity overseas						
Public – commercial						
Commercial – other	**-**	**-**	1	54	-	-
Private individuals	**6**	**-**	6	-	5	-
Total public – activity overseas	**6**	**-**	7	54	5	-
Total public	**4,057**	**82**	3,858	157	3,690	105

* Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

B. Debts** (continued)

3. Additional information regarding housing loans – private individuals

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

		December 31, 2019			
		Balance of housing loans – private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
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**

		December 31, 2018			
		Balance of housing loans – private individuals			Off-balance sheet credit risk(1)
		Total(1)	Of which: bullet and balloon(1)	Of which: floating interest rate(1)	
First lien: financing rate	Up to 60%	52,453	2,057	33,479	2,746
	Over 60%	28,056	585	19,398	1,734
Secondary lien or no lien		821	53	488	604
Total		81,330	2,695	53,365	5,084

* 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 the commercial economic sectors to the sector "private individuals – housing loans."

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. Receiving 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.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

C. Sale, acquisition, and syndication of credit to the public during the year

1. Sale and acquisition of credit to the public

	Risk of credit to the public sold									
	For the year ended December 31, 2019					For the year ended December 31, 2018				
	Credit to the public sold this year	Off-balance sheet credit risk* sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Year-end balance of credit sold for which the Bank provides service	Credit to the public sold this year	Off-balance sheet credit risk* sold this year	Of which: problematic credit	Total profit (loss) in respect of credit sold	Year-end balance of credit sold for which the Bank provides service
Total commercial	**104**	**-**	**28**	**9**	**2,312**	225	101	13	56	2,402
Private individuals – housing loans	**-**	**-**	**-**	**-**	**508**	-	-	-	-	621
Private individuals – other	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total risk of credit to the public	**104**	**-**	**28**	**9**	**2,820**	225	101	13	56	3,023

	Risk of credit to the public acquired							
	For the year ended December 31, 2019				For the year ended December 31, 2018			
	Credit to the public acquired this year(1)	Off-balance sheet credit risk* acquired this year	Of which: problematic credit	Year-end balance of credit acquired	Credit to the public acquired this year(1)	Off-balance sheet credit risk* acquired this year	Of which: problematic credit	Year-end balance of credit acquired
Total commercial	**7,501**	**303**	**-**	**2,482**	8,170	37	-	1,862
Private individuals – housing loans	**-**	**-**	**-**	**-**	-	-	-	-
Private individuals – other	**-**	**-**	**-**	**-**	-	-	-	-
Total risk of credit to the public	**7,501**	**303**	**-**	**2,482**	8,170	37	-	1,862

* 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.
(1) Mostly includes short-term discounting transactions.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

C. Sale, acquisition, and syndication of credit to the public during the year (continued)

2. Syndications and participation in loan syndications

	Balance as at December 31, 2019					
	Syndication transactions initiated by the Bank*				Syndication transactions initiated by others	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**
Total commercial	**8,994**	**3,307**	**19,185**	**4,922**	**5,152**	**3,690**
Private individuals – housing loans	**-**	**-**	**-**	**-**	**-**	**-**
Private individuals – other	**19**	**-**	**8**	**-**	**-**	**-**
Total credit to the public	**9,013**	**3,307**	**19,193**	**4,922**	**5,152**	**3,690**

	Balance as at December 31, 2018					
	Syndication transactions initiated by the Bank*				Syndication transactions initiated by others	
	Share of the Bank		Share of others		Share of the Bank	
	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**	Credit to the public	Off-balance sheet credit risk**
Total commercial	8,413	3,089	16,981	7,839	6,393	4,201
Private individuals – housing loans	-	-	-	-	-	-
Private individuals – other	34	-	13	-	-	-
Total credit to the public	8,447	3,089	16,994	7,839	6,393	4,201

* Including if the Bank is a material service provider in the syndication transaction.

** 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.

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Balances of credit to the public[1] and of off-balance sheet credit risk[1][2] by volume of credit per borrower

	December 31, 2019		
	Number of borrowers[1]	Credit*[2]	Off-balance sheet credit risk[2][3]
Credit per borrower in NIS thousands			
Up to 10	**418,747**	**498**	**887**
10 to 20	**239,671**	**1,169**	**1,629**
20 to 40	**211,743**	**3,006**	**3,023**
40 to 80	**215,595**	**7,725**	**4,678**
80 to 150	**177,349**	**14,215**	**5,248**
150 to 300	**117,626**	**19,150**	**5,347**
300 to 600	**74,578**	**27,190**	**5,217**
600 to 1,200	**69,456**	**51,845**	**7,201**
From 1,200 to 2,000	**18,195**	**22,607**	**4,248**
From 2,000 to 4,000	**5,632**	**12,154**	**2,934**
From 4,000 to 8,000	**1,923**	**7,958**	**2,683**
From 8,000 to 20,000	**1,501**	**13,106**	**6,009**
From 20,000 to 40,000	**807**	**14,453**	**8,294**
From 40,000 to 200,000	**1,283**	**52,519**	**36,343**
From 200,000 to 400,000	**132**	**19,583**	**16,197**
From 400,000 to 800,000	**67**	**20,690**	**15,976**
From 800,000 to 1,200,000	**12**	**6,324**	**5,794**
From 1,200,000 to 1,600,000	**5**	**2,204**	**4,597**
From 1,600,000 to 2,000,000	**1**	**1,868**	**28**
From 2,000,000 to 3,200,000	**3**	**2,795**	**4,513**
Over 3,200,000	**1**	**4,744**	**2,716**
Total	**1,554,327**	**305,803**	**143,562**

* Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 297,647, 3,022, and 5,134 million, respectively.
(1) The number of borrowers is calculated according to total credit and off-balance sheet credit risk, based on the recorded balance (comparative figures have been restated).
(2) Credit 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.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

Note:
Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

D. Balances of credit to the public[1] and of off-balance sheet credit risk[1][2] by volume of credit per borrower (continued)

	December 31, 2018		
	Number of borrowers[1]	Credit*[2]	Off-balance sheet credit risk[2][3]
Credit per borrower in NIS thousands			
Up to 10	482,770	712	907
10 to 20	198,733	1,161	1,603
20 to 40	209,321	3,038	2,927
40 to 80	213,875	7,861	4,437
80 to 150	179,650	14,724	4,968
150 to 300	121,210	20,058	5,087
300 to 600	70,838	26,188	4,272
600 to 1,200	63,392	47,393	6,016
From 1,200 to 2,000	16,870	21,521	3,455
From 2,000 to 4,000	5,688	12,443	2,621
From 4,000 to 8,000	2,015	8,395	2,749
From 8,000 to 20,000	1,533	13,069	6,442
From 20,000 to 40,000	817	14,578	8,197
From 40,000 to 200,000	1,005	52,495	33,601
From 200,000 to 400,000	124	18,705	14,910
From 400,000 to 800,000	62	18,693	14,574
From 800,000 to 1,200,000	18	9,373	8,344
From 1,200,000 to 1,600,000	4	2,651	3,032
From 1,600,000 to 2,000,000	1	15	1,834
From 2,000,000 to 3,200,000	2	2,044	3,516
Over 3,200,000	1	1,276	2,315
Total	1,567,929	296,393	135,807

* Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 286,265, 4,238, and 5,890 million, respectively.
(1) Restated due to transition to calculation of the number of borrowers according to both credit and off-balance sheet credit risk, based on the recorded balance.
(2) Credit 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.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness.

Note:
Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (layer-based consolidation), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classifying it in the appropriate credit bracket (specific consolidation).

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

E. Off-balance sheet financial instruments

	December 31			
	2019	2018	**2019**	2018
	Contract balances*		Allowance for credit losses	
Transactions the balance of which represents a credit risk:				
(a) Documentary credit	**816**	1,397	**4**	8
(b) Credit guarantees	**5,732**	5,609	**38**	35
(c) Guarantees to purchasers of homes	**20,019**	22,517	**45**	69
(d) Other guarantees and liabilities**	**25,383**	24,364	**136**	159
(e) Unutilized credit facilities for credit cards under the responsibility of the Bank	**15,640**	14,689	**42**	36
(f) Unutilized revolving overdraft and other credit facilities in on-demand accounts(1)	**44,695**	41,403	**103**	94
(g) Irrevocable commitments to grant credit approved but not yet drawn***	**33,279**	30,306	**106**	101
(h) Commitments to issue guarantees	**25,044**	20,449	**63**	66
Off-balance sheet financial instrument contract balances attributed to a discontinued operation	**-**	24,845	**-**	21

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 94 million (December 31, 2018: NIS 174 million).

*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

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

Note 29 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

NIS millions

F. 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.

	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
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**

	December 31, 2018					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Credit guarantees	3,898	660	158	839	54	5,609
Guarantees to purchasers of homes	5,163	-	-	-	17,354	22,517
Guarantees and other commitments	10,666	5,596	3,447	4,655	-	24,364
Commitments to issue guarantees	9,125	9,843	1,422	59	-	20,449
Total	28,852	16,099	5,027	5,553	17,408	72,939

Note 30 Assets and Liabilities by Linkage Base

NIS millions

	December 31, 2019						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
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[2]	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
Assets attributed to a discontinued operation	-	-	-	-	-	849	849
Total assets	334,049	50,197	59,916	6,893	4,808	7,825	463,688
Liabilities							
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	16,793	(526)	3,588	200	354	302	20,711
Total liabilities	284,821	37,868	85,532	11,550	4,094	1,602	425,467
Surplus assets (liabilities)	49,228	12,329	(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	21,299	11,806	(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.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 30 Assets and Liabilities by Linkage Base (continued)

NIS millions

	December 31, 2018						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	69,982	-	12,341	311	1,825	-	84,459
Securities	25,935	2,645	24,881	846	288	1,521	56,116
Securities borrowed or purchased under agreements to resell	708	-	-	-	-	-	708
Net credit to the public[2]	203,606	46,180	24,463	4,864	2,575	819	282,507
Credit to governments	94	-	1,361	973	-	-	2,428
Investments in equity-basis investees	45	-	-	-	-	58	103
Buildings and equipment	-	-	-	-	-	3,111	3,111
Assets in respect of derivative instruments	3,889	715	4,079	432	323	1,096	10,534
Other assets	4,062	7	49	79	43	1,610	5,850
Assets attributed to a discontinued operation	14,394	62	115	55	-	484	15,110
Total assets	322,715	49,609	67,289	7,560	5,054	8,699	460,926
Liabilities							
Deposits from the public	246,394	12,493	78,007	10,645	3,891	830	352,260
Deposits from banks	2,104	124	1,934	344	22	-	4,528
Deposits from the government	106	3	99	-	-	-	208
Bonds and subordinated notes	1,857	27,796	339	11	21	-	30,024
Liabilities in respect of derivative instruments	3,893	622	3,492	306	263	1,100	9,676
Other liabilities	6,933	316	2,700	204	397	1,291	11,841
Liabilities attributed to a discontinued operation	14,362	68	275	5	-	23	14,733
Total liabilities	275,649	41,422	86,846	11,515	4,594	3,244	423,270
Surplus assets (liabilities)	47,066	8,187	(19,557)	(3,955)	460	5,455	37,656
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(23,613)	553	20,198	3,384	(522)	-	-
Options in the money, net (in terms of underlying asset)	1,153	-	(1,401)	439	(191)	-	-
Options out of the money, net (in terms of underlying asset)	(276)	-	44	173	59	-	-
Overall total	24,330	8,740	(716)	41	(194)	5,455	37,656
Options in the money, net (nominal present value)	1,916	-	(2,111)	68	127	-	-
Options out of the money, net (nominal present value)	(3,076)	-	1,542	763	771	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 31 Assets and Liabilities by Currency and by Term to Maturity

	December 31, 2019				
	Future expected contractual cash flows*				
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years
	NIS millions				
Israeli currency (including foreign-currency linked)					
Assets	**115,426**	**22,676**	**59,635**	**36,130**	**30,635**
Liabilities	**235,166**	**17,647**	**21,737**	**11,586**	**11,924**
Difference	**(119,740)**	**5,029**	**37,898**	**24,544**	**18,711**
Derivative instruments (excluding options)	**(5,316)**	**(2,608)**	**(9,829)**	**(970)**	**(603)**
Options (in terms of underlying asset)	**(2,206)**	**115**	**848**	**49**	**623**
Difference after effect of derivative instruments	**(127,262)**	**2,536**	**28,917**	**23,623**	**18,731**
Foreign currency**					
Assets	**24,267**	**4,080**	**8,467**	**8,254**	**6,285**
Liabilities	**64,050**	**8,686**	**21,981**	**2,603**	**1,150**
Difference	**(39,783)**	**(4,606)**	**(13,514)**	**5,651**	**5,135**
Of which: difference in USD	**(32,150)**	**(4,512)**	**(11,711)**	**4,506**	**4,566**
Of which: difference in respect of foreign operations	**7,876**	**(792)**	**(3,857)**	**2,322**	**2,281**
Derivative instruments (excluding options)	**5,310**	**2,601**	**9,877**	**973**	**588**
Options (in terms of underlying asset)	**2,206**	**(115)**	**(848)**	**(49)**	**(623)**
Difference after effect of derivative instruments	**(32,267)**	**(2,120)**	**(4,485)**	**6,575**	**5,100**
Total as at December 31, 2019					
Assets***	**139,693**	**26,756**	**68,102**	**44,384**	**36,920**
Liabilities****	**299,216**	**26,333**	**43,718**	**14,189**	**13,074**
Difference	**(159,523)**	**423**	**24,384**	**30,195**	**23,846**
*** Of which: credit to the public	**50,420**	**21,043**	**53,135**	**35,843**	**28,037**
**** Of which: deposits from the public	**284,927**	**21,895**	**32,655**	**6,114**	**5,554**
Assets attributed to a discontinued operation	**-**	**-**	**-**	**-**	**-**
Liabilities attributed to a discontinued operation	**-**	**-**	**-**	**-**	**-**

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.
** Excluding Israeli currency linked to foreign currency.
(1) Assets with no maturity period, including assets in the amount of NIS 4,652 million, which are past due.
(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.
(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.
(4) Including revolving credit in the amount of NIS 15,053 million, of which amounts in excess of revolving credit facilities in the amount of NIS 3,708 million.

	December 31, 2019								
	Future expected contractual cash flows*						Balance sheet balance[2]		Contractual return rate[3]
	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[1]	Total	
	NIS millions								%
	25,441	17,885	55,630	39,767	13,138	416,363	3,865	384,434	2.7%
	7,111	4,622	12,705	3,041	1	325,540	27	322,889	1.7%
	18,330	13,263	42,925	36,726	13,137	90,823	3,838	61,545	-
	(246)	(309)	1,218	(47)	-	(18,710)	-	(18,702)	-
	-	574	-	-	-	3	-	(278)	-
	18,084	13,528	44,143	36,679	13,137	72,116	3,838	42,565	-
	5,036	4,275	14,240	1,018	97	76,019	585	71,381	2.9%
	938	986	758	310	10	101,472	14	100,976	1.9%
	4,098	3,289	13,482	708	87	(25,453)	571	(29,595)	-
	3,675	2,766	12,162	340	93	(20,265)	435	(23,963)	-
	2,215	949	2,748	103	92	13,937	(12)	12,453	-
	226	235	(1,144)	44	-	18,710	-	18,702	-
	-	(574)	-	-	-	(3)	-	278	-
	4,324	2,950	12,338	752	87	(6,746)	571	(10,615)	-
	30,477	22,160	69,870	40,785	13,235	492,382	4,450	[4]455,815	2.7%
	8,049	5,608	13,463	3,351	11	427,012	41	423,865	1.7%
	22,428	16,552	56,407	37,434	13,224	65,370	4,409	31,950	2.2%
	22,373	17,021	44,697	40,149	13,138	325,856	4,365	292,296	3.0%
	3,921	3,052	3,273	1,843	1	363,235		360,948	1.8%
	-	-	-	-	-	-	-	-	
	-	-	-	-	-	-	-	-	

Note 31 Assets and Liabilities by Currency and by Term to Maturity (continued)

	December 31, 2018				
	Future expected contractual cash flows*				
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 2 years	Over 2 years up to 3 years
	NIS millions				
Israeli currency (including foreign-currency linked)					
Assets	106,814	18,049	60,698	36,291	30,049
Liabilities	220,116	16,234	20,489	12,722	9,467
Difference	(113,302)	1,815	40,209	23,569	20,582
Derivative instruments (excluding options)	(8,228)	3,296	(12,272)	(338)	220
Options (in terms of underlying asset)	117	65	227	(222)	-
Difference after effect of derivative instruments	(121,413)	5,176	28,164	23,009	20,802
Foreign currency**					
Assets	23,311	5,504	9,544	9,615	10,858
Liabilities	60,652	11,686	23,873	2,573	1,448
Difference	(37,341)	(6,182)	(14,329)	7,042	9,410
Of which: difference in USD	(28,674)	(5,058)	(14,744)	5,658	8,407
Of which: difference in respect of foreign operations	13,016	(3,346)	(3,373)	3,284	3,345
Derivative instruments (excluding options)	8,220	(3,322)	12,346	348	(161)
Options (in terms of underlying asset)	(117)	(65)	(227)	222	-
Difference after effect of derivative instruments	(29,238)	(9,569)	(2,210)	7,612	9,249
Total as at December 31, 2018					
Assets***	130,125	23,553	70,242	45,906	40,907
Liabilities****	280,768	27,920	44,362	15,295	10,915
Difference	(150,643)	(4,367)	25,880	30,611	29,992
*** Of which: credit to the public	41,649	19,984	53,995	38,886	28,381
**** Of which: deposits from the public	272,951	22,813	35,516	6,118	3,961
Assets attributed to a discontinued operation	7,434	2,533	2,931	1,051	548
Liabilities attributed to a discontinued operation	8,989	2,535	2,431	387	112

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 3,790 million, which are past due.

(2) As included in Note 30, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance sheet balance.

(4) Including revolving credit in the amount of NIS 11,569 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,416 million.

December 31, 2018								
Future expected contractual cash flows*						Balance sheet balance[2]		Contractual return rate[3]
Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[1]	Total	
NIS millions								%
25,960	16,433	47,786	35,957	11,268	389,305	3,850	359,018	2.9%
9,365	6,597	11,295	1,666	5	307,956	26	302,813	1.9%
16,595	9,836	36,491	34,291	11,263	81,349	3,824	56,205	-
(401)	217	694	-	-	(16,812)	-	(16,974)	-
663	-	592	-	-	1,442	-	1,352	-
16,857	10,053	37,777	34,291	11,263	65,979	3,824	40,583	-
8,617	5,182	10,844	1,107	181	84,763	2,208	78,583	3.9%
985	855	1,047	345	4	103,468	4	102,503	2.1%
7,632	4,327	9,797	762	177	(18,705)	2,204	(23,920)	-
7,088	3,962	8,887	346	179	(13,949)	1,723	18,002	-
1,957	1,765	1,166	143	166	18,123	(2)	16,954	-
395	(216)	(791)	(7)	-	16,812	-	16,974	-
(663)	-	(592)	-	-	(1,442)	-	(1,352)	-
7,364	4,111	8,414	755	177	(3,335)	2,204	(8,298)	-
34,577	21,615	58,630	37,064	11,449	474,068	6,058	[4]437,601	3.1%
10,350	7,452	12,342	2,011	9	411,424	30	405,316	1.9%
24,227	14,163	46,288	35,053	11,440	62,644	6,028	32,285	-
22,418	17,340	42,506	36,270	11,178	312,607	5,940	281,688	3.3%
4,327	3,633	3,360	1,650	5	354,334	-	351,430	1.7%
361	9	-	-	-	14,867	162	14,626	
36	30	7	-	-	14,527	91	14,710	

Note 32 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. An increase of 1% in discounting interest rates of impaired debts would reduce their fair value by a total of NIS 6 million.

Note 32 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 288 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.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

A. Balances and fair-value estimates of financial instruments

	December 31, 2019				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
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
Financial liabilities					
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
Off-balance sheet financial instruments					
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 12.

** 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.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

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

	December 31, 2018				
	Balance sheet balance	Fair value[1]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	84,459	3,044	-	81,391	84,435
Securities**	56,116	*38,961	*15,556	1,602	56,119
Securities borrowed or purchased under agreements to resell	708	-	-	708	708
Net credit to the public****	282,507	3,715	-	277,962	281,677
Credit to governments	2,428	-	-	2,435	2,435
Assets in respect of derivative instruments	10,534	1,099	7,428	2,007	10,534
Other financial assets	1,814	1,010	-	870	1,880
Assets attributed to a discontinued operation	14,456	45	-	14,386	14,431
Total financial assets	***453,022	*47,874	*22,984	381,361	452,219
Financial liabilities					
Deposits from the public****	352,260	5,723	-	347,139	352,862
Deposits from banks	4,528	-	-	4,544	4,544
Deposits from the government	208	-	-	220	220
Securities lent or sold under agreements to repurchase	-	-	-	2	2
Bonds and subordinated notes	30,024	27,182	2,023	1,107	30,312
Liabilities in respect of derivative instruments	9,676	1,100	7,725	851	9,676
Other financial liabilities	5,684	1,010	-	4,748	5,758
Liabilities attributed to a discontinued operation	14,544	-	-	14,508	14,508
Total financial liabilities	***416,924	35,015	9,748	373,119	417,882
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	-	-	-	113	113

* Reclassified.

** Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,020 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

*** Of which: assets and liabilities in the amount of NIS 73,001 million and in the amount of NIS 16,411 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

**** Of which, a total of NIS 2 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.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

B. Items measured at fair value on a recurring basis

	December 31, 2019			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Bonds available for sale				
Israeli government bonds	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
Securities held for trading				
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
Assets in respect of derivative instruments				
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
Liabilities				
Liabilities in respect of derivative instruments				
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

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2018			
	Fair value measurements using			Total fair value
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets				
Securities available for sale				
Israeli government bonds	21,803	4,570	-	26,373
Foreign government bonds	*9,755	*665	-	10,420
Bonds of financial institutions in Israel	114	-	-	114
Bonds of foreign financial institutions	305	7,777	191	8,273
Bonds of others in Israel	-	141	-	141
Bonds of foreign others	136	2,403	-	2,539
Investments in tradable shares not held for trading	470	-	-	470
Securities held for trading				
Israeli government bonds	6,266	-	-	6,266
Foreign government bonds	69	-	-	69
Bonds of foreign others	2	-	-	2
Tradable shares	41	-	-	41
Total securities held for trading	*38,961	*15,556	191	54,708
Assets in respect of derivative instruments				
NIS-CPI contracts	-	287	79	366
Other interest contracts	-	3,791	652	4,443
Foreign-currency contracts	35	3,097	1,153	4,285
Share contracts	1,064	232	81	1,377
Commodity and other contracts	-	21	42	63
Credit in respect of inter-customer lending	3,715	-	-	3,715
Assets in respect of activity in the Maof market	1,010	-	-	1,010
Total assets	*44,785	*22,984	2,198	69,967
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	199	25	224
Other interest contracts	-	4,532	56	4,588
Foreign-currency contracts	36	2,638	749	3,423
Share contracts	1,064	294	19	1,377
Commodity and other contracts	-	62	2	64
Liabilities in respect of embedded derivatives	-	(12)	14	2
Deposits in respect of inter-customer lending	3,715	-	-	3,715
Liabilities in respect of activity in the Maof market	1,010	-	-	1,010
Liabilities in respect of securities lending	2,008	-	-	2,008
Total liabilities	7,833	7,713	865	16,411

* Reclassified.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

C. Items measured at fair value on a nonrecurring basis

	December 31, 2019				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2019
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**502**	**502**	**(1)50**
Investments in shares	**-**	**-**	**69**	**69**	**(2)(21)**
Total	**-**	**-**	**571**	**571**	**29**

	December 31, 2018				
	Fair value measurements using			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2018
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	681	681	(1)117
Investments in shares	-	-	49	49	(2)(34)
Total	-	-	730	730	83

(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3

	Fair value as at December 31, 2018	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at December 31, 2019	Unrealized gains (losses) in respect of instruments held as at December 31, 2019
Assets									
Bonds available for sale and shares not held for trading									
Bonds of foreign financial institutions	**191**	**(12)**	**(2)**	**-**	**-**	**-**	**-**	**177**	**(2)(1)(2)**
Net balances in respect of derivative instruments									
NIS-CPI contracts	**54**	**83**	**-**	**-**	**(24)**	**-**	**-**	**113**	**(3)46**
Other interest contracts	**596**	**223**	**-**	**25**	**(199)**	**-**	**-**	**645**	**(3)(1)149**
Foreign-currency contracts	**404**	**5**	**-**	**219**	**(164)**	**-**	**-**	**464**	**(3)3**
Share contracts	**62**	**(204)**	**-**	**-**	**(64)**	**-**	**-**	**(206)**	**(3)7**
Commodity and other contracts	**40**	**(17)**	**-**	**14**	**(28)**	**-**	**-**	**9**	**(3)(5)**
Embedded derivatives	**(14)**	**(9)**	**-**	**(1)**	**7**	**-**	**-**	**(17)**	**(3)(9)**
Total	**1,333**	**69**	**(2)**	**257**	**(472)**	**-**	**-**	**1,185**	**189**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

NIS millions

D. Changes in items measured at fair value on a recurring basis included in Level 3 (continued)

	Fair value as at December 31, 2017	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at December 31, 2018	Unrealized gains (losses) in respect of instruments held as at December 31, 2018
Assets									
Securities available for sale									
Bonds of foreign financial institutions	212	16	-	-	(37)	-	-	191	[(2)(1)]-
Net balances in respect of derivative instruments									
NIS-CPI contracts	103	(59)	-	-	10	-	-	54	[(3)](62)
Other interest contracts	295	40	-	5	256	-	-	596	[(3)(1)]86
Foreign-currency contracts	(813)	(236)	-	12	1,441	-	-	404	[(3)]159
Share contracts	(3)	8	-	(1)	58	-	-	62	[(3)](32)
Commodity and other contracts	(2)	29	-	10	3	-	-	40	[(3)](9)
Embedded derivatives	(29)	3	-	-	12	-	-	(14)	[(3)](2)
Total	(237)	(199)	-	26	1,743	-	-	1,333	140

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value from Level 3 measurement to Level 2 measurement, with the exception of transfers due to transaction counterparty risk. In accordance with the policy of the banking corporation, transfers from level to level are recognized as occurring at the end of the reported period.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

F. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	December 31, 2019			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	**177**	Quote from transaction counterparty	Quote from transaction counterparty	
Net balances in respect of derivative instruments				
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)**	Share derivatives pricing model	Transaction counterparty risk	0.33%-0.43% (0.34%)
Share contracts	**17**	Option pricing model	Quote from counterparty	
Share contracts(1)	**-**	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(2)	**17**	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
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 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

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, 2018			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average by relative fair value)
	NIS millions			
1. Items measured at fair value on a recurring basis				
Assets				
Bonds of foreign financial institutions	191	Quote from transaction counterparty	Quote from transaction counterparty	
Net balances in respect of derivative instruments				
NIS-CPI contracts	54	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.38%-8.27% (2.03%)
Other interest contracts	596	Interest-rate derivatives pricing model	Transaction counterparty risk	0.38%-18.30% (6.10%)
Foreign-currency contracts	404	Option pricing model	Transaction counterparty risk	
Share contracts	64	Share derivatives pricing model	Transaction counterparty risk	0.38%-3.68% (2.57%)
Share contracts(1)	(2)	Option pricing model	Quote from counterparty	
			Dividend yield	
			Unlinked NIS interest rate	
Commodity and other contracts	40	Currency derivatives pricing model	Transaction counterparty risk	0.38%-18.30% (6.10%)
Embedded derivatives(2)	(14)	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	49	Valuation		
Impaired credit the collection of which is contingent on collateral	681	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		

Sensitivity analysis of fair-value measurements classified as Level 3:
(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair-value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.
(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair-value measurement.

Note 33 Interested and Related Parties

NIS millions

Parent companies, controlling shareholder, and subsidiaries

Interested party and related party transactions were carried out in the ordinary course of business, in general, based on business considerations, at terms similar to terms of transactions with entities unrelated to the Bank. In a few cases, the Bank supported subsidiaries, according to common practice, through investment in capital, loans, comfort letters, indemnity letters, etc. Income or expenses related to such transactions are included in the appropriate items of the statement of profit and loss.

A. Balance sheet balances

	December 31, 2019							
	Interested parties							
	Shareholders		Interested party at the time of the transaction		Officers*		Others	
	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**
Assets								
Securities	**113**	**113**	**-**	**-**	**-**	**-**	**-**	**-**
Securities borrowed or purchased under agreements to resell	**-**	**-**	**-**	**202**	**-**	**-**	**-**	**-**
Credit to the public	**77**	**135**	**822**	**924**	**9**	**10**	**436**	**1,255**
Allowance for credit losses	**-**	**-**	**(6)**	**(5)**	**-**	**-**	**(2)**	**(1)**
Net credit to the public	**77**	**135**	**816**	**919**	**9**	**10**	**434**	**1,254**
Other assets	**26**	**63**	**32**	**50**	**-**	**-**	**151**	**417**
Liabilities								
Deposits from the public	**1,270**	**2,164**	**-**	**-**	**46**	**145**	**10,633**	**13,495**
Bonds and subordinated notes	**22**	**28**	**-**	**-**	**-**	**-**	**13**	**15**
Other liabilities	**107**	**136**	**-**	**-**	**59**	**59**	**333**	**525**
Shares (included in equity)	**12,403**	**12,833**	**-**	**-**	**27**	**29**	**-**	**-**
Credit risk in off-balance sheet financial instruments* **	**176**	**202**	**766**	**1,286**	**7**	**10**	**1,988**	**2,427**

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2019					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*
Assets						
Securities	-	-	-	-	-	**250**
Credit to the public	-	-	**4,221**	**4,227**	**515**	**578**
Allowance for credit losses	-	-	**(39)**	-	**(3)**	**(2)**
Net credit to the public	-	-	**4,182**	**4,227**	**512**	**576**
Investments in equity-basis investees[(1)]	-	-	**192**	**192**	-	-
Other assets	-	-	-	**2**	-	**5**
Liabilities						
Deposits from the public	**2**	**11**	**97**	**254**	**241**	**466**
Other liabilities	-	-	**8**	**23**	**2**	**4**
Credit risk in off-balance sheet financial instruments**	-	-	**2,846**	**4,919**	**609**	**837**

* Based on the balance at the end of each month.
** As calculated for the purpose of the limit on borrower indebtedness.
(1) Details of this item are also included in Note 15.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2018							
	Interested parties							
	Shareholders		Interested party at the time of the transaction		Officers*		Others	
	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**	Year-end balance	Highest balance during the year**
Assets								
Securities	-	-	159	247	-	-	-	-
Credit to the public	-	-	1,149	1,704	10	12	19	205
Allowance for credit losses	-	-	(6)	(5)	-	-	-	-
Net credit to the public	-	-	1,143	1,699	10	12	19	205
Other assets			14	183			35	44
Liabilities								
Deposits from the public	21	21	-	-	54	88	114	302
Other liabilities	-	-	-	-	56	83	92	105
Shares (included in equity)	7,872	7,886	-	-	30	34	-	-
Credit risk in off-balance sheet financial instruments* **	-	-	1,250	1,805	6	9	55	683

* Pursuant to Section 80D(3) of the Public Reporting Directives.
** Based on the balance at the end of each month.
*** As calculated for the purpose of the limit on borrower indebtedness.

Note 33 Interested and Related Parties (continued)

NIS millions

A. Balance sheet balances (continued)

	December 31, 2018					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*	Year-end balance	Highest balance during the year*
Assets						
Securities	-	-	-	-	250	250
Credit to the public	-	-	137	144	124	151
Allowance for credit losses	-	-	(1)	(1)	(2)	(2)
Net credit to the public	-	-	136	143	122	149
Investments in equity-basis investees(1)	-	-	103	203	-	-
Other assets	-	-	2	2	5	6
Liabilities						
Deposits from the public	4	10	113	142	49	139
Other liabilities	-	-	23	25	1	2
Credit risk in off-balance sheet financial instruments**	-	-	148	169	143	216

* Based on the balance at the end of each month.
** As calculated for the purpose of the limit on borrower indebtedness.
(1) Details of this item are also included in Note 15.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2019							
	Interested parties		Officers**	Others	Related parties held by the Bank and its consolidated companies			Total
	Shareholders	Others			Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	**(9)**	**-**	**-**	**74**	**-**	**26**	**3**	**94**
Income (provision) in respect of credit losses	**-**	**-**	**-**	**1**	**-**	**(44)**	**(2)**	**(45)**
Non-interest income (expenses)	**(243)**	**-**	**2**	**(271)**	**-**	**158**	**44**	**(310)**
Of which: management and service fees	**(1)**	**-**	**-**	**11**	**-**	**149**	**5**	**164**
Operating and other expenses	**-**	**-**	(1) **(46)**	**(5)**	**(2)**	**(23)**	**(11)**	**(117)**
Of which: interested party employed by or on behalf of the corporation: 20	**-**	**-**	**(40)**	**-**	**-**	**-**	**-**	**(40)**
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 7	**-**	**-**	**(6)**	**-**	**-**	**-**	**-**	**(6)**
Total	**-**	**-**	**(44)**	**(201)**	**(2)**	**117**	**34**	**(378)**

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
(1) Short-term employee benefits – NIS 27 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 2 million; share-based payment – NIS 5 million.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2018							
	Interested parties				Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Others	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	-	-	-	5	3	8
Non-interest income (expenses)	1	-	-	12	-	5	20	38
Of which: management and service fees	-	-	-	4	-	1	9	14
Operating and other expenses	1	-	(1)(48)	(3)	-	(24)	(74)	(148)
Of which: interested party employed by or on behalf of the corporation: 19	-	-	(42)	-	-	-	-	(42)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 9	-	-	(6)	-	-	-	-	(6)
Total	-	-	(48)	9	-	(14)	(51)	(102)

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
(1) Short-term employee benefits – NIS 35 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 5 million.

Note 33 Interested and Related Parties (continued)

NIS millions

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2017							
	Interested parties				Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Others	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	-	10	-	4	-	14
Income (provision) in respect of credit losses	-	-	-	2	-	-	-	2
Non-interest income (expenses)	-	-	-	24	-	1	-	25
Of which: management and service fees	-	-	-	18	-	-	-	18
Operating and other expenses			(1)(44)	(10)	-	(41)	(25)	(120)
Of which: interested party employed by or on behalf of the corporation: 17	-	-	(35)	-	-	-	-	(35)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 10	-	-	(9)	-	-	-	-	(9)
Total	-	-	(44)	26	-	(36)	(25)	(79)

* Details in section C below.
** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.
*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.
(1) Short-term employee benefits – NIS 32 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 2 million.

Note 33 Interested and Related Parties (continued)

NIS millions

C. Net interest income in transactions with interested and related parties

	2019	2018	2017
Income (expenses)			
In respect of assets			
From credit to the public	**40**	8	14
From deposits with banks	**-**	-	-
From securities borrowed or purchased under agreements to resell	**-**	-	-
From bonds	**-**	-	-
From other assets	**3**	-	-
In respect of liabilities			
On deposits from the public	**53**	-	-
On deposits from banks	**-**	-	-
On securities borrowed or purchased under agreements to repurchase	**-**	-	-
On bonds and subordinated notes	**(2)**	-	-
On other liabilities	**-**	-	-
Other			
Financing transaction fees	**-**	-	-
Other financing income	**-**	-	-
Total	**94**	8	14

D. Information regarding terms of transactions and balances with related and interested parties

Interested party and related party transactions were carried out in the ordinary course of business, in general, based on business considerations, at terms similar to terms of transactions with entities unrelated to the Bank. In a few cases, the Bank supported subsidiaries, according to common practice, through investment in capital, loans, comfort letters, indemnity letters, etc.

Note 34 Condensed Financial Statements of the Bank

NIS millions

A. Condensed statement of profit and loss

	2019	2018	2017
Interest income	**11,826**	11,571	10,433
Interest expenses	**(2,611)**	(2,748)	(2,151)
Net interest income	**9,215**	8,823	8,282
Provision for credit losses	**1,270**	570	205
Net interest income after provision for credit losses	**7,945**	8,253	8,077
Non-interest income			
Non-interest financing income (expenses)	**562**	1,036	553
Fees	**3,094**	3,124	3,086
Other income	**44**	51	138
Total non-interest income	**3,700**	4,211	3,777
Operating and other expenses			
Salaries and related expenses	**3,801**	3,862	3,918
Maintenance and depreciation of buildings and equipment	**1,309**	1,342	1,291
Other expenses	**2,853**	2,273	2,146
Total operating and other expenses	**7,963**	7,477	7,355
Profit from continued operations before taxes	**3,682**	4,987	4,499
Provision for taxes on profit from continued operations	**1,615**	1,937	1,883
Profit from continued operations after taxes	**2,067**	3,050	2,616
Share of the Bank in profits of affiliates, after taxes, attributed to a discontinued operation	**296**	364	314
Share of the Bank in other affiliates	**(564)**	(819)	(270)
Net profit			
Attributed to shareholders of the Bank	**1,799**	2,595	2,660

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

B. Condensed balance sheet

	December 31	
	2019	2018
Assets		
Cash and deposits with banks	**87,618**	85,024
Securities	**50,541**	47,582
Securities borrowed or purchased under agreements to resell	**471**	708
Credit to the public	**295,713**	287,061
Allowance for credit losses	**(4,640)**	(3,685)
Net credit to the public	**291,073**	283,376
Credit to governments	**1,971**	2,428
Investment in a discontinued operation	**849**	3,431
Investments in other affiliates	**13,108**	12,728
Buildings and equipment	**3,041**	2,906
Assets in respect of derivative instruments	**10,986**	10,365
Other assets	**4,899**	5,342
Total assets	**464,557**	453,890
Liabilities and capital		
Deposits from the public	**378,950**	370,227
Deposits from banks	**3,405**	4,409
Deposits from the government	**685**	208
Subordinated notes	**12,818**	15,261
Liabilities in respect of derivative instruments	**11,882**	9,506
Other liabilities	**18,636**	16,735
Total liabilities	**426,376**	416,346
Capital	**38,181**	37,544
Total liabilities and capital	**464,557**	453,890

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows

	2019	2018	2017
Cash flows from (for) operating activity			
Net profit for the year	**1,799**	2,595	2,660
Adjustments necessary to present cash flows from operating activity			
The Bank's share in profits of affiliates	**268**	453	(44)
Depreciation of buildings and equipment	**504**	532	481
Amortizations	**21**	20	21
Provision for credit losses	**605**	570	205
Gain from sale of a subsidiary	**(210)**	-	-
Gain from realization of securities available for sale and held to maturity	**(361)**	(213)	(115)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(253)**	(26)	(14)
Gain from realization of buildings and equipment	**(4)**	(28)	(39)
Change in benefit due to share-based payment transactions	**72**	(37)	(4)
Net change in liabilities in respect of employee benefits	**3**	(30)	(33)
Deferred taxes, net	**(79)**	(21)	27
Gain from sale of credit portfolios	**(8)**	(56)	(5)
Adjustments in respect of exchange-rate differences	**1,306**	(453)	1,880
Accumulation differentials included in investing and financing activities	**1,462**	(2,221)	1,428
Net change in current assets			
Assets in respect of derivative instruments	**(621)**	1,511	(245)
Securities held for trading	**(387)**	(1,135)	3,499
Other assets	**687**	(322)	85
Net change in current liabilities			
Liabilities in respect of derivative instruments	**2,376**	(2,491)	(424)
Other liabilities	**1,011**	6,978	1,247
Net cash from (for) operating activity	**8,191**	5,626	10,610

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows (continued)

	2019	2018	2017
Cash flows for investing activity			
Deposits with banks	**248**	(511)	(80)
Credit to the public	**(639)**	(17,200)	(4,095)
Credit to governments	**457**	(136)	212
Securities borrowed or purchased under agreements to resell	**237**	(24)	(309)
Acquisition of bonds held to maturity	**(15)**	-	(130)
Proceeds from redemption of bonds held to maturity	**126**	35	131
Acquisition of securities available for sale	**(52,737)**	(29,639)	(36,227)
Proceeds from sale of securities available for sale	**41,074**	32,407	10,945
Proceeds from redemption of securities available for sale	**9,188**	9,821	26,735
Acquisition of credit portfolios	**(7,803)**	(8,165)	(6,096)
Proceeds from sale of credit portfolios	**113**	382	140
Dividends received from affiliates	**1,150**	97	251
Investments in affiliates	**(1,090)**	(183)	-
Proceeds from realization of investments in affiliates	**2,164**	2	-
Acquisition of buildings and equipment	**(641)**	(552)	(571)
Proceeds from realization of buildings and equipment	**6**	46	66
Net cash for investing activity	**(8,162)**	(13,620)	(9,028)

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows (continued)

	2019	2018	2017
Cash flows from (for) financing activity			
Deposits from banks	**(1,004)**	378	(27)
Deposits from the public	**8,723**	7,780	12,628
Deposits from the government	**477**	(112)	(25)
Issuance of bonds and subordinated notes	**1,031**	1,799	-
Redemption of bonds and subordinated notes	**(4,107)**	(1,349)	(2,561)
Dividend paid to shareholders of the Bank	**(1,000)**	(496)	(861)
Buyback of shares	**-**	(24)	(39)
Net cash from (for) financing activity	**4,120**	7,976	9,115
Increase (decrease) in cash	**4,149**	(18)	10,697
Balance of cash at beginning of year	**81,241**	80,806	71,989
Effect of changes in exchange rates on cash balances	**(1,306)**	453	(1,880)
Balance of cash at end of year	**84,084**	81,241	80,806

Interest and taxes paid and/or received			
Interest received	**12,911**	11,238	10,921
Interest paid	**(2,513)**	(2,741)	(2,497)
Dividends received	**1,111**	17	220
Income tax paid	**(2,233)**	(2,374)	(1,321)
Income tax received	**373**	196	157

Note 35 Regulatory Initiatives

Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in 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). Due to the choice made by the Bank to issue at least 25% of the credit-card company under its ownership, the separation process may take up to four years from January 2017. The Bank sold approximately 65.2% of the issued and paid-up capital of Isracard in April 2019. 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 Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.
- Beginning in February 2020, the Bank presents detailed information to its customers, on its website, regarding transactions executed by the customers using non-bank credit cards, in accordance with an amendment to Proper Conduct of Banking Business Directive 470, issued in November 2018, which sets forth directives regarding the manner of presentation of the information.
- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years. The Bank is preparing to comply with the schedule, as required.
- In order to comply with the directives of the law, pursuant to which the Bank must sell its holdings in Automatic Bank Services Ltd. ("ABS") exceeding 10% by January 2021, in April 2019 the Bank entered into an agreement with a company in the global MasterCard group ("MasterCard") for the sale of 10% of the shares of ABS, for a total consideration of USD 11 million (approximately NIS 39 million), of which USD 9 million paid at the date of completion of the transaction and an additional USD 2 million to be given in the form of various services provided by MasterCard (under the terms of the existing collaboration agreement between the parties, and as shall be agreed upon by the parties) over the coming years. The transaction was completed in May 2019. In addition, in May 2019, ABS published a prospectus for a sale offering of shares of ABS, within which the Bank (and other banks with holdings in ABS) sold 13.4% of its holdings in shares of ABS, retaining a holding of 10%.

The Bank recorded profit (before tax) in the amount of approximately NIS 71 million in 2019 in respect of the aforesaid transactions and the revaluation of the balance of the remaining investment.

Note 35 Regulatory Initiatives (continued)

Parliamentary Inquiry Committee on Credit Allocation in the Economy

A parliamentary inquiry committee, headed by Member of Knesset Eitan Cabel, was established in July 2017 to examine credit allocation in the economy and debt arrangements. The committee examined the conduct of the Bank of Israel, the Banking Supervision Department, the banks, institutional entities, insurance companies, and the various types of credit providers.

The committee released its recommendations, which are focused on the conduct of the supervisory bodies, on April 15, 2019. If adopted and implemented, whether through legislation or through an administrative decision of the relevant regulator, the recommendations are expected to affect the activity of the banks. Main points of the recommendations include establishment of a joint parliamentary committee of the Economics Committee and the Finance Committee, authorized to receive confidential information submitted to it despite secrecy directives established in financial law; establishment of a designated unit with investigative authority at the Banking Supervision Department; and a determination that the banks and the Association of Banks should not be members of the committee that advises the Governor of the Bank of Israel and the Supervisor of Banks, so that the committee consists only of government representatives, and that the committee should publish the minutes of its meetings. Additional recommendations concerning the Competition Authority seek declaration by the Authority that the banks are a concentration group or a monopoly, and an increase in its willingness to act to discover cases of abuse of market power and of anti-competitive activity in the banking system.

Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect in February 2021, with an option for extension of implementation by one additional year. Since the publication of this bill, meetings of the committee for implementation of the law have been held at the Bank of Israel. It has been decided that Masav (the Bank Clearing Center) will manage the project. The Company has presented a schedule for implementation to the Banking Supervision Department and to all of the member banks.

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system. In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system, including authorizations to debit an account, management of negative balances in NIS and in foreign currency, management of securities, and more. 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, and specifies the obligations applicable to each bank.

Note 35 Regulatory Initiatives (continued)

Payment services reform

The Payment Services Law, issued in January 2019, was scheduled to take effect in January 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The arrangement established in the law relies, among other matters, on the principles of the PSD2 directive, which took effect in Europe in May 2018. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated. The Bank is preparing to comply with the schedule, as required.

On February 17, 2020, a legislative amendment was passed in the second and third readings deferring the inception of the Payment Services Law by nine months, to October 14, 2020. In view of the complex political situation and the difficulty of convening the plenum, the inception deferral section was inserted, retroactively, as of January 9, 2020.

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.

A final version of the Proper Conduct of Banking Business Directives was published on February 25, 2020, including a schedule: the banks are to be prepared with regard to a consent model, balances, and current-account transactions by December 31, 2020; July 1, 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; December 31, 2021 – access to additional information of customers – credit and loans, deposits and savings, and information regarding the customer's securities portfolio.

Note 35 Regulatory Initiatives (continued)

Additional material directives and initiatives in 2019

- Replacement of benchmark interest rates overseas – In March 2019, the Bank of Israel sent a draft letter concerning the discontinuation of use of the LIBOR interest rate. The letter instructs banks to prepare for this matter comprehensively. Among other matters, the banks were asked to appoint a management function responsible for overseeing an examination of the effects and monitoring implementation. The banks will also map the instruments and contracts potentially affected by the replacement. In addition, the banks were asked to perform a comprehensive risk analysis, both for the corporation and regarding the implications for the bank's relationship with customers, and to establish policies and procedures addressing the transition, while examining various scenarios for the pace of the transition. Beginning in January 2020, the Bank notified customers of the anticipated change (to the extent known), in a letter sent to relevant customers of the Bank who will be affected – owners of products (assets and liabilities) with maturity dates beyond December 2021, all customers of the dealing rooms, and all customers of advisory services.
- The credit database became operational in April 2019. As a result of the law, every citizen will have a credit rating; in credit applications, the credit provider will be notified of this rating, with the citizen's consent.
- Proper Conduct of Banking Business Directive 426, "Professional Human Telephone Response" – Proper Conduct of Banking Business Directive 426, also known as the implementation in the banking system of the "six-minute rule," took effect on July 25, 2019. The purpose of this directive is to facilitate consumers' communication with certain entities, with respect to a professional, human response, through simplification and shortening of automatic call routing systems, and through restriction of the wait time for a professional human response to a period not to exceed six minutes from the beginning of the telephone call. The Banking Supervision Department will be required to report to the Economics Committee of the Knesset on compliance with the instructions established.
- Significant market power – In July 2019, the Competition Authority issued an opinion statement on standards for the examination of significant market power, further to Amendment 21 to the Restrictive Trade Practices Law of January 2019, stating that a monopoly is considered anyone holding significant market power with respect to the delivery of goods or provision or acquisition of services (in contrast to the previous definition of a monopoly as anyone in control of more than 50% of the market).
- Proper Conduct of Banking Business Directive regulating the engagement of banking corporations in activity in financial instruments on behalf of their customers – A draft was released in August 2019, designated to replace Proper Conduct of Banking Business Directive 461, regulating the broker-dealer activities of the banks.
- Fee rules – An amendment to the rules concerning fees took effect in August 2019, requiring banks to identify small businesses that could derive savings from transition to a fixed-rate current account fee track, and to proactively register the businesses for the track.
- Proper Conduct of Banking Business Directive 432, "Transferring Activity and Closing a Customer's Account" – The Bank of Israel issued a draft amendment of Proper Conduct of Banking Business Directive 432 in August 2019, stating that banks must permit requests to transfer a securities portfolio to be submitted through their website.

Note 35 Regulatory Initiatives (continued)

- Insolvency and Economic Rehabilitation Law – The law took effect on September 15, 2019.
  Main points: The law creates a single legislative framework to encompass all types of debtors, including the various types of individuals and corporations. Sections of the legislative framework address unique aspects relevant to corporations and unique aspects relevant to individuals.
  Corporations – The law is intended to regulate all aspects of insolvency of corporations, from debt-rescheduling arrangements and debts of officers in the period prior to the opening of insolvency proceedings, to restructuring and rehabilitation processes, to liquidation of a corporation and dismantling of its activity, in order to respond both to the need for uniformity and to the need for special arrangements in appropriate cases.
  Individuals: The law is intended to regulate aspects of insolvency of individuals by creating simpler, faster arrangements for debtors seeking to cope with insolvency. The formation of administrative tracks for the treatment of debts in low amounts of non-serial debtors allows individuals to initiate insolvency proceedings before they are actually insolvent, and makes it possible to grant a discharge contingent upon compliance with an economic guidance program, in order for the procedure to serve as a means of coping with the causes of the insolvency.
  The Ministry of Justice has issued draft regulations on eight different subjects for the implementation of the law. As the completion of the procedure for enactment of the regulations has been delayed due to the dispersal of the Knesset, the law has taken effect, while only five of the eight regulations have been approved and published. The remaining regulations require the approval of the Constitution Committee, which has not yet been established and convened.
- IT services bureau – In March 2019, TCS was selected as the winning supplier to receive a grant from the Ministry of Finance for the establishment of an IT bureau, which will set up IT infrastructures and provide comprehensive banking IT services to financial entities. In the first stage, TCS will receive a grant of NIS 105 million, subject to the attainment of milestones, rising to a maximum amount of NIS 200 million under certain conditions. In August 2019, the Supervisor of Banks instructed the banks to prepare to connect to the IT services bureau during 2020. The Bank is preparing to comply with the directive as required.
- CRS – Automatic exchanges of information about financial accounts – Income Tax Regulations (Implementation of a Uniform Standard for Reporting and Due Diligence of Information on Financial Accounts), 2019. The State of Israel has adopted the OECD standard for automatic exchanges of information about financial accounts of foreign residents for tax purposes (the Common Reporting Standard). Financial institutions are required to collect financial information, as defined, regarding foreign residents; the information is to be transferred to the foreign countries of residence through the Tax Authority. The regulations were approved on January 1, 2019. The Bank reported to the Tax Authority on June 23, 2019, with respect to the year 2017, and on September 8, 2019, with respect to 2018.

Note 35 Regulatory Initiatives (continued)

- Proper Conduct of Banking Business Directive 367 – The directive has been updated such that beginning in January 2020, the fax service channel is included within digital banking. The definitions in the directive will also apply to the fax channel, from customer identification and verification to the implementation of controls and monetary transfer amounts. The Bank of Israel permits customers who were registered for the fax service with the Bank prior to the amendment to continue to operate without signing a new agreement. Beginning January 1, 2020, orders sent via fax are executed only for customers who are registered for the Fax Order service, as required.
- A second draft of a Proper Conduct of Banking Business Directive concerning consumer credit management was issued on February 18, 2020, and presented to the advisory committee of the Bank of Israel. 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.
- On October 29, 2019, the Bank of Israel published final versions of two Proper Conduct of Banking Business Directives concerning credit: Proper Conduct of Banking Business Directive 311, "Credit Risk Management," and Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers."
- On January 12, 2020, the Bank of Israel published the final version of Proper Conduct of Banking Business Directive 315, which eases the sectoral limit and allows banks to grant additional credit at a volume of 4% of the credit portfolio for financing of PPP infrastructure projects.

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 36 Coronavirus Outbreak

The coronavirus has spread rapidly around the world in recent weeks; in response, governments, including in Israel, have taken defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, and restrictions of the activity of businesses. The spread of the virus and the defensive measures have caused economic damage and negative trends in global capital markets and in the local market.

These events may lead to material worsening of the activity of the Israeli economy, to which the activity of the Bank is exposed; the events have, and are expected to have, implications of the Bank's business, including due to an increase in credit risk and liquidity difficulties of borrowers, 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 (including in Israel) – also has the effect of reducing the future financing income and interest income of the Bank in the near term.

In light of the events in the capital markets, including decreases in prices of tradable assets, the reduction of the Federal Reserve interest rate, changes in global and local interest-rate curves, and changes in currency exchange rates, the value of securities held by the Bank decreased by a total of approximately NIS 750 million, near the date of publication of the financial statements. By contrast, a decrease in the amount of approximately NIS 500 million occurred in actuarial liabilities for employee benefits at the same date, due to offsetting effects mainly arising from the opening of credit spreads used to determine the discount rate of the aforesaid liabilities.

At this stage, it is not possible to fully estimate these effects or the scope thereof, due to the uncertainty surrounding the duration of the virus outbreak, the measures to be taken, and the severity thereof, as well as uncertainty concerning the resulting impacts on economic activity, capital-market trends, and various financial measures to be applied by governments and regulators.

The Bank is taking measures to cope with the effects of the coronavirus, with due attention to the regulatory directives on this matter, and preparing on several levels, including continued service to its customers at its branches and other channels, maintaining business continuity in various scenarios, and the safety of its employees.

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices

2019

Contents

List of Tables

6. Corporate governance

6.1. The Board of Directors and the Board of Management

Members of the Board of Directors of the Bank*

Oded Eran	Chairman of the Board
David Avner	External director pursuant to the Companies Law
Ronit Abramson-Rokach	External director pursuant to the Companies Law
Dalia Lev	External director pursuant to the Companies Law
Noam Hanegbi	External director pursuant to Directive 301
David Zvilichovsky	Director
Moshe Koren	Director
Richard Kaplan	Director
Reuven Krupik	External director pursuant to Directive 301

Also served during the reported period:

Yacov Peer	Served as an external director pursuant to Directive 301, until October 6, 2019.

Activity of the Board of Directors

56 meetings of the Board of Directors of the Bank in plenary session and 109 meetings of the committees of the Board of Directors were held in the course of 2019.

In December 2019, the Supervisor of Banks notified the Bank that the number of directors for 2020 would remain nine, and that beginning on the date of the general meeting of 2021, the number of directors would be ten. The Bank has contacted the Banking Corporation Director Appointment Committee to request the proposal of candidates for three positions, in advance of the general meeting of 2020 (scheduled to convene in September 2020): two external directors, for the positions of Ronit Abramson-Rokach and Dalia Lev, who will complete their first term of service in February and April 2021, respectively, and one "other" director, to replace Moshe Koren, who will complete his service at the Bank (which has been extended by the Supervisor of Banks) upon the appointment of such a director at the annual meeting of 2020.

For details regarding changes in the composition of the Board of Directors during 2019, see section 6.6 ("Other matters") below.

* For additional details regarding the members of the Board of Directors of the Bank, their education, occupations, and experience (including the accounting and financial expertise of some of the directors), the committees of the Board of Directors on which they serve, additional corporations at which they serve, and more, see Standard 26 of the Periodic Report and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Report on directors with accounting and financial expertise

In March 2018, the Board of Directors of the Bank determined that the minimum number of directors with accounting and financial expertise would be three (instead of two prior to this decision), and that the minimum number of directors with accounting and financial expertise who should be members of the Audit Committee was two. This takes into consideration the duties of the Board of Directors of the Bank, and in particular its responsibility for the preparation and approval of the financial statements of the Bank, given the size of the Bank and the complexity of its operations, and the high importance accorded to the functioning of the control functions at the Bank and the supervision thereof.

Based on their education, experience, skills, and knowledge, and as estimated by the Board of Directors, six directors with accounting and financial expertise serve on the Board of Directors of the Bank at the date of publication of this report: Oded Eran, Moshe Koren, Dalia Lev, Reuven Krupik, David Avner, and David Zvilichovsky. For details regarding the education, occupation, and experience of these directors, see Standard 26 of the Periodic Report.

At the date of publication of the report, four directors with accounting and financial expertise serve on the Audit Committee.

Members of the Board of Management of the Bank*

Dov Kotler	President and Chief Executive Officer
Amit Oberkovich	Head of Human Resources
Yael Almog	Chief Legal Advisor
Amir Bachar	Chief Risk Officer (CRO)
Eti Ben-Zeev	Head of Information Technology
Ram Gev	Chief Financial Officer (CFO)
Tsahi Cohen	Head of Corporate Banking
Ofer Levy	Chief Accountant
Yadin Antebi	Head of Financial Markets and International Banking
Dalit Raviv	Head of Retail Banking
Golan Scherman	Head of Innovation and Corporate Strategy

Chief Internal Auditor –

Zeev Hayo	Head of Internal Audit in Israel and Abroad

Also served during the reported period:

Ari Pinto	Served as President and Chief Executive Officer until September 30, 2019.
Yael Dromi	Served as Head of Stakeholder Relations until February 29, 2020.
Erez Yosef	Served as Chief Operating Officer (COO), Head of Strategy, Resources, and Operations, until October 31, 2019.
Ofer Koren	Served as Chief Financial Officer until December 31, 2019.
Ronen Stein	Served as Head of Retail Banking until November 12, 2019.

* For additional details regarding the members of the Board of Management and additional officers, see Standard 26A of the report and Section 6.6 below, and the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

6.2. Internal audit

Information regarding the Internal Auditor – Mr. Zeev Hayo, CPA, serves as Chief Internal Auditor of the Bank as of July 14, 2014. Mr. Zeev Hayo, CPA, has worked at the Bank Hapoalim Group since 1990. He is employed full time, with the rank of a Member of the Board of Management. He holds a B.A. degree in Accounting and Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Hayo meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law"). The Internal Auditor is not an interested party in the Bank or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of the Bank and Internal Auditor of some of the subsidiaries in the Group, as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law. The appointment and termination of internal audit employees are subject to approval by the Chief Internal Auditor; audit employees receive instructions on audit-related matters only from the Chief Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; employees of the Internal Auditor Bureau are authorized to sign, on behalf of the Bank, only documents related to audit work, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function."

Appointment method – The appointment of the Internal Auditor was approved by the Board of Directors of the Bank on July 14, 2014, following the recommendation and approval of the Audit Committee on July 14, 2014, which cited considerations including his professional qualifications, personal qualities, education, and experience, including experience in the area of auditing.

Superior officer of the Internal Auditor – The Chief Internal Auditor reports organizationally to the Chairman of the Board of Directors.

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2019 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; an operational risk survey; the current organizational structure of the Bank; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Bank's senior managers and other management functions, as well as the external auditors. The audit work plan at the Bank's subsidiaries was established in a similar manner; the Bank's Internal Audit unit provides auditing services to most subsidiaries. The audit work plan also includes examination of the approval processes of material transactions, all based on a comprehensive perspective focusing on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. Among other matters, the work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Bank management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The Internal Audit work plan also addresses the Bank's activity overseas through branches and representative offices, and the Bank's subsidiaries in Israel and abroad. The principal subsidiaries overseas have local internal auditors (Hapoalim Switzerland, which also supplies internal-auditing services to Banque Hapoalim Luxembourg, and Pozitif have separate local full-time internal auditors; auditing at HSU is performed by the local auditor at the New York branch). Internal Audit in Israel performs controls to ensure that the internal auditing is executed at an adequate professional level, as required under Proper Conduct of Banking Business Directive 307, "The Internal Audit Function," and Proper Conduct of Banking Business Directive 306, "Supervision of Overseas Branches."

In general, subsidiaries in Israel receive internal audit services from Internal Audit at the Bank.

Note that since Isracard became a public company (in April 2019), audit services have not been provided to Isracard by the Internal Audit employees of the Bank.

Manpower – The number of positions in Internal Audit was determined in accordance with the multi-year work plan, based on a risk survey. The Internal Audit team at the Bank, its subsidiaries, and its overseas offices numbered an average of approximately 124 employee positions and 6 outsourced positions in 2019, as detailed below.

Table 6-1: Average number of positions of Internal Audit staff

	Average number of employee positions in 2019		
	Bank	Subsidiaries	Total
Activity in Israel	**106**	**3**	**109**
Activity overseas	**8**	**7**	**15**
Total	**114**	**10**	**124**

In addition, approximately 6 positions were invested in outsourcing.

Performing audits – Internal Audit at the Bank operates under laws; regulations; directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, "The Internal Audit Function"; professional standards; professional guidelines of the Institute of Internal Auditors in Israel; and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that the Bank's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Bank, including continuous unmediated access to the Bank's information systems, including financial data, as necessary to perform its duties.

This authority is anchored in the audit charter and procedures. This policy is in place in the Bank's activity in Israel and abroad and at its subsidiaries.

Internal Auditor's report – Internal audit reports, including periodic reports, are submitted in writing.

A list of all audit reports published during the preceding month is presented to the Board of Directors' Audit Committee each month, after being submitted to the Chairperson of the Audit Committee.

Audit reports are presented to the Chairman of the Board of Directors, the Chairperson of the Audit Committee, and the CEO of the Bank. The reports are also distributed to the members of the Audit Committee and to the members of the Board of Management. Substantial audit reports are discussed by the Audit Committee each month.

In 2019, semiannual and annual summaries were presented to the Board of Directors' Audit Committee and discussed by the committee, reviewing internal audit activities during the reported period. A summary of audit activities for 2018 was submitted on April 4, 2019, and discussed by the Audit Committee on April 8, 2019. A summary of audit activities in the first half of 2019 was submitted on September 3, 2019, and discussed by the Audit Committee on September 9, 2019. A summary of audit activities in 2019 will be discussed by the Audit Committee at the end of the first quarter of 2020.

Evaluation of the activity of the Internal Auditor by the Board of Directors – In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Bank's internal auditing objectives.

Remuneration – Details of the salary, compensation, value of benefits, and employer payments and contributions for the Chief Internal Auditor, paid, or in respect of which a provision was recorded, in 2019: salary in the amount of NIS 1,591 thousand; a bonus in the amount of NIS (44) thousand; a benefit in respect of share-based payment in the amount of NIS 338 thousand; value of additional benefits in the amount of NIS 99 thousand; and employer provision payments in the amount of NIS 14 thousand. Total remuneration pursuant to Regulation 21 amounted to NIS 1,998 thousand. Total salaries and related expenses pursuant to the Remuneration Limit Law amounted to NIS 2,035 thousand. The balance of loans granted with ordinary terms amounted to NIS 57 thousand.

The Internal Auditor has holdings at a negligible rate (approximately 0.01%) in shares of the Bank (107,904 shares) and in rights to receive shares of the Bank (approximately 0.01%) received within an equity compensation plan for senior executives of the Bank, which are not such that would influence the quality of his work.

The salary, salary terms, and terms of employment of the Internal Auditor are approved by the Remuneration Committee and by the Board of Directors, based on the recommendation of the Audit Committee. The remuneration of the Auditor is appropriate to his office and based on the prevalent principles also used for the remuneration of the members of the Board of Management (defined as control functions). In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not such that would bias his professional judgment.

6.3. Disclosure regarding the procedure for approval of the financial statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, and with the approval of its financial statements. The Audit Committee of the Board of Directors discusses and examines the drafts of the financial statements presented to it and makes a recommendation to the Board of Directors with regard to the approval of the financial statements. The Audit Committee received reports and held discussions regarding deficiencies and material weaknesses in internal control over the financial statements, if and as found, and received reports of any fraud, whether material or immaterial, if and inasmuch as any existed, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control over financial reporting. The Audit Committee examined the material issues and critical estimates applied in the financial statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the accounting treatment applied to material matters. The committee also examined the implementation of the due-disclosure principle in the financial statements and in the accompanying information, through detailed presentation of the issues by officers and others at the Bank, including the Chief Executive Officer and the Chief Accountant, and examined the effectiveness of the internal control over financial reporting.

As part of the discussion of the financial statements, the Audit Committee discussed, among other matters, the problematic debts of the Bank, examined the value of the Bank's holdings in securities, and discussed the provision for other-than-temporary impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discussed and examined the Bank's exposures to risks and the reflection and impact of such risks on the financial statements.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.), are invited to the meetings of the Audit Committee in which the financial statements are discussed (to which the other members of the Board of Directors are also invited), and to the meetings of the Board of Directors in which the financial statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor is invited to the discussions of the Audit Committee and the Board of Directors regarding the approval of the financial statements.

For additional information regarding the procedure for the approval of the financial statements, see the Corporate Governance Questionnaire, Sections 25, 26, and 27.

6.4. Remuneration of auditors(1)(2)(3)(8)

Table 6-2: Remuneration of auditors

	Consolidated		Bank	
	2019	2018	**2019**	2018
	NIS thousands			
For auditing activity(4)				
Joint auditors	**19,292**	19,625	**13,175**	13,129
For audit-related services(5)				
Joint auditors	**6,633**	5,190	**6,390**	4,939
For tax services(6)				
Joint auditors	**2,527**	2,644	**1,878**	2,268
For other services(7)				
Joint auditors	**6,085**	5,068	**1,412**	959
Total remuneration of auditors	**34,537**	32,527	**22,855**	21,295

(1) Report by the Board of Directors to the annual general meeting on the remuneration of auditors for audit activities.
(2) The remuneration of the external auditors includes payments to partnerships and corporations under their control, as well as payments in accordance with the Value Added Tax Law.
(3) Including remuneration paid and accrued remuneration.
(4) Audit of the annual financial statements and review of interim reports, including an audit of the internal control of financial reporting (SOX 404) and a review of the Bank's overseas branches.
(5) Audit-related fees mainly include prospectuses, special approvals, and comfort letters.
(6) Mainly includes tax adjustment reports, tax assessment discussions, and tax consulting in Israel and abroad.
(7) Mainly includes assistance with preparation of the Corporate Social Responsibility Report and consulting on the prohibition of money laundering.
(8) Does not include fees of Isracard, which is presented as a discontinued operation (the fee was NIS 3,320 thousand in 2018).

6.5. Remuneration for interested parties and senior officers

Following the passage of 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"), the Bank formulated a remuneration policy and a remuneration plan for officers and senior executives (the "Remuneration Policy" and the "2016 Remuneration Plan"), aligned with the directives of the Remuneration Limit Law (for further details, see Notes 22 and 23 to the Financial Statements).

Salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group are set out below (in NIS thousands).

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands)

		2019								
Name	Title	Rate of holdings in the capital of the Bank (%)	Salaries[1]	Bonuses	Benefit in respect of share-based payment	Value of additional benefits[2]	Employer payments and provisions[3]	Total remuneration pursuant to Regulation 21[4]	Total salaries and related expenses based on the Remuneration Limit Law[5]	Loans granted with regular terms
Oded Eran	Chairman of the Board of Directors	-	**1,997**	-	**512**	**2**	**358**	**2,869**	**2,561**	**51**
Dov Kotler	President and Chief Executive Officer	-	**603**	-	**26**	-	**105**	**734**	**640**	**62**
Ari Pinto	President & Chief Executive Officer	**0.01**	**1,794**	[8]**(39)**	**512**	**12**	**2,624**	**4,903**	**2,940**	**55**
Ronen Stein	Member of the Board of Management	**0.01**	**1,591**	[8]**(30)**	**338**	**96**	**2,371**	**4,366**	**2,046**	**47**
Ron Weksler	CEO of Isracard	-	**1,926**	[6]**1,720**	-	**141**	**306**	**4,093**	[7]-	**138**
Erez Yosef	Member of the Board of Management	-	**1,591**	[8]**(6)**	**338**	**122**	**1,663**	**3,708**	**2,096**	**32**
Barry Elram	CEO of Hapoalim Switzerland	-	**2,372**	**179**	**5**	**452**	**91**	**3,099**	[7]-	**217**
Eti Ben-Zeev	Member of the Board of Management	-	**1,591**	[8]**(32)**	**338**	**91**	**937**	**2,925**	**2,229**	**46**

(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.
(2) Amounts listed in the column of the table with the heading "additional benefits" include payments for vehicle expenses, daily allowances, and gross-up.
(3) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unexpected expenses (income) due to updated actuarial calculations in respect of the Bank's obligation for benefits acquired in the past, before the inception of the Remuneration Limit Law.
(4) Excluding wage tax.
(5) Not including deposits and employer provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law, and not including provisions for past benefits accrued before the inception of the Remuneration Limit Law.
(6) The bonus also includes a one-time bonus at the separation of Isracard from the Bank Group.
(7) The Financial Corporations Officer Remuneration Law does not apply to this officer.
(8) The amount noted is in respect of the forfeiture of a decrease in bonus amounts in previous years (the forfeiture and vesting of the RSU was contingent on the attainment of return on equity in 2019).

Table 6-3: Details of salaries, compensation, value of benefits, employer payments, and provisions for the senior officers of the Bank Group (in NIS thousands) (continued)

		2018								
Name	Title	Rate of holdings in the capital of the Bank (%)	Salaries[1]	Bonuses	Benefit in respect of share-based payment	Value of additional benefits[2]	Employer payments and provisions[3]	Total remuneration pursuant to Regulation 21[4]	Total salaries and related expenses based on the Remuneration Limit Law[5]	Loans granted with regular terms
Oded Eran	Chairman of the Board of Directors	-	1,979	-	511	2	348	2,840	2,543	49
Ari Pinto	President and Chief Executive Officer	0.01	2,365	-	*185	2	(668)	*1,884	*2,582	67
Orit Lerer[7]	Former CEO of Bank Hapoalim Switzerland	-	2,760	-	614	869	513	4,756	[6] -	141
Moshe Alush[8]	Deputy CEO of Bank Hapoalim Switzerland	-	3,482	-	-	145	436	4,063	[6] -	-
Eti Ben-Zeev	Member of the Board of Management	-	1,578	329	337	92	440	2,776	2,553	64
Yadin Antebi	Member of the Board of Management	0.01	1,650	366	337	29	366	2,748	2,553	63
Ron Weksler	Isracard Group CEO	-	1,913	366	-	43	316	2,638	[6] -	34
Yael Almog	Member of the Board of Management	-	1,377	428	298	81	265	2,449	2,235	27
Golan Scherman	Member of the Board of Management	-	1,079	443	236	135	241	2,134	1,943	51

* Restated; additional restricted shares in the amount of NIS 84 thousand were granted. For further details, see Note 22 to the Financial Statements.
(1) Also includes payments classified as fixed remuneration that does not grant entitlement to benefits, as detailed in Note 22 to the Financial Statements.
(2) Amounts listed in the column of the table with the heading "additional benefits" include payments for vehicle expenses, daily allowances, and gross-up.
(3) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unexpected expenses (income) due to updated actuarial calculations in respect of the Bank's obligation for benefits acquired in the past, before the inception of the Remuneration Limit Law.
(4) Excluding wage tax.
(5) Not including deposits and employer provisions for severance pay and compensation (including disability) in accordance with the law, which are not included in the definition of "remuneration" for the purposes of the Remuneration Limit Law, and not including provisions for past benefits accrued before the inception of the Remuneration Limit Law.
(6) The Financial Corporations Officer Remuneration Law does not apply to this officer.
(7) Pursuant to the employment agreement of August 2016, the executive is entitled to phantom units at a fixed value at the date of the grant (approximately CHF 180,000 per annum) (see Sections 4 and 5 of Note 22 to the Financial Statements). The amount noted in the table includes the value of the phantom units granted, as noted, in respect of 2018, and the increase in value as a result of the increase in the price of the Bank's share, in respect of the restricted phantom units granted for previous years. Ms. Lerer left on December 31, 2018.
(8) Left on November 16, 2018.

General notes

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank, enjoy various benefits in the management of their bank accounts. The benefits mainly refer to an exemption from fixed account-management fees, fees for recording transactions in accounts, information printouts, checkbooks, securities custody, cash withdrawals, money transfers to other accounts, and credit-card membership fees. In addition, there are benefits in the form of reduced fee rates for buying and selling securities and foreign currency, standing instructions for payments executed through the account, and safe-deposit box rentals. Further, like all other employees of the Bank, the officers enjoy preferred interest rates on credit and debit balances in current accounts. The entire range of benefits given to officers totals negligible amounts, which do not exceed a total of NIS 50 thousand per year for each officer.

For further details regarding lateral remuneration components (including share-based payment) to which all members of the Board of Management of the Bank are entitled, including retirement terms, bonuses, etc., and with regard to the remuneration plan and the effects of the Remuneration Limit Law, see Notes 22 and 23 to the Financial Statements.

For additional information in accordance with the detailed disclosure requirements of Basel Pillar 3, see the disclosure published on the Bank's website and on the Magna website.

In view of the return on equity attained by the Bank in 2019, bonuses were not distributed to the senior officers of the Bank in respect of that year, despite the fact that pursuant to the remuneration policy for officers of the Bank, it is possible to distribute discretionary bonuses under these circumstances.

The terms of service and employment of the executives listed below are consistent with the employment agreements with the executives, which were lawfully approved by the organs of the Bank; with the remuneration policy and remuneration plan of the Bank, which were in effect in 2019; and with the directives of the Remuneration Limit Law, Amendment 20, and the Banking Corporation Remuneration Policy Directive. For further details, see Notes 22 and 23 to the Financial Statements.

Mr. Oded Eran

Mr. Oded Eran serves as Chairman of the Board of Directors of the Bank ("Chairman"), beginning January 1, 2017, under a three-year employment contract ended December 31, 2019. On July 18, 2019, the general meeting of the Bank approved the appointment of Mr. Oded Eran as a director of the Bank for an additional term of service of three years (until December 31, 2022). On October 18, 2019, the Supervisor of Banks notified the Bank that she had no objection to the appointment of Mr. Oded Eran for an additional term of service as a director and as Chairman of the Board of the Bank.

On December 26, 2019, the general meeting approved the extension (with no change) of the terms of service and employment of the Chairman, according to the terms of the existing contract, for a period of one additional year, i.e. until December 31, 2020.

The terms of remuneration of the Chairman are consistent with the remuneration policy of the Bank, which was approved by the shareholders of the Bank on December 19, 2016 (the "Remuneration Policy"), and the temporary extension of which was approved by the general meeting on December 26, 2019 (reference no. 2019-01-114429).

Mr. Dov Kotler

Mr. Dov Kotler took office as CEO of the Bank on October 1, 2019 (replacing Mr. Ari Pinto (the "Outgoing CEO of the Bank")). Accordingly, the Remuneration Committee and the Board of Directors of the Bank resolved, on November 5, 2019 and November 6, 2019, respectively, to approve the terms of employment of the CEO, in the position of CEO of the Bank, in respect of the period from October 1, 2019 (the "Agreement Inception Date") to December 31, 2020 (the "Agreement Period"), and the Agreement Period until December 31, 2022. With regard to the terms of remuneration and employment of Mr. Kotler, including the period of employment, see Immediate Report 2019-01-114429.

Mr. Ari Pinto

Mr. Ari Pinto served as CEO of the Bank from August 1, 2016 to September 30, 2019. His remuneration in 2019 was consistent with the Remuneration Policy (2016) and the derived Remuneration Plan (2016).

Mr. Ronen Stein

Mr. Ronen Stein served as Head of Retail Banking from February 1, 2018 to October 31, 2019. He retired from the Bank on January 31, 2020.

Dr. Ron Weksler

Serves as of February 2016 as CEO of Isracard, Europay, and Premium Express.

Mr. Erez Yosef

Mr. Erez Yosef served as Chief Operating Officer (COO), Head of Strategy, Resources, and Operations, from February 1, 2016 to October 31, 2019. He retired from the Bank on January 31, 2020.

Mr. Barry Elram

Mr. Barry Elram serves as CEO of Hapoalim Switzerland as of October 1, 2018, for a period of two years, until September 30, 2020.

Ms. Eti Ben-Zeev

Ms. Eti Ben-Zeev serves as Head of Information Technology. The employment agreement of Ms. Ben-Zeev covers a period of four years and three months, from January 1, 2017 to March 31, 2021.

6.6. Other matters

In April 2019, the CEO of the Bank, Mr. Ari Pinto, gave notice of his decision not to renew his employment contract (which would conclude at the end of 2019) as Chief Executive Officer of the Bank for another term. In July 2019, the Board of Directors of the Bank, at the recommendation of the search committee it had established, following a structured search process performed by the committee, resolved to appoint Mr. Dov Kotler to the position of CEO of the Bank. Mr. Kotler took office as CEO on October 1, 2019.

Mr. Erez Yosef (who served as Head of Strategy, Resources, and Operations), Mr. Ronen Stein (who served as Head of Retail Banking), and Mr. Ofer Koren (who served as CFO) left the Bank in October, November, and December 2019, respectively.
Mr. Niv Polani (who served as Head of Business Development) and Mr. Avner Paz-Tzuk (who served as Core IT Systems Modernization Project Manager) left the Bank in January and February 2020, respectively.
Ms. Yael Dromi, who served as Head of Stakeholder Relations, left the Bank in February 2020.

At the recommendation of the CEO of the Bank, Mr. Dov Kotler, the Board of Directors of the Bank approved the following appointments and organizational changes in the Board of Management of the Bank in October 2019:

Appointments:
Ms. Dalit Raviv, who previously served as Commercial Area Manager in the Corporate Banking Division of the Bank, was appointed to the position of Head of Retail Banking. Ms. Raviv took office on November 13, 2019, after the approval of the Banking Supervision Department for the appointment was received.

Mr. Amit Oberkovich was appointed to the position of Head of Human Resources. Mr. Oberkovich took office on December 1, 2019.

Mr. Ram Gev was appointed to the position of Chief Financial Officer. Mr. Gev served as CFO of Isracard Ltd. Mr. Gev took office on January 1, 2020, after the approval of the Banking Supervision Department for the appointment was received.

Organizational changes:
The Human Resources Division has been made directly subordinate to the CEO, and split off from the COO Division, which has been closed. The Logistics and Purchasing Areas have been transferred to the Finance Division, and the Central Back Office has been transferred to the Retail Banking Division.
The Chief Accountant and Head of Comptrolling, Mr. Ofer Levy, now reports directly to the CEO of the Bank.

In January 2020, at the recommendation of the CEO, the Board of Directors of the Bank approved the following organizational changes:
The Stakeholder Relations Division has been split, and all processes related to the management of human resources at the Bank have been transferred to the Human Resources Division.
The Ombudsman Unit has been made subordinate to the Chief Legal Advisor of the Bank.

The Core Systems Administration (the IT systems modernization project) has been made subordinate to the Information Technology Division.
The Strategic Management and Research Unit, the Business Development Unit, and the Credit Card Unit have been transferred to the Innovation Division, which has been renamed the Innovation and Strategy Division.

At the annual general meeting of shareholders of the Bank, which convened on July 18, 2019, the following resolutions were discussed and passed: discussion of the audited annual financial statements of the Bank as at December 31, 2018, and the Report of the Board of Directors and Board of Management for the year ended on that date; renewed appointment of Somekh Chaikin (KPMG), CPA (Isr.), and Ziv Haft (BDO), CPA (Isr.), as the joint auditors of the Bank, until the end of the next annual general meeting of the Bank; adoption of amendments to the Articles of the Bank; and approval of the appointment of five directors (of eight candidates proposed by the Banking Corporation Director Appointment Committee), as detailed below:
Mr. David Avner, as an external director pursuant to the Companies Law (who also meets the qualification requirements for an external director pursuant to Directive 301);
Mr. Reuven Krupik (a currently serving director) and Mr. Noam Hanegbi, as external directors pursuant to Directive 301 (who are also independent directors pursuant to the directives of the Companies Law);
Mr. Oded Eran (a currently serving director and Chairman of the Board) and Dr. David Zvilichovsky, as directors who are not external directors ("other" status).
The approval of the Supervisor was received on July 22, 2019, for the reappointment of Mr. Reuven Krupik for a second term of service as an external director pursuant to Proper Conduct of Banking Business Directive 301, and it was clarified that the renewal of his appointment begins February 18, 2019 (when Mr. Krupik's service was extended by the Supervisor, in accordance with her authority under the Banking Ordinance). Accordingly, the additional three-year term of service of Mr. Krupik is counted beginning on February 18, 2019.

The appointments of Mr. David Avner, Dr. David Zvilichovsky, and Mr. Noam Hanegbi took effect during September and October, after the Supervisor of Banks gave notice that she had no objection to the appointments.

The term of service of Mr. Yacov Peer on the Board of Directors of the Bank ended on October 5, 2019, after nine years of service.

On October 28, 2019, the Supervisor of Banks notified the Bank that she had no objection to the appointment of Mr. Oded Eran for an additional term of service as a director and as Chairman of the Board of the Bank. The additional term of service of Mr. Eran began on January 1, 2020.

In May 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the extension of the directors and officers' liability insurance policy of the Bank and of subsidiaries of the Bank by one month (i.e. until June 30, 2019, instead of May 31, 2019, the expiration date of the previous insurance policy), in consideration for a total of approximately USD 200,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of USD 250 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 50 million (USD 300 million in total), beginning July 1, 2019, for a period of eleven months. The total premium for the aforesaid insurance coverage is approximately USD 2.4 million.

In July 2019, the Bank published its social, environmental, and economic responsibility report for 2018. The report, prepared in compliance with advanced GRI standards, is available on the Bank's website.

A special general meeting of shareholders of the Bank convened on December 26, 2019, in which approval was granted for the extension of the term of the remuneration policy for officers of the Bank for a period of one year (until December 31, 2020), and approval was granted for the terms of service and employment of the Chairman of the Board and the CEO of the Bank for a similar period.

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.

Imposition of monetary sanctions by the Supervisor of Banks

Over the recent period, there has been an increase in instances of monetary sanctions imposed on banks by the Banking Supervision Department, in cases in which, according to the position of the Banking Supervision Department, flaws or deficiencies have been discovered in the conduct of the financial institutions.

- On April 3, 2019, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 385 thousand upon the Bank. The monetary sanction was imposed due to the failure to remedy a deficiency in accordance with the instructions of the Banking Supervision Department. The instructions were issued following the investigation of public complaints, pursuant to Section 16(B) of the Banking Law (Service to Customers), 1981, and required the Bank to amend its documents pertaining to the service of delivering checkbooks to customers through the Israel Post, such that liability for damages in the event of loss or theft of the checkbooks during delivery by post would not apply to the customer.
- On May 16, 2019, the Supervisor of Banks imposed a monetary sanction in the amount of NIS 1,575 thousand upon the Bank. The Banking Supervision Department decided to impose the monetary sanction following cases in which customers who sought to use the ATMs of the Bank to withdraw cash were debited for the withdrawal of monies and charged fees, despite the fact that the cash withdrawal failed. This constitutes a violation of Sections 3 and 5(A) of Proper Conduct of Banking Business Directive 433 and of the directives in Section 9J of the Banking Law (Service to Customers), 1981. The Banking Supervision Department recognized the arguments of the Bank regarding the actions taken to remedy the deficiencies and prevent the recurrence thereof, and therefore reduced the amount of the sanction by 10%, to the aforesaid total.

6.7. Standards concerning interested party transactions

The following are details of the main points of the various standards established by the Audit Committee, in the past and recently in March 2020, with regard to the approval and reporting of interested party transactions of the Bank in accordance with the directives of the Companies Law and the Securities Law. At the date of publication of the financial statements, the Bank is a banking corporation without a controlling core, and has no controlling party. Accordingly, the standards will primarily be used by the Bank in the classification of transactions with officers, or in which officers have a personal interest, and for reporting on interested party transactions.

Extraordinary/non-extraordinary transactions

Pursuant to the directives of the Companies Law, a transaction shall be considered a non-extraordinary transaction if it fulfills the following cumulative conditions: the transaction is in the ordinary course of business of the company, it is performed at market terms, and it is not material for the company. The standards established by the Audit Committee, as noted, include the following main directives with regard to this matter:

Ordinary course of business of the Bank. A transaction shall be considered one that is performed in the ordinary course of business of the Bank if the contractual engagement is performed within the routine transactions of the Bank in practice, and it is not a nonrecurring transaction or a transaction that is exceptional within the activity of the Bank. Transactions of the following types shall be considered transactions in the ordinary course of business of the Bank, unless special considerations apply: a banking transaction of any type whatsoever, including credit granting, guarantees, and the related contractual engagements, depositing and taking deposits, transactions in securities, participatory units in mutual funds or other funds, execution of investments of any kind whatsoever (non-financial, in tradable or nontradable securities), etc., provided that the transaction is of a type of transaction in which the Bank has engaged in the past during the course of its business, and is similar to such transactions in its characteristics (for example, with respect to credit granting – the credit is in an amount that the Bank customarily grants to borrowers with similar characteristics); a transaction that is part of the core business of the Bank, or that is related to the business activity of the Bank or is in the service thereof, even if it is not in the core of its business (for example, a transaction for rental of a property to be used as a branch of the Bank, an insurance transaction related to the activity of the Bank, activity to instill the vision of the Bank, etc.), which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; transactions for the acquisition/sale of an asset (including a yield-generating asset or other fixed assets), product, or service, which is of a type of transaction in which the Bank customarily engages or which it has executed in the past in the course of its activity; and contractual engagements related to the service and/or employment of officers and employees of the company (including insurance, exemption, and indemnification), of a type of contractual engagement customary and practiced at the Bank, or similar in characteristics to past contractual engagements of the Bank.

Market terms. A transaction shall be considered one that is performed at market terms if the price and other principal and material terms of the transaction reflect the price and principal terms of a similar transaction, if it were executed between the company and an unrelated third party, or between other unrelated parties. The existence of market terms in a transaction with an interested party can be determined if a market for transactions of the type of the examined transaction exists, or if external evidence exists for the transaction that can indicate the price and other principal terms prevalent for transactions of this type. Among other matters, the existence of market terms can be determined in one or more of the following ways: the terms of the transaction are similar to the terms of at least two transactions similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral or the extent of the customer's activity with the Bank), performed by the Bank in the period near the date of the contractual engagement in the transaction under examination (including quotes / binding offers proposed by the Bank to its customers, and binding offers proposed to the Bank), provided that they are prepared (or quoted, as relevant), with a party unrelated to the Bank, and a controlling party / officer of the Bank had no personal interest therein; the terms of the transaction are similar to the terms of at least two transactions in the relevant market, known to the Bank and similar in characteristics (such as the type of customer or counterparty to the transaction and characteristics thereof, the volume of the transaction, and other characteristics relative to market terms, such as collateral), performed in the period near the date of the contractual engagement in the transaction under examination, provided that they are performed between unrelated parties; a price set in an orderly market of buyers and sellers, such as prices of tradable securities or commodity prices, provided that sufficient tradability exists in that market with respect to the relevant asset, product, or service; based on the terms of transactions similar in essence to the transaction under examination in which the other party in the transaction contracted, or received an offer to contract (and was willing to contract, even if it did not actually contract) with unrelated parties, provided that the other party affirms the same to the company in writing; or if the terms of the transaction between the company and the related party were established before it was a related party, and under the circumstances there is no concern over bias in the terms of the transaction, and no significant change in market terms is known, as shall be determined by the Audit Committee.

Materiality of the transaction. The materiality of a transaction with an interested party is examined based on a quantitative and qualitative test. In the absence of special qualitative considerations arising from the overall circumstances of the matter, the following interested party transactions shall be considered immaterial transactions: any transaction involving the granting of credit by the Bank, if the increase in indebtedness ("indebtedness" as defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks) of the borrower after the transaction does not exceed 2% of the supervisory capital ("supervisory capital" – Tier 1 capital after supervisory adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202) in the most recent financial statements of the Bank, and after the execution thereof the total indebtedness of the borrower does not exceed 7.5% of the supervisory capital (the Audit Committee shall discuss the classification of each transaction in an amount exceeding 0.5% of supervisory capital). A number of transactions executed consecutively with the same Borrower and related to one another shall be considered a single transaction, such that for the purpose of the classification of the aforesaid transactions the cumulative amount of such transactions shall be examined; a transaction of depositing moneys of any kind whatsoever, if following the transaction the total deposits of the depositor do not exceed 2% of total deposits from the public, as reported in the most recent consolidated balance sheet of the Bank published to the public prior to the deposit; a transaction of deposit and/or acquisition and/or sale of securities, participatory units in mutual funds and/or other funds, and any other investment held by the Bank as an asset of the customer (not as a balance sheet liability), when the amount of such a transaction does not exceed 0.5% of the total balance of off-balance sheet monetary assets of the customers in the Bank Group, as reported in the most recent consolidated balance sheet of the Bank published to the public at the date of execution of the transaction; and any other transaction of the Bank not mentioned above, if the amount of the transaction does not exceed NIS 300 million. The materiality of transactions executed frequently, regularly, and repeatedly over a period of time shall be examined based on the annual volume of the transactions. In multi-year transactions, the volume of the transaction for the purpose of examining its materiality shall be calculated on an annual basis. The examination of qualitative considerations may affect the classification of a transaction as material/immaterial. Thus, for example, a transaction with quantitative characteristics slightly higher than those noted above may be considered immaterial, if in qualitative terms and under the circumstances it is reasonable to determine that it is not likely to materially affect the Bank.

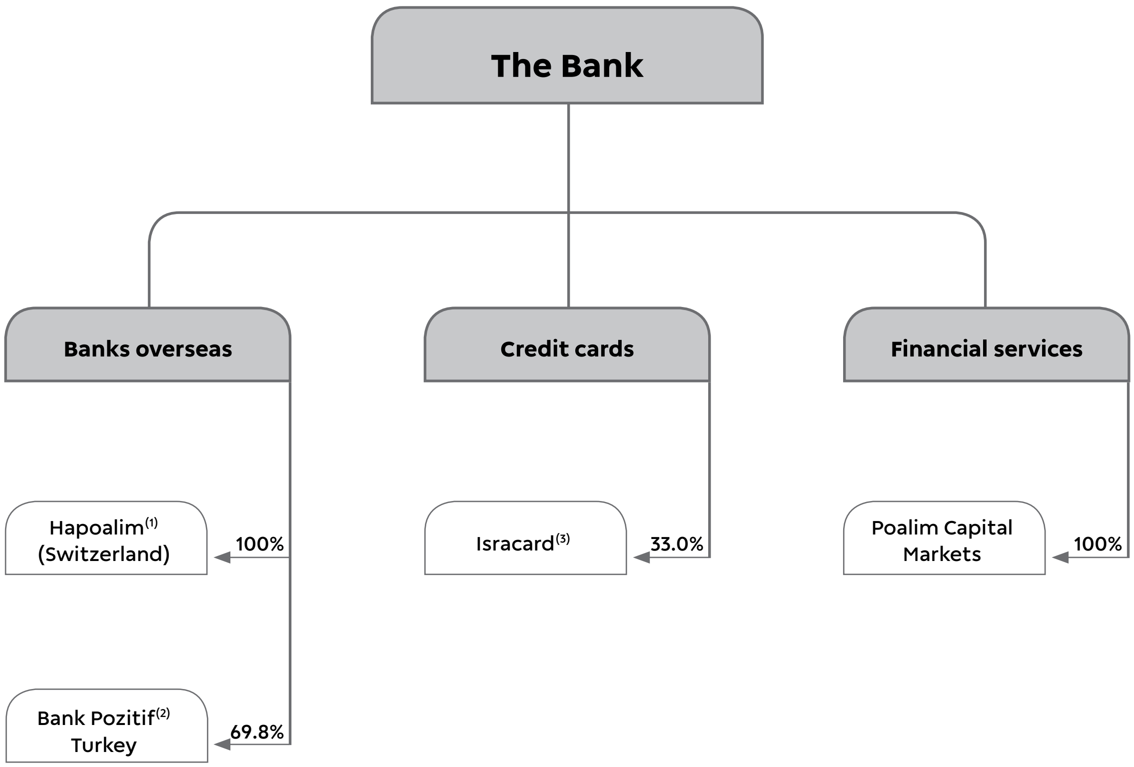
Negligible transactions

An interested party transaction shall be considered a negligible transaction for the purposes of approval and reporting procedures if the following cumulative conditions apply to it: the transaction is not extraordinary (whether classified as such based on the standards, or by the Audit Committee); the transaction is of a type of transaction in which the Bank engages in the ordinary course of its business, including banking transactions of any kind and transactions in connection with financial products and services, the acquisition of products and services, rental, and renting of property; the transaction is compliant with the limits on indebtedness of related persons based on Directive 312; and one of the following conditions applies to the transaction: (a) it is a banking transaction of the type of transactions that the Bank usually executes with the public in the ordinary course of its business, and its volume does not exceed 0.1% of the supervisory capital in the most recent financial statements of the Bank; or (b) it is another transaction the volume of which does not exceed NIS 10 million, provided that the total transactions of its type in the calendar year with the interested party do not exceed 0.1% of supervisory capital.

7. Additional information regarding the business of the banking corporation and the management thereof

7.1. Holdings chart

Set out below is a chart of the Bank's principal affiliates* as at December 31, 2019:



* The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net profit (loss) attributed to shareholders of the Bank exceeds 5% of the net profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

(1) In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland, through the sale of its assets or by other means.

(2) The Bank is acting to sell its investment in Bank Pozitif.

(3) In light of the directives of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), the Bank distributed its remaining holdings in Isracard as a dividend in kind on March 9, 2020, and as of that date it is no longer a shareholder of the company.

7.2. Control of the Bank

At the date of publication of this report, the Bank is a banking corporation without a controlling core, and it has no controlling party or shareholder holding a control permit. Until November 22, 2018, Ms. Shari Arison was the holder of the permit for control of the Bank, through her holdings in the Bank via Arison Holdings (1998) Ltd. For additional information regarding the replacement of the control permit by a holding permit and the restrictions that apply to the holdings of Ms. Arison in the Bank, see Section 6.6 above.

7.3. Fixed assets

Table 7-1: Fixed assets

	December 31			
	2019			2018
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**4,093**	**2,475**	**1,618**	1,707
Equipment, including computers, furniture, and vehicles	**2,463**	**1,980**	**483**	479
Software	**4,871**	**3,739**	**1,132**	925
Total	**11,427**	**8,194**	**3,233**	3,111

The buildings in which the Bank's business is conducted in Israel are under its ownership (directly or under the ownership of wholly-owned property companies), or rented for various rental periods.
Most of the properties in which the Bank Group's business is conducted overseas are rented.
The Bank owns 154 properties with an area of 203 thousand square meters, of which 133 buildings with a total area of 93 thousand square meters used as branches, and 21 buildings with a total area of 110 thousand square meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank Group rents 158 buildings with an area of 110 thousand square meters.
The Board of Directors has resolved to act to centralize the Head Office units. The Bank is working to locate and examine alternatives suited to its needs. The planning and transition are expected to take several years.
For further data regarding buildings and equipment, see Note 16 to the Financial Statements.

IT infrastructures

General information

The Bank has two central IT sites: Rotem in Emek Hefer, a production site containing two separate IT sites in a high-availability configuration, and a backup (DR) site in Tel Aviv, to ensure maximum survivability. The Bank's core system is installed on an IBM mainframe computer. An additional mainframe computer is in operation at the backup site, in a minimal configuration. When necessary, this computer will be expanded to the required power.

Additional systems operate alongside the core system (Linux, Unix, and Windows-based systems – hereinafter: the "Open Systems"), for specific needs, using a platform that allows dynamic distribution and optimal utilization of resources.

The Bank uses advanced methodologies and systems to streamline development and production processes.

The Bank Group's branches, regional administrations, business centers, and Head Office units are computerized and connected online to the computer centers of the Information Technology Division. 634 external ATMs, 140 internal ATMs, 179 external check-deposit machines, 237 internal check-deposit machines, 38 Adkan information stations, 322 Toran self-service stations, and 114 Night Safes are available to customers.

The Bank has begun a process of examining an upgrade of its core systems, in order to adapt these systems to coping with the challenges of the future.

Information backup and storage

As noted above, the Bank has two central IT sites (at two geographical locations: Emek Hefer and Tel Aviv), a double main production site and a backup site.

In addition, the Bank has databases that store copies of paper documents, mortgage documents, etc., for everyday use in data retrieval and in order to retain an accessible historical copy of these data.

Every action executed on the Bank's computers is simultaneously updated at the Rotem production site (with double saving) and at the backup site, so that in case of disaster or physical malfunction, a backup exists for the Bank's critical systems, and damage to the hardware at one of the sites would not cause information loss. Beyond that, the Bank retains a copy of the data at a separate site (in Petach Tikva), in accordance with the policy of the Bank of Israel.

In the event of an emergency switch to the backup site, the Bank has the capability to immediately increase the power of the backup computer (MF) to the power level of the production computer, by operating dormant engines; in other words, the backup site has the capacity for the computer power (MF) required for all of the Bank's routine business activity.

Communications

The Bank has an advanced data and voice communications network, with high data transmission speeds. The communications network has high survivability and includes backups that allow work with the Bank's IT centers. The Bank's communications network also connects the Bank's branches and offices worldwide and transmits data services, speech, and video conferences.

Subsidiaries

The IT and operational systems of the overseas subsidiaries, as well as of the activity of the Bank Group overseas not conducted through subsidiaries, are based on independent systems; managerial responsibility rests with the managements and boards of directors of the subsidiaries, or with the member of the Board of Management responsible for the activity, as relevant.

Suppliers

From time to time, the Bank enters into contractual engagements with suppliers from Israel and elsewhere to receive the various services it requires in the area of information systems, including agreements for the purchase and maintenance of equipment, implementation of information systems, and purchase of software. The Bank has contracted with suppliers for the provision of outsourcing services, at this stage mainly in the areas of development, testing, and support services.

Information security

Investment in information security of information systems is an integral, inseparable part of the development of modern information systems. Information security is implemented on several levels and circuits in the Bank's systems, in order to ensure that the Bank's systems are well protected against penetration, unauthorized access, or damage, and to prevent leaks of information.

Information-related projects at the Bank are accompanied from their inception by an information-security team that ensures strict compliance with information-security rules, protection of the privacy of information, and restriction of access to information to authorized personnel only. Security events in IT systems are referred in real time to an expert center of information-security personnel, and addressed and documented from the initial stage of the event to its completion. Relevant events are also referred to the Audit Department. Material incidents are reported to the Board of Management and to the Board of Directors. The Bank routinely conducts resilience tests and information-security surveys of its systems, in order to ensure that information security is maintained at all times and complies with the strict rules established in this area.

Main projects

Core systems modernization plan – The Bank is planning significant investments in technological transformation over the coming years, in order to cope with the challenges of the future, taking into consideration regulatory, technological, and consumer trends. In this context, the Board of Management of the Bank plans to embark on a large-scale plan to upgrade its central core banking systems. This plan is characterized by massive short-term investment in infrastructure systems that will serve the Bank in the long term, the benefit of which will be derived gradually, over long periods.

Banking via mobile devices – Development and expansion of applications designed for use on Bank customers' mobile devices. The applications offer business capabilities in a wide range of areas and customer segments, through an innovative and unique interface and user experience, with an emphasis on business and technological leadership and adaptation to the customer.

Websites – Development of a new online system, designed to preserve and solidify the business technology leadership of Bank Hapoalim. This project reflects an advanced approach to visibility and customer service, as well as to multi-channel integration and the architecture supporting the application.

Open banking – Construction of supporting infrastructure for exposure of the Bank's APIs, both to comply with regulatory requirements in this area and for the purposes of business collaborations.

Data infrastructures – Building infrastructure as a foundation for projects based on customer data and value offers. Development of a generic transportation engine for databases, allowing rapid loading without the need for development.

Two sites – Transition of IT infrastructures to a configuration of two IT sites (subject to approval by the Bank of Israel): the main IT site, Rotem (one instead of two), and a secondary IT site in the form of a hosted site, in a different metropolitan area than the main site.

Scope of investment

Costs of the information-technology system are recorded as assets in the financial statements only during the development stage of the IT system. Costs that can be capitalized as assets include direct costs of hardware, services, and labor.

Other costs, such as pre-project costs, software development costs that do not exceed the materiality threshold, absorption and training costs, routine maintenance costs, administrative costs, and other costs that cannot be attributed directly to software development, are recognized as an expense in the statement of profit and loss as incurred.

7.4. Human capital

Human-resources strategy

Human-resources strategy is multi-annual, and is derived from the strategy of the Bank, its business needs, and trends in the banking industry and in the labor market. The essential purpose of this strategy is to create a competitive human-resource advantage for the Bank, add value, and contribute to its growth and business results, while nurturing and managing its human resources.

Accordingly, the Human Resources Area has set itself the mission of leading human capital into the new world of work, cultivating the next generation of leaders of the Bank, and shaping an advanced employee experience and sophisticated management tools, to create strategic shared value for employees, managers, and the Bank.

The strategic plan is focused on four areas of action:

- **Leadership in the new world of work –** Formulation and implementation of plans and processes to increase organizational flexibility and mobility, and development of processes for strategic workforce planning.
- **Employee experience design –** In accordance with a development concept encompassing skill development and training for the professions of the future, a new core process to manage intra-organizational mobility and develop value offers for employees.
- **Development of advanced management tools –** Technological tools to aid decision-making and rational management of human resources.
- **Value creation for internal and external customers –** Adaptation of employees' capabilities to the new world of work, update and simplification of the list of occupations and positions, and adaptation of remuneration and salary systems.

Table 7-2: Data regarding the headcount of the Bank Group, in terms of positions[(1)]

	2019		2018	
	Annual average	Year-end balance	Annual average	Year-end balance
Bank				
In Israel	**8,677**	**8,413**	9,069	8,809
Abroad	**223**	**223**	216	212
Bank total	**8,900**	**8,636**	9,285	9,021
Subsidiaries				
In Israel	**185**	**184**	188	182
Abroad	**193**	**144**	250	224
Subsidiaries total	**378**	**328**	438	406
Bank Group total	**9,278**	**8,964**	9,723	9,427

(1) The number of positions also includes translation of overtime costs into employee positions, plus the positions of external personnel who are not employees of the Bank but who provide labor services as required for the adjustment of manpower needs in the course of routine operations and for the introduction of projects, less 425 positions of employees whose wages were capitalized to fixed assets in 2019 (2018: 334 positions).

Principal changes in the headcount of the Bank Group at the end of 2019, in comparison to the end of 2018, are set out below.

The number of positions at the Bank Group as at December 31, 2019, decreased by 463 compared with the number of positions at the end of 2018.

The decrease primarily resulted from the implementation of the efficiency plan of the Bank in Israel, and from a decrease in the number of positions at subsidiaries overseas, mainly at Hapoalim Switzerland.

Table 7-3: Distribution of the average number of employee positions in the Bank Group by activity segment according to the management approach[(1)]

	2019	2018	Change
Private customers	**4,985**	5,314	(6.2%)
Small businesses	**1,430**	1,375	4.0%
Housing loans	**443**	502	(11.8%)
Commercial	**773**	782	(1.2%)
Corporate	**678**	683	(0.7%)
International activity	**501**	563	(11.0%)
Financial management	**313**	337	(7.1%)
Adjustments	**155**	167	(7.2%)
Total	**9,278**	9,723	(4.6%)

(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.

Human resource characteristics

The average seniority of the Bank's employees was 18.5 years in 2019, compared with 18.3 years in 2018. The average age of employees of the Bank was 45.5 in 2019, compared with 45.2 in 2018.

In 2019, approximately 66.4% of all employees of the Bank were women, similar to 2018. In the Bank's senior management (department managers at the Head Office, branch managers, and above), the percentage of women in 2019 was 46%, compared with 45.3% in 2018 (the percentage of women in senior management in 2006 was 29%).

The Bank's policy is to hire employees holding academic degrees, as necessary; accordingly, the percentage of these employees out of total employees of the Bank has risen steadily (from 28.1% in 1998 to 68% in 2019). This increase resulted from degree-holding employees hired, and from the completion of academic studies by employees of the Bank.

The policy of the Bank is to employ, promote, and make decisions concerning employees based on material considerations such as skills and performance, without discrimination on the basis of religion, race, sex, age, views, sexual orientation, disability, place of residence, etc. The Bank encourages the hiring of employees belonging to population segments underrepresented in the labor market, as part of its hiring policy, in recognition of the advantages inherent in a diverse workforce in terms of a better understanding of various segments of customers, and the encouragement of innovation and creativity in an open and diverse work environment.

Efficiency at the Bank

In 2019, the Bank continued to apply the efficiency plan in its workforce, both at the branches and at the Head Office units.

The efficiency plan also addresses various matters related to purchasing, reduction of space, and other expense items. On January 8, 2020, the Board of Directors of the Bank approved an additional efficiency plan, pursuant to which more than 900 additional employees of the Bank will be allowed to take early retirement with preferred terms in 2020-2022. Within this plan, employees were offered a pension track early-retirement plan, according to defined criteria.

With regard to the multi-annual efficiency plan approved by the Board of Directors of the Bank, see Note 22G.

Wage agreement

The wage agreement between the Board of Management of the Bank and the Employee Union of the Bank, which was in effect in 2013-2017 and applied to the permanent and temporary employees of the Bank as specified in the agreement, concluded at the end of 2017. 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.

Remuneration policy and remuneration plan

The Bank aims to remunerate its employees for their work and contribution to the Bank, and to retain employees for the long term. The Bank also aspires to link employees' best interests with the best interests of the Bank and of its stakeholders, in alignment with the Bank's goals, work plans, and long-term policies, while maintaining fair employment, encouraging excellence, and fostering a culture of performance.

Employees' remuneration is usually based on three components: routine wages, annual bonuses, and long-term remuneration derived from the increase in value of the Bank's shares.

Employees of the Bank are entitled to various benefits, including participation in health insurance, participation in tuition fees, participation in costs of membership of sports centers and cultural institutions, gifts on holidays and personal occasions, and a bonus after 25 years of work.

The remuneration plan creates an alignment between the business results of the Bank as a whole over time and remuneration; it is based on profit adjusted for risk and the cost of capital, alongside negative remuneration for failure to meet objectives in the long term. The plan establishes a mechanism for long-term spreading of payments, in order to avoid encouraging risk-taking beyond the risk appetite of the Bank.

Annual bonuses are calculated based on the Bank's performance (reflecting executives' responsibility for the performance of the Bank as a whole, beyond their responsibility for the specific performance of their division or unit); achievement of KPIs, including metrics related to risk management and compliance with laws, regulatory directives, and procedures; and evaluation by a supervisor.

For further details, see Notes 22 and 23 to the Financial Statements.

Cost and wages per employee position

Table 7-4: Details of cost per employee position and salary* per employee position at the Bank (in NIS thousands)

	2019	2018
Cost per employee position, excluding bonuses	**380**	381
Cost per employee position, including bonuses	**427**	416
Salary* per employee position, excluding bonuses	**228**	234
Salary* per employee position, including bonuses	**267**	262

* Salary – calculated according to gross salary as paid to the employee.

Cultivation and development of human capital

Employees' success is the success of the Bank and its customers. It is employees who guide customers and businesses and help them achieve astute conduct, make better financial decisions, move forward, and evolve. Accordingly, the bank is committed to cultivating and nurturing its human capital through continual dialogue, investment of resources in training, and the provision of tools to enable employees to advance and develop, while also caring for their health and well-being. The Bank aspires to be a preferred employer and offer its employees meaningful, influential work.

Performance evaluation process

The key element of the annual evaluation process is a feedback session held by managers with each of their employees to summarize the achievements of the last year, and to plan future objectives and development, as derived from work plans. The evaluation process is based on open dialogue and transparency, and supports employee empowerment and development. The process is part of an annual sequence of managerial actions to encourage excellence and give employees evaluation, appreciation, and compensation. An additional annual process is conducted mid-year, to track the objectives and development of the employee.

New evaluation models were developed in 2019 in reference to the banking of tomorrow, agile work, and 360 Feedback. Concurrently, new technologies allowing ongoing feedback were tested, and a decision was made to move forward with the development of a performance evaluation process within the Success Factor system.

Organizational culture, values, and ethics

Our Way: A Code of Values and Ethics

The bank is undergoing a process of renewal, which also encompasses its brand and its code of ethics and conduct. We are pleased and proud to present the renewed code of ethics and conduct of the bank, "Our Way: A Code of Values and Ethics." The code is a statement of our identity and uniqueness as employees of Bank Hapoalim, and reflects the way we aspire to fulfill the bank's mission by helping people, communities, and businesses thrive and prosper.

The bank's position as a leading financial institution obligates us to center the customer's best interests and confidence, and to ensure that our actions are guided by our core values: professionalism; fairness and responsibility; humanity and caring; initiative and innovation. The code illuminates and elucidates the ways in which this commitment and these values are expressed on the level of behavior during the routine work of the Bank. It is designed to be used by employees and managers, in all units and at all ranks, as a compass for appropriate conduct in coping with a wide range of ethical dilemmas.

The Bank recently launched its new branding: "Poalim – With You in Every Decision." The renewed code reflects the values underlying the promise declared by the new branding, and redefines the expectations and behaviors we are all adopting and striving to uphold, among ourselves and towards our customers and other stakeholders.

Intra-organizational communication

Bank Hapoalim views its employees as full partners in its business and organizational processes.

Several organization-wide channels for internal communication exist, in order to increase organizational connectedness and create open and cooperative intra-organizational dialogue between management and employees, between executives and employees, and among the various units:

(1) The organizational portal, which serves as a central, advanced communications channel supporting the sharing of information with employees and the absorption of intra-organizational change processes.

(2) Beshutaf ("In Partnership") – An intra-organizational business network administered on the organizational portal, with the goals of boosting intra-organizational communication and promoting business through knowledge sharing and work in communities.

(3) Panorama – A bulletin distributed online to employees on a monthly basis, collecting information on various subjects published on the organizational portal. The information is divided into content areas such as strategy, products, business environment, people, and more, enabling employees to see and understand a broad picture of the organization.

(4) Portal Laderech ("Portal To Go") – A mobile application designed for employees of the Bank, which allows them to continue to obtain updates and information on various organizational subjects off the premises of the Bank and beyond work hours.

Alongside the existing tools and channels, extensive processes have been approved within the work plan for 2019 to enhance organizational dialogue, under the responsibility of the Organizational Communication Center. These include guidance for strategic processes, closer connections with media and marketing efforts, and the development of new communication channels (such as an intra-organizational social network).

A culture of continual learning

The Bank cultivates a culture of learning among its employees as part of their routine, and invests substantial resources in professional and managerial training, based on the view that constant improvement in employees' abilities supports the achievement of the Bank's strategic objectives and is in line with the Bank's vision. The Bank hires employees with academic degrees, and encourages its existing employees to obtain undergraduate and graduate degrees by providing tuition aid and adding vacation days for examinations.

Poalim Campus – A key venue for instilling the Bank's strategy and vision through change-generating learning; communications and processes to advance performance; and learning leading to personal, organizational, and business growth and to professional and managerial excellence.

The campus promotes a culture of life-long learning (LLL) – continuous, organization-wide learning, using a variety of advanced tools, at any time and place, and at crucial points. The campus is also a partner in strategic processes pertaining to training, team development, and guidance for change processes, operating through remote-learning platforms as well as a simulation center and an interactive classroom.

In 2019, approximately 44,800 training days were held at the Poalim Campus, in about 620 courses, on subjects such as the professions of tomorrow; learning modules; banking coaching days; management coaching days; courses for senior executives; banking management training; online classes; digital learning units; and learning "on the ground," in classrooms at regions, branches, and units.

Banking training – The Banking Studies Center is responsible for the professional qualifications of bankers in the systems of the Bank. Training is performed through a range of professional courses and coaching sessions, which include content on compliance and regulation as well as business skills, matched to categories of employees, positions, and the strategic focus areas of the organization.

Training for bankers includes courses taken when entering a new position, focused training to maintain qualifications, professional coaching days for managers, advanced courses on various banking topics, focused field training, and digital instruction. Approximately 24,000 days of training in approximately 410 courses were held at the Banking Studies Center.

Manager training and development – The Leadership and Organizational Development Center at the Poalim Campus assists managers and units in the management of change processes, and in implementing organizational culture and values, according to the vision and strategy of the Bank. The center works on developing management and leadership capabilities, resilience, the ability to cope with change, and individual empowerment for employees and managers.
In 2019, over 2,480 employees and managers at various levels participated in coaching and enrichment days, and approximately 800 managers at various levels participated in leadership development programs.

7.5. Segments of activity based on management approach

7.5.1. Private Customer Segment

General information and segment structure

The Bank provides a wide range of services to private customers, including routine account-management services, credit granting for various purposes, deposits, savings plans, and capital-market activity. In addition, the Bank offers services and solutions to customers with complex financial needs, through advanced products, global asset management, and a professional service package, which includes proactively initiated meetings and telephone calls and an advanced advisory system aided by decision-support tools.
Services are provided to the segment's customers through a network of 215 branches, including a mobile branch, and through direct channels: self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, 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 increasing banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, and the interactive voice response system at the Poalim by Telephone call center).
In addition to this trend, during the year the Bank launched a service for scheduling meetings with bankers, allowing customers to set up a high-quality, professional, in-person appointment at a time convenient to them (the launch was gradual and will be completed during 2020).

Products and services

As part of the Bank's strategy of enhancing value for customers and guiding customers at important decision points in their lives, the Bank offers a range of products and services to its customers, including services for groups of customers with common characteristics (Poalim Young and the VIS student club), services through the direct channels, and the development of dedicated applications (the Open application for opening accounts, the Bit application, and the capital-market application).

Capital-market activity

The activity of the Bank Group in the capital market includes a range of activities and financial services, in various fields: trading, operations, and custody in Israeli securities (including Maof); trading in foreign securities; and research and advisory services for customers in the area of the capital market. Some of these activities are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

Financial advising

During the reported year, the Bank added financial advising services provided through a digital channel: Smart Advice investment advising. In this service, an investment advisor sends the customer personalized investment recommendations through the capital-market application and the Bank’s website.

Pension advising

The Bank offers pension advising and retirement planning services through a network of advisors located throughout Israel. The Bank is connected to the pension clearing house, and receives information through the clearing house for the purpose of providing advisory services. The Bank holds a pension advisor’s license and employs licensed advisors at 22 pension advising centers. The Bank has signed distribution agreements with most of the management companies of provident funds and pension funds. The Bank, as an objective advisor, is entitled to a uniform distribution fee for the distribution of the funds, in accordance with the regulations. During the reported year, the Bank began to provide retirement advising and planning services to customers of all banks. At this stage, the Bank has exclusivity in this field. Within this effort, the National Retirement Planning Center was established at Hugi Tower in Ramat Gan. A one-off pension advising fee is charged for this service, in accordance with the guidelines of the Bank of Israel.

A publicity campaign concerning pensions was also launched this year, aimed at raising awareness of the importance of pension advising and retirement advising at the Bank.

The pension advising field is complex, and is characterized by frequent regulatory changes. The Bank monitors the changes in this area and implements them in practice.

Marketing and distribution

Marketing and distribution in Israel are conducted face-to-face at the Bank's branches, over the telephone at Poalim by Telephone, and through the direct channels (self-service devices, the website, and the application), both proactively and in response to customers' inquiries. Marketing initiatives are also reflected in advertising in newspapers, on television, on the Internet, on the radio, on billboards, and at branches. In recent years, the Bank has significantly expanded its use of marketing via digital media, on the Internet and on mobile applications, which allow a targeted approach to customers according to their interests and the characteristics of their online activity.

Customers

The segment consists of private customers segmented based on parameters of age, net worth and/or income level, credit balances, and growth potential. Special attention is given to the elderly population, through guidance and support in the digital world.

Competition

The intensity of competition over customers has increased in recent years. Technological developments and growing maturity of customer groups create the potential for heightened competitive forces in the market, along with the removal of entry barriers for new players and reinforcement of small players. The competitive environment has expanded in the last few years, to encompass financial and non-bank players such as credit-card companies, insurance companies, technological and financial ventures, and other retail organizations. The implementation of the Law for Increasing Competition in the Banking System (the "Strum Law") and the Credit Data Law contribute to increased intensity of competition in this industry. The Bank is coping with the challenges posed by competition through segmentation adapted to customers' needs and preferences, optimal matching of the value offer and customer experience to differing needs, and the development of a multi-channel, customized, available, accessible distribution network.

Technological changes that may have a material impact on the segment

As part of its strategy of enhancing value for customers, the Bank has developed tools and platforms aimed at allowing it to continue to solidify its leadership in the coming years.

Poalim Open

Digital bank account opening using an application, in a fully digital process of approximately seven minutes, without banker assistance, available at any time. The process uses advanced live facial recognition technologies, as well as document photography and decoding technologies, approved by the Bank of Israel. An account can be opened at any time and place; customers then gain full access to all services of the Bank – the application, website, branches, call center, and more. This service is exclusive to the Bank in the Israeli banking system. During the year, the Bank also launched a digital account opening service for young people aged 16 to 18; the account opening process is adapted to these customers, based on the understanding that they are taking their first steps in the financial world.

Bit application

Bit continued to expand and entered into new areas of activity, in accordance with market conditions and subject to the relevant legal and regulatory directives (including the terms and restrictions specified in the position paper of the Bank of Israel of July 9, 2019, concerning the operation of payment applications of banks):

- **Insurance and pensions** – Collaborations were formed this year to allow customers of all banks who are owed refunds from various insurance companies (Harel, Migdal, Menorah, Ayalon, and more) to receive the money directly through Bit. Bit also expanded into the pension market, allowing members of the pension funds of Amitim to redeem monies through Bit.
- **E-commerce** – Collaborations allow customers of all banks to pay immediately, without the need to enter their credit-card details on the websites and applications of leading companies: Domino's Pizza, Rami Levy, Mahsanei Hashmal, Shekem Electric, and more.

- **Transportation** – The Bank Hapoalim Group, with Bit, won a Ministry of Transportation tender with Moovit and Pango to lead a change in public transportation in Israel, aimed at providing users with the option to plan a route, obtain up-to-date information, select the fastest and most economic route, select the most inexpensive payment plan for the user, and pay easily through Bit.
- **Education** – A collaboration with Bar Ilan University allows students to pay tuition using Bit. Students will receive a text message notifying them of the payment, from which they can move to payment through Bit.

Smart Advice

Digital investment advising, allowing customers to receive notifications from their personal investment advisor in response to market developments, and as part of the ongoing management of the customer's portfolio within the advising process.

Fingerprint log-in to the Bank's website

This year, a feature was developed allowing customers to log in to the Bank's website using a fingerprint, without the need for a password or user ID. Biometric identification is available on Android devices, and is planned to be available for the iPhone in the future.

- **Collaboration with the Technion –** An innovation lab was established for data-science research aimed at solving various technological and banking challenges, such as advanced risk management and forecasting the financial activity of business and private clients.
- **New capital-market trading application –** Upgraded infrastructures aimed at enabling the Bank to quickly and adaptively integrate additional value offers for capital-market customers.
- **New features continually added to the Bit application –** Including transfers to any ad-hoc beneficiary using a QR code, without the need to save the beneficiary’s contact information and with no risk of error.
- **Launch of a range of services for mortgage management on the Bank’s website –** Such as production of a mortgage information report, application to use the Free Month benefit for a one-month hiatus from mortgage payments, and notification of early repayment of a mortgage.
- **Application for a multi-channel loan** using the mobile account-management application.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Heightened regulation has been evident in recent years, as part of the plan to increase competition in the banking market:

- On March 14, 2018, the Knesset plenum passed the Banking Chapter of the Bank Switching System Law (the plan for increasing competition in the banking market through the removal of barriers to switching), in the second and third readings. Pursuant to the law, banks shall allow secure online transfers for customers, within seven business days, at no cost to the customer. The law will take effect within three years.

- 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, and specifying the obligations applicable to each bank.
- An update of Proper Conduct of Banking Business Directive 422, "Opening and Managing a Current Account with a Positive Balance," was issued on March 26, 2018. The objective of the update is to improve the ability of customers experiencing financial difficulties to manage an account with a positive balance, using advanced digital tools. The changes took effect on October 1, 2018.
- The Reduction of the Use of Cash and Checks Law was published in the Official Gazette of the Israeli Government on March 18, 2018. The law is aimed at reducing the extent of the use of cash and checks, mainly through the establishment of prohibitions and restrictions. The law took effect with regard to cash on January 1, 2019. The law will take effect with regard to checks (Section 5 of the law) on July 1, 2019.
- On December 31, 2018, the Reform Committee of the Knesset passed the Payment Services Law, 2019, which establishes uniform regulation of consumer protections in the area of payment services. The main purpose of the Payment Services Law is to provide consumer protection to customers (payers or payees) who receive, and who will receive in the future, "payment services" from "payment service providers"; to increase public trust in the various "means of payment"; and to create an initial infrastructure for increased competition in the area of payment services in Israel. The law was scheduled to take effect on January 9, 2020.

  On February 17, 2020, an amendment was passed by the Knesset in the second and third readings deferring the inception of the Payment Services Law by nine months, to October 2020.
- Proper Conduct of Banking Business Directive 450, "Debt Collection Proceedings," took effect on February 1, 2018. The directive regularizes and establishes the manner of operation of a bank in collecting debts from households and small businesses.
- The Insolvency and Economic Rehabilitation Law, 2018, published in the Official Gazette of the Israeli Government in March 2018, will take effect in September 2019. Objectives of the law:
  a. To achieve economic rehabilitation of the debtor, to the extent possible;
  b. To maximize the percentage of the debt repaid to creditors;
  c. To promote the reintegration of the individual debtor into the economic system.

  With regard to floating liens, the law establishes that a creditor secured by a floating lien is entitled to collect the secured debt from the funds of the floating lien, in an amount not to exceed 75% of the proceeds received from the realization of the assets of the floating lien; the secured creditor's status with respect to the remainder of the debt is the same as the status of the other general creditors.

  In addition, debts with legal precedence were redefined, and are to be repaid in the order of priority established in the law.

  The law will take effect eighteen months from the date of its publication in the Official Gazette of the Israeli Government (the inception date), and will apply to proceedings subject to the law that begin on or after the inception date.

However, additional transitional directives have been established in the law with regard to the application of various directives of the law, including the matter of floating liens, bankruptcy, and receivership orders.

For 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 35 to the Financial Statements.

Table 7-5: Results of operations and principal data of the Private Customer Segment

	For the year ended December 31	
	2019	2018*
	NIS millions	
Total net interest income	**2,828**	2,756
Non-interest financing income	**5**	11
Total net financing profit	**2,833**	2,767
Fees and other income	**1,500**	1,520
Total income	**4,333**	4,287
Provision for credit losses	**220**	455
Total operating and other expenses	**3,748**	3,603
Profit from continued operations before taxes	**365**	229
Provision for taxes on profit from continued operations	**138**	85
Net profit attributed to shareholders of the Bank	**227**	144
Net credit to the public at the end of the reported period	**41,456**	44,099
Deposits from the public at the end of the reported period	**188,766**	187,136

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 227 million in 2019, compared with NIS 144 million in the preceding year. The increase resulted from a decrease in the provision for credit losses and an increase in net financing profit, partly offset by an increase in operating expenses.

Net financing profit totaled NIS 2,833 million in 2019, compared with NIS 2,767 million in the preceding year. The increase resulted from an increase in balances of deposits from the public, alongside an increase in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Income from fees totaled NIS 1,500 million in 2019, compared with NIS 1,520 million in the preceding year. The decrease mainly resulted from a decrease in securities fees, financial product distribution fees, and account-management fees. This decrease was partly offset by an increase in credit-card fees.

The provision for credit losses totaled NIS 220 million in 2019, compared with NIS 455 million in the preceding year. The decrease resulted from a decrease in the collective allowance, mainly due to a decrease in automatic charge-offs and in the volume of problematic debts.

Operating and other expenses of the segment totaled NIS 3,748 million in 2019, compared with NIS 3,603 million in the preceding year. The increase mainly resulted from an increase in IT and advertising expenses and in Bit clearing fees, as well as from an increase in salary expenses, as a result of the wage agreement.

Net credit to the public totaled approximately NIS 41.5 billion as at December 31, 2019, compared with approximately NIS 44.1 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 188.8 billion as at December 31, 2019, compared with approximately NIS 187.1 billion as at December 31, 2018.

For additional information regarding credit risk with respect to private individuals, see "Credit risk" in the section "Review of risks" in the Report of the Board of Directors and Board of Management.

7.5.2. 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, in Business Departments specializing in service for business customers, and through the direct channels (see the section "Private Customer Segment" above). The Bank also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at supporting and growing this segment, including a wide range of targeted credit products tailored to customers' needs, as well as non-bank benefits and consulting packages designed to impart tools for customers to use in today's world.

Products and services

The Bank offers a wide range of products and services to its customers within its strategy of focusing on the expansion of its activity in the Small Business Segment, including financing for business activities, a set of products and services for the expansion of a business, advanced digital services, and a service center specializing in businesses. The Bank has also continued the activity of the Financial Growth Center, which provides small businesses across Israel with knowledge and tools for business management and growth.

Marketing and distribution

Within the support of the Bank, a wide range of activities for small businesses were held during December 2019 and January 2020, including the Small Business Competition, in collaboration with the Yedioth Ahronoth newspaper; the Small Business Trail, in collaboration with Keshet Broadcasting and the Mako website; and the Small Business Campaign, focused on assistance for businesses with the challenges of expansion and the search for growth drivers.

The goal of these projects is to provide exposure to the range of unique businesses in Israel, to give expression to the deep connection of Bank Hapoalim with a broad range of people and businesses, and to impart tools and knowledge to business owners, through workshops offered free of charge nationwide and through media content.

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches and through Poalim by Telephone, both proactively and in response to customers' inquiries. Marketing initiatives are also reflected in advertising in newspapers, on television, on the Internet, on the radio, on billboards, and at branches. In recent years, the Bank has significantly expanded its use of marketing via digital media, on the Internet and on mobile applications, which allows a targeted approach to customers according to their interests and the characteristics of their online activity.

Customers

The Small Business Segment provides financial services and products to small and mid-sized businesses in a wide range of economic sectors. The segment also handles the private accounts of business clients.

Competition

Activity in this segment requires expertise and in-depth knowledge of the customer in order to manage credit risks; competition in this segment is therefore primarily among banks, for overall activity with customers. Competition in this segment is reflected in the development of targeted value offers for recruitment and increased activity with customers. In recent years, non-bank and institutional entities have begun offering credit to small businesses, increasing competition in this area. Concurrently, the trend towards transition to direct banking channels, such as online business services and cash and check deposit machines, continues.

Technological changes that may have a material impact on the segment

Biometric identification for log-in to the business application – As of this year, business customers can log in to the business application simply and easily, using a fingerprint or facial recognition,* without having to remember a password or user ID. Customers register for the service within the application, through a brief, one-time procedure in which their fingerprint is identified or their facial features are scanned* by the camera of their mobile device.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

For information regarding regulatory initiatives that may have an impact on the activity of the segment, see Note 35 to the Financial Statements.

* On devices that support this feature.

Table 7-6: Results of operations and principal data of the Small Business Segment

	For the year ended December 31	
	2019	2018*
	NIS millions	
Total net interest income	**1,610**	1,621
Non-interest financing income	**2**	3
Total net financing profit	**1,612**	1,624
Fees and other income	**580**	584
Total income	**2,192**	2,208
Provision for credit losses	**299**	392
Total operating and other expenses	**1,179**	1,114
Profit from continued operations before taxes	**714**	702
Provision for taxes on profit from continued operations	**272**	260
Net profit (loss) attributed to shareholders of the Bank	**442**	442
Net credit to the public at the end of the reported period	**31,022**	32,561
Deposits from the public at the end of the reported period	**45,959**	42,415

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 442 million in 2019, similar to the preceding year.

Net financing profit totaled NIS 1,612 million in 2019, compared with NIS 1,624 million in the preceding year. The decrease mainly resulted from a decrease in credit spreads and in credit balances.

The provision for credit losses totaled NIS 299 million in 2019, compared with NIS 392 million in the preceding year. The decrease resulted from a decrease in the collective allowance, mainly due to a decrease in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 1,179 million in 2019, compared with NIS 1,114 million in the preceding year. The increase resulted from an increase in salary expenses, due to the effect of the wage agreement, and in IT expenses.

Net credit to the public totaled approximately NIS 31.0 billion as at December 31, 2019, compared with approximately NIS 32.6 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 46.0 billion as at December 31, 2019, compared with approximately NIS 42.4 billion as at December 31, 2018.

7.5.3. 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.

Products and services

The main activity of this segment is granting housing loans. This activity is targeted to customers who apply for a loan for one of the following purposes:

- A loan for the acquisition, construction, expansion, or renovation of a home.
- A loan for the acquisition of land for the construction of a home, or acquisition of an interest in a home.
- A loan granted with a mortgage on a home, other than for business purposes.
- A loan for the early repayment of a loan as described above.

Mortgage underwriting is performed and examined based on four essential components: repayment capability, collateral (the proposed property to be pledged), financing rate, and spreads.

Marketing and distribution

Marketing and distribution are carried out through Mishkan representative offices within the branches of the Bank, as well as through Poalim by Telephone and Poalim Online. Marketing and distribution activities are also conducted through various media channels, such as billboards at construction sites.

Customers

Customers of this segment are private customers who are granted housing loans. These include customers of the Bank, in the various categories, who conduct routine banking activities, as well as customers of other banks who take mortgages as their only activity at the Bank.

Principal developments in the segment

Competition

Mortgages are a price-oriented product: a mortgage is a highly significant economic transaction for a household, and customers therefore conduct market surveys and compare prices. Accordingly, this market is characterized by high competitiveness.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- Banking Law (Service to Customers) (Amendment 31) (Deferral of Housing Loan Payments due to Death), published in the Official Gazette of the Israeli Government on January 7, 2019 – In the event of the death of a borrower, at the request of the person obligated to repay the loan, the Bank must defer the mortgage payments, for a period not to exceed twelve months, at no cost and without charging arrears interest. The bank is obligated to give notice of the possibility of requesting a deferral, when it becomes aware of the death of a borrower. The amendment applies to housing-loan contracts signed beginning six months from the date of publication.
- Sale Law Regulations (Residences) (Assurance of Investments of Purchasers of Residences) (Qualification Regarding Payments on the Price of a Residence), 1975, amendment of April 16, 2019 – The regulations apply to construction projects in which sale contracts for all of the residences in the project were signed after May 16, 2019. The regulations establish new construction stages and payment rates (different from those specified in the old regulations) and differentiate construction stages and payment rates of new construction projects from those of TAMA (earthquake reinforcement) projects.
- Draft update of Proper Conduct of Banking Business Directive 329 – On July 1, 2019, the Bank of Israel issued a draft update of Directive 329, pursuant to which the restrictions on the part of a loan at a floating rate of interest (Section 7 of the directive) will not apply to a loan to an Israeli citizen most of whose income is paid in foreign currency; this is in addition to the exception to the aforesaid restrictions already provided in the directive with respect to housing loans in foreign currency or linked to foreign currency granted to a foreign resident.
- Draft update of questions and answers for Proper Conduct of Banking Business Directive 329 – On July 8, 2019, the Bank of Israel sent a draft update of the questions and answers for Proper Conduct of Banking Business Directive 329, concerning two matters:

  1) The restrictions on the part of a loan at a floating rate of interest will apply to the total housing loan, less the amounts permitted for exclusion from these restrictions in accordance with the directive. On July 30, 2019, the Association of Banks submitted its position regarding this update of the questions and answers to the Bank of Israel, indicating the need to clarify that in housing loans, at the level of an individual loan as well as total loans in a quarter, the restrictions on the part of the loan at a floating rate of interest, as noted in Section 7 of the directive, apply to the amount of the loan net of the aforesaid amounts permitted for exclusion according to the directive.

  2) In cases in which a relative who does not hold rights to the property joins the loan as a borrower, no more than half of the relative's income can be taken into consideration, even if the relative pays 100% of the monthly payments.

Table 7-7: Results of operations and principal data of the Housing Loan Segment

	For the year ended December 31	
	2019	2018*
	NIS millions	
Total net interest income	**838**	696
Fees and other income	**60**	61
Total income	**898**	757
Provision (income) for credit losses	**13**	37
Total operating and other expenses	**293**	271
Profit (loss) from continued operations before taxes	**592**	449
Provision for taxes (tax benefit) on profit (loss) from continued operations	**223**	164
Net profit (loss) attributed to shareholders of the Bank	**369**	285
Net credit to the public at the end of the reported period	**89,331**	81,030

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 369 million in 2019, compared with NIS 285 million in the preceding year. The increase resulted from an increase in net financing profit.

Net financing profit totaled NIS 838 million in 2019, compared with NIS 696 million in the preceding year. The increase resulted from an increase in the volume of credit and in financial spreads on credit.

The provision for credit losses totaled NIS 13 million in 2019, compared with NIS 37 million in the preceding year. The decrease mainly resulted from recovery of charged-off debts.

Operating and other expenses of the segment totaled NIS 293 million in 2019, compared with NIS 271 million in the preceding year. The increase resulted from an increase in salary expenses, due to an increase in the volume of activity, as well as the effect of the wage agreement, and an increase in legal expenses.

Credit to the public totaled approximately NIS 89.3 billion as at December 31, 2019, compared with approximately NIS 81.0 billion as at December 31, 2018. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see Section 3.2.7 in the chapter "Review of risks" in the Report of the Board of Directors and Board of Management.

7.5.4. 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.

Products and services

Services offered by the Bank to customers of the segment include credit for routine operations and investment financing, guarantees, letters of credit, foreign trade, and transactions in financial and derivative instruments. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

The Commercial Segment also provides banking services to clients who operate in the construction and real-estate sector. These banking services include the provision of credit to customers, as well as the issuance of guarantees of various types, including guarantees to buyers of homes pursuant to the Sale Law.

Complementary activities

- **FX Trader –** An online trading system with a convenient platform accessible to customers.
- **Business Direct Credit –** Loans within an approved credit facility, which can be taken through the Business Online website.
- **Digital empowerment –** Development of adapted solutions in response to the needs of the customers of the Corporate Banking Division; expansion of the infrastructure for activity on the business website and business application.
- **Cash Management –** An advanced digital financial tool that offers a broad financial overview, including cash flows and trend analysis for businesses, and assists customers in making decisions, quickly and conveniently.
- **Digital guarantees –** Development of a platform for the issuance of a digital guarantee file, including submission of the application by the customer through the Bank's business website.

Marketing and distribution

Marketing of banking products and services and distribution to customers are conducted through the Customer Relationship Managers in the Commercial Area and the Sales Management Department in the headquarters of the Commercial Area, and in collaboration with the headquarters of the division. The communication channels commonly used in local banking are available to customers, such as branches, Poalim by Telephone, the website, etc.

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. As part of its strategy, the Bank is focusing on deepening its activity with customers in the commerce sector.

Economic indicators point to stable growth in most sectors of the economy; the labor market is showing full employment, and wages are trending up. 2019 was characterized by political instability, an inability to adjust the budget, and deviation of the budget deficit from the target. All of these factors are expected to have a restraining effect on growth in the coming year. The level of activity in the residential construction sector remained high, influenced by the maturation of Mechir Lamishtaken ("Tenant Price") projects and a decrease in interest rates in all ranges.

Competition

The segment is characterized by a high level of competition. The main competitors are the banking corporations. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related terms such as the financing rates which competitors are willing to approve. In addition, alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by non-bank financial institutions.

Technological changes

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to serving the segment's customers. The enhancement of the quality and sophistication of the Bank's systems is an important factor in improving the level of service for the segment's customers and in creating additional possibilities for expanding activities with them.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

A circular of the Bank of Israel concerning an update of the liability limit in the sector of "real-estate construction and industry and commerce of construction products" (hereinafter: the construction and real-estate sector) was issued on January 12, 2020.

Pursuant to the circular, the Bank may choose a track for credit granted to the construction and real-estate sector, up to a rate of 24%, provided that the added part beyond 20%, which is the prevalent limit in all sectors, is designated for financing of PPP (public-private partnership) national infrastructure projects included in the sector of "civil engineering works."

Regulatory initiatives

See the section "Corporate Segment," below.

Table 7-8: Management approach activity segments – results of operations and principal data of the Commercial Segment

	For the year ended December 31	
	2019	2018*
	NIS millions	
Total net interest income	**1,091**	1,006
Non-interest financing income	**10**	6
Total net financing profit	**1,101**	1,012
Fees and other income	**370**	351
Total income	**1,471**	1,363
Provision (income) for credit losses	**89**	(37)
Total operating and other expenses	**512**	506
Profit (loss) from continued operations before taxes	**870**	894
Provision for taxes (tax benefit) on profit (loss) from continued operations	**331**	333
Net profit (loss) attributed to shareholders of the Bank	**539**	561
Net credit to the public at the end of the reported period	**40,138**	37,489
Deposits from the public at the end of the reported period	**25,143**	25,259

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 539 million in 2019, compared with NIS 561 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,101 million in 2019, compared with NIS 1,012 million in the preceding year. The increase mainly resulted from an increase in volumes of credit and in financial spreads on deposits, due to an increase in the dollar and shekel interest rates.

Income from fees totaled NIS 370 million in 2019, compared with NIS 351 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions.

The Commercial Segment recorded a provision for credit losses in the amount of NIS 89 million in 2019, compared with income in the amount of NIS 37 million in the preceding year. The increase in the provision for credit losses resulted from a decrease in recovery of charged-off debts and from an increase in the provision recorded on an individual basis.

Net credit to the public totaled approximately NIS 40.1 billion as at December 31, 2019, compared with approximately NIS 37.5 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 25.1 billion as at December 31, 2019, compared with approximately NIS 25.3 billion as at December 31, 2018.

7.5.5. 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.

Products and services

Services offered to customers of the segment include financing of routine operations, financing of investments, financing of infrastructure projects based on the BOT/PFI method, financial services, foreign-trade transactions, and transactions in financial derivatives. Services provided to customers operating in the construction and real-estate sector include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law.

The segment has complementary activities identical in essence to those provided by the Commercial Segment. For further details, see the section "Commercial Segment," above.

Marketing and distribution

Banking products are marketed and distributed to customers of this segment through Customer Relationship Managers in the Corporate Area, in collaboration with the headquarters of the division. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, foreign currency, current accounts, and more. CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

The communication channels commonly used in local banking are available to customers, such as branches, Poalim by Telephone, the website, etc.

Customers

Customers of the segment are large corporations in Israel, mainly operating in the areas of real estate, industry, the capital market, communications, commerce, hotels, infrastructure, and energy.

Competition

The level of competition in this area is high; competition is reflected in service, prices, financing terms, and rapid response. The Bank Group is contending with growing competition in the Israeli banking system, including from foreign banks with representative offices in Israel. Alternatives to bank credit are available in the market to some of the segment's customers, such as public and private offerings and credit granted by non-bank financial institutions.

The average level of bond issues in 2019 was similar to that of 2018.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- On November 29, 2019, the Bank of Israel issued an update to Proper Conduct of Banking Business Directive 313 ("Limits on the Indebtedness of Borrowers and Groups of Borrowers"), which takes effect on July 1, 2020, pursuant to which a new limit will apply to borrowers engaged in speculative activity and classified into the financial services sector, based on the category defined in Directive 330 ("Management of Credit Risk Inherent in Trading Activity of Customers in Derivative Instruments and Securities"). Pursuant to the update, the indebtedness to a banking corporation of a borrower engaged in speculative activity who is not a supervised borrower will be limited to a rate of 10%, after deductions, of the capital of the bank; the limit will also apply to the cumulative indebtedness of borrowers belonging to a group of borrowers.
- On January 12, 2020, after the reported period, the Bank of Israel issued an update of Proper Conduct of Banking Business Directive 315 ("Sectoral Indebtedness Limits"), which eases the sectoral limit. As of that date, banking corporations are permitted to choose a track for credit granted to the construction and real-estate sector, up to a rate of 24%, provided that the added part beyond 20% is designated for financing of PPP national infrastructure projects included in the sector of "civil engineering works."
- The Insolvency and Economic Rehabilitation Law, 2018, published in March 2018, took effect on September 15, 2019.

For further details, see Note 35 to the Financial Statements.

It is emphasized that in addition to the limits established in the directives of the Banking Supervision Department, the Board of Directors sets additional limits on credit concentration from time to time. As at the reporting date, the Bank is in compliance with the established limits.

Limits on joint loan arrangements (consortium arrangements)

Over the last few years, the Competition Commissioner has issued a number of letters establishing several conditions for entering into loan arrangements the parties to which are banking corporations or institutional entities or similar entities incorporated outside of Israel. The validity period of the letters was extended from time to time. The most recent letter was in effect until June 14, 2018, the inception date of the Restrictive Trade Practices Rules (Type Exemption for Joint Loan Arrangements) (Temporary Order), 2018.

A type exemption, as noted, establishes the conditions under which a bank is exempt from applying to the Authority for approval of a joint loan arrangement (i.e. granting credit to a corporation jointly with another lender or other lenders included in the definition of a "lender" in the exemption directive).

In light of the type exemption, in any case in which the Bank intends to grant a loan to any corporation, jointly with banking corporations or financial institutions or similar entities incorporated outside Israel, the Bank must examine the fulfillment of the conditions established in the exemption directives, according to the various alternatives and the circumstances of each transaction. The exemption directives are in effect for three years, and do not apply to joint loan arrangements signed before the inception date of the type exemption and proceeding properly. However, if any material change occurs in a joint loan arrangement signed based on the aforesaid letters of the Authority prior to the inception of the type exemption, the relevant arrangement must be reexamined in its entirety in light of the new legislation.

Table 7-9: Management approach activity segments – results of operations and principal data of the Corporate Segment

	For the year ended December 31	
	2019	2018*
	NIS millions	
Total net interest income	**1,396**	1,370
Non-interest financing income	**75**	113
Total net financing profit	**1,471**	1,483
Fees and other income	**496**	482
Total income	**1,967**	1,965
Provision (income) for credit losses	**588**	(333)
Total operating and other expenses	**611**	615
Profit from continued operations before taxes	**768**	1,683
Provision for taxes on profit from continued operations	**298**	624
Net profit attributed to shareholders of the Bank	**470**	1,059
Net credit to the public at the end of the reported period	**75,656**	71,937
Deposits from the public at the end of the reported period	**53,035**	44,150

* Some of the data were reclassified in order to properly reflect changes.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 470 million in 2019, compared with NIS 1,059 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,471 million in 2019, compared with NIS 1,483 million in the preceding year. A decrease in profit from the sale of loans was mostly offset by an increase in net interest income, due to an increase in balances of credit and deposits, and in financial spreads of deposits, as a result of the increase in the dollar and shekel interest rates.

Income from fees totaled NIS 496 million in 2019, compared with NIS 482 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions and foreign trade, partly offset by a decrease in securities fees.

The provision for credit losses totaled NIS 588 million in 2019, compared with income in the amount of NIS 333 million in the preceding year. The change mainly resulted from an increase in the provision recorded on an individual basis.

Net credit to the public totaled approximately NIS 75.7 billion as at December 31, 2019, compared with approximately NIS 71.9 billion as at December 31, 2018. The increase mainly resulted from credit balances to the Isracard Group included for the first time in the second quarter of 2019 due to the discontinuation of consolidation.

Deposits from the public totaled approximately NIS 53.0 billion as at December 31, 2019, compared with approximately NIS 44.2 billion as at December 31, 2018. The increase resulted from an increase in deposits of large institutional clients.

7.5.6. International activity

General information

The international activity of the Bank Group includes the New York branch and representative offices, Hapoalim Switzerland, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions").

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

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of activity of the Group in the countries in which its business is conducted (cross-border regulations) and to regulatory supervision by various government agencies in the countries in which the Bank's overseas offices operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

For details regarding the investigation of the Bank Group's business with American customers, see Note 25D to the Financial Statements.

For details regarding the investigation of the Bank in connection with senior officials of the Fédération Internationale de Football Association (FIFA), see Note 25E to the 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.

In April 2018, the Bank signed an agreement with Bank J. Safra Sarasin AG and Banque J. Safra Sarasin (Luxembourg) S.A. for the sale of the global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. In accordance with the agreement, most of the customer assets in Switzerland and Luxembourg were transferred to the buyer in November 2018.

In June 2019, the Bank signed an agreement with Hyposwiss Private Bank Geneva SA for the transfer of most of the remaining global private banking customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg. During the course of 2019, a substantial part of the remaining accounts at the Switzerland and Luxembourg branches were transferred to Hyposwiss Private Bank Geneva SA, in several phases. Additional transfers may be performed.

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 the process of strengthening control over overseas activities, the Board of Directors of the Bank resolved to act to close Banque Hapoalim Luxembourg, by transferring its existing credit portfolio to Israel or settling its balance, and to continue its financing activity in certain countries in Europe directly through the Bank in Israel.

Activity of the Bank in Turkey

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which specializes in corporate banking.

The Bank's stake in Bank Pozitif stands at 69.8%. For further details, see Section 2.6 in the Report of the Board of Directors and Board of Management.

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

In October 2019, the Bank engaged a Turkish investment bank, jointly with the minority shareholder of Bank Pozitif, to assist in finding potential buyers. The Bank estimates that it will be able to enter into an agreement to sell its holdings in Bank Pozitif within the next year, but that it is not expected to recover the full amount of its investment in the company, and that most of the consideration is likely to be contingent.

In accordance with the accounting rules applicable to the Bank, and in view of the Bank's expectation of selling the investment in the coming year at a price lower than its value in the Bank's books, the Bank estimated the fair value of the expected consideration, and recognized a loss from impairment in the amount of approximately NIS 56 million in 2019.

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. 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.

Global Private Banking Center in Tel Aviv

The center provides foreign residents with private-banking services and products. In the third quarter of 2019, the decision was made to discontinue securities activity for customers who are foreign residents. During the first quarter of 2020, the transfer of the customers of the center to a branch of the Retail Banking Division was completed, and the center was closed.

Table 7-10: Results of operations and principal data of the International Activity Segment

	For the year ended December 31	
	2019	2018
	NIS millions	
Total net interest income	**463**	471
Non-interest financing income	**(12)**	89
Total net financing profit	**451**	560
Fees and other income	**72**	136
Total income	**523**	696
Provision (income) for credit losses	**68**	101
Total operating and other expenses	**1,124**	1,757
Profit (loss) from continued operations before taxes	**(669)**	(1,162)
Provision for taxes (tax benefit) on profit (loss) from continued operations	**(2)**	31
Net profit (loss)		
Before attribution to non-controlling interests	**(667)**	(1,193)
Attributed to non-controlling interests	**10**	20
Net profit (loss) attributed to shareholders of the Bank	**(657)**	(1,173)
Net credit to the public at the end of the reported period	**12,978**	14,136
Deposits from the public at the end of the reported period	**16,147**	19,017

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 657 million in 2019, compared with NIS 1,173 million in the preceding year. The decrease in loss resulted from a decrease in expenses recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers. The decrease in loss was partly offset by impairment in the amount of approximately NIS 56 million recorded in 2019 in respect of the Bank's investment in Pozitif.

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

- The net profit of the New York branch totaled approximately NIS 39 million in 2019, compared with profit of approximately NIS 82 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and an expense recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers, partly offset by an increase in interest income, mainly due to middle-market activity.
- The loss of Hapoalim Switzerland totaled approximately NIS 622 million in 2019, compared with a loss in the amount of approximately NIS 1,209 million in the preceding year. The decrease in loss mainly resulted from a decrease in expenses recorded in respect of the provision in connection with the investigation of the Bank Group's business with American customers, compared with the expense recorded in the preceding year. This decrease was partly offset by a loss recorded from the sale of the customer asset portfolio of Hapoalim Switzerland at its branches in Switzerland and Luxembourg in 2019.
- The loss attributed to shareholders of the Bank in respect of the Bank Pozitif Group totaled approximately NIS 58 million in 2019, compared with approximately NIS 44 million in the preceding year. The increase in loss mainly resulted from impairment in the amount of approximately NIS 56 million recorded in respect of the Bank's investment in Bank Pozitif, in view of the Bank's expectation of selling the investment in the coming year at a price lower than its value in the Bank's books. The increase in loss was partly offset by a significant allowance for credit losses recorded in 2018.

Total credit to the public in international activity amounted to approximately NIS 12.9 billion as at December 31, 2019, compared with approximately NIS 14.1 billion as at December 31, 2018.

- Credit to the public at the New York branch totaled approximately NIS 12.4 billion as at December 31, 2019, compared with approximately NIS 13.1 billion as at December 31, 2018. Credit in middle-market activity totaled approximately NIS 11.1 billion, of which a total of approximately NIS 4.8 billion in respect of syndication transactions, compared with approximately NIS 11.7 billion as at December 31, 2018, of which a total of approximately NIS 5.0 billion in respect of syndication transactions. The decrease resulted from a decrease in the dollar exchange rate.
- The remaining balances of credit to the public at Hapoalim Switzerland were negligible as at December 31, 2019, compared with approximately NIS 0.6 billion as at December 31, 2018. This resulted from the continued reduction of activity of Hapoalim Switzerland and the completion of several phases of the agreement for the transfer of the remaining global private banking customer asset portfolio of Hapoalim Switzerland to Hyposwiss Private Bank Geneva SA, as noted above.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at December 31, 2019, compared with approximately NIS 0.5 billion as at December 31, 2018.

Total deposits from the public in international activity amounted to approximately NIS 16.1 billion as at December 31, 2019, compared with approximately NIS 19.0 billion as at December 31, 2018.

- The balance of deposits from the public at the New York branch totaled approximately NIS 16.1 billion as at December 31, 2019, compared with approximately NIS 18.1 billion as at December 31, 2018. In middle-market activity, deposits totaled approximately NIS 7.8 billion, compared with approximately NIS 6.8 billion as at December 31, 2018. The balance of brokered CD deposits from the public totaled approximately NIS 8.3 billion, compared with approximately NIS 11.3 billion as at December 31, 2018.
- Upon the transfer of most of the customer assets, deposits at a negligible volume remained at Bank Hapoalim Switzerland, compared with a balance in the amount of NIS 1.0 billion at the end of 2018.

7.5.7. 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.
- Activity in the trading books mainly includes the provision of services to the Bank's customers for the execution of transactions in Israeli and foreign securities, financial instruments in Israeli shekels, foreign currency, and interest rates, through the dealing rooms, as well as support for the development and pricing of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading book, and from spreads and fees in the dealing rooms' activity and operational services for customers. In addition, in calculating its income, the segment includes the results of the management of a portfolio of shares and bonds and investments in equity-basis investee companies.

This segment is also responsible for managing relationships with banks and financial institutions around the world, and is responsible for providing services to customers operating in Israel in a range of areas, including the capital and money markets.

Activities, products, and services

The banking book – asset and liability management

The Asset and Liability Management Area (hereinafter: the "ALM Area") of the Bank is responsible for managing the assets and liabilities of the Bank, over the range of activities of the various segments. The ALM Area sets internal transfer prices (hereinafter, "Wholesale Rate") for raising and allocating resources for the use of the various segments. The Wholesale Rate constitutes the basis for the activity of the various segments with the Bank's customers, and is used to debit and credit the segments. The Wholesale Rate also serves as a means for market and liquidity risk management.

The Bank accords high importance to raising resources that are stable and highly diversified. The Bank has varied sources of financing, primarily arising from deposits from the public in Israel, the large majority of which are from retail customers, with no dependence on any single depositor or group of depositors. The Bank also takes deposits from large institutional and corporate clients. In addition, the Bank raises resources through bonds and capital instruments issued by the Bank Group.

Funding in foreign currency includes deposits of private customers and corporate customers in Israel, foreign residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and issues of bonds abroad.

As part of market and liquidity risk management, the Financial Markets and International Banking Division maintains a bond portfolio, consisting of government bonds and corporate bonds. The portfolio is managed by the Nostro Investment Management Unit of the Bank.

Nostro investment activity is aimed at increasing flexibility in the management of the banking book, while taking advantage of opportunities to improve returns on liquidity surpluses and diversify areas of activity. The investment portfolio is part of the banking book, and includes investments in bonds and shares, in Israel and overseas.

Trading activity – dealing room (OTC and derivatives)

The Bank provides comprehensive services to its customers through its dealing rooms (OTC and derivatives), allowing them to operate in a range of financial instruments, with various underlying assets, for trading, protection, and risk-hedging purposes. Transactions with the Bank's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Bank, and on the basis of the Bank's internal models that define credit exposures for transactions executed in the dealing room. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading to demand for a broader range of products with a higher level of sophistication. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, the product range in Israel includes complex products such as derivatives (which include interest-rate options in NIS), exotic options, and sophisticated interest-rate products.

As part of the Bank's trading activity, the dealing room is one of the primary market makers in government bonds, and serves as a market maker in most of the products in which it operates.

Brokerage and custody services

The Bank offers its customers services for the execution of transactions in securities and in tradable derivatives, through two dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities; in addition, securities custody services are provided.

Services for financial asset managers

The Financial Asset Manager Services Unit encompasses activities related to the provision of banking services to financial-asset managers: managers of mutual funds, managers of investment portfolios, and managers of provident funds, study funds, and pension funds.
The unit also offers services related to account management for mutual funds, including, among other matters, asset revaluation, production of control reports, and preparation of reports to government agencies. On December 31, 2019, the volume of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 93 billion.
Further to the decision of the Bank to discontinue the activity of providing operational services for provident funds and study funds to management companies, the discontinuation of this activity was completed in the third quarter of 2019.

Services for financial institutions

The Banks and Financial Institutions Department is responsible for managing relationships and business connections with banks and financial institutions around the world. These relationships support the Bank's varied business activities, including foreign trade, trading in foreign currency, deposits, derivatives, and securities.
Within its activity with foreign banks and financial institutions, the Bank provides a wide range of services, including sub-custody services for leading foreign custodian banks active in Israel in the area of securities.

Competition

In recent years, Israel's financial markets have grown progressively more sophisticated. This is particularly notable in the broader range of products available to investors and market players. Various types of tradable instruments as well as derivative instruments are becoming more accessible.
Competition in all areas related to the activity of the dealing room and the securities trading rooms is extensive and intense. The principal competitors are the four major banking groups in Israel, foreign banks, and other financial companies specializing in this area.

Customers

The segment provides diverse services to all customers of the other segments at the Bank, both through the Bank's branches and CRMs, and through direct contact with large clients. The dealing room conducts marketing activity with foreign financial institutions, which has led to substantial expansion of the volume of activity with these customers (in the range of products for which the Bank serves as a market maker).

Collaboration agreements

During the routine course of business, the Bank, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Bank and these entities in the various capital markets are based, among other things, on standard international arrangements, such as framework agreements supporting the activity of dealing rooms; special agreements to minimize credit risks aimed at limiting credit risk in derivatives (credit support annex); or activity via international clearinghouses, to minimize counterparty risks and settlement risks in transactions in foreign currencies and in interest rates.

Table 7-11: Management approach activity segments – results of operations and principal data of the Financial Management Segment(1)

	For the year ended December 31	
	2019	2018
	NIS millions	
Total net interest income	**1,082**	967
Non-interest financing income	**409**	1,159
Total net financing profit	**1,491**	2,126
Fees and other income	**128**	153
Total income	**1,619**	2,279
Provision (income) for credit losses	**(1)**	(2)
Total operating and other expenses	**448**	491
Profit from continued operations before taxes	**1,172**	1,790
Provision for taxes on profit from continued operations	**407**	557
Profit (loss) from continued operations after taxes	**765**	1,233
The Bank's share in profits of equity-basis investees, after taxes	**11**	4
Net profit (loss)		
Before attribution to non-controlling interests	**776**	1,237
Attributed to non-controlling interests	**7**	15
Net profit attributed to shareholders of the Bank	**783**	1,252
Net credit to the public at the end of the reported period*	**2,359**	1,255
Deposits from the public at the end of the reported period	**32,595**	34,283

* Some of the data were reclassified in order to properly reflect changes.

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

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 783 million in 2019, compared with NIS 1,252 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit of the segment totaled NIS 1,491 million in 2019, compared with NIS 2,126 million in the preceding year. The decrease mainly resulted from a loss in the amount of NIS 261 million, compared with profit in the amount of NIS 64 million in 2018, due to a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, mainly as a result of a decrease in the long-term NIS interest rate. In addition, income from exchange-rate differences decreased, mainly due to hedging of currency exposures of non-monetary items; income from linkage differentials decreased, as a result of changes in the rate of increase of the known CPI between the periods; and profit from investment in shares decreased. By contrast, profit from investment in bonds increased.

Income from fees totaled NIS 128 million in 2019, compared with NIS 153 million in the preceding year. The decrease mainly resulted from a decrease in operations and trust fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies in July 2019.

Net credit to the public totaled approximately NIS 2.4 billion as at December 31, 2019, compared with approximately NIS 1.3 billion as at December 31, 2018.

Deposits from the public totaled approximately NIS 32.6 billion as at December 31, 2019, compared with approximately NIS 34.3 billion as at December 31, 2018.

7.5.8. 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.

Note that during 2020, Poalim Sahar is expected to cease providing custody and brokerage services to customers and to terminate its status as a member of 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 374 million in 2019, compared with net profit in the amount of NIS 25 million in 2018.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 670 million in 2019, compared with a loss in the amount of NIS 339 million in the preceding year. The increase in loss resulted from an increase in the provision in connection with the investigation of the Bank Group's business with American customers.

In addition, the Other Segment includes net profit attributed to a discontinued operation, which totaled NIS 296 million in 2019, compared with NIS 364 million in the preceding year. Profit from a discontinued operation in 2019 includes net profit in the amount of approximately NIS 137 million in respect of the sale of 62.5% of the shares of Isracard; the remainder derives from the Bank's share of the profits of Isracard – NIS 159 million in 2019, compared with NIS 364 million in 2018.
The balances of credit to the public included in this segment in the comparative periods include the activity of the Isracard Group, which constitutes a discontinued operation.

7.6. Restrictions and supervision of the activity of the banking corporation

General information

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.
In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).
Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.
Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.
The Bank's activity is subject to supervision and auditing by the Banking Supervision Department, as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Competition Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity.
The Bank and its subsidiaries work to comply with the duties imposed upon them under the aforesaid legal provisions.
The legislation passed following the recommendations of an inter-ministerial committee headed by the Director General of the Ministry of Finance (the Bachar Committee) establishes the possibility, with regard to most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the directives of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.
With regard to material regulatory initiatives, see Note 35 to the Financial Statements.

7.7. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 7-12: Ratings

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating					
	Moody's	A1		Positive	October 2019
	S&P	AA-	A-1+	Stable	January 2020
	Fitch Ratings	A+	F1+	Stable	September 2019
Bank Hapoalim					
	Moody's	A2	P-1	Stable	February 2020
	S&P	A	A-1	Stable	November 2019
	Fitch Ratings	A	F1+	Stable	March 2020

	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	AAA		Stable	November 2019
	Midroog	Aaa	P-1	Stable	December 2019

In June 2019, S&P Maalot affirmed a rating of AA for subordinated notes of the Bank with a loss-absorption mechanism (CoCo), which are recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Stable outlook for these notes.

7.8. Poalim in the community – social involvement and contribution to the community

Strategy and vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. Implemented through the Social Banking Center and Poalim for the Community, this engagement is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community and should work to strengthen it, taking a leading role and contributing to the advancement and improvement of the society and community in which it operates, while caring for those who are underprivileged.

In the spirit of this business concept, the Bank conducts extensive community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

Within the strategic work of Poalim for the Community, its focus areas for the coming years were established.

Ongoing activities

All of the Bank's community-oriented activity is organized within the Social Banking Center, which encompasses the activity of the Poalim for the Community Foundation (Registered Non-Profit Organization). Poalim for the Community conducts activities focused on accessibility, employability, financial education, and digital literacy for senior citizens. Through the areas of activity described below, and through the various projects promoted by the Bank, the Bank's involvement in the community in 2019 was expressed in a financial expenditure of approximately NIS 35 million. The budget for this activity is determined each year by a committee headed by the Chairman of the Board of Directors. This decision is made separately for each specific year, and approved within the overall budget of the Bank.

Details of the various channels and projects follow.

Poalim Volunteers employee volunteer project – Several Bank units collaborate on this project, aimed at assisting employees interested in volunteering for community activities. The Bank units involved are the Human Capital, Advising, and Resources Division; the Employee Union; the Head of Community Relations; regional managements in the Retail Banking Division; and the Ruach Tova and Matan foundations. Within this collaboration, employees are offered a wide variety of volunteering possibilities, for groups, branches, or individuals. Other Bank employees also volunteer individually with the Bank's assistance. A specialized unit was established in 2011 to handle this activity, and continues to operate within the Social Banking Center.

Poalim for the Community Foundation – Monetary donations to the numerous organizations supported by the Bank Group are made via the Poalim for the Community Foundation. In 2019, as in previous years, the Poalim for the Community Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational institutions, employment, accessibility, culture, welfare, health care, and science. Through the foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the realization of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies. The Poalim for the Community Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects.
Another important area in which the Poalim for the Community Foundation is a regular donor is health care. The Poalim for the Community Foundation supports several medical centers, with donations intended mainly to improve conditions of patients' treatment and hospitalization. The foundation also promotes projects aimed at inclusion of people with disabilities in community life.
Community-oriented sponsorships were also granted in the areas noted above.

Bank Hapoalim Financial Growth Center – The Financial Growth Center was established in 2018, as a hub for learning and for acquiring knowledge and tools for astute financial conduct. The center's services are offered to the general public free of charge, nationwide, in Hebrew and Arabic, covering a wide range of subjects aligned with significant financial milestones, such as expansion of the family, taking out a mortgage, career change, managing a self-owned business, retirement planning, and more.
The center operates through advanced digital learning tools, via a dedicated website; in-person lectures by top speakers; interactive learning using games for the whole family; lesson plans for elementary and middle-school students; collaborations with non-profits and business organizations; and more.
The activity of the center is aided by Prof. Zvi Eckstein, formerly Deputy Governor of the Bank of Israel, and is based on collaborations with a range of professionals within and outside the Bank, and with many organizations and non-profits.
In almost two years of activity, over 22,000 people have participated in more than 550 conferences and lectures, and over a million people have viewed digital content on the center's website.

Read & Succeed community project – Poalim for the Community is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project continued during 2005-2019. The goal of the project is to raise public awareness of the encouragement of reading. The project includes a public informational campaign, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children's Channel and other media outlets.

Donations of computers and accompanying equipment – The Bank is aware of the paramount importance of investment in technology for the education and advancement of children and youth, and accordingly donates computers and accompanying equipment each year.
In 2019, the Bank donated approximately 320 computer systems as well as additional accompanying equipment.

Poalim for Culture and Nature in Israel – The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for all Israeli parents and children to visit and enjoy a variety of sites throughout Israel during holidays, without causing a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites across Israel free of charge during the holiday week. Since then, this project has become an annual tradition, which continued during Passover in 2019.

Support for people with disabilities – We at Bank Hapoalim see equal rights and accessibility for people with disabilities as a material issue, and as integral part of our service concept and social responsibility. Within this approach, we act to improve the quality of life of people with disabilities and the way they are treated by society, through leadership of various processes, collaborations, and initiatives.
For example, the Bank held an art exhibition at its Head Office, with revenues devoted to the various foundations that participate in this initiative (Krembo Wings).

Poalim Success – This year, Bank Hapoalim launched the Poalim Success Fund, a scholarship fund for 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, by granting approximately seventy scholarships for undergraduate degrees.
This project is managed by the Educating for Excellence Foundation, which has promoted community engagement of students through work with children and adolescents in social and geographical peripheries across Israel, for over twenty years. The Poalim Success Fund focuses on three target audiences: the undergraduates who receive the scholarships; the younger students, who receive instruction and tools for self-empowerment in preparation for new-world careers and financial independence; and the students' parents, who also benefit from exposure to financial education and financial freedom content for families.

Activity in the Arab community – The Bank places special emphasis on the promotion of projects targeted to the Arab community, including donations dedicated to a wide range of projects in this sector.

Financial education project with the ORT chain – The Bank is committed to an effort, in collaboration with the ORT chain, to promote financial education and education on astute financial conduct for adolescents, and to improve financial dialogue between parents and children.
With the completion of the development of the learning environment and the writing of learning materials over recent months, the program is being rolled out to all of the schools in the ORT chain.

Matan – Investing in the Community (hereinafter: "Matan") – Since 1999, the Bank has engaged in activity on behalf of the community in cooperation with the Matan Foundation. Through the Matan Campaign, employees engaged in volunteer work gain awareness of community needs and the importance of giving, and share this message with their colleagues. The model is based on partnership between management and employees in the workplace. All donations to Matan by employees and management are designated for a wide variety of community causes, aimed at supporting and strengthening disadvantaged groups in society. Donations are allocated in a special procedure that involves an examination of needs and effectiveness. Bank employees participate as volunteers on the Matan fund-designation committee, which decides on the distribution of the funds in the community, and as Matan Observers, assisting in the monitoring process of use of the funds donated.
Matan is committed to transferring donations to organizations or community causes chosen by the employee.

Erech Laderech – An initiative for the empowerment of non-profit organizations, in collaboration with the Topaz Foundation. The initiative offers non-profit organizations nationwide, in various areas of activity, a dedicated one-year training and guidance program, which imparts tools for resource raising and for the development of a revenue-generating arm.

8. Appendices

8.1. Statement of profit and loss and balance sheet – multi-period data

Table 8-1: Consolidated statement of profit and loss for the years 2015-2019 – multi-period data

	For the year ended December 31				
	2019	2018	2017	2016	2015
	NIS millions				
Interest income	**11,920**	11,672	10,613	9,962	9,660
Interest expenses	**(2,601)**	(2,766)	(2,189)	(2,004)	(1,950)
Net interest income	**9,319**	8,906	8,424	7,958	7,710
Provision for credit losses	**1,276**	613	202	179	437
Net interest income after provision for credit losses	**8,043**	8,293	8,222	7,779	7,273
Non-interest income					
Non-interest financing income (expenses)	**559**	1,445	652	1,163	1,034
Fees	**3,240**	3,318	3,338	3,617	3,838
Other income	**90**	105	163	137	124
Total non-interest income	**3,889**	4,868	4,153	4,917	4,996
Operating and other expenses					
Salaries and related expenses	**4,018**	4,097	4,209	4,239	4,467
Maintenance and depreciation of buildings and equipment	**1,334**	1,376	1,350	1,404	1,423
Amortization and impairment of intangible assets and goodwill	**-**	-	-	-	7
Other expenses	**3,424**	3,487	2,562	2,499	1,680
Total operating and other expenses	**8,776**	8,960	8,121	8,142	7,577
Profit from continued operations before taxes	**3,156**	4,201	4,254	4,554	4,692
Provision for taxes on profit from continued operations	**1,681**	2,009	1,959	2,229	1,978
Profit from continued operations after taxes	**1,475**	2,192	2,295	2,325	2,714
The Bank's share in profits of equity-basis investees, after taxes	**11**	4	17	12	21
Net profit from continued operations	**1,486**	2,196	2,312	2,337	2,735
Net profit from a discontinued operation	**296**	364	314	274	280

Table 8-1: Consolidated statement of profit and loss for the years 2015-2019 – multi-period data (continued)

	For the year ended December 31				
	2019	2018	2017	2016	2015
	NIS millions				
Net profit					
Before attribution to non-controlling interests	**1,782**	2,560	2,626	2,611	3,015
Loss (profit) attributed to non-controlling interests	**17**	35	34	17	67
Attributed to shareholders of the Bank	**1,799**	2,595	2,660	2,628	3,082
Earnings per ordinary share in NIS					
Basic earnings					
Net profit attributed to shareholders of the Bank	**1.35**	1.95	2	1.98	2.32
Net profit attributed to shareholders of the Bank from continued operations	**1.13**	1.68	1.76	1.77	2.11
Net profit attributed to shareholders of the Bank from a discontinued operation	**0.22**	0.27	0.24	0.21	0.21
Diluted earnings					
Net profit attributed to shareholders of the Bank	**1.35**	1.94	1.99	1.97	2.31
Net profit attributed to shareholders of the Bank from continued operations	**1.13**	1.67	1.75	1.76	2.10
Net profit attributed to shareholders of the Bank from a discontinued operation	**0.22**	0.27	0.24	0.21	0.21

Table 8-2: Consolidated balance sheet for the years 2015-2019 – multi-period data

	December 31				
	2019	2018	2017	2016	2015
	NIS millions				
Assets					
Cash and deposits with banks	**88,122**	84,459	86,093	80,367	64,964
Securities	**59,486**	56,116	65,416	71,429	62,865
Securities borrowed or purchased under agreements to resell	**471**	708	684	375	119
Credit to the public	**297,647**	286,265	269,505	263,841	271,765
Allowance for credit losses	**(4,707)**	(3,758)	(3,652)	(3,963)	(4,285)
Net credit to the public	**292,940**	282,507	265,853	259,878	267,480
Credit to governments	**1,971**	2,428	2,292	2,561	2,564
Investments in equity-basis investees	**192**	103	198	150	142
Buildings and equipment	**3,233**	3,111	3,123	3,097	3,157
Assets in respect of derivative instruments	**11,143**	10,534	12,013	11,916	12,789
Other assets	**5,281**	5,850	5,323	5,677	6,017
Assets attributed to a discontinued operation	**849**	15,110	13,429	12,655	11,541
Total assets	**463,688**	460,926	454,424	448,105	431,638
Liabilities and capital					
Deposits from the public	**361,645**	352,260	347,344	338,494	321,718
Deposits from banks	**3,520**	4,528	3,649	4,077	4,542
Deposits from the government	**685**	208	320	345	354
Securities lent or sold under agreements to repurchase	**3**	-	367	484	83
Bonds and subordinated notes	**26,853**	30,024	29,058	33,560	34,475
Liabilities in respect of derivative instruments	**12,050**	9,676	12,049	12,587	13,806
Other liabilities	**20,711**	11,841	11,199	9,840	8,393
Liabilities attributed to a discontinued operation	**-**	14,733	14,434	14,493	15,048
Total liabilities	**425,467**	423,270	418,420	413,880	398,419
Shareholders' equity	**38,181**	37,544	35,863	34,047	33,032
Non-controlling interests	**40**	112	141	178	187
Total capital	**38,221**	37,656	36,004	34,225	33,219
Total liabilities and capital	**463,688**	460,926	454,424	448,105	431,638

8.2. Statement of profit and loss and balance sheet – multi-quarter data

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2018-2019 – multi-quarter data

	2019				2018			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions							
Interest income	**2,772**	**2,593**	**3,730**	**2,825**	2,975	2,895	3,274	2,528
Interest expenses	**(479)**	**(310)**	**(1,264)**	**(548)**	(685)	(667)	(972)	(442)
Net interest income	**2,293**	**2,283**	**2,466**	**2,277**	2,290	2,228	2,302	2,086
Provision (income) for credit losses	**876**	**(40)**	**319**	**121**	189	118	90	216
Net interest income after provision for credit losses	**1,417**	**2,323**	**2,147**	**2,156**	2,101	2,110	2,212	1,870
Non-interest income								
Non-interest financing income (expenses)	**246**	**58**	**166**	**89**	450	406	361	228
Fees	**836**	**815**	**804**	**785**	826	822	844	826
Other income	**32**	**11**	**29**	**18**	45	13	25	22
Total non-interest income	**1,114**	**884**	**999**	**892**	1,321	1,241	1,230	1,076
Operating and other expenses								
Salaries and related expenses	**947**	**1,010**	**1,018**	**1,043**	971	1,020	1,062	1,044
Maintenance and depreciation of buildings and equipment	**345**	**351**	**324**	**314**	349	341	343	343
Other expenses	**1,645**	**609**	**650**	**520**	1,657	623	629	578
Total operating and other expenses	**2,937**	**1,970**	**1,992**	**1,877**	2,977	1,984	2,034	1,965
Profit from continued operations before taxes	**(406)**	**1,237**	**1,154**	**1,171**	445	1,367	1,408	981
Provision for taxes on profit from continued operations	**268**	**523**	**441**	**449**	424	548	593	444
Profit (loss) from continued operations after taxes	**(674)**	**714**	**713**	**722**	21	819	815	537
The Bank's share in profits (losses) of equity-basis investees, after taxes	**4**	**3**	**4**	**-**	(4)	-	4	4
Net profit (loss) from continued operations	**(670)**	**717**	**717**	**722**	17	819	819	541
Net profit from a discontinued operation	**38**	**16**	**151**	**91**	85	109	93	77

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2018-2019 – multi-quarter data (continued)

	2019				2018			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions							
Net profit (loss)								
Before attribution to non-controlling interests	**(632)**	**733**	**868**	**813**	102	928	912	618
Loss (profit) attributed to non-controlling interests	**3**	**3**	**3**	**8**	(5)	22	8	10
Attributed to shareholders of the Bank	**(629)**	**736**	**871**	**821**	97	950	920	628
Earnings per ordinary share in NIS								
Basic earnings (loss)								
Net profit (loss) attributed to shareholders of the Bank from continued operations	**(0.50)**	**0.54**	**0.54**	**0.55**	0.02	0.63	0.62	0.41
Net profit attributed to shareholders of the Bank from a discontinued operation	**0.03**	**0.01**	**0.11**	**0.07**	0.06	0.08	0.07	0.06
Diluted earnings (loss)								
Net profit (loss) attributed to shareholders of the Bank from continued operations	**(0.50)**	**0.54**	**0.54**	**0.54**	0.01	0.63	0.62	0.41
Net profit attributed to shareholders of the Bank from a discontinued operation	**0.03**	**0.01**	**0.11**	**0.07**	0.06	0.08	0.07	0.06

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2018-2019 – multi-quarter data

	2019			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	**88,122**	**72,517**	**72,913**	**78,332**
Securities	**59,486**	**65,592**	**71,116**	**66,259**
Securities borrowed or purchased under agreements to resell	**471**	**529**	**326**	**714**
Credit to the public	**297,647**	**294,980**	**292,635**	**286,874**
Allowance for credit losses	**(4,707)**	**(3,973)**	**(4,012)**	**(3,826)**
Net credit to the public	**292,940**	**291,007**	**288,623**	**283,048**
Credit to governments	**1,971**	**2,062**	**2,145**	**2,279**
Investments in equity-basis investees	**192**	**107**	**105**	**103**
Buildings and equipment	**3,233**	**3,051**	**3,053**	**3,077**
Assets in respect of derivative instruments	**11,143**	**12,692**	**9,575**	**10,246**
Other assets	**5,281**	**4,961**	**5,588**	**5,954**
Assets attributed to a discontinued operation	**849**	**829**	**803**	**15,766**
Total assets	**463,688**	**453,347**	**454,247**	**465,778**
Liabilities and capital				
Deposits from the public	**361,645**	**348,027**	**352,112**	**354,232**
Deposits from banks	**3,520**	**3,178**	**3,034**	**3,328**
Deposits from the government	**685**	**485**	**322**	**358**
Securities lent or sold under agreements to repurchase	**3**	**10**	**19**	**5**
Bonds and subordinated notes	**26,853**	**28,337**	**30,080**	**29,695**
Liabilities in respect of derivative instruments	**12,050**	**13,728**	**10,280**	**10,429**
Other liabilities	**20,711**	**20,321**	**18,851**	**12,402**
Liabilities attributed to a discontinued operation	**-**	**-**	**-**	**16,758**
Total liabilities	**425,467**	**414,086**	**414,698**	**427,207**
Shareholders' equity	**38,181**	**39,218**	**39,503**	**38,481**
Non-controlling interests	**40**	**43**	**46**	**90**
Total capital	**38,221**	**39,261**	**39,549**	**38,571**
Total liabilities and capital	**463,688**	**453,347**	**454,247**	**465,778**

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2018-2019 – multi-quarter data (continued)

	2018			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	84,459	77,622	83,261	78,125
Securities	56,116	57,943	59,616	61,508
Securities borrowed or purchased under agreements to resell	708	887	628	608
Credit to the public	286,265	279,536	276,148	274,553
Allowance for credit losses	(3,758)	(3,730)	(3,690)	(3,760)
Net credit to the public	282,507	275,806	272,458	270,793
Credit to governments	2,428	2,309	2,329	2,476
Investments in equity-basis investees	103	108	108	101
Buildings and equipment	3,111	2,994	3,026	3,044
Assets in respect of derivative instruments	10,534	9,928	10,732	12,273
Other assets	5,850	5,659	5,342	5,282
Assets attributed to a discontinued operation	15,110	14,665	13,866	13,985
Total assets	460,926	447,921	451,366	448,195
Liabilities and capital				
Deposits from the public	352,260	341,775	345,717	344,703
Deposits from banks	4,528	4,357	3,846	3,102
Deposits from the government	208	292	297	385
Securities lent or sold under agreements to repurchase	-	11	10	6
Bonds and subordinated notes	30,024	28,647	29,949	26,214
Liabilities in respect of derivative instruments	9,676	9,164	9,939	11,436
Other liabilities	11,841	11,163	10,434	10,857
Liabilities attributed to a discontinued operation	14,733	14,794	14,394	15,276
Total liabilities	423,270	410,203	414,586	411,979
Shareholders' equity	37,544	37,613	36,654	36,084
Non-controlling interests	112	105	126	132
Total capital	37,656	37,718	36,780	36,216
Total liabilities and capital	460,926	447,921	451,366	448,195

8.3. Material developments in income and expenses by quarter

Table 8-5: Quarterly developments in total net financing profit

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**2,772**	**2,593**	**3,730**	**2,825**	2,975	2,895	3,274	2,528
Interest expenses	**(479)**	**(310)**	**(1,264)**	**(548)**	(685)	(667)	(972)	(442)
Net interest income	**2,293**	**2,283**	**2,466**	**2,277**	2,290	2,228	2,302	2,086
Non-interest financing income (expenses)	**246**	**58**	**166**	**89**	450	406	361	228
Total reported financing profit	**2,539**	**2,341**	**2,632**	**2,366**	2,740	2,634	2,663	2,314
Excluding effects not from regular activity:								
Income from realization and adjustments to fair value of bonds	**3**	**169**	**76**	**(23)**	73	9	30	68
Profit (loss) from investments in shares	**91**	**12**	**95**	**155**	160	167	27	49
Loss from impairment of shares of affiliates	**7**	**(63)**	**-**	**-**	-	-	-	-
Gains (losses) in respect of loans sold	**8**	**-**	**1**	**-**	(2)	-	40	18
Adjustments to fair value of derivative instruments[(1)]	**49**	**(136)**	**(77)**	**(97)**	(35)	96	41	(38)
Financing income (expenses) from tax hedging of investments overseas[(2)]	**(20)**	**(28)**	**(35)**	**(65)**	17	6	55	(5)
Total income from regular financing activity[(3)]	**2,401**	**2,387**	**2,572**	**2,396**	2,527	2,356	2,470	2,222

(1) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.
(2) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.
(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting. Of which, in respect of the effects of changes in the CPI: an expense of NIS 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; an expense of NIS 33 million in the first quarter of 2019; income of NIS 5 million in the fourth quarter of 2018; income of NIS 19 million in the third quarter of 2018; income of NIS 138 million in the second quarter of 2018; and an expense of NIS 34 million in the first quarter of 2018.

Table 8-6: Cumulative provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Individual provision for credit losses	**966**	**155**	**268**	**230**	293	167	222	153
Decrease in individual allowance for credit losses and recovery of charged off debts	**(191)**	**(306)**	**(254)**	**(200)**	(217)	(289)	(228)	(256)
Net individual provision (income) for credit losses	**775**	**(151)**	**14**	**30**	76	(122)	(6)	(103)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**101**	**111**	**305**	**91**	113	240	96	319
Total provision (income) for credit losses*	**876**	**(40)**	**319**	**121**	189	118	90	216
* Of which:								
Net provision (income) for credit losses in respect of commercial credit risk	**851**	**(103)**	**256**	**51**	88	(37)	(17)	87
Net provision (income) for credit losses in respect of housing credit risk	**13**	**7**	**8**	**3**	2	20	6	5
Net provision for credit losses in respect of other private credit risk	**13**	**59**	**54**	**65**	95	135	103	124
Net provision (income) for credit losses in respect of risk of credit to banks and governments	**(1)**	**(3)**	**1**	**2**	4	-	(2)	-
Total provision (income) for credit losses	**876**	**(40)**	**319**	**121**	189	118	90	216
Provision as a percentage of total credit to the public***:								
Percentage of individual provision (income) for credit losses	**1.31%**	**0.21%**	**0.37%**	**0.32%**	0.41%	0.24%	0.32%	0.22%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	**1.45%**	**0.36%**	**0.79%**	**0.45%**	0.57%	0.59%	0.46%	0.69%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**1.19%**	**(0.05%)**	**0.44%**	**0.17%**	0.27%	0.17%	0.13%	0.32%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.17%**	**0.01%**	**0.13%**	**0.17%**	0.28%	0.15%	0.25%	0.11%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**10.96%**	**0.50%**	**9.47%**	**12.86%**	21.29%	10.94%	18.32%	8.18%

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

Table 8-7: Details of fees and other income, by quarter

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees								
Account management fees	**218**	**222**	**212**	**218**	231	230	227	232
Securities activity	**177**	**173**	**174**	**174**	196	174	182	189
Credit cards, net	**85**	**85**	**88**	**63**	64	81	70	67
Credit handling	**76**	**46**	**46**	**54**	45	47	76	55
Financing transaction fees	**122**	**122**	**119**	**116**	114	115	111	110
Other fees	**158**	**167**	**165**	**160**	176	175	178	173
Total fees	**836**	**815**	**804**	**785**	826	822	844	826
Other income	**32**	**11**	**29**	**18**	45	13	25	22
Total fee income and other income	**868**	**826**	**833**	**803**	871	835	869	848

Table 8-8: Details of operating and other expenses, by quarter

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Salary expenses								
Wages	**863**	**880**	**889**	**941**	938	890	952	960
Bonuses and share-based compensation	**84**	**130**	**129**	**102**	33	130	110	84
Total wages	**947**	**1,010**	**1,018**	**1,043**	971	1,020	1,062	1,044
Maintenance and depreciation of buildings and equipment	**345**	**351**	**324**	**314**	349	341	343	343
Others(1)(2)(3)	**1,645**	**609**	**650**	**520**	1,657	623	629	578
Total	**2,937**	**1,970**	**1,992**	**1,877**	2,977	1,984	2,034	1,965

(1) Includes expenses (income) for the closure of private-banking activity in Switzerland: income in the amount of NIS 4 million in the fourth quarter of 2019, an expense in the amount of NIS 76 million in the second quarter of 2019, and an expense in the amount of NIS 30 million in the third quarter of 2018.

(2) In the fourth quarter of 2019, includes an expense in the amount of NIS 72 million in respect of legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (a total of NIS 100 million in the third quarter of 2019, a total of NIS 111 million in the second quarter of 2019, a total of NIS 123 million in the first quarter of 2019, a total of NIS 194 million in the fourth quarter of 2018, a total of NIS 142 million in the third quarter of 2018, a total of NIS 103 million in the second quarter of 2018, and a total of NIS 87 million in the first quarter of 2018).

(3) The fourth quarter of 2019 includes an expense in the amount of NIS 985 million in respect of expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA (income in the amount of NIS 51 million in the third quarter of 2019, income in the amount of NIS 41 million in the second quarter of 2019, income in the amount of NIS 71 million in the first quarter of 2019, an expense in the amount of NIS 952 million in the fourth quarter of 2018, income in the amount of NIS 14 million in the third quarter of 2018, an expense in the amount of NIS 50 million in the second quarter of 2018, and an expense in the amount of NIS 61 million in the first quarter of 2018).

Table 8-9: Principal data by quarter

	For the three months ended				
	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
	NIS millions				
Main performance indicators					
Return of net profit (loss) on equity attributed to shareholders of the Bank[(1)]	**(6.22%)**	7.63%	9.26%	8.97%	1.04%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(2)]	**3.69%**	8.30%	8.48%	8.97%	11.02%
Return of net profit (loss) from continued operations on equity attributed to shareholders of the Bank[(1)]	**(6.59%)**	7.46%	7.61%	7.94%	0.13%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(3)]	**3.29%**	8.13%	8.33%	7.94%	10.04%
Net profit attributed to shareholders of the Bank excluding extraordinary items[(1)]	**359**	798	800	821	991
Financing margin from regular activity[(1)(4)]	**2.23%**	2.23%	2.39%	2.24%	2.48%

(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 from the sale of Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers 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 the section "Material developments in income, expenses, and other comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

8.4. Rates of interest income and expenses

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*(1)

	For the year ended December 31								
	2019			2018			2017		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates									
Interest-bearing assets									
Credit to the public(3):									
In Israel	**265,446**	**9,741**	**3.67%**	257,510	10,063	3.91%	243,297	9,198	3.78%
Outside Israel	**16,073**	**860**	**5.35%**	15,278	778	5.09%	16,183	696	4.30%
Total	**281,519**	**(4)10,601**	**3.77%**	272,788	(4)10,841	3.97%	259,480	(4)9,894	3.81%
Credit to governments:									
In Israel	**2,138**	**66**	**3.09%**	2,440	70	2.87%	2,320	57	2.46%
Outside Israel	**-**	**-**	**-**	-	-	-	11	-	-
Total	**2,138**	**66**	**3.09%**	2,440	70	2.87%	2,331	57	2.45%
Deposits with banks:									
In Israel	**6,072**	**135**	**2.22%**	3,983	105	2.64%	7,153	130	1.82%
Outside Israel	**212**	**(16)**	**(7.55%)**	343	(18)	(5.25%)	869	(11)	(1.27%)
Total	**6,284**	**119**	**1.89%**	4,326	87	2.01%	8,022	119	1.48%
Deposits with central banks:									
In Israel	**43,301**	**109**	**0.25%**	48,191	56	0.12%	42,102	43	0.10%
Outside Israel	**9,866**	**230**	**2.33%**	9,256	179	1.93%	13,614	151	1.11%
Total	**53,167**	**339**	**0.64%**	57,447	235	0.41%	55,716	194	0.35%
Securities borrowed or purchased under agreements to resell:									
In Israel	**543**	**-**	**-**	746	-	-	474	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**543**	**-**	**-**	746	-	-	474	-	-

* 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 517 million were included in interest income in the period ended December 31, 2019 (December 31, 2018: NIS 524 million; December 31, 2017: NIS 591 million).

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*(1) (continued)

	For the year ended December 31								
	2019			2018			2017		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing assets (continued)									
Bonds held to maturity and available for sale(3):									
In Israel	**54,960**	**746**	**1.36%**	47,277	598	1.26%	54,636	493	0.90%
Outside Israel	**3,224**	**91**	**2.82%**	4,591	116	2.53%	5,943	108	1.82%
Total	**58,184**	**837**	**1.44%**	51,868	714	1.38%	60,579	601	0.99%
Bonds held for trading(3):									
In Israel	**6,365**	**35**	**0.55%**	7,073	39	0.55%	6,837	23	0.34%
Outside Israel	**16**	**-**	**-**	70	2	2.86%	81	1	1.23%
Total	**6,381**	**35**	**0.55%**	7,143	41	0.57%	6,918	24	0.35%
Other assets:									
In Israel	**1,662**	**-**	**-**	665	1	0.15%	478	-	-
Outside Israel	**6**	**1**	**-**	-	-	-	-	-	-
Total	**1,668**	**1**	**0.06%**	665	1	0.15%	478	-	-
Total interest-bearing assets	**409,884**	**11,998**	**2.93%**	397,423	11,989	3.02%	393,998	10,889	2.76%
Non-interest-bearing debtors in respect of credit cards	**9,343**	**-**	**-**	15,776	-	-	15,172	-	-
Other non-interest-bearing assets(4)	**36,442**	**-**	**-**	38,663	-	-	40,961	-	-
Total assets	**455,669**	**-**	**-**	451,862	-	-	450,131	-	-
Total interest-bearing assets attributed to activities outside Israel	**29,397**	**1,166**	**3.97%**	29,538	1,057	3.58%	36,701	945	2.57%

* 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 166 million for the year ended December 31, 2019 (December 31, 2018: NIS (80) million; December 31, 2017: NIS 299 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 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[(1)] (continued)

	For the year ended December 31								
	2019			2018			2017		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing liabilities									
Deposits from the public:									
In Israel	**194,143**	**1,396**	**0.72%**	195,874	1,331	0.68%	197,184	938	0.48%
On demand	**86,846**	**215**	**0.25%**	85,968	97	0.11%	83,714	54	0.06%
Fixed term	**107,297**	**1,181**	**1.10%**	109,906	1,234	1.12%	113,470	884	0.78%
Outside Israel	**15,729**	**370**	**2.35%**	14,644	305	2.08%	16,903	179	1.06%
On demand	**4,010**	**83**	**2.07%**	3,831	62	1.62%	6,691	34	0.51%
Fixed term	**11,719**	**287**	**2.45%**	10,813	243	2.25%	10,212	145	1.42%
Total	**209,872**	**1,766**	**0.84%**	210,518	1,636	0.78%	214,087	1,117	0.52%
Deposits from the government:									
In Israel	**235**	**6**	**2.55%**	189	6	3.17%	209	7	3.35%
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**235**	**6**	**2.55%**	189	6	3.17%	209	7	3.35%
Deposits from central banks:									
In Israel	**-**	**-**	**-**	-	-	-	-	-	-
Outside Israel	**363**	**9**	**2.48%**	388	10	2.58%	53	-	-
Total	**363**	**9**	**2.48%**	388	10	2.58%	53	-	-
Deposits from banks:									
In Israel	**2,299**	**4**	**0.17%**	3,530	9	0.25%	3,012	1	0.03%
Outside Israel	**246**	**10**	**4.07%**	272	14	5.15%	368	12	3.26%
Total	**2,545**	**14**	**0.55%**	3,802	23	0.60%	3,380	13	0.38%
Securities lent or sold under agreements to repurchase:									
In Israel	**-**	**-**	**-**	-	-	-	-	-	-
Outside Israel	**7**	**1**	**14.29%**	79	-	-	439	(2)	(0.46%)
Total	**7**	**1**	**14.29%**	79	-	-	439	(2)	(0.46%)

* 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 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*(1) (continued)

	For the year ended December 31								
	2019			2018			2017		
	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense	Average balance(2)	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
A. Average balances and interest rates (continued)									
Interest-bearing liabilities (continued)									
Bonds:									
In Israel	**29,174**	**786**	**2.69%**	27,983	1,051	3.76%	29,824	951	3.19%
Outside Israel	**262**	**17**	**6.49%**	583	34	5.83%	1,173	100	8.53%
Total	**29,436**	**803**	**2.73%**	28,566	1,085	3.80%	30,997	1,051	3.39%
Other liabilities:									
In Israel	**652**	**5**	**0.77%**	971	11	1.13%	560	5	0.89%
Outside Israel	**79**	**1**	**1.27%**	3	-	-	4	1	25.00%
Total	**731**	**6**	**0.82%**	974	11	1.13%	564	6	1.06%
Total interest-bearing liabilities	**243,189**	**2,605**	**1.07%**	244,516	2,771	1.13%	249,729	2,192	0.88%
Non-interest-bearing deposits from the public	**140,881**	**-**	**-**	133,233	-	-	126,690	-	-
Non-interest-bearing creditors in respect of credit cards	**9,808**	**-**	**-**	14,877	-	-	14,463	-	-
Other non-interest-bearing liabilities(3)	**22,927**	**-**	**-**	22,320	-	-	23,913	-	-
Total liabilities	**416,805**	**-**	**-**	414,946	-	-	414,795	-	-
Total capital means	**38,864**	**-**	**-**	36,916	-	-	35,336	-	-
Total liabilities and capital means	**455,669**	**-**	**-**	451,862	-	-	450,131	-	-
Interest spread	**-**	**-**	**1.86%**	-	-	1.89%	-	-	1.88%
Net return on interest-bearing assets(4)									
In Israel	**380,487**	**8,635**	**2.27%**	367,885	8,524	2.32%	357,297	8,042	2.25%
Outside Israel	**29,397**	**758**	**2.58%**	29,538	694	2.35%	36,701	655	1.78%
Total	**409,884**	**9,393**	**2.29%**	397,423	9,218	2.32%	393,998	8,697	2.21%
Total interest-bearing liabilities attributed to activities outside Israel	**16,686**	**408**	**2.45%**	15,969	363	2.27%	18,940	290	1.53%

* 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 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[(1)] (continued)

	For the year ended December 31								
	2019			2018			2017		
	Average balance[(2)]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[(2)]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[(2)]	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%	NIS millions		%
B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel									
Israeli currency unlinked									
Total interest-bearing assets	**286,066**	**8,063**	**2.82%**	281,533	7,865	2.79%	271,247	7,489	2.76%
Total interest-bearing liabilities	**146,257**	**(531)**	**(0.36%)**	150,111	(484)	(0.32%)	153,254	(514)	(0.34%)
Interest spread	**-**	**-**	**2.46%**	-	-	2.47%	-	-	2.42%
Israeli currency CPI-linked									
Total interest-bearing assets	**50,853**	**1,579**	**3.11%**	47,443	1,960	4.13%	46,221	1,543	3.34%
Total interest-bearing liabilities	**40,503**	**(931)**	**(2.30%)**	39,895	(1,289)	(3.23%)	37,897	(1,022)	(2.70%)
Interest spread	**-**	**-**	**0.81%**	-	-	0.90%	-	-	0.64%
Foreign currency (includes Israeli currency linked to foreign currency)									
Total interest-bearing assets	**43,568**	**1,190**	**2.73%**	38,909	1,107	2.85%	39,829	912	2.29%
Total interest-bearing liabilities	**39,743**	**(735)**	**(1.85%)**	38,541	(635)	(1.65%)	39,638	(366)	(0.92%)
Interest spread	**-**	**-**	**0.88%**	-	-	1.20%	-	-	1.37%
Total activity in Israel									
Total interest-bearing assets	**380,487**	**10,832**	**2.85%**	367,885	10,932	2.97%	357,297	9,944	2.78%
Total interest-bearing liabilities	**226,503**	**(2,197)**	**(0.97%)**	228,547	(2,408)	(1.05%)	230,789	(1,902)	(0.82%)
Interest spread	**-**	**-**	**1.88%**	-	-	1.92%	-	-	1.96%

* Includes balances attributed to a discontinued operation.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 8-10: Rates of interest income and expenses of the Bank and its consolidated companies, and analysis of changes in interest income and expenses*[(1)] (continued)

	Year ended December 31, 2019, versus year ended December 31, 2018			Year ended December 31, 2018, versus year ended December 31, 2017		
	Increase (decrease) due to change[(2)]		Net change	Increase (decrease) due to change[(2)]		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
C. Analysis of changes in interest income and expenses						
Interest-bearing assets						
Credit to the public:						
In Israel	**291**	**(613)**	**(322)**	555	310	865
Outside Israel	**43**	**39**	**82**	(46)	128	82
Total	**334**	**(574)**	**(240)**	509	438	947
Other interest-bearing assets:						
In Israel	**44**	**178**	**222**	(29)	152	123
Outside Israel	**(21)**	**48**	**27**	(122)	152	30
Total	**23**	**226**	**249**	(151)	304	153
Total interest income	**357**	**(348)**	**9**	358	742	1,100
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**(12)**	**77**	**65**	(9)	402	393
Outside Israel	**26**	**39**	**65**	(47)	173	126
Total	**14**	**116**	**130**	(56)	575	519
Other interest-bearing liabilities:						
In Israel	**(8)**	**(268)**	**(276)**	(31)	144	113
Outside Israel	**(15)**	**(5)**	**(20)**	(31)	(22)	(53)
Total	**(23)**	**(273)**	**(296)**	(62)	122	60
Total interest expenses	**(9)**	**(157)**	**(166)**	(118)	697	579
Total interest income less interest expenses	**366**	**(191)**	**175**	476	45	521

* 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.

Annual Periodic Report

2019

Standard 9 Financial Statements

The audited annual financial statements, with the attached Auditors' Review, are enclosed and constitute an integral part of this report.

Standard 10C

None.

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date

A. In shares and convertible securities

Company
Avuka Hevra Lehashkaot Ltd.
Agam Hevra Finansit Ltd.
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.
Opaz Ltd.
AMI Trustees Ltd.
BAMI Nechasim Ltd.
BHI Investment Advisors Asia
BHI Global Investment Advisors (Israel) Ltd.
BHI – USA Holdings Inc.
Bitzur Ltd.
Bitan Investments and Mortgages Co. Ltd.
Banque Hapoalim (Luxembourg) S.A.
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.
Gadid Poalim Ltd.
Global Factoring Ltd.
Diur B.P. Ltd.
Diur B.P. Investments (1992) Ltd.
Diur B.P. Properties (1993) Ltd.
The Administration of the Kibbutzim Agreement Ltd.
Hapoalim (Latin America) S.A.
Hapoalim (Cayman) Ltd.
Hapoalim (Switzerland) Ltd.
Hapoalim International (N.V.)

Share type						Holding rate			
Share	Par value per share	Currency	Number of shares	Total par value	Balance sheet value (in NIS M)	In securities	In capital	In voting	In authority to appoint directors
Ordinary shares	0.001	NIS	5,000	5	-	100%	100%	100%	100%
Ordinary shares	1	NIS	1,250,000	1,250,000	3	100%	100%	100%	100%
Ordinary shares	0.0001	NIS	1,000,000,000	100,000	6	100%	100%	100%	100%
Ordinary shares	0.01	NIS	1,000,770	10,008	1,461	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	0.0005	NIS	69,640,000	34,820	(169)	100%	100%	100%	100%
Ordinary shares	0.001	NIS	5,999,979	6,000	-	100%	100%	100%	100%
Ordinary shares	100	USD	999,900	99,990,000	192	100%	100%	100%	100%
-	-	-	-	-	33	-	70%	70%	70%
Ordinary shares	1	NIS	1,500,000	1,500,000	1	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	284	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	3	3	-	38%	38%	38%	38%
-	-	-	-	-	4	-	100%	100%	100%
Common	1	USD	13,579,143	13,579,143	40	100%	100%	100%	100%
Founding shares	100	CHF	650,000	65,000,000	638	100%	100%	100%	100%
Common	1,000	USD	250	250,000	11	100%	100%	100%	100%

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

A. In shares and convertible securities (continued)

Company
Hapoalim American Israeli Ltd.
Hapoalim Hanpakot Ltd.
Hapoalim Nechasim (Menayot) Ltd.
Hapoalim Securities U.S.A. Inc.
Zohar Hashemesh Lehashkaot Ltd.
Nominees Company of Bank Hapoalim Ltd.
Hevrat Nemanut Aseret Alafim Veachat Ltd.
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.
Hanyon Allenby 115 Tel-Aviv Ltd.
Chatzron Hevra Lehashkaot Ltd.
Trinel Ltd. in liquidation
Europay (Eurocard) Israel Ltd.
Yefet Nominees Ltd.
Isracard (Nechasim) 1994 Ltd.
Isracard Ltd.
Isracard Mimun Ltd.
Mivnim Vetsiud Ltd.
May-Oz Ltd.
Bank Clearing Center Ltd.
C Bilisim Teknolojileri
Maritime Trust Services Ltd.
Alzur Property Development Company Ltd.
Poalim - Financial Holdings (1993) Ltd.

Share type						Holding rate			
Share	Par value per share	Currency	Number of shares	Total par value	Balance sheet value (in NIS M)	In securities	In capital	In voting	In authority to appoint directors
Ordinary shares	0.001	NIS	93,076,887	93,077	110	100%	100%	100%	100%
Ordinary shares	1	NIS	18,150,006	18,150,006	41	100%	100%	100%	100%
-	-	-	-	-	670	-	100%	100%	100%
-	-	-	-	-	51	-	100%	100%	100%
Ordinary shares	0.0001	NIS	19,999	2	918	100%	100%	100%	100%
Ordinary shares	0.01	NIS	100,000	1,000	-	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	0.001	NIS	42	-	-	42%	42%	42%	42%
-	-	-	-	-	-	-	33%	33%	33%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	66,009,318	66,009,318	856	33%	33%	33%	33%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	-	NIS	95	10	-	95%	100%	100%	100%
-	-	-	-	-	37	-	100%	100%	100%
Ordinary shares	-	NIS	6,250,000	6,250	29	25%	25%	25%	25%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	30,000	30,000	-	100%	100%	100%	100%
Ordinary shares	0.0001	NIS	100,000	10	-	100%	100%	100%	100%
Ordinary shares	1	NIS	3,070	3,070	6	100%	100%	100%	100%

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

A. In shares and convertible securities (continued)

Company
Poalim Ofakim Ltd.
Poalim Betevuna Ltd.
Poalim Delta Fund L.P.
Poalim Ventures - Fund Management Ltd.
Poalim Ventures I Ltd.
Poalim Ventures II L.P.
Poalim Ventures Ltd.
Poalim Venture Services Israel Ltd.
Poalim Mortgages Insurance Agency (2005) Ltd.
Poalim Sahar Ltd.
Poalim Capital Markets - Investment House Ltd.
Poalim Capital Markets - Financial Applications & Research Ltd.
Poalim Capital Markets (Euro) Ltd.
Poalim Capital Markets & Investments - Holdings Ltd.
Poalim Trust Services Ltd.
Poalit Ltd.
PCM Hudson Holdings LLC
PCM Hudson Management Company Holdings L.P.
Pitango 2019 SPV D.N. Limited Partnership
Peilim Portfolio Management Company Ltd.
Peilim Portfolio Management Company Ltd.
Pekaot Poalim Ltd.
Premium Express Ltd.
Tzadit Ltd.

Share type						Holding rate			
Share	Par value per share	Currency	Number of shares	Total par value	Balance sheet value (in NIS M)	In securities	In capital	In voting	In authority to appoint directors
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	10,000	10,000	90	100%	100%	100%	100%
-	-	-	-	-	-	-	99%	99%	99%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	48%	48%	100%
-	-	-	-	-	-	-	0%	0%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	4	-	100%	100%	100%
-	-	-	-	-	23	-	100%	100%	100%
Ordinary shares	1	NIS	16,108	16,108	49	100%	100%	100%	100%
Ordinary shares	1	NIS	40,021	40,021	796	0%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	464,308	464,308	-	5%	100%	100%	100%
Ordinary shares	1	NIS	200,005	200,005	31	100%	100%	100%	100%
Ordinary shares	-	NIS	129,050,000	12,905	-	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	39%	39%	39%
Ordinary shares	1	NIS	50,000	50,000	191	100%	100%	100%	100%
Ordinary shares 0.001	-	NIS	5,000	5	191	100%	100%	100%	100%
Ordinary shares	100	NIS	370,214	37,021,400	301	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	-	NIS	1	-	-	0%	100%	100%	100%

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

A. In shares and convertible securities (continued)

Company
Tzameret Mimunim Ltd.
Continental Poalim Ltd.
Continental Poalim Ltd.
Continental Poalim Ltd.
Revadim (Nechasim) Ltd.
Ramchal Poalim Ltd.
Sure-Ha International Ltd.
Tot Tiyur Vetiyul Ltd.
Tmura Hevra Finansit Ltd.
Teuda Hevra Finansit Ltd.
Teus Development Areas Ltd.
Tarshish Hapoalim Holdings and Investments Ltd.

Share type						Holding rate			
Share	Par value per share	Currency	Number of shares	Total par value	Balance sheet value (in NIS M)	In securities	In capital	In voting	In authority to appoint directors
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	0.0001	NIS	58,351,356,355	5,835,136	531	100%	100%	100%	100%
A management shares	-	NIS	20	-	531	100%	100%	100%	100%
B management shares	0.0001	NIS	20	-	531	100%	100%	100%	100%
Ordinary shares	-	NIS	20,000	2	-	100%	100%	100%	100%
Ordinary shares	0.0001	NIS	32	-	-	100%	100%	100%	100%
Ordinary shares	1	USD	1	1	307	0%	100%	100%	100%
-	-	-	-	-	-	-	0%	100%	100%
Ordinary shares	0.0001	NIS	5,009,997	501	-	100%	100%	100%	100%
Ordinary shares	-	NIS	60,000,000	6,000	221	100%	100%	100%	100%
-	-	-	-	-	-	-	91%	100%	100%
Ordinary shares	0.0001	NIS	4,420	-	4,740	100%	100%	100%	100%

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

B. In bonds and capital notes

	Linkage terms	Balance sheet balance	Interest rate	Final maturity year
		NIS millions	%	
Company				
Bitzur Ltd.	Unlinked	200	-	No maturity date
Zohar Hashemesh Lehashkaot Ltd.	Unlinked	850	-	No maturity date
Poalim Betevuna	Unlinked	29	-	No maturity date
Teuda Hevra Finansit Ltd.	Unlinked	286	-	No maturity date
Poalim Sahar	Unlinked	250	-	No maturity date

C. Balance of loans as at December 31, 2019

	Balance of loans as at Dec. 31, 2019	Interest rate of unlinked loans	Interest rate of foreign-currency loans	Interest rate of CPI-linked loans	Interest rate of foreign-currency linked loans	Final maturity date
	NIS millions		%			
Company						
Bitzur Ltd.	200	-	-	-	-	No maturity date
Banque Hapoalim (Luxembourg) Ltd.	1,440	-	2.22-4.78	-	-	2025
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	20	-	5.49	-	-	March 4, 2020
Global Factoring Ltd.	58	-	-	-	-	No maturity date
Zohar Hashemesh Lehashkaot Ltd.	850	-	-	-	-	No maturity date
Isracard Ltd.	3,001	-	-	-	-	No maturity date
Poalim Betevuna Ltd.	29	-	-	-	-	No maturity date
Poalim Sahar	250	-	-	-	-	No maturity date
Teuda Hevra Finansit Ltd.	286	-	-	-	-	No maturity date

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

D. List of inactive companies

BHI Investment Advisors Asia	In voluntary liquidation
Hasneh Israel Insurance Company Ltd.	
Hevra Lepitouh Ashkelon Barnea Ltd.	
The Rest Village Ashkelon Ltd.	In voluntary liquidation
Hevrat Nemanut Aseret Alafim Veachat Ltd.	
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.	
Teus Trust Company Ltd.	In voluntary liquidation
Hevrat Odar Ltd.	
Matai Ramatim Ltd.	
Poalim Ventures I Ltd.	In voluntary liquidation
Poalim Ventures II L.P.	In voluntary liquidation
Karkaot Beguosim 7123 7124 7128 Ltd.	
Rotesa Ltd.	In voluntary liquidation
Tot Tiyur Vetiyul Ltd.	In voluntary liquidation
Teus Development Areas Ltd.	In voluntary liquidation

Standard 12 Changes in the Bank's investments in subsidiaries and equity-basis investees during the reported period

	Share type						Cost (NIS millions)
	Share	Par value per share	Currency	Date of change	Nature of change	Total par value	
Company							
Hapoalim (Switzerland) Ltd.	Founder		CHF	January 29, 2019	Investment		185
Hapoalim (Switzerland) Ltd.	Founder		CHF	February 27, 2019	Investment		545
Hapoalim (Switzerland) Ltd.	Founder		CHF	March 5, 2019	Investment		181
Hapoalim (Switzerland) Ltd.	Founder		CHF	July 25, 2019	Investment		179
Premium Express Ltd.			NIS	March 3, 2019	Sale		456
Isracard Ltd.			NIS	April 8, 2019	Sale by public offering		1,510
Isracard Ltd.			NIS	March 9, 2020	Dividend in kind		720
Hapoalim (Switzerland) Ltd.			CHF	March 16, 2020	Investment		95

Companies closed at the Registrar of Companies during the year

Poalim Asset Management (Ireland)

Standard 13 Income of subsidiaries and related companies and the Bank's income from such companies as at the balance sheet date*

	Profit (loss) reported by the company		Bank income		
	Profit (loss) reported by the company	Accumulated other comprehensive income (loss)	Interest	Management fees	Dividends
	NIS millions				
Company					
Opaz Ltd.	21	30			
BHI – USA Holdings Inc.	2				
Bitan Investments and Mortgages Co. Ltd.	7				
Banque Hapoalim (Luxembourg) S.A.	(13)				
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	1		19		
Global Factoring Ltd.	7		58	2	
Diur B.P. Ltd.	18		3	1	
Hapoalim (Latin America) S.A.	(1)				
Hapoalim (Cayman) Ltd.	(1)				
Hapoalim (Switzerland) Ltd.	(683)	2			
Hapoalim American Israeli Ltd.	1				
Hapoalim Nechasim (Menayot) Ltd.	9	11			
Hapoalim Securities U.S.A. Inc.	(4)				
Zohar Hashemesh Lehashkaot Ltd.	84	21			
Isracard (Nechasim) 1994 Ltd.	6				
Isracard Ltd.	65	(16)			
Isracard Mimun Ltd.	101				
May-Oz Ltd.	9				
Alzur Property Development Company Ltd.	2		18	241	
Premium Express Ltd.	47				
Poalim Ventures Ltd.	25				
Poalim Mortgages Insurance Agency (2005) Ltd.	23				
Poalim Sahar Ltd.	(15)				
Poalim Capital Markets (Euro) Ltd.	(8)				
Poalim Capital Markets & Investments - Holdings Ltd.	4			56	
Poalit Ltd.	4				
Peilim Portfolio Management Company Ltd.	22				
Pekaot Poalim Ltd.	4	3			

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, were not included in this list.
Subsidiaries overseas – in local currency translated based on the exchange rate as at December 31, 2019.

Standard 13 Income of subsidiaries and related companies and the Bank's income from such companies as at the balance sheet date* (continued)

	Profit (loss) reported by the company		Bank income		
	Profit (loss) reported by the company	Accumulated other comprehensive income (loss)	Interest	Management fees	Dividends
	NIS millions				
Company					
Tzadit Ltd.	2				
Tzameret Mimunim Ltd.	14				
Continental Poalim Ltd.	3				
Revadim (Nechasim) Ltd.	49				
Ramchal Poalim Ltd.	4				
Sure-Ha International Ltd.	17				
Teuda Hevra Finansit Ltd.	3				
Tarshish Hapoalim Holdings and Investments Ltd.	(16)	48			

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, were not included in this list.
Subsidiaries overseas – in local currency translated based on the exchange rate as at December 31, 2019.

Standard 14 List of groups of balances of loans granted as at the date of the report on financial position, if loan granting was one of the corporation's main activities

The list is included in Note 29D to the Financial Statements.

Standard 20 Trading on the stock exchange – securities listed for trading – dates and reasons for halt of trading

None.

Standard 21 Remuneration of interested parties and senior officers

Details regarding the salaries and benefits of the recipients of the highest wages among the officers at the Bank Group are included in the Corporate Governance Report, page 408.
Remuneration paid to directors, with the exception of the Chairman of the Board, not exceeding commonly accepted levels, paid pursuant to Regulations 4 and 5 of the Companies Regulations (Rules Concerning Remuneration and Expenses for External Directors), 2000, amounted to a total of approximately NIS 5,983 thousand in 2019.

Standard 21A Control of the corporation

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. 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, allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core; since then, the Bank does not have a shareholder who is a controlling party. For further details, see Section 6.6 in the Corporate Governance Report..

Standard 22 Transactions with controlling parties

Beginning November 22, 2018, the Bank is a banking corporation without a controlling core, and the Bank does not have a controlling shareholder according to the directives of the Companies Law or the Securities Law. For details regarding the criteria established by the Audit Committee with regard to the approval and reporting of interested-party transactions of the Bank, see Section 6.7 in the Corporate Governance Report and Note 33 to the Financial Statements.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (in subsection C, data are as at the end of January 2020)

A. Holdings of Bank shares by interested parties:

	Corporation number	Par value shares in NIS(2)	Rate of holdings in capital	Rate of holdings in voting(1)	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Interested party						
Arison Holdings (1998) Ltd. ("Arison Holdings")	512705153	210,543,761	15.74	15.77	15.74	15.74
Clal Insurance Enterprises Holdings Ltd. – nostro	520036120	2,390,719	0.18	0.18	0.18	0.18
Clal Insurance Enterprises Holdings Ltd. – provident funds	520036120	79,410,855	5.94	5.95	5.94	5.94
The Phoenix Holdings Ltd. – nostro	520017450	2,227,004	0.17	0.17	0.17	0.17
The Phoenix Holdings Ltd. – insurance	520017450	233,132	0.02	0.02	0.02	0.02
The Phoenix Holdings Ltd. – provident funds	520017450	44,046,950.66	3.29	3.30	3.29	3.29
Excellence Investments Ltd.	520041989	33,281,220.92	2.49	2.49	2.49	2.49
Altshuler-Shaham Provident Funds and Pension Ltd.	513173393	63,162,390	4.72	4.73	4.72	4.72
Altshuler-Shaham Mutual Fund Management Ltd.	511944670	4,521,503	0.34	0.34	0.34	0.34

(1) The Bank holds 2,208,952 dormant shares; this holding constitutes 100% of the dormant shares.
(2) Par value NIS 1.0 for one ordinary share.
(3) The rate of holding of Arison Holdings in voting power noted in the table was calculated with reference to the total shares that it holds, and was not reduced according to the directive in the holding permit received by Ms. Arison from the Bank of Israel, pursuant to which Arison shall not vote using the power of voting rights in excess of 5% of the means of control of the Bank. Accordingly, the holding rates in voting of the other holders were also not increased.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

B. Holdings of shares of the Bank by directors

	Corporation number		Par value shares in NIS[(2)]	Rate of holdings in capital	Rate of holdings in voting[(1)]	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Interested party							
Oded Eran	053378824	Ordinary shares	41,769	0.00	0.00	0.00	0.00
Moshe Koren	1228998	Ordinary shares	13,000	0.00	0.00	0.00	0.00

Holdings of shares of the Bank by senior officers[(1)]

Dov Kotler	054010483	Ordinary shares	1,806	0.00	0.00	0.00	0.00
Yael Almog	059284745	Ordinary shares	17,974	0.00	0.00	0.00	0.0
Amir Bachar	029331113	Ordinary shares	24,356	0.00	0.00	0.00	0.00
		RSU	2,322			0.00	0.00
Eti Ben-Zeev	023571540	Ordinary shares	59,560	0.00	0.00	0.00	0.00
		RSU	3,955			0.00	0.00
Tsahi Cohen	022007587	Ordinary shares	212,828	0.02	0.02	0.02	0.02
		RSU	4,809			0.00	0.00
Ofer Levy	052222577	Ordinary shares	136,200	0.01	0.01	0.01	0.01
		RSU	5,320			0.00	0.00
Yadin Antebi	028078525	Ordinary shares	209,903	0.02	0.02	0.02	0.02
		RSU	4,537			0.00	0.00
Dalit Tova Raviv	024149783	Ordinary shares	57,771	0.00	0.00	0.00	0.00
		RSU	2,736			0.00	0.00
Golan Scherman	023706583	Ordinary shares	27,534	0.00	0.00	0.00	0.00
		RSU	3,234			0.00	0.00
Zeev Hayo	057069676	Ordinary shares	104,487	0.01	0.01	0.01	0.01
		RSU	5,310			0.00	0.00
Gilad Bloch	028487296		1,346	0.00	0.00	0.00	0.00
Asaf Azulay	052807120	Ordinary shares	8,617	0.00	0.00	0.00	0.00

(1) The holdings of senior officers in RSU in the table are as shortly prior to the date of publication of the report. Due to the return on equity attained by the Bank in 2019, approximately 35.7% of these units will expire without vesting.
(2) Par value NIS 1.0 for one ordinary share.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

C. Holdings of interested parties and senior officers in securities of Hapoalim Hanpakot Ltd.

	Corporation/ID number	Security	Quantity
Interested party			
Clal Insurance Enterprises Holdings Ltd. – nostro	520036120	POALIM HAN B10	10,605.00
		POALIM HAN B11	656,870.00
		POALIM HAN N1	222,231.00
		POALIM HAN B14	6,124,286.00
		POALIM HAN B32	26,888,278.00
		POALIM HAN B15	337,781.00
		POALIM HAN B33	28,932,444.00
		POALIM HAN B34	27,246,183.00
		POALIM HAN B35	660,767.00
		POALIM HAN B36	23,606,097.00
Clal Insurance Enterprises Holdings Ltd. – provident funds	520036120	POALIM HAN B10	174,025,220.00
		POALIM HAN B11	13,739,304.00
		POALIM HAN N1	260,762,865.00
		POALIM HAN B14	215,629,393.00
		POALIM HAN B32	221,827,066.00
		POALIM HAN B15	6,881,133.00
		POALIM HAN B33	45,195,081.00
		POALIM HAN B34	314,197,383.00
		POALIM HAN B18	1,215.00
		POALIM HAN B19	1,616.00
		POALIM HAN B36	259,118,300.00
		POALIM HAN B20	2,938.00
The Phoenix Holdings Ltd. – nostro	520017450	POALIM HAN B10	9,103,038.21
		POALIM HAN B11	32,000.00
		POALIM HAN N1	5,034,700.00
		POALIM HAN B14	10,101,252.00
		POALIM HAN B32	16,693,836.00
		POALIM HAN B15	8,047,849.00
		POALIM HAN B34	21,838,167.79
		POALIM HAN B18	289.00
		POALIM HAN B35	450,000.00
		POALIM HAN B36	12,736,166.13
		POALIM HAN B20	490.00

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

	Corporation/ID number	Security	Quantity
Interested party			
The Phoenix Holdings Ltd. – insurance	520017450	POALIM HAN B10	22,901.00
		POALIM HAN B14	444,556.50
		POALIM HAN B32	2,502,520.00
		POALIM HAN B15	70,000.00
		POALIM HAN B34	1,925,448.48
		POALIM HAN B19	10.00
		POALIM HAN B36	6,416,900.00
The Phoenix Holdings Ltd. – provident funds	520017450	POALIM HAN B10	35,055,686.99
		POALIM HAN B11	24,870,502.66
		POALIM HAN N1	58,647,421.00
		POALIM HAN B14	117,951,841.25
		POALIM HAN B32	167,940,516.00
		POALIM HAN B15	23,825,932.00
		POALIM HAN B16	2,303,713.00
		POALIM HAN B33	10,559,853.88
		POALIM HAN B34	264,334,187.96
		POALIM HAN B18	1,120.00
		POALIM HAN B35	96,162,617.60
		POALIM HAN B19	584.00
		POALIM HAN B36	188,156,276.36
		POALIM HAN B20	1,089.00
Excellence Investments Ltd.	520041989	POALIM HAN B10	39,125,290.73
		POALIM HAN B11	24,312,919.72
		POALIM HAN N1	41,209,056.95
		POALIM HAN B14	58,103,543.86
		POALIM HAN B32	129,456,243.55
		POALIM HAN B15	8,158,987.41
		POALIM HAN B16	6,717,950.25
		POALIM HAN B33	12,900,405.63
		POALIM HAN B34	98,813,818.68
		POALIM HAN B18	179.00
		POALIM HAN B35	55,293,281.70
		POALIM HAN B19	25.00
		POALIM HAN B36	149,362,319.39

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

	Corporation/ID number	Security	Quantity
Interested party			
Altshuler-Shaham Provident Funds and Pension Ltd.	513173393	POALIM HAN B32	1,122,221.00
		POALIM HAN B33	85,123,167.00
		POALIM HAN B34	184,298,677.00
		POALIM HAN B36	331,020,370.00
Altshuler-Shaham Mutual Fund Management Ltd.	511944670	POALIM HAN B10	45,134,058.00
		POALIM HAN B11	16,122,494.00
		POALIM HAN B14	7,056,776.00
		POALIM HAN B32	63,515,015.00
		POALIM HAN B33	30,684,021.00
		POALIM HAN B34	138,877,480.00
		POALIM HAN B35	49,946,870.00
		POALIM HAN B36	114,913,320.00

Holdings of interested party – Bank Hapoalim B.M.: See Standard 11A.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

Additional details regarding principal holders:

1. Arison Holdings (1998) Ltd.

Eternity Holdings One Trust and Eternity Four-A Trust (the "Trusts") hold 30% and 70%, respectively, of the shares of Arison Holdings (1998) Ltd. ("Arison Holdings"). The trustees of the Eternity Holdings One Trust are The Northern Trust Company of Delaware and Fides VE LLC, and the trustees of the Eternity Four-A Trust are The Northern Trust Company of Delaware and Braiden Services LLC. Ms. Shari Arison (ID no. 064767437) is the principal beneficiary of the Trusts and shall have the exclusive discretion to vote at the shareholder meetings of Arison Holdings under a power of attorney granted to her by the trustees. The powers of attorney were granted with the intention not to revoke them as long as Arison Holdings holds shares of the Bank.

It is clarified that the rate of holding of Arison Holdings in voting power noted in the table above was calculated with reference to the total shares that it holds, and was not reduced according to the directive in the holding permit received by Ms. Arison from the Bank of Israel, pursuant to which, from the inception date of the permit, Arison shall not vote using the power of voting rights in excess of 5% of the means of control of the Bank. Accordingly, the holding rates in voting of the other holders were also not increased. For details regarding the provisions of the control permit, including with regard to the period in which Arison is permitted to sell its holdings in the Bank exceeding 5%, see the Immediate Report of the Bank dated September 4, 2018 (reference no. 2018-01-082039) and p. 400-401 of the Annual Report of the Bank for 2018.

2. Clal Insurance Enterprises Holdings Ltd. ("Clal Holdings")

Clal Holdings is a public company without a controlling core, resident in Israel, securities of which are listed on the Tel Aviv Stock Exchange Ltd.

3. The Phoenix Holdings Ltd. ("The Phoenix Holdings")

The controlling party of The Phoenix Holdings is Belenus Lux S.a.r.l. ("Belenus"), a corporation established in Luxembourg.
On November 3, 2019, Belenus purchased the shares held by the Delek Group Ltd., and became the controlling party of The Phoenix Holdings.
Controlling parties of Belenus: Lewis (Lee) Sachs, Matthew Botein, CCP III Cayman GP Ltd.
The Phoenix Holdings indirectly holds 100% of Excellence Investments Ltd.

4. Altshuler-Shaham Ltd.

Altshuler-Shaham Ltd. ("AS") is an institutional reporting group consisting of Altshuler-Shaham Provident Funds and Pension Ltd. ("AS Provident Funds and Pension") and Altshuler-Shaham Mutual Fund Management Ltd. ("AS Mutual Funds").

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

Controlling parties of AS:
Gilad Altshuler (ID no. 057379315), through a 100% holding in Gilad Altshuler Holdings Ltd., which holds 44.53% of the shares of AS. Kalman Shaham, ID no. 000915983, through a 100% holding in Kalman Shaham Holdings Ltd., which holds 44.53% of the shares of AS. Roni Benin Bar, ID no. 336289202, who holds 9.9% of the shares of AS in trust.
Controlling parties of AS Provident Funds and Pension:
(a) the controlling parties of AS, as stated in the note above, through their holding in AS, which holds 46.31% of AS Provident Funds and Pension directly and 14.25% indirectly, through a holding (directly and indirectly through AS Provident Funds Holdings Ltd.) of 49.67% in Perfect (Y.N.E.) Capital Markets Ltd. ("Perfect"), which holds 28.69% of AS Provident Funds and Pension; and (b) Yair Lowenstein, through a 100% holding in Yair Lowenstein Holdings Ltd., which holds 50.33% of Perfect, which, as noted, holds 28.69% of AS Provident Funds and Pension.
Controlling parties of AS Mutual Funds:
The controlling parties of AS Mutual Funds are the controlling parties of AS, as noted above, through their holding in AS, which holds 80% of the shares of AS Mutual Funds.

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

D. Holdings of subsidiaries in shares of subsidiaries or related companies (continued)

Name of company held by interested party
AMI Trustees Ltd.
BAMI Nechasim Ltd.
BAMI Nechasim Ltd.
BHI Investment Advisors Asia
BHI Global Investment Advisors (Israel) Ltd.
BHI – USA Holdings Inc.
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.
Diur B.P. Ltd.
Diur B.P. Investments (1992) Ltd.
Diur B.P. Properties (1993) Ltd.
Hapoalim (Latin America) S.A.
Hapoalim Nechasim (Menayot) Ltd.
Hapoalim Securities U.S.A. Inc.
Hevrat Nemanut Aseret Alafim Veachat Ltd.
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.
Chatzron Hevra Lehashkaot Ltd.
Trinel Ltd. in liquidation

Name of interested party	Company number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Holding rate		
							In capital	In voting	In authority to appoint directors
Hapoalim American Israeli Ltd.	510373053	Ordinary shares	50,000	0.00	NIS	5.0	100%	100%	100%
AMI Trustees Ltd.	511584781	Ordinary shares	1	1.00	NIS	1.0	1%	1%	1%
Hapoalim American Israeli Ltd.	511584781	Ordinary shares	99	1.00	NIS	99.0	99%	99%	99%
Hapoalim (Switzerland) Ltd.	1465245	Ordinary shares	1,000	1.00		1,000.0	100%	100%	100%
Hapoalim (Switzerland) Ltd.	515082931	Ordinary shares	1,000	1.00	NIS	1,000.0	100%	100%	100%
Poalim Capital Markets (Euro) Ltd.	352460912	Ordinary shares	100	1.00	USD	100.0	100%	100%	100%
Tarshish Hapoalim Holdings and Investments Ltd.	774483903	Ordinary shares	2,355,146,874	0.10		235,514,687.4	70%	70%	70%
Opaz Ltd.	510237878	Ordinary shares	1,066	0.10	NIS	106.6	100%	100%	100%
Diur B.P. Ltd.	511727232	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%
Diur B.P. Ltd.	511895773	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%
Hapoalim (Cayman) Ltd.	774177877	Bearer	398,537,083	1.00	UYU	398,537,083.0	100%	100%	100%
Opaz Ltd.	511391278	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%
BHI – USA Holdings Inc.	133732556	Common	10	0.01	USD	0.1	100%	100%	100%
Poalim Trust Services Ltd.	510729205	Ordinary shares	10	0.00	NIS	0.0	100%	100%	100%
Poalim Trust Services Ltd.	510729742	Ordinary shares	10	0.00	NIS	0.0	100%	100%	100%
Revadim (Nechasim) Ltd.	510364508	Ordinary shares	335,670	0.10	NIS	33,567.0	33%	33%	33%
Hapoalim (Switzerland) Ltd.	900000606	Ordinary shares	1,500	100.00	CHF	150,000.0	100%	100%	100%

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

D. Holdings of subsidiaries in shares of subsidiaries or related companies (continued)

Name of company held by interested party
Yefet Nominees Ltd.
Mivnim Vetsiud Ltd.
May-Oz Ltd.
C Bilisim Teknolojileri
C Bilisim Teknolojileri
C Bilisim Teknolojileri
C Bilisim Teknolojileri
Poalim Ofakim Ltd.
Poalim Delta Fund L.P.
Poalim Ventures - Fund Management Ltd.
Poalim Ventures - Fund Management Ltd.
Poalim Ventures I Ltd.
Poalim Ventures I Ltd.

Name of interested party	Company number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Holding rate		
							In capital	In voting	In authority to appoint directors
Hapoalim American Israeli Ltd.	510125784	Ordinary shares	1,000	0.00	NIS	0.1	100%	100%	100%
Bitzur Ltd.	510439284	Ordinary shares	5	0.10	NIS	0.5	5%	5%	5%
Diur B.P. Ltd.	511470999	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	500422084	Ordinary shares	3,986,850	1.00		3,986,850.0	100%	100%	100%
Agam Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1.00		4,375.0	0%	0%	0%
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	500422084	Ordinary shares	4,375	1.00		4,375.0	0%	0%	0%
Teuda Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1.00		4,375.0	0%	0%	0%
Hapoalim Nechasim (Menayot) Ltd.	513624338	Ordinary shares	50,000	1.00	NIS	50,000.0	100%	100%	100%
Poalim Ventures Ltd.	550019012	No share capital	99	1.00	NIS	99.0	99%	99%	99%
Poalim Ventures Ltd.	512433194	Ordinary shares	999	1.00	NIS	999.0	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	512433194	Ordinary shares	1	1.00	NIS	1.0	0%	0%	0%
Poalim Ventures Ltd.	512882317	Ordinary shares	951,330	0.01	NIS	9,513.3	48%	48%	0%
Poalim Ventures - Fund Management Ltd.	512882317	No share capital	1	1.00	NIS	1.0	0%	0%	100%

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

D. Holdings of subsidiaries in shares of subsidiaries or related companies (continued)

Name of company held by interested party
Poalim Ventures II L.P.
Poalim Ventures Ltd.
Poalim Venture Services Israel Ltd.
Poalim Mortgages Insurance Agency (2005) Ltd.
Poalim Capital Markets - Investment House Ltd.
Poalim Capital Markets - Financial Applications & Research Ltd.
Poalim Capital Markets - Financial Applications & Research Ltd.
Poalim Capital Markets (Euro) Ltd.
Poalim Capital Markets (Euro) Ltd.
Poalim Capital Markets & Investments - Holdings Ltd.
Poalim Capital Markets & Investments - Holdings Ltd.
PCM Hudson Holdings LLC

Name of interested party	Company number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Holding rate In capital	In voting	In authority to appoint directors
Poalim Ventures - Fund Management Ltd.	530205905	No share capital	100	1.00	NIS	100.0	0%	0%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	510820046	Ordinary shares	151,660,886	0.01	NIS	1,516,608.9	100%	100%	100%
Hapoalim Nechasim (Menayot) Ltd.	510464795	A ordinary shares	2,698	0.10	NIS	269.8	100%	100%	100%
Poalim Ofakim Ltd.	513661025	Ordinary shares	1,000	1.00	NIS	1,000.0	100%	100%	100%
Bitzur Ltd.	520032541	Ordinary shares	180,628,882	1.00	NIS	180,628,882.0	100%	100%	100%
Poalim Ventures Ltd.	511735185	Ordinary shares	1	1.00	NIS	1.0	1%	1%	1%
Poalim Capital Markets & Investments - Holdings Ltd.	511735185	Ordinary shares	99	1.00	NIS	99.0	99%	99%	99%
Poalim Ventures Ltd.	512693441	Ordinary shares	999	1.00	NIS	999.0	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	512693441	Ordinary shares	1	1.00	NIS	1.0	0%	0%	0%
Poalim Capital Markets - Investment House Ltd.	520043290	Ordinary shares	4,816,131	1.00	NIS	4,816,131.0	48%	48%	48%
Tarshish Hapoalim Holdings and Investments Ltd.	520043290	Ordinary shares	4,816,131	1.00	NIS	4,816,131.0	48%	48%	48%
Poalim Ventures Ltd.	980582800	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%

Standard 24 Shares and convertible securities held by interested parties and senior officers of the corporation, a subsidiary, or a related company near the date of the report on financial position (continued)

D. Holdings of subsidiaries in shares of subsidiaries or related companies (continued)

Name of company held by interested party
PCM Hudson Management Company Holdings L.P.
PCM Hudson Management Company Holdings L.P.
Pitango 2019 SPV D.N. Limited Partnership
Tzadit Ltd.
Sure-Ha International Ltd.
Tot Tiyur Vetiyul Ltd.
Teus Development Areas Ltd.
Teus Development Areas Ltd.
Teus Development Areas Ltd.
Teus Development Areas Ltd.

Name of interested party	Company number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Holding rate		
							In capital	In voting	In authority to appoint directors
Poalim Ventures Ltd.	980582799	Ordinary shares	99	1.00	NIS	99.0	99%	99%	99%
PCM Hudson Holdings LLC	980582799	Ordinary shares	1	1.00	NIS	1.0	1%	1%	1%
Poalim Ventures Ltd.	540287265	No share capital	1	1.00	NIS	1.0	39%	39%	39%
Revadim (Nechasim) Ltd.	510437494	Ordinary shares	114,799	0.00	NIS	11.5	100%	100%	100%
Opaz Ltd.	740000401	Ordinary shares	4,999,999	1.00	USD	4,999,999.0	100%	100%	100%
Rotesa Ltd.	510810294	Founding shares	1	0.00	NIS	0.0	0%	100%	100%
Diur B.P. Ltd.	510549249	Ordinary shares	5,219	0.10	NIS	521.9	10%	0%	0%
Diur B.P. Ltd.	510549249	Preferred shares	36,000	0.01	NIS	360.0	7%	0%	0%
Diur B.P. Ltd.	510549249	A preferred shares	40,250,000	0.00	NIS	4,025.0	75%	0%	0%
Diur B.P. Ltd.	510549249	Special shares	1	0.10	NIS	0.1	0%	100%	100%

Standard 24A

	Amount in NIS	
	Registered	Issued and paid-up
Share capital		
Ordinary shares of NIS 1	4,000,000,000	1,337,377,111

Dormant shares

Bank Hapoalim B.M. holds 2,208,952 dormant shares; this holding constitutes 100% of the dormant shares.

The number of shares included in issued share capital, excluding the dormant shares that confer no rights, is 1,335,168,159.

The shares are listed for trading on the Tel Aviv Stock Exchange.

Standard 24B Registry of shareholders

Book of shareholders – Bank Hapoalim B.M.	Number of shares
Bank Hapoalim Nominee Company Ltd.*	1,337,339,115
Tzitzian Avraham	31,680
Don Maxwell	2,450
Florsheim Mark and Zippora	1,640
Agmon Eliahu	700
Berkner Albert	603
Levy Victoria	544
Mindel Shira Milca	122
Geva Arieh	100
Pentzer Natan	75
Zachs Eran	40
Yehuda Bar-Lev	10
Neuman David	10
Aharon Elias	10
Caleb Victoria	5
IMM C. Investments and Finance Ltd.	2
Zaktzar Ram	1
Erez Tal	1
Kramer Moshe	1
Feldman Avi	1
Livnat Raz	1
Total	1,337,377,111

* The quantity of shares at the Nominee Company includes 2,208,952 dormant shares owned by Bank Hapoalim.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[(1)]

Name	**Oded Eran**
Personal details	Identification number: 053378824 Date of birth: May 28, 1955 Address: Tzamarot 171/6, Herzeliya Citizenship: Israeli and German
Membership in committees of the Board of Directors	Chairperson of the following board committees: the Corporate Governance and Stakeholders Committee. Member of the following board committees: the Strategy and Business Development Committee, the Information Technology and Technological Innovation Committee, and the Risk Management and Control Committee. Served as chairperson of the Information Technology and Technological Innovation Committee until July 1, 2019.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	No
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	Chairman of the Board of Directors of the Bank as of January 1, 2017.
Date of commencement of service as a director of the company	February 18, 2016.
Education and occupation in last five years, with details of service at corporations as a director	M.A. in Law, Tel Aviv University; M.A. in Literature, Tel Aviv University; B.A. in Law, Tel Aviv University; B.A. in Humanities, Open University. Director and controlling shareholder of the companies: Oded Eran Law Office; Minortil Ltd. Chairperson of the executive board of Poalim for the Community (Registered Non-Profit Association); chairperson of the executive board of the Peretz Naftali Fund (Registered Non-Profit Association); member of the executive council of Tel Aviv University; and President of the Association of Banks. Served as a special consultant to the law firm Goldfarb Seligman & Co. and as an external lecturer at the Department of Law, Tel Aviv University.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	David Avner
Personal details	Identification number: 050782184 Date of Birth: August 29, 1951 Address: Derech Hasadot 16, Beit Yitzhak Citizenship: Israeli
Membership in committees of the Board of Directors	The Audit Committee, the Remuneration Committee, and the Strategy and Business Development Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	External director pursuant to the directives of the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	September 10, 2019.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Mathematics and Philosophy, Haifa University; M.B.A., Technion, Haifa. Graduate of information-systems analyst courses, Technion, Haifa, External Studies Division. Chairperson of the board of directors of Cellomat Ltd. Served in the past as an advisor to the board of directors of Starcom Ltd. Served until 2017 as a director at Bank Leumi Le-Israel Ltd.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Ronit Abramson-Rokach
Personal details	Identification number: 054121108 Date of birth: August 17, 1957 Address: Shimshon 5, Jerusalem Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Audit Committee of the Board of Directors. Member of the following board committees: the Risk Management and Control Committee, the Corporate Governance and Stakeholders Committee, and the Remuneration Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	External director pursuant to the directives of the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	February 5, 2018.
Education and occupation in last five years, with details of service at corporations as a director	L.L.B., Hebrew University of Jerusalem. Provides legal counsel services in the areas of companies, securities, and banking. Member of the executive boards of the following non-profit organizations: the Shiluv Family and Couples Therapy Institute (Registered Non-Profit Association), the Jerusalem Foundation (Registered Non-Profit Association), Beit Berl College (Registered Non-Profit Association), and the general assembly of the Zippori Center for Training and Leadership Ltd. (Public Benefit Company). Served in the past as a director at Migdal Insurance Company Ltd., Migdal Insurance and Financial Holdings Ltd., Migdal Capital Markets Ltd., and Carmel Olefins Ltd. (external director).
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Noam Hanegbi
Personal details	Identification number: 055445647 Date of Birth: July 20, 1958 Address: Ben Gurion 14B, Kfar Saba Citizenship: Israeli
Membership in committees of the Board of Directors	The Credit Committee, the Risk Management and Control Committee, the Corporate Governance and Stakeholders Committee, and the Information Technology and Technological Innovation Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	External director pursuant to Directive 301, and independent director.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	October 6, 2019
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Economics and Computer Science, Bar-Ilan University. Director at Noam Hanegbi Ltd. (wholly-owned company). Served in the past as Deputy CEO and Head of the Information Systems and Telecommunications Division at Maccabi Health Services; served as an external technological consultant at Clalit Health Services Ltd.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Dalia Lev
Personal details	Identification number: 007555337 Date of birth: August 2, 1947 Address: Bnei Moshe 16/33, Tel Aviv Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Remuneration Committee of the Board of Directors. Member of the following board committees: the Credit Committee, the Audit Committee, the Strategy and Business Development Committee, and the Information Technology and Technological Innovation Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	External director pursuant to the directives of the Companies Law.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	April 12, 2018
Education and occupation in last five years, with details of service at corporations as a director	CPA, Hebrew University. LLM, Bar Ilan University. Advanced Management Program, Harvard Business School. Certified mediator, Israel Bar Association. Director at Belgal Ltd. (wholly-owned company). Mentor for directors at the Jasmine Foundation (Registered Non-Profit Association). External director at Strauss Group Ltd. Member of the board of trustees of Tel Aviv University and of Ben Gurion University. Served in the past as a director at the following companies: First International Bank of Israel Ltd., Paz Oil Company Ltd.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Dr. David Zvilichovsky
Personal details	Identification number: 057056426 Date of birth: August 31, 1961 Address: Habanim 1, Ramat Hasharon Citizenship: Israeli
Membership in committees of the Board of Directors	The Credit Committee, the Risk Management and Control Committee, and the Strategy and Business Development Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	No
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	September 25, 2019.
Education and occupation in last five years, with details of service at corporations as a director	Ph.D. in Economics, Tel Aviv University. B.Sc. in Computer Science, Tel Aviv University. M.A. in Economics, Hebrew University. M.Sc. in Computer Science, Hebrew University. Member of the senior academic staff of the Department of Management at Tel Aviv University; director and controlling shareholder at Innovent Israel Ltd.; consultant to advanced technology companies. In the last five years, served as a guest professor at the Cyprus International Institute of Management.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Moshe Koren
Personal details	Identification number: 1228998 Date of Birth: July 8, 1938 Address: Ben Yehuda 5, Kiryat Ono Citizenship: Israeli
Membership in committees of the Board of Directors	Chairperson of the Risk Management and Control Committee of the Board of Directors. Member of the following board committees: the Credit Committee, the Audit Committee, and the Remuneration Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	No
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	August 3, 1992.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Economics and Statistics, Hebrew University; graduate of financial statement analysis courses. Banking and financial consultant. Director at Privacy Rating Ltd.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Richard Kaplan
Personal details	Identification number: 011176500 Date of birth: August 28, 1955 Address: Levy Eshkol 16/63, Tel Aviv Citizenship: Israeli and American
Membership in committees of the Board of Directors	Chairperson of the Information Technology and Technological Innovation Committee. Member of the following board committees: the Corporate Governance and Stakeholders Committee and the Strategy and Business Development Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	No
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	July 1, 2018.
Education and occupation in last five years, with details of service at corporations as a director	Mechanical engineer, Brown University. J.D., Cornell University. Director at R.A. Kaplan 22 Consulting Ltd. (a wholly-owned company). Director at the following companies: Decentralized Mobile Applications Ltd., Resolution Gaming (Sweden), 8e14, Twiggle. Served in the past as VP and head of global financial services development at IBM, CEO of IBM Israel, member of the board of directors of the Israel-US Chamber of Commerce, and chairperson of the board of trustees of Hadassah.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Name	Reuven Krupik
Personal details	Identification number: 013482518 Date of Birth: August 22, 1951 Address: Ha'Emek 3, Hod Hasharon Citizenship: Israeli and Argentinian
Membership in committees of the Board of Directors	Chairperson of the Strategy and Business Development Committee. Member of the following board committees: the Audit Committee, the Corporate Governance and Stakeholders Committee, and the Information Technology and Technological Innovation Committee.
Is the director an independent director/an external director according to the Companies Law/an external director according to Directive 301?	External director pursuant to Directive 301, and independent director.
Is the director an employee of the company, or of a subsidiary, related company, or interested party thereof?	No
Date of commencement of service as a director of the company	February 18, 2016
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Social Sciences (specialized in economics and political science), Hebrew University of Jerusalem. L.L.B., Tel Aviv University. graduate of business course at the Kellogg Recanati Center, Tel Aviv University. Director of companies, business entrepreneur. Director at NYK Technologies (family firm). Member of the executive board of the Institute for Medical BioMathematics (Registered Non-Profit Association). External lecturer at Ben Gurion University. Served in the past as CEO of Clal Biotechnology Industries Ltd.; partner, chairperson of the board, and CEO of Arte Venture Group Ltd.; chairperson of the board of the following companies: Gamida Cell Ltd., Mediwound Ltd., and Andromeda Biotech Ltd.; and as a director at CureTech Ltd., Recanati Winery Ltd., and Campus Bio Management Ltd.
Is the director considered by the company to be a director with accounting and financial expertise, a director with professional qualification, or an expert director?	A director with accounting and financial expertise and professional qualification. An expert director.
To the best of the knowledge of the company and the directors, is the director a family member of another interested party of the corporation?	No

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.

Standard 26 Board of Directors of the Bank[1] (continued)

Yacov Peer Identification number: 052242609 Date of birth: April 16, 1954	Served as a member of the Board of Directors of the Bank until October 5, 2019.

Standard 26A Senior Officers of the Bank[2]

Name	Dov Kotler
Personal details	Identification number: 054010483 Date of birth: August 2, 1956
Date of beginning of service	October 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	President and Chief Executive Officer
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Business Administration, Tel Aviv University. M.A. in Economics, Tel Aviv University. Served in the past as chairperson of the board of directors of Iintoo Investments Ltd. (and of corporations in which companies in the group are general partners: Pinto Afik and Iintoo Oshkosh), and as CEO of Isracard Ltd. and Poalim Express Ltd. Also served as a director at Bezeq The Israel Telecommunication Corp. Ltd., Pelephone, Yes, Bezeq International, Bezeq On Line, V-Finance Technologies Ltd. (and additional companies in the group), and Amir Marketing and Investments in Agriculture Ltd. Also served as a member of the advisory boards of the fintech startups Doorbill ABC and Splitit Ltd., and as an external consultant to Max It Finance Ltd. and Warburg Pincus.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of directors is provided for the period of the last five years.
(2) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[(1)] (continued)

Name	Amit Oberkovich
Personal details	Identification number: 059030015 Date of birth: August 19, 1964
Date of beginning of service	December 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Head of Human Resources as of December 1, 2019. Director at Avuka Hevra le Hashkaot Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Political Science, Tel Aviv University; M.B.A., University of Derby; From June 2015 to December 2019, VP Human Resources at Israel Electric Corporation. Since 1998, member of the executive board (volunteer) of A.V. Israel (Registered Non-Profit Association). Guest lecturer, Tel Aviv University.

Name	Yael Almog
Personal details	Identification number: 59284745 Date of birth: March 6, 1968
Date of beginning of service	Member of the Board of Management as of June 1, 2017.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Legal Advisor of the Bank as of March 1, 2018.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	L.L.B., Tel Aviv University; M.A. in Law, Columbia University, New York. From June 2017 to February 2018, Head of Stakeholder Relations. From March 2012 to May 2017, executive director of the IFRS, London. Member of the executive boards of Poalim for the Community (Registered Non-Profit Association) and the Peretz Naftali Fund (Registered Non-Profit Association).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Amir Bachar
Personal details	Identification number: 029331113 Date of birth: April 20, 1972.
Date of beginning of service	Member of the Board of Management as of May 29, 2018.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Risk Officer (CRO)
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Law and Economics, Hebrew University. M.A. in Economics and Ph.D. in Law, Hebrew University. From November 2016 to May 2018, Advising and Research Area Manager. From November 2010 to October 2016, Chief Compliance Officer of the Bank. External lecturer on banking law at the Hebrew University of Jerusalem.

Name	Eti Ben-Zeev
Personal details	Identification number: 023571540 Date of birth: December 2, 1967
Date of beginning of service	Member of the Board of Management as of February 14, 2016.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Head of Information Technology Serves as chairperson of the board of directors of Poalit Ltd. (a subsidiary of the Bank).
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Mathematics and Computer Science, Tel Aviv University. M.B.A., Tel Aviv University. From August 2014 to January 2016, Application Development Area Manager. From April 2010 to August 2014, Infrastructure Area Manager.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Ram Gev
Personal details	Identification number: 032283046 Date of birth: April 3, 1975
Date of beginning of service	January 1, 2020.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Financial Officer (CFO). Director at the following companies: Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Properties (1993) Ltd., Mivnim Vetsiud Ltd., Bitan Investments and Mortgages Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., and Ramchal Poalim Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Hebrew University. M.B.A., Hebrew University. CPA. From 2011 to 2019, served as CFO of Isracard Ltd. (from June 2019 also served as Deputy CEO of Isracard).

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Tsahi Cohen
Personal details	Identification number: 022007587 Date of birth: September 29, 1965
Date of beginning of service	Member of the Board of Management as of July 1, 2012.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Financial Officer (CFO). Director at the following subsidiaries: Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Properties (1993) Ltd., Mivnim Vetsiud Ltd., Bitan Investments and Mortgages Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., and Ramchal Poalim Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.Sc. in Aeronautical Engineering, Technion, Haifa. M.B.A., Tel Aviv University. From July 2012 to February 2018, Chief Risk Officer.

Name	Ofer Levy
Personal details	Identification number: 052222577 Date of birth: February 15, 1954
Date of beginning of service	Member of the Board of Management as of May 1, 2006.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Accountant Chairperson of the boards of directors of the following subsidiaries: AMI Trustees Ltd., Yefet Nominees Ltd.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Tel Aviv University. CPA. Served in the past as a member of the board of directors of the subsidiary Poalim Express Ltd.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[(1)] (continued)

Name	Yadin Antebi
Personal details	Identification number: 028078525 Date of birth: October 31, 1970
Date of beginning of service	Member of the Board of Management as of July 23, 2013.
Position at the corporation or at a subsidiary, related company, and/or interested party thereof	Head of Financial Markets and International Banking as of May 29, 2018. Chairperson of the board of directors of the following subsidiaries: Bank Hapoalim Switzerland, Poalim Financial Holdings (1993) Ltd., Bank Hapoalim Nominee Company Ltd., Poalim Capital Markets and Investments Holdings Ltd., Poalim Capital Markets – Investment House Ltd., Poalim Capital Markets Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Opaz Ltd., Hapoalim American Israeli Ltd., Hapoalim Nechasim (Menayot) Ltd., Tarshish Holdings and Investments Hapoalim Ltd., Teuda Hevra Finansit Ltd., Hapoalim Hanpakot Ltd., and BAMI Nechasim Ltd. Director at the subsidiary Hapoalim International.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Hebrew University of Jerusalem; M.B.A. (specialized in finance), Hebrew University of Jerusalem. CPA. Director at Yadin Antebi Consulting Ltd. From July 23, 2013, to May 29, 2018, Chief Financial Officer (CFO). Previously served as Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance. Served in the past as chairperson of the boards of directors of the following subsidiaries: Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Ofakim Ltd., and as deputy chairperson of the board of directors at Bank Pozitif.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Dalit Raviv
Personal details	Identification number: 024149783 Date of birth: June 22, 1969
Date of beginning of service	Member of the Board of Management as of November 13, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Head of Retail Banking Chairperson of the board of directors of Poalim Mortgages Insurance Agency (2005) Ltd. (subsidiary).
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Economics, Ben-Gurion University. M.B.A., Tel Aviv University. From January 2013 to August 2016, Platinum Banking Manager. From August 2016 to November 2019, Commercial Banking Area Manager, Corporate Banking Division.
Name	**Golan Scherman**
Personal details	Identification number: 23706583 Date of birth: June 22, 1968
Date of beginning of service	Member of the Board of Management as of February 1, 2018.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Head of Innovation and Corporate Strategy
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Economics, Bar-Ilan University. M.B.A., Ben-Gurion University. From December 2014 to January 2018, Retail Banking Area Manager.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	**Zeev Hayo**
Personal details	Identification number: 057069676 Date of birth: February 24, 1961
Date of beginning of service	Chief Internal Auditor as of July 14, 2014.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Chief Internal Auditor, Head of Internal Audit in Israel and Abroad.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Accounting and Economics, Tel Aviv University. CPA. From July 2014 to April 2018, chief internal auditor of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd.

Name	**Asaf Azulay**
Personal details	Identification number: 052807120 Date of birth: October 30, 1983
Date of beginning of service	March 1, 2017.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Head of Marketing and Advertising.
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	L.L.B., Ono Academic College. From 2014 to 2017, joint CEO of Gitam BBDO IM.

(1) The information in this standard is correct as at the date of publication of this report, unless otherwise indicated. In general, information regarding the past positions and occupations of senior officers of the Bank is provided for the period of the last five years.

Standard 26A Senior Officers of the Bank[1] (continued)

Name	Gilad Bloch
Personal details	Identification number: 028487296 Date of birth: March 15, 1971
Date of beginning of service	Corporate Secretary as of February 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Corporate Secretary
Is the officer an interested party of the corporation, or a family member of another senior officer or of an interested party of the corporation?	No
Education and business experience in the last five years, with details of professions or subjects in which education was acquired, the educational institution, and the academic degree or professional certification held by the officer	B.A. in Business Administration, Management College, Rishon Lezion. M.B.A., Executive MBA Program, Tel Aviv University. From June 2013 to January 2017, Credit Analysis Unit Manager in the Commercial Banking Area of the Corporate Banking Division. From January 2017 to February 2019, Personal Assistant to the CEO in the areas of credit, compliance, and risk management.
Ari Pinto	Served as CEO until September 30, 2019.
Yael Dromi	Served as Member of the Board of Management and Head of Stakeholder Relations until February 29, 2020.
Erez Yosef	Served as Member of the Board of Management, COO, and Head of Strategy, Resources, and Operations until October 31, 2019.
Ofer Koren	Served as Member of the Board of Management and Chief Financial Officer until December 31, 2019.
Ronen Stein	Served as Member of the Board of Management and Head of Retail Banking until November 12, 2019.
Niv Polani	Served as Head of Business Development until January 31, 2020.
Avner Paz-Tzuk	Served as Core Systems Modernization Plan Manager until February 3, 2020.

Standard 26B Independent authorized signatories

None.

Standard 27 Accountants of the Bank

Ziv Haft, Certified Public Accountants, 48 Menachem Begin Rd., Tel-Aviv.
Somekh Chaikin, Certified Public Accountants, 17 Ha'arba'ah St., Tel Aviv.

Standard 28 Details of changes in the Memorandum and Articles of the Bank

On July 18, 2019, the general meeting of shareholders of the Bank approved several changes to the Articles of the Bank, mainly consisting of adjustments of the Articles to the directives of the law that apply to the Bank due to its transition to a banking corporation without a controlling core (in November 2018), and in particular the directives of the Banking Ordinance, 1941 (the "Banking Ordinance") concerning the rules for the election and appointment of directors at such banking corporations. Also included were several adjustments to current directives of the law, such as adjustment of the maximum number of directors to Proper Conduct of Banking Business Directive 301 of the Banking Supervision Department. See the report on convening the meeting issued by the Bank on June 13, 2019 (reference no. 2019-01-050499).

Standard 29

A. Recommendations of the Board of Directors to the general meeting, and resolutions that do not require approval by the general meeting:

1. Dividend distribution –
   For details regarding dividend distribution, see the Report of the Board of Directors and Board of Management, page 46.
2. Changes in capital – none.
3. Changes in the Memorandum and Articles of the Bank – see Standard 28, above.
4. Redemption of shares – none.
5. Early redemption of bonds – on February 1, 2019, the Bank redeemed, in full early redemption, the Subordinated Notes (Series B, non-marketable), in consideration for a total redemption amount (including linkage differentials and interest) of approximately NIS 583 million. The early redemption was approved by the Board of Directors of the Bank and by the Supervisor of Banks.
   On September 9, 2019, the Bank redeemed, in full early redemption, the Subordinated Notes (Series B, non-marketable), in consideration for a total redemption amount (including linkage differentials and interest) of approximately NIS 349 million. The early redemption was approved by the Board of Directors of the Bank and by the Supervisor of Banks.
6. Transactions not at market terms between the Bank and an interested party of the Bank, except a transaction of the corporation with a subsidiary thereof – none.

Standard 29 (continued)

B. Resolutions of the general meeting passed in contradiction of the recommendations of the Board of Directors – none.

C. Resolutions of the special general meeting –

On December 26, 2019, a special general meeting of shareholders of the Bank resolved to approve the following matters:

1. To approve extension of the term of the remuneration policy for officers of the Bank for a period of up to twelve additional months, until no later than December 31, 2020.
2. To approve the terms of service and employment of Oded Eran as Chairman of the Board of Directors of the Bank for a period of up to one year (i.e. until no later than December 31, 2020).
3. To approve the terms of service and employment of Mr. Dov Kotler as CEO of the Bank for a period of up to one year (i.e. until no later than December 31, 2020).

For details regarding resolutions passed at the annual general meeting held on July 18, 2019, see Section 6.6 in the chapter "Corporate governance and additional information."

Standard 29A

Extraordinary transactions that require approval under Section 270(1) of the Companies Law – none.

Standard 29A(4) – As at the date of the report, all of the directors and officers of the Bank have exemption letters and indemnity commitments, and are insured under an officers' liability policy.

Exemption for officers

On February 18, 2016, the general meeting of shareholders of the Bank, following the approval of the Remuneration Committee (in its meetings of January 7 and 10, 2016), and the Board of Directors of the Bank (in its meeting of January 13, 2016), approved the granting of letters of exemption to the officers and directors of the Bank serving and/or who may serve from time to time at the Bank, including the CEO of the Bank, serving and/or who may serve from time to time, and including the officers and directors of the Bank, serving and/or who may serve from time to time, in the granting of letters of exemption to whom the controlling party of the Bank may be considered to have a personal interest. Pursuant to the letters of exemption, the Bank exempts the officer, subject to the provisions of the Companies Law, from responsibility towards the Bank due to any damage to the Bank and/or to subsidiaries of the Bank and/or to related companies of the Bank and/or to any other corporations in which the Bank holds securities, and/or may hold securities from time to time, caused by a past or future action or inaction of the officer during the term of the officer's service, which constitutes a violation of the duty of care of the officer towards the Bank. The exemption shall not apply to an action or inaction of the officer pertaining to a decision or transaction in which the controlling party or any officer of the Bank has a personal interest. At the date of the report, all of the directors and officers of the Bank have letters of exemption. For further details, see the Immediate Report on convening the meeting issued by the Bank on January 13, 2016 (reference no. 2016-01-009607).

Standard 29A (continued)

Officers' insurance

Within the officers' remuneration policy of the Bank, which was approved by the meeting of shareholders of the Bank on December 19, 2016, it was affirmed that the total amount of coverage of officers' and directors' liability insurance at the Bank would not exceed approximately USD 500 million, per claim and cumulatively; the annual premium would not exceed approximately NIS 10 million; and the maximum deductible amount would be USD 1,000,000.

In May 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the extension of the directors and officers' liability insurance policy of the Bank and of subsidiaries of the Bank by one month (i.e. until June 30, 2019, instead of May 31, 2019, the expiration date of the previous insurance policy), in consideration for a total of approximately USD 200,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2019, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of USD 250 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 50 million (USD 300 million in total), beginning July 1, 2019, for a period of eleven months. The total premium for the aforesaid insurance coverage is approximately USD 2.4 million. Previously, the Bank had an officers' liability insurance policy with coverage in the amount of USD 400 million per claim and cumulatively, with a premium in respect of the policy in the amount of approximately USD 1.8 million, for a period of thirteen months.

Within the separation from Isracard Ltd. ("Isracard"), on December 26, 2018, further to the approval of the Audit Committee on December 19, 2018, and the approval of the Remuneration Committee on December 19, 2018 (pursuant to Regulation 1B1 of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000), the Board of Directors approved the acquisition of a POSI (public offering of securities insurance) policy in connection with the offering of shares of Isracard, jointly with Isracard. The policy insures directors' and officers' liability at the Bank and at Isracard, and insures the Bank and Isracard in respect of offerings of shares of Isracard to the public by the Bank, and an initial offering of bonds by Isracard in April 2019. The liability limit of the policy is up to USD 200 million per claim and cumulatively. The premium for the POSI policy is approximately NIS 1 million. The policy is in effect from March 1, 2019, to January 31, 2028.

Indemnification of officers: For details regarding indemnity letters received by all officers serving at the Bank, see Note 26 to the Financial Statements.

Ofer Levy	**Gilad Bloch**
Senior Deputy Managing Director,	Corporate Secretary
Chief Accountant	
Tel-Aviv, March 18, 2020	

Corporate Governance Questionnaire[1]

Independence of the board of directors			
		True	False
1.	Throughout the reported year, two or more external directors served at the corporation. This question can be answered "True" if the period during which two external directors did not serve does not exceed 90 days, as noted in Section 363A(b)(10) of the Companies Law; however, with any answer (true/false), the duration of the period (in days) in which two or more external directors did not serve at the corporation during the reported year should be noted (including a term of service approved retrospectively, separately for each of the external directors): Director A: **Ronit Abramson-Rokach** Director B: **Dalia Lev** Director C: **David Avner** (beginning September 10, 2019) Number of external directors serving at the corporation as at the date of publication of this questionnaire: **3 (and 2 additional external directors as defined in Directive 301 of the Supervisor of Banks).**	✓	
2.	Rate[2] of independent directors[3] serving at the corporation as at the date of publication of this questionnaire: **5/9.** Rate of independent directors established in the articles[4] of the corporation[5]: ______ ☐ Not applicable (no directive has been established in the articles). **Pursuant to Directive 301 of the Supervisor of Banks, at least one-third of the directors on the Board of Directors of the Bank are required to be external directors, as defined in Directive 301 (including external directors pursuant to the Companies Law). As noted, five external directors, as defined in Directive 301, serve at the Bank, and are also independent directors.**	____	____
3.	An examination was conducted in the reported year with the external directors (and the independent directors), and it was found that they fulfilled the directives of Section 240(B) and (F) of the Companies Law, in the reported year, with regard to the lack of affinity of the external (and independent) directors serving at the corporation, and that they fulfilled the required conditions for service as external (or independent) directors.	✓	
4.	None of the directors who served at the corporation during the reported year report[6] to the general manager, directly or indirectly (with the exception of a director who is a representative of the employees, if the corporation has employee representation). If your answer is "False" (i.e. the director reports to the general manager, as noted), the rate of directors who do not meet this limit should be noted: ______	✓	

(1) Published pursuant to the proposed legislation for the improvement of financial statements of March 16, 2014.
(2) In this questionnaire, "rate" indicates the specific number out of the total; for example, 3/8.
(3) Including "external directors" as defined in the Companies Law.
(4) For the purposes of this question, "articles," including according to a specific legal directive applicable to the corporation (for example, at a banking corporation, the directives of the Supervisor of Banks).
(5) A bond company is not required to answer this item.
(6) For the purposes of this question, service as a director at an affiliated corporation controlled by the corporation shall not be considered, in itself, "reporting." However, service of a director of the corporation as an officer (other than a director) and/or employee of an affiliated corporation controlled by the corporation shall be considered "reporting" for the purposes of this question.

Corporate Governance Questionnaire (continued)

Independence of the board of directors (continued)		True	False
		True	False
5.	All directors who gave notice of the existence of a personal interest in the approval of a transaction on the agenda of a meeting did not attend that discussion and did not participate in such voting (with the exception of a discussion and/or vote under circumstances according to Section 278(B) of the Companies Law). If your answer is "False" – Was this for the purpose of presentation of a specific subject by the director, in accordance with the directives of Section 278(A), last clause? ☒ **Yes** ☐ No (mark an X in the appropriate box) Note the rate of meetings in which directors as noted above were present at a discussion and/or participated in a vote, except under the circumstances as noted in Subsection (a): **0%.**		✓
6.	A controlling party (including a relative thereof and/or a person acting on behalf thereof), who is not a director or other senior officer of the corporation, was not present at the meetings of the board of directors held during the reporting year. If your answer is "False" (i.e., a controlling party and/or a relative thereof and/or a person acting on behalf thereof who is not a member of the board of directors and/or a senior officer of the corporation was present at meetings of the board of directors, as noted) – state the following information regarding the presence of each additional person at meetings of the board of directors, as noted: Identity: ______ Position at the corporation (if any): ______ Details of affinity to controlling party (if the person present is not the controlling party): ______ Was this for the purpose of presentation of a specific subject by the attendee? ☐ Yes ☐ No (mark an X in the appropriate box) Rate of attendance[7] at meetings of the board of directors held in the reported year in order to present a specific subject: ______. Other attendance: ______ ☒ Not applicable (the corporation does not have a controlling party).		

(7) With differentiation of the controlling party, a relative thereof, and/or a person acting on behalf thereof.

Corporate Governance Questionnaire (continued)

Qualification and skills of directors				
			True	False
7.		The articles of the corporation do not contain a directive restricting its ability to immediately terminate the service of any directors of the corporation who are not external directors (for this purpose, determination by ordinary majority is not considered a restriction)[(8)]. **Special legal directives apply to a banking corporation without a controlling core.** If your answer is "False" (i.e., such a restriction does exist), state:	✓	
	a.	The period of time specified in the articles for the service of a director: ______		
	b.	The required majority specified in the articles for the termination of service of directors: ______		
	c.	The legal quorum at the general meeting specified in the articles for the termination of service of directors: ______		
	d.	The majority required to changes these directives in the articles: ______		
8.		The corporation has prepared a training program for new directors in the area of the business of the corporation and in the area of the law applicable to the corporation and to the directors, as well as a program for continued training of serving directors, adapted, among other matters, to the position held by the director at the corporation. If your answer is "True," state whether the program was operated during the reported year: ☒ **Yes** ☐ No (mark an X in the appropriate box)	✓	
9.	a.	A minimum required number of directors on the board of directors who must have accounting and financial expertise has been established at the corporation. If your answer is "True," state the minimum number established: **3**.	✓	
	b.	Number of directors who served at the corporation during the reported year: Directors with accounting and financial expertise[(9)]: **5** Directors with professional qualification[(10)]: **2**[(11)] If the number of such directors changed during the reported year, state the lowest number (except during the period of 60 days from the change) of directors of each kind who served during the reported year.		

(8) A bond company is not required to answer this item.
(9) After evaluation of the Board of Directors, pursuant to the directives of the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise), 2005.
(10) See footnote 9.
(11) In addition to the directors with accounting and financial expertise.

Corporate Governance Questionnaire (continued)

Qualification and skills of directors (continued)				
			True	False
10.	A.	The composition of the board of directors included members of both sexes throughout the reported year. If your answer is "False," state the duration of the period (in days) during which this was not the case: ______ This question can be answered "True" if the period during which directors of both sexes did not serve does not exceed 60 days; however, for any answer (true/false), the duration of the period (in days) in which directors of both sexes did not serve at the corporation should be noted: ______	✓	
	B.	Number of directors of each sex serving on the board of directors of the corporation as at the date of publication of this questionnaire: Men: **7**, Women: **2**.		

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting)									
								True	False
11.	A.	Number of meetings of the board of directors held during each quarter of the reported year: First quarter (2019): **16** Second quarter: **13** Third quarter: **11** Fourth quarter: **16**							
	B.	Beside each of the names of the directors who served at the corporation during the reported year, note the rate[12] of meetings of the board of directors in which he or she participated (in this subsection, including meetings of the committees of the board of directors of which he or she is a member, as noted below), which were held during the reported year (in reference to the term of his or her service): (add additional rows according to the number of directors).							
		Director's name	Rate of participation in meetings of the board of directors	Rate of participation in meetings of the audit committee[13]	Rate of participation in meetings of the committee for the examination of the financial statements[14]	Rate of participation in meetings of the remuneration committee[15]	Rate of participation in meetings of additional committees of the board of directors in which the director is a member (note the name of the committee)		
		Oded Eran	100%				Corporate Governance and Stakeholders Committee – 100% Credit Committee – 91% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 100% Risk Management and Control Committee – 100% CEO Search Committee – 100%		
		David Avner[16]	100%	100%	100%	100%	Strategy and Business Development Committee – 100%		
		Ronit Abramson-Rokach	100%	100%	100%	100%	Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100%		

(12) See footnote 2.
(13) With regard to a director who is a member of this committee. Pursuant to the supervisory directives, discussions of the financial statements are held by the audit committee of the board of directors.
(14) With regard to a director who is a member of this committee.
(15) With regard to a director who is a member of this committee.
(16) The service of Mr. David Avner as a director at the Bank began on September 10, 2019.

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)									
								True	False
		Noam Hanegbi[17]	94%				Credit Committee – 100% Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100%		
		Dalia Lev	96%	100%	100%	100%	Credit Committee – 100% Strategy and Business Development Committee – 100% CEO Search Committee – 100% Information Technology and Technological Innovation Committee – 100%		
		David Zvilichovsky[18]	100%				Credit Committee – 100% Strategy and Business Development Committee – 100% Risk Management and Control Committee – 100%		
		Moshe Koren	100%	100%	100%	100%	Risk Management and Control Committee – 100% Credit Committee – 100%		
		Richard Kaplan	100%				Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 100%		

(17) The service of Mr. Noam Hanegbi as a director at the Bank began on October 6, 2019.
(18) The service of Mr. David Zvilichovsky as a director at the Bank began on September 25, 2019.

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)								True	False
		Reuven Krupik	100%	100%	100%		Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 100%		
		Yacov Peer[19]	100%	100%	100%		Credit Committee – 100% Strategy and Business Development Committee – 100% Risk Management and Control Committee – 100% CEO Search Committee – 100%		
12.	The board of directors held at least one discussion during the reported year regarding the management of the business of the corporation by the general manager and the officers who report to the general manager, when they were not present, and they were given the opportunity to express their position.							✓	

(19) The service of Mr. Yacov Peer as a director at the Bank ended on October 5, 2019.

Corporate Governance Questionnaire (continued)

Separation of the duties of the general manager and the chairperson of the board of directors				
			True	False
13.	A chairperson of the board of directors served at the corporation throughout the reported year. This question can be answered "True" if the period during which a chairperson of the board of directors did not serve at the corporation does not exceed 60 days, as noted in Section 363A(2) of the Companies Law; however, for any answer (true/false), the duration of the period (in days) in which a chairperson of the board of directors did not serve at the corporation should be noted: ______		✓	
14.	A general manager served at the corporation throughout the reported year. This question can be answered "True" if the period during which a general manager did not serve at the corporation does not exceed 90 days, as noted in Section 363A(6) of the Companies Law; however, for any answer (true/false), the duration of the period (in days) in which a general manager did not serve at the corporation should be noted: ______		✓	
15.	In a corporation where the chairperson of the board of directors also serves as the general manager of the corporation and/or exercises the authority of the general manager, the double service has been approved in accordance with the directives of Section 121(C) of the Companies Law[20]. ☒ Not relevant (as no such double service exists at the corporation).			
16.	The general manager is not a relative of the chairperson of the board of directors. If your answer is "False" (i.e., the general manager is a relative of the chairperson of the board of directors) –		✓	
	a.	State the familial relationship between the parties:	____	____
	b.	The service was approved pursuant to Section 121(C) of the Companies Law[21]: ☐ Yes ☐ No (mark an X in the appropriate box)	____	____
17.	A controlling party or a relative thereof does not serve as the general manager or as a senior officer of the corporation, except as a director. ☒ Not applicable (the corporation does not have a controlling party).			

(20) At a bond company, approval pursuant to Section 121(D) of the Companies Law.
(21) At a bond company, approval pursuant to Section 121(D) of the Companies Law.

Corporate Governance Questionnaire (continued)

Audit committee				
			True	False
18.		The following persons did not serve on the audit committee during the reported year:	____	____
	a.	A controlling party or a relative thereof. ☒ Not applicable (the corporation does not have a controlling party).		
	b.	The chairperson of the board of directors.	✓	
	c.	A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control.	✓	
	d.	A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control.	✓	
	e.	A director whose primary livelihood depends on the controlling party. ☒ Not applicable (the corporation does not have a controlling party).		
19.		No person not permitted to be a member of the audit committee, including a controlling party or a relative thereof, was present at the meetings of the audit committee during the reported year, except in accordance with the directives of section 115(E) of the Companies Law.[22]	✓	
20.		The legal quorum for discussion and for the passing of resolutions at all meetings of the audit committee held during the reported year was a majority of the members of the committee, where the majority of those present were independent directors, and at least one of those present was an external director. If your answer is "False," state the rate of meetings at which this requirement was not fulfilled: ______	✓	
21.	The audit committee held at least one meeting during the reported year in the presence of the internal auditor and the external auditor, without the presence of officers of the corporation who are not members of the committee, with regard to flaws in the business management of the corporation.		✓	
22.	For all meetings of the audit committee attended by a person not authorized to be a committee member, such attendance was approved by the chairperson of the committee and/or was at the request of the committee (with regard to the legal counsel and secretary of the corporation who is not a controlling party or a relative thereof).		✓	
23.	Arrangements were in effect during the reported year, established by the audit committee, with respect to the treatment of complaints of employees of the corporation regarding flaws in the management of its business and with respect to the protection to be given to employees who make such complaints.		✓	

(22) Members of the Board of Directors who are not members of the Audit Committee were present at parts of several meetings of the committee in 2019 in order to present a specific topic (in accordance with the directives of Section 115(E) of the Companies Law), and were present while the financial statements were discussed, when the committee was in session as the committee for the examination of the financial statements.

Corporate Governance Questionnaire (continued)

Duties of the committee for the examination of the financial statements (hereinafter: the Committee) in its preliminary work prior to the approval of the financial statements[(23)]				
			True	False
24.		The audit committee (and/or the committee for the examination of the financial statements) obtained satisfactory assurance that the volume of work and the fees of the external auditor with respect to the financial statements in the reported year were appropriate in order to adequately perform the auditing and reviewing work.	✓	
25.	a.	Period of time (in days) established by the board of directors as a reasonable period for the submission of recommendations of the Committee in advance of the meeting of the board of directors in which the financial statements are approved: **2 days, if possible.**	____	____
	b.	Actual number of days elapsed from the submission of the recommendations to the board of directors to the date of the discussion of the approval of the financial statements by the board of directors: Report for the first quarter (2019): **2** Report for the second quarter: **2** Report for the third quarter: **2** Annual report: **1*** * The recommendations of the committee were submitted close to the time of approval of the reports, due to the circumstances at this time.	____	____
	c.	Number of days elapsed from the submission of the draft of the financial statements to the directors to the date of the discussion of the approval of the financial statements by the board of directors: Report for the first quarter (2019): **9** Report for the second quarter: **8** Report for the third quarter: **9** Annual report: **3**		
26.		The external auditor of the corporation attended all meetings of the Committee and of the board of directors in which the financial statements of the corporation referring to the periods included in the reported year were discussed. If your answer is "False," state the rate of participation: ______	✓	

(23) In accordance with the directives of the Banking Supervision Department, the Audit Committee serves as the committee for the examination of the financial statements.

Corporate Governance Questionnaire (continued)

Duties of the committee for the examination of the financial statements (hereinafter: the Committee) in its preliminary work prior to the approval of the financial statements[23] (continued)			True	False
27.	All of the following conditions were fulfilled by the Committee during the entire reported year and until the publication of the annual report:		____	____
	a.	The number of members did not fall below three (at the date of the discussion by the Committee and the approval of the financial statements, as noted).	✓	
	b.	All of the conditions set forth in Section 115(B) and (C) of the Companies Law (with regard to the service of members of the audit committee) were fulfilled.[24]	✓	
	c.	The chairperson of the Committee is an external director.	✓	
	d.	All of the members are directors and the majority of members are independent directors.	✓	
	e.	All of the members have the ability to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise.	✓	
	f.	The members of the Committee made a declaration prior to their appointment.	✓	
	g.	The legal quorum for discussions and for passing of resolutions in the Committee is a majority of its members, provided that the majority of those present are independent directors, including at least one external director.	✓	
	If your answer to one or more of the subsections of this question is "False," note the report (periodic/quarterly) with respect to which the condition was not fulfilled and state which condition was not fulfilled: _______		____	____

(23) In accordance with the directives of the Banking Supervision Department, the Audit Committee serves as the committee for the examination of the financial statements.
(24) See footnote 22 above.

Corporate Governance Questionnaire (continued)

Remuneration Committee				
			True	False
28.		In the reported year, the committee consisted of at least three members, and external directors were a majority of the committee (at the date of the discussion in the committee). ☐ Not applicable (no discussion was held).	✓	
29.		The terms of service and employment of all members of the remuneration committee in the reported year are in accordance with the Companies Regulations (Rules for Remuneration and Expenses of External Directors), 2000.	✓	
30.		The following persons did not serve on the remuneration committee during the reported year:	____	____
	a.	A controlling party or a relative thereof. ☒ Not applicable (the corporation does not have a controlling party).		
	b.	The chairperson of the board of directors.	✓	
	c.	A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control.	✓	
	d.	A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control.	✓	
	e.	A director whose primary livelihood depends on the controlling party. ☒ Not applicable (the corporation does not have a controlling party).		
31.		A controlling party or a relative thereof were not present at the meetings of the remuneration committee during the reported year, unless the chairperson of the committee determined that the presence of any of them was required for the presentation of a particular matter. ☒ Not applicable (the corporation does not have a controlling party).		
32.	The remuneration committee and the board of directors did not exercise their authority pursuant to sections 267A(C), 272(C)(3), and 272(C1)(1)(c) for the approval of a transaction or remuneration policy despite the objection of the general meeting of shareholders. If your answer is "False," state – The type of transaction approved in the aforesaid manner: ______ The number of times this authority was exercised during the reported year: ______		✓	

Corporate Governance Questionnaire (continued)

Internal auditor			
		True	False
33.	The chairperson of the board of directors or the general manager of the corporation is the organizational supervisor of the internal auditor of the corporation.	✓	
34.	The chairperson of the board of directors or the audit committee approved the work plan in the reported year. In addition, list the audit subjects addressed by the internal auditor during the reported year: _______ (mark an X in the appropriate box)[25]	✓	
35.	Volume of employment of the internal auditor at the corporation in the reported year (in hours[26]): **100% position** **For details regarding the number of employee positions in Internal Audit at the Bank, see Section 6.2, "Internal Audit," in the Corporate Governance Report, above.**	____	____
	A discussion of the findings of the internal auditor was held (by the audit committee or the board of directors) during the reported year.	✓	
36.	The internal auditor is not an interested party of the corporation, a relative thereof, an external auditor, or anyone acting on behalf thereof, and does not maintain material business ties with the corporation, a controlling party of the corporation, a relative thereof, or corporations under their control.	✓	

(25) For details regarding internal audit at the Bank, see Section 6.2, "Internal Audit," in the Corporate Governance Report.
(26) Including hours of work invested at affiliated corporations and in audits outside Israel, as relevant.

Corporate Governance Questionnaire (continued)

Transactions with interested parties			
		True	False
37.	The controlling party or a relative thereof (including a company under the control thereof) is not employed by the corporation and does not provide the corporation with management services. If your answer is "False" (i.e., the controlling party or a relative thereof is employed by the corporation or provides it with management services), state – The number of relatives (including the controlling party) employed by the corporation (including companies under their control and/or through management companies): ______ Were the aforesaid employment agreements and/or management services approved by the legally appointed organs: ☐ Yes ☐ No (mark an X in the appropriate box) ☒ Not applicable (the corporation does not have a controlling party). ______		
38.	To the best of the corporation's knowledge, the controlling party does not have additional business in the area of activity of the corporation (in one or more areas). If your answer is "False" – state whether an arrangement has been established for boundaries between the activities of the corporation and of the controlling party thereof: ☐ Yes ☐ No (mark an X in the appropriate box) ☒ Not applicable (the corporation does not have a controlling party).		

Mr. Oded Eran
Chairman of the Board

Ms. Ronit Abramson Rokach
Chairperson of the Audit Committee[27]

Tel Aviv, March 18, 2020

(27) The audit committee also serves as the committee for the examination of the financial statements.

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 level.