Bank Hapoalim B.M.

Annual Periodic Report

2020

Annual Periodic Report for 2020
Bank Hapoalim B.M.

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Bank Hapoalim

Annual Report

2020

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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

When I sought inspiration to address our shareholders, I found it in Oded, into whose role I stepped in mid-2020. May his memory be a blessing.

Year follows year in a precise rhythm of regularity, while the unique essence of each year, and the challenges it brings, are revealed from day to day. 2020 was singular, multifaceted, sometimes extreme, certainly exceptional in its divergence from ordinary years. In addition to the political uncertainty prevailing here in Israel in the past two years and the familiar economic trends, an unexpected, complex, globally and individually daunting phenomenon appeared – the coronavirus pandemic.

The pandemic starkly tested our health-care and financial systems, and in the broader sense our national economy, the resilience of our society, and the stability of our personal lives. Flexibility, rapid and competent response, accurate prediction, and adaptation of risk evaluation and management systems were essential to the navigation of this period through timely and astute decisions.

In these circumstances, Bank Hapoalim demonstrated outstanding presence and commitment. From the earliest days of the pandemic, the board of management of the Bank prepared and planned responses for possible scenarios, and quickly took the essential steps necessary to allow the Bank's business operations to continue.

On the operational level, service to our customers was never interrupted, providing continuity and broad reach. In fact, customer service was enhanced through the mobilization of remote work capabilities and through advanced digital tools and expanded digital access for customers. The employees of the Bank were equipped with the technological capability and means to work remotely wherever relevant.

Our branch network, which relies on continual presence, was adapted, with the necessary measures taken to keep our customers and employees safe. Branch personnel responded flexibly to specific local needs, to preserve the continuity of service and deliver an adapted response to customers in an effective manner.

From a business perspective, models and credit solutions tailored to this period and to customers' needs were examined and applied, adding to credit lines supplied routinely throughout the crisis, including the creation of dedicated credit funds and the provision of state-backed loans.

The Bank offered relief to customers affected by the crisis, in forms such as deferral of loan and mortgage payments, leniency in payment dates, and consultation and guidance on financial issues.

In its financial management, the Bank researched and analyzed market sectors and took steps to curb expenses, while applying a policy of provisions for credit losses (particularly collective allowances) calculated based on cautious scenarios to ensure the robustness of the Bank and its ability to withstand a range of economic developments, including extreme scenarios. These decisions were made possible by the resilience of the Bank, the diversification of its business, and its high stability and liquidity metrics; however, the increase in provisions inevitably had an impact on the annual results of the Bank, detracting from its profitability and return on equity for the year.

In essence, banking mirrors the economy. Looking back at 2020 in its entirety, we can now say that the situation is better than we estimated at the onset of the crisis, as is the condition of the Israeli economy; yet despite the mitigated scope of the ramifications of the crisis, we must remain alert and prepared. COVID-19 is not over. The wounds inflicted by the pandemic on the domestic economy will take time to heal. We must prepare, with an updated risk map and continued adaptation of our activity to our customers' needs.

Alongside the significant efforts to respond to the crisis, and the strengthening of the stability and activity of the Bank, we continued to unflaggingly pursue our development projects and future growth plans. We emphasized the development of unique products that set the Bank apart, deepening of the digital transformation that has already achieved great progress, and the modernization of the Bank's core IT systems.

The Bank is undergoing an accelerated process of innovation and transformation for our customers, adapted to the evolving business environment. This process encompasses endeavors such as the launch of our pioneering digital wallet initiative and expansion of the activity of Bit, the most popular payment platform in Israel, further demonstrating our commitment to progress and ambitious vision. We also launched extensive business development activities in the high-tech sector, strengthening the Bank's presence in this industry. These include developing and broadening our reach in the area of credit for high-tech sector business clients, initiating collaborations with fintech companies, performing venture-capital investments, investing in technology funds and ventures in Israel, and encouraging internal entrepreneurship ideas in fintech. The Bank also participated in a project of the Innovation Authority aimed at stimulating industry in Israel.

Having coped successfully with the outbreak of the crisis, and spurred our growth and technological development, we still face great challenges and many undertakings.

The Bank's high capital-adequacy ratios, maintained even during this challenging period, are a testament to its robustness and highlight its ability to support its customers at the peak of the crisis, while seeking to expand credit balances moving forward, beyond the levels of the end of 2020. As the economic environment improves and the economy begins to recover, we will work to achieve efficiencies in capital resources. Our expense structure and business results require continued efficiency drives, in addition to those we completed this year.

Thinking about the future of banking and avenues for the growth of new, differentiating revenue sources is important to us, and will become increasingly essential.

As Israel’s leading bank, Bank Hapoalim has always recognized its social responsibility and considered it a calling. Our foundation, Poalim for the Community, supported a wide range of projects this year, particularly in the area of employment and assistance for job seekers, who grew in numbers this year due to the crisis.

This message would be incomplete without acknowledgment of the diligent and persistent efforts of the board of management and board of directors to improve the corporate governance and corporate responsibility of the Bank. These endeavors have been recognized in local and global ESG ratings: Bank Hapoalim tops the Maala ratings for companies in Israel, leads international ESG ratings compared to other Israeli banks, and is ranked with the top tier of banks worldwide. This year, we are proud to be the first Israeli bank included in the Bloomberg Gender Equality Index (GEI).

I would like to express my deep gratitude and appreciation to the employees of the Bank, who rallied in this difficult year with exceptional talent, dedication, commitment, and resolve; to CEO Dov Kotler, who in his first full year at the Bank has exemplified hardworking and devoted professional excellence, resolute pursuit of purpose, and leadership of the Bank towards new horizons; and to the members of the Bank's board of directors, who bring us a wealth of capability and experience in every area necessary for the service of a large and complex organization such as ours. With technological and financial insight, banking and business experience, and extensive professional knowledge, they have formed a cohesive and beneficial board.

Together, we will continue to work for the progress of the Bank, continually applying the changes and improvements learned through investigation and drawn from the quest for efficiency and innovation. We will uphold our commitment to growth through innovative and fair banking for our customers, as adopted in our vision.

We will remember and retain the valuable lessons of 2020, such as the realization that the unexpected happens often, making the ability to respond and act dynamically and flexibly an essential foundation to preserve and cultivate. We will recall that constraints and distance can be overcome to create new forms of closeness, and we will devote ourselves to the duty and privilege of serving our customers at all times, unconditionally.

Finally, I would like to thank our shareholders – we are here because of you and for you.

Sincerely yours,

Ruben Krupik
Chairman of the Board of Directors

March 10, 2021

Bank Hapoalim

Report of the Board of Directors
and Board of Management

2020

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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 189 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.
  - 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, trading services in securities and tradable derivatives (brokerage), securities custody, trading services in currencies and non-tradable derivatives, services for financial-asset managers, management of the Bank's nostro portfolio, management of the non-financial investments of the Bank, investment banking (mainly through the Poalim Capital Markets Ltd. Group (PCM)), and an underwriting and issuance management business. The division is also responsible for managing the liquidity risks and interest-rate risks of the Bank, setting transfer prices, and managing debt issuance of the Bank.
- 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 activity in the area of global private banking outside Israel. In view of the economic and political situation in Turkey, and within the strategic plan of the Bank, an agreement for the sale of the investment in Bank Pozitif was signed in early February 2021. For additional information, see the section "Principal companies," below.

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 Construction and Housing, and other entities that publish data and estimates regarding the Israeli and global capital markets.

1.3. Condensed financial information

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

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

	For the year ended December 31				
	2020	2019	2018	2017	2016
Main performance indicators					
Return of net profit on equity attributed to shareholders of the Bank	**5.35%**	4.62%	7.06%	7.50%	7.72%
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[(1)]	**5.74%**	7.13%	9.74%	9.44%	10.04%
Return of net profit from continued operations on equity attributed to shareholders of the Bank	**5.63%**	3.86%	6.07%	6.61%	6.92%
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[(2)]	**5.74%**	6.72%	8.75%	8.55%	9.23%
Return on average assets	**0.41%**	0.39%	0.57%	0.58%	0.60%
Ratio of income to average assets	**1.99%**	2.17%	2.29%	1.99%	2.07%
Efficiency ratio – cost-income ratio from continued operations	**56.9%**	66.4%	65.1%	64.6%	63.2%
Efficiency ratio – cost-income ratio excluding extraordinary items from continued operations[(2)]	**56.7%**	58.1%	57.8%	59.1%	59.2%
Financing margin from regular activity[(3)]	**1.98%**	2.26%	2.31%	2.13%	2.05%
Liquidity coverage ratio[(4)]	**140%**	121%	120%	122%	124%

	December 31				
	2020	2019	2018	2017	2016
Ratio of common equity Tier 1 capital to risk components[(5)]	**11.52%**	11.53%	11.16%	11.26%	11.01%
Ratio of total capital to risk components[(5)]	**14.60%**	14.64%	14.39%	14.64%	15.11%
Leverage ratio[(5)]	**6.78%**	7.61%	7.51%	7.37%	7.25%

(1) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, net profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(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, 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				
	2020	2019	2018	2017	2016
Main credit quality indicators					
Allowance for credit losses as a percentage of credit to the public	**2.00%**	1.58%	1.31%	1.36%	1.50%
Impaired debts and debts in arrears of 90 days or more as a percentage of credit to the public	**1.52%**	1.80%	1.23%	1.31%	1.83%
Net charge-offs as a percentage of average credit to the public	**0.09%**	0.12%	0.20%	0.21%	0.18%
Provision for credit losses as a percentage of average credit to the public	**0.64%**	0.44%	0.22%	0.08%	0.07%
	NIS millions				
Main profit and loss data					
Net profit attributed to shareholders of the Bank	**2,056**	1,799	2,595	2,660	2,628
Net profit attributed to shareholders of the Bank excluding extraordinary items(1)	**2,205**	2,778	3,579	3,348	3,417
Net profit from continued operations attributed to shareholders of the Bank	**2,165**	1,503	2,231	2,346	2,354
Net profit from continued operations attributed to shareholders of the Bank excluding extraordinary items(2)	**2,205**	2,619	3,215	3,034	3,143
Net interest income	**8,797**	9,319	8,906	8,424	7,958
Provision for credit losses	**1,943**	1,276	613	202	179
Net financing profit*	**9,885**	9,878	10,351	9,076	9,121
Non-interest income	**4,379**	3,889	4,868	4,153	4,917
Of which: fees	**3,155**	3,240	3,318	3,338	3,617
Operating and other expenses	**7,501**	8,776	8,960	8,121	8,142
Of which: salaries and related expenses	**3,836**	**4,108	**4,188	**4,300	**4,328
Total income	**13,176**	13,208	13,774	12,577	12,875
Net earnings per ordinary share (in NIS)					
Basic net earnings per share in NIS attributed to shareholders of the Bank from continued operations	**1.62**	1.13	1.68	1.76	1.77

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

** Reclassified.

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

(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, 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				
	2020	2019	2018	2017	2016
	NIS millions				
Main balance sheet data					
Total assets	**539,602**	463,688	460,926	454,424	448,105
Of which: Cash and deposits with banks	**138,711**	88,122	84,459	86,093	80,367
Securities	**71,885**	59,486	56,116	65,416	71,429
Net credit to the public	**301,828**	292,940	282,507	265,853	259,878
Net problematic credit risk	**9,754**	8,787	6,944	6,822	7,358
Net impaired balance sheet debts	**2,517**	3,034	2,158	2,121	3,094
Total liabilities	**499,703**	425,467	423,270	418,420	413,880
Of which: Deposits from the public	**435,217**	361,645	352,260	347,344	338,494
Deposits from banks	**6,591**	3,520	4,528	3,649	4,077
Bonds and subordinated notes	**23,490**	26,853	30,024	29,058	33,560
Shareholders' equity	**39,873**	38,181	37,544	35,863	34,047
Credit to the public not accruing interest income (NPL)	**3,208**	3,867	2,178	2,073	3,480
Additional data					
Share price at end of year (in NIS)	**22.0**	28.7	23.7	25.6	22.9

	For the year ended December 31				
	2020	2019	2018	2017	2016
Total dividend per share (in agorot)*(1)	**53.94**	74.90	37.17	64.53	51.44
Average number of employee positions	**9,027**	**9,392	**9,846	**10,351	**10,676
Ratio of net interest income to average assets	**1.77%**	2.05%	1.97%	1.87%	1.80%
Ratio of fees to average assets	**0.63%**	0.71%	0.73%	0.74%	0.82%

* According to the date of declaration.
** Restated.
(1) Paid as a dividend in kind, in shares; calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91).

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. The spread of the coronavirus is an event with material macro-economic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the event and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself. For additional information, see the section "Effect of the spread of the coronavirus" and the section "Review of risks," below, and the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020.

1.5. Objectives and business strategy

In late 2020, the Board of Management and Board of Directors of the Bank approved the strategic plan; within this process, the objectives and business strategy for 2021-2023 were established. The objectives and business strategy were determined based on an examination of the impact of the spread of the coronavirus, 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 was formulated taking into consideration the key trends affecting the banking industry, including the intensifying competition from medium-sized banks and non-bank financial players, the accelerating trend towards the consumption of financial services through direct channels (digital channels, call centers, and self-service stations), continued 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.

For additional information regarding the impacts of the coronavirus outbreak, see Section 2.1.3.

In addition to these changes, the strategic plan was built while also taking into consideration possible future scenarios for the banking industry, as published by the Basel Committee on Banking in February 2018. The Bank 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.

The vision of the Bank: Committed to Growth through Innovative and Fair Banking for our Customers
As part of the strategic planning process, the Board of Management and Board of Directors of the Bank have decided to formulate a new vision to guide the activity of the Bank.

Corporate strategy

Bank Hapoalim will work to create significant growth in the volume of its activity with retail, commercial, and corporate banking customers. The growth plan is based on three main axes:

1. **Growth in banking activity**

The Bank will work to grow the volume of its activity with retail, commercial, and corporate banking customers.
Retail customers: The trend towards redirection of the activity of retail customers from the branch network to the direct channels accelerated over the last year. In line with this tendency, the Bank will work to develop advanced tools to identify customers' needs in the digital space and take customers' ability to purchase more complex products through digital channels to the next level. These capabilities will be enhanced by means including advanced analytics and improved digital underwriting capabilities, which will also support expansion of the customer base eligible for credit.
In addition, the Bank will work to optimize the deployment of its retail network and adapt it to the mission of providing more complex banking services, to focus the branches on activities with added value.
The Bank will also work to improve service through processes aimed at strengthening service awareness, improving banker availability, expanding the digital offering of transactions and products, broadening the authority of bankers at the call centers, and expanding the range of channels for communication between the Bank and its customers.
In mortgages, the Bank will continue to work towards growth, while expanding its market share in new loans.
Commercial and corporate customers: In the commercial and corporate arenas, the Bank will continue to work to maintain its leading position, with the aim of being the first choice for business clients. The Bank will work to strengthen relationships and extend activity with customers of the Commercial Banking Area and the Corporate Banking Area, emphasizing growth in sectors and products marked as having the highest potential. The Bank will also continue to improve work processes and shorten response times in serving customers' needs. In addition, the Bank will work to expand its dealing room and brokerage activity, by improving the digital value offer while upgrading technological infrastructures.

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

2. Development of new banking

Alongside the improvement of its competitiveness through the renewal of traditional banking, the Bank will promote the development of new distribution channels for banking services and products, with an emphasis on new digital distribution channels based on advanced data-analysis capabilities and an outstanding user experience.

The Bit application, currently used by millions of customers from all banks, will provide an important platform for the Bank to expand its activity with new customers in the digital arena. In February, the Bank introduced a digital wallet service within the Bit application (for smartphones with Android operating systems). The Bit Wallet serves as a technological platform for Bit users, relying on contactless EMV proximity-based payment technology, for executing transactions with businesses using charge cards by tapping the smartphone to the point of sale.

The Bit Wallet is an "open" wallet, meaning that Bit users can use it with charge cards of the Bank as well as with cards issued to them by other issuers who have granted consent to such use. It will also be possible to use the Bit Wallet with a non-bank club card, the Bitcard, to be issued for this purpose by Cartisei Ashrai LeIsrael Ltd. (CAL). Bit users who register for Bit with charge cards whose issuers have not consented to the use of the Bit Wallet will be able to use the Bit Wallet through the Bitcard. The Bit Wallet operates in accordance with the trajectory established by the Bank of Israel for ventures of this type.

The Bank will continue to solidify the activity of Bit in the payment market by expanding the range of payment solutions offered through the application, including payment at physical points of sale based on proximity, expansion of collaborations with businesses for payment on e-commerce websites, and additional innovative banking solutions.

The Bank will also leverage the open-banking infrastructure to create new revenue sources and alternative value offers by partnering with third parties for solutions.

3. Building a growth-supporting organizational infrastructure

In order to realize its business plan for the growth of its existing activity and the development of new banking, the Bank will take its organizational and technological capabilities to the next level, in several areas.

The Bank will work to drive processes encouraging a customer-centric, growth-supporting organizational culture, enabling it to improve its delivery and time to market.

The use of data and analytics will continue to grow in breadth and depth, in a process begun several years ago, with customer journeys supported by advanced data analysis.

Given the rapid shifts in business models and in digital products, improvement of the Bank's core systems has become necessary. The Bank has started implementation of a project for the modernization of its core systems, to create a more flexible and simpler banking infrastructure, improving the pace of implementation of new business processes and the time to market of newly developed products, providing a foundation for open API, and reducing future IT costs. The Board of Management and Board of Directors of the Bank have resolved to allocate significant resources to the progress of this project, in terms of both the investment budget and the scope of manpower.
The Bank also intends to take its other technological capabilities to a higher level, in order to improve its flexibility and pace of implementation of technology.

The Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the 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 impacts of the spread of the coronavirus, worldwide and in Israel; 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 coronavirus pandemic, which began to spread around the world in the first quarter of 2020, caused a sharp downturn in economic activity. Most countries took exceptional measures to contain the spread of the virus, such as restriction of residents' movements and closure of many economic sectors, particularly in the area of services, which led the percentage of job seekers worldwide to soar. Throughout 2020, lockdowns were imposed intermittently across the world, according to the extent of contagion, at varying degrees of severity and durations. Overall in 2020, the International Monetary Fund estimates that global product contracted by approximately 3.5%. GDP contracted by approximately 3.5% in the United States, and more sharply in Europe, by approximately 6.8%, due to both a stricter lockdown policy and the high weight of service sectors, particularly tourism. An important factor mitigating the severity of the economic blow over the last year was the expansionary policies of treasury departments and central banks. Global public expenditures rose considerably, and many countries introduced a number of assistance programs during the course of the year. Accordingly, government budget deficits and debts rose rapidly. Monetary policy globally was highly expansionary. After lowering interest rates to near-zero levels in the first quarter of 2020, central banks stepped up their purchases of financial assets later in the year, including corporate bonds.

Economic activity in Israel

The Israeli economy went into 2020 with rapid growth momentum, low unemployment, and high financial robustness, reflected in a low level of public debt and large foreign-currency reserves. This starting point has bolstered the economy, from the outbreak of the pandemic to the present. During the year, there were three lockdowns in which large swaths of economic activity were closed, mainly those that do not permit social distancing, such as hospitality and vacations, travel, sports, culture, and entertainment. The Central Bureau of Statistics estimates the decrease in GDP in 2020 at 2.4% – an unprecedented rate in Israel, yet moderate given the severity of the crisis and relative to earlier estimates. Several factors mitigated the damage to the economy, first and foremost the highly expansionary economic policy, in both fiscal and monetary terms. The government decided at the outset to compensate the newly unemployed, with no qualification period and almost without conditions. Businesses received aid based on the extent of the damage to their revenue as well as assistance in financing fixed expenses. Government spending to address the crisis reached NIS 68.6 billion over the year, or 4.9% of GDP. This aid greatly reduced the damage to household consumption, and economic activity rose considerably between the lockdowns. Another factor lessening the economic damage was an increase in the export surplus: the aviation closures increased domestic expenses and reduced imports, while exports of goods and services from Israel continued to grow at an impressive pace. The job market emerged as the Achilles' heel of the economy during this period. Hundreds of thousands of workers were ejected from the labor market during the first lockdown, as they were placed on unpaid leave. Within a month, about one-third of Israel's workforce became unemployed or on unpaid leave. This figure gradually decreased as the economy adjusted to work under the restrictions to some extent. At the end of December, the unemployment rate was approximately 14%. An extensive vaccination campaign began in late 2020; as of the mid-February 2021, approximately four million people have been vaccinated. However, the level of COVID-19 cases remains high. The economic crisis may have long-term negative impacts that affect the growth potential of the economy in the coming years. The process of returning thousands of unemployed people to work may be prolonged, and it will also take time for closed down businesses to reopen.

Fiscal and monetary policy

The budget deficit soared to 11.7% of GDP in 2020, from 3.7% in the preceding year. Most of the deficit growth resulted from an increase of almost 5% of GDP in expenditures for the coping of the economy with the coronavirus crisis. Throughout the year, the government operated without an approved state budget, relying on a continuous budget and an additional limit approved ad hoc for the coronavirus crisis. Despite the recession, tax revenues fell at a relatively moderate rate of 2%. The ratio of public debt to GDP rose to approximately 73%, versus 60% at the end of 2019. The volume of capital raised by the government grew; over the last year, the government raised a total of approximately NIS 191 billion in the domestic market. Capital raised abroad reached approximately NIS 74.4 billion.

Like central banks elsewhere, the Bank of Israel applied unconventional policy tools over the last year, and reached an unprecedented level of monetary expansion. The interest rate was lowered to 0.1% on April 6, 2020, and the Bank of Israel concurrently adopted additional monetary tools to increase liquidity in the financial markets and the supply of credit. During the course of 2020, the Bank of Israel purchased government bonds at a volume of NIS 46.24 billion and corporate bonds at a volume of NIS 3.5 billion, and granted loans to commercial banks designated for credit to small businesses in the amount of NIS 19.6 billion. Some of this credit was granted at a negative interest rate of -0.1%. These actions by the Bank of Israel significantly increased its balance sheet, conversely reflected in an increase in money aggregates, primarily current-account balances in the economy.

Inflation and exchange rates

The "known" consumer price index fell by 0.6% in 2020. The CPI for 2020 decreased by 0.7%. The recession and lockdowns led to a decline in demand for various products and services, reflected in almost all of the major index items. The negative inflation was also influenced by the decrease in energy prices and by the appreciation of the shekel against the currency basket. The housing item of the index (rent prices) also fell by 0.2%. Some of the index items are not being measured due to the crisis, which may have affected the inflation measurement. The financial markets are pricing in expectations of a gradual increase in inflation over the coming years.

The shekel appreciated by 7.0% against the US dollar in 2020, and by 5.1% against the currency basket. The economic recession and the aviation closures led to an increase in the surplus in the current account of the balance of payments, which created currency appreciation pressures. The sharp gains on global stock markets led to an increase in hedging activity by institutional investors, heightening appreciation pressures. The Bank of Israel acquired foreign currency at a volume of approximately USD 21 billion during the year. In January 2021, the Bank of Israel announced a plan to acquire foreign currency at an annual volume of USD 30 million.

Financial and capital markets

The turmoil in global markets in March 2020 led to sharp declines in global equity markets, but most of these markets have since recovered. The markets in the United States have fully recouped the decline; the S&P 500 index actually rose by 16.3% in 2020, as compared to the beginning of the year. Although stock indices in Europe and Tel Aviv rose sharply relative to the low point in March, at the end of 2020 the indices remained below pre-crisis levels. Overall in 2020, the STOXX Europe 600 index fell by 4.0% and the TA-125 index fell by 3.0%. Risk spreads of corporate bonds, which expanded sharply in the first quarter of 2020, began to fall in the second quarter of 2020 and then continued to decrease, reaching a level only slightly higher than before the crisis at the end of 2020. Daily turnovers in shares and convertibles in Tel Aviv, which rose considerably in the first half of 2020, were more moderate in the second half, but still higher than the average for 2019.

Monetary policies worldwide were highly expansionary throughout the year, including bond purchases by central banks in many countries. As a result of this intervention, long-term bond yields also remained very low, despite the increase in the last quarter of the year. In the United States, yields of ten-year government bonds stood at approximately 0.9% at the end of 2020. Ten-year government bond yields in Israel were also fairly stable, standing at 0.84% at the end of 2020.

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, 2020.

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

- **Macroeconomic environment:** The activity of the Bank is dependent on the business environment, in Israel and globally. The condition of the global economy, significant changes in monetary policies and interest-rate curves, market volatility, changes in prices of financial assets in Israel and worldwide and in real-estate prices, and the economic, political, and security situation in Israel and in the region have the potential to affect the activity of the Bank. The Bank's multi-annual strategic plan includes certain assumptions regarding the macroeconomic environment, while taking into consideration the existing risks in the global and Israeli economy, and balances risk and return considerations. The Bank is evaluating and examining its strategic plan in view of the changes in the macroeconomic environment.

  The crisis of the spread of the coronavirus has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. There is uncertainty regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. For details, see the section "Economic and financial review," above, and the section "Effect of the crisis of the spread of the coronavirus," below.
- **Regulatory environment in Israel and overseas:** International regulatory reforms have implications for the business of the Bank, in Israel and globally. In Israel, several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated. The regulatory initiatives and trends, and specifically the separation of the Bank from the credit-card companies and the significant changes in this area of activity, as well as bank account switching and open banking, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate all of the effects of these changes on the Bank.

- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats and attempted attacks. The cyber defense units have developed responses in order to reduce the risks, as detailed in the section "Operational risk," below.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect in April 2019, bank account switching, and open banking, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2021-2023, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.
- **Compliance risk:** Pursuant to Proper Conduct of Banking Business Directive 308, compliance risk also includes risks related to the fairness of the Bank towards its customers, conflicts of interest, the prohibition of money laundering and financing of terrorism, provision of advice to customers, protection of privacy (excluding information-technology aspects), taxation aspects relevant to products or services for customers, or directives of a similar nature. The materialization of this risk on the global level is reflected in the continuing investigations of banks around the world and in the fines imposed on them in connection with the violation of laws or regulations, such as in the areas of assisting tax evasion, the prevention of terrorism financing, money laundering, and investigations of corruption. The Bank Group's business with American customers and the issue of FIFA were investigated by the authorities in the United States; in the first quarter, resolutions between the Bank Group and the DOJ and additional United States authorities were approved and announced, which brought these investigations to conclusion. For details, see Notes 25D and 25E to the Financial Statements.

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. Effect of the crisis of the spread of the coronavirus

The coronavirus began to spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. Since then, lockdowns and restrictions have been applied intermittently with gradual reopening of the economy in Israel, according to the pace of the spread of the virus. The development of vaccines, on the one hand, and the emergence of mutations and limited global availability of the vaccines, on the other hand, create uncertainty regarding the future of the health crisis and economic situation.

The spread of the coronavirus and the defensive measures to combat it caused material damage to regular economic activity, as well as high volatility in financial asset prices, in Israel and globally. The broad unemployment rate (including unpaid leave) rose to approximately 37% at the peak of the crisis in April. Later in the year, as the economy reopened, the unemployment rate was more moderate, reaching approximately 14% in December. Overall in 2020, GDP contracted by 2.4%. Real activity and financial-market trends were both influenced by fiscal and monetary policies during this period. The Ministry of Finance is compensating households and businesses for their loss of income; the Bank of Israel lowered the interest rate to 0.1%, and is purchasing government and corporate bonds on the markets. The support of the policies of the Ministry of Finance and the Bank of Israel for the economy and the markets has mitigated the damage in the short term; however, the long-term impact is less clear.

The crisis of the spread of the coronavirus has caused material worsening of activity in the economy in Israel, to which the activity of the Bank is exposed, and it has and is expected to have impacts on the business of the Bank, including due to an increase in credit risk and in liquidity problems of borrowers, in both the corporate and private sectors, and due to the deceleration of economic activity. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – also has the effect of reducing the financing income and interest income of the Bank. This adds to the risk of decreases in prices of tradable assets and changes in bond spreads, which may have an adverse effect on the value of the tradable assets of the Bank, and additional effects. It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or the future impact of the crisis and of the expansionary policies of banks and governments on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

At the outset of the crisis, the Bank established a dedicated committee of the Board of Management to address the financial crisis in the context of the crisis of the spread of the coronavirus, headed by the CEO of the Bank. The committee, in the early part of the crisis, and later the Board of Management Committee on Risk Management and Compliance, reviewed various scenarios for the progression of the crisis and its financial effects on the Bank; the effects of the crisis on credit risks and counterparty credit risks in respect of customers, banks, and others; and its effects on liquidity, the investment portfolio, the dealing room, and more. These matters are also frequently discussed by the Board of Directors of the Bank. The work plans of the Bank have also been amended, in view of the crisis.

Accordingly, as part of the Bank's preparations for the consequences of the coronavirus crisis, and in order to assess its potential effects, various scenarios for the progression of a series of economic parameters are being examined and used by the Bank to estimate the impacts on the Bank. In the baseline scenario, the Bank assumes that certain restrictions on economic activity will remain in place at least until mid-2021, and that the Bank of Israel interest rate will remain at 0.1% throughout 2021. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

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

In view of the crisis of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order; for further details, see the section, "Capital, capital adequacy, and leverage," below.

Following the request of the Banking Supervision Department for the capital resources freed by the reduction of the capital requirements to be used to increase credit, the Board of Directors of the Bank resolved, on March 31, 2020, to adjust the minimum target common equity Tier 1 capital ratio to 9.5%, and further resolved that, taking into consideration the existing distribution policy of the Bank, in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the temporary order and of the policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank would continue to refrain from performing distributions from ongoing earnings. On November 15, the Bank of Israel issued a circular updating Proper Conduct of Banking Business Directive 250 with regard to the reduction of the leverage ratio. For further details regarding the directives of the Banking Supervision Department, capital-adequacy targets, and dividends, see the section, "Capital and leverage," in the Report on Risks, and the section "Capital, capital adequacy, and leverage," below.

The common equity Tier 1 capital ratio as at December 31, 2020, is 11.52%, and the leverage ratio decreased to 6.78%, compared with a common equity Tier 1 capital ratio of 11.53% and a leverage ratio of 7.61% on December 31, 2019. The decrease in the leverage ratio resulted from an increase in the volume of the balance sheet, due to an increase in deposits from the public, and, by contrast, an increase in cash and deposits with banks, as a result of the monetary expansion applied by the Bank of Israel and the consequent increase in liquidity.

From the beginning of 2020 to December 31, 2020, the Bank recorded an increase in the provision for credit losses in a total amount of approximately NIS 1,943 million. Most of the provisions are due to the crisis of the spread of the coronavirus, mainly as a result of an increase in the collective provision in the amount of approximately NIS 1,600 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses due to the coronavirus outbreak crisis in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus known at that time. For details regarding the scenarios and the effect thereof on credit risk, and regarding the exposure and credit risk by economic sector, see the section "Credit risk," below. In this context, note that due to the coronavirus crisis, as at December 31, 2020, loan payments (principal and/or interest) in the amount of approximately NIS 1,415 million were deferred, of the total loans in deferral of payments, as detailed in the section "Credit risk," below.
The volatility in the financial markets in the first quarter of 2020 led to an increase in risk estimates of the activity of the dealing room of the Bank and of its customers. The calmer markets later in the year resulted in decreases in most of these risk estimates. The average consolidated liquidity ratio of the Bank was 140% in the quarter ended December 31, 2020.
While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets have since recovered. The value of the share portfolio and the bond portfolio decreased by a total of approximately NIS 705 million in the first quarter, offset by an increase of approximately NIS 1,300 million later in the year, so that the total increase in the value of the share portfolio and the bond portfolio during 2020 amounted to approximately NIS 595 million. For details regarding the effect on market risks, see the section "Market risks," below.
It is not possible to estimate the scope of the future spread of the virus, or the responses of governments and central banks, in terms of the restrictions to be imposed on the economy as well as the measures to support and stimulate economic activity, or the reaction of the economies and the markets. It is also not possible to estimate or quantify the duration and extent of the crisis, or its future impact on the global economy, the Israeli economy, the customers of the Bank, and the Bank itself.

2.1.4. External auditors

Ziv Haft (BDO), CPA (Isr.) and Somekh Chaikin (KPMG), CPA (Isr.) serve as the joint auditors of the Bank. The firm Haft & Haft, which merged into Ziv Haft in 2000, began serving as the external auditor of the Bank in 1921. Somekh Chaikin began serving as an auditor of the Bank in 1998.
Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements.
The external auditors have emphasized the section in Note 25C(b) concerning exposure to class-action suits filed against the Bank Group, and Notes 25D and 25E concerning the conclusion of the investigation of the Bank Group's business with American customers and regarding FIFA.

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

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

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 2,056 million in 2020, compared with profit in the amount of NIS 1,799 million in 2019. The increase in profit mainly resulted from exceptional expenses recorded in the preceding year in respect of the provision in connection with the investigation of the Bank Group's business with American customers and the related legal expenses. By contrast, the provision for credit losses increased this year, due to the effects of the spread of the coronavirus, and net profit from a discontinued operation decreased, due to the distribution of the holding in Isracard as a dividend in kind to the shareholders in March 2020, with the recognition of a loss as a result of the decrease in its market value at the distribution date.

The rate of net return on shareholders' equity was 5.35% in 2020, compared with 4.62% in 2019.

Table 2-1: Condensed statement of profit and loss

	For the year ended December 31		Change
	2020	2019	
	NIS millions		
Interest income	**10,260**	11,920	(13.9%)
Interest expenses	**(1,463)**	(2,601)	(43.8%)
Net interest income	**8,797**	9,319	(5.6%)
Non-interest financing income	**1,088**	559	94.6%
Net financing profit*	**9,885**	9,878	0.1%
Provision for credit losses	**1,943**	1,276	52.3%
Net financing profit after provision for credit losses	**7,942**	8,602	(7.7%)
Fees and other income*	**3,291**	3,330	(1.2%)
Operating and other expenses	**7,501**	8,776	(14.5%)
Profit from continued operations before taxes	**3,732**	3,156	18.3%
Provision for taxes on profit from continued operations	**1,590**	1,681	(5.4%)
Profit from continued operations after taxes	**2,142**	1,475	45.2%
The Bank's share in profits of equity-basis investees, after taxes	**10**	11	(9.1%)
Net profit from continued operations	**2,152**	1,486	44.8%
Net profit (loss) from a discontinued operation	**(109)**	296	(136.8%)
Net profit:			
Before attribution to non-controlling interests	**2,043**	1,782	14.6%
Loss attributed to non-controlling interests	**13**	17	(23.5%)
Attributed to shareholders of the Bank	**2,056**	1,799	14.3%
Return of net profit	**5.3%**	4.6%	15.9%

* 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."

Net profit of the Bank Group attributed to shareholders of the Bank totaled NIS 915 million in the fourth quarter of 2020, compared with a net loss in the amount of NIS 629 million in the same quarter of the preceding year. The results 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 same quarter of the preceding year).

Net profit, as noted above, totaled NIS 915 million in the fourth quarter of 2020, compared with net profit excluding extraordinary effects in the amount of NIS 359 million in the same quarter of the preceding year. The business results of the Group, excluding extraordinary items, in the fourth quarter of 2020, compared with the same quarter of the preceding year, were mainly influenced by a decrease in the provision for credit losses in the amount of NIS 1,063 million, due, among other factors, to allowances for credit in the amount of approximately NIS 676 million recorded within the annual financial statements for 2019 following the outbreak of the coronavirus crisis.

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

2.2.1. Developments in income and expenses

Net financing profit

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

Table 2-2: Composition of net financing profit

	For the year ended		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Interest income	**10,260**	11,920	(13.93%)
Interest expenses	**(1,463)**	(2,601)	(43.75%)
Net interest income	**8,797**	9,319	(5.60%)
Non-interest financing income	**1,088**	559	94.63%
Total reported financing profit	**9,885**	9,878	0.07%
Excluding effects not from regular activity:			
Income from realization and adjustments to fair value of bonds	**169**	225	(24.89%)
Profit from investments in shares	**70**	353	(80.17%)
Adjustment to fair value of investment in affiliate*	**3**	(56)	
Gains in respect of loans sold	**21**	9	
Adjustments to fair value of derivative instruments(1)	**85**	(261)	
Financing income (expenses) from tax hedging of investments overseas and hedges of currency exposures of non-monetary items(2)	**115**	(148)	
Total effects not from regular activity	**463**	122	279.51%
Total income from regular financing activity(3)	**9,422**	9,756	(3.42%)

* Includes a loss from impairment of the investment in Bank Pozitif in the amount of NIS 30 million (2019: NIS 56 million).

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

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

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting.
Of which in respect of the effects of changes in the CPI: an expense in the amount of NIS 93 million in 2020, compared with income in the amount of NIS 21 million in 2019.

Income from regular financing activity totaled NIS 9,422 million in 2020, compared with a total of NIS 9,756 million in 2019. The decrease resulted from a decrease in financial spreads of deposits, mainly due to a decrease in the dollar and shekel interest rates, and from a decrease in income from linkage differentials, due to changes in the rate of the known CPI between the periods. The volume of consumer retail credit also decreased. However, income from the activity of the dealing room increased, due to an increase in the volume of transactions as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus, and the volume of housing credit increased.

Total reported financing income amounted to NIS 9,885 million in 2020, similar to the financing profit in 2019. On one hand, a decrease in profit occurred due to a decrease in income from regular financing activity, as noted above, and profit from investment in shares and bonds decreased. On the other hand, profit increased 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, as a result of a negative accrual fair value gap in 2019 due to a decrease in the long-term interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. A provision for impairment was also recorded at an affiliate in 2019.

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

	For the year ended			
	December 31, 2020		December 31, 2019	
	Interest income (expenses)	Rate of income (expense)	Interest income (expenses)	Rate of income (expense)
	NIS millions/percent			
Interest income	**10,260**	**2.28%**	11,920	2.93%
Interest expenses	**(1,463)**	**0.58%**	(2,601)	1.07%
Net interest income	**8,797**	**1.70%**	9,319	1.86%
Net interest income as a percentage of the balance of interest-bearing assets		**1.95%**		2.29%

Interest income, interest expenses, and net interest income decreased in 2020, compared with 2019.

The decrease resulted from a decrease in interest rates, due to a decrease in the dollar and shekel interest rates, and from a decrease in income from linkage differentials, due to changes in the rate of the known CPI between the periods. Interest income was also influenced by a change in the composition of credit, reflected in a decrease in the volume of retail consumer credit and an increase in the volume of housing credit.

The ratio of net interest income to the balance of interest-bearing assets decreased by 0.34% in 2020, compared with 2019, of which a decrease of 0.15% due to a decrease in net interest income, as noted above, and a decrease of 0.19% due to an increase in the average balance of interest-bearing assets, which mainly resulted from a sharp increase in liquid assets, due to an increase in resources from deposits of the public deposited with the Bank of Israel.

The provision for credit losses totaled NIS 1,943 million in 2020, compared with a total of NIS 1,276 million in 2019. Most of the increase in the provision for credit losses resulted from the effects of changes in the macroeconomic environment, due to the effects of the coronavirus crisis and the uncertainty caused by its effect on the condition of the economy and of borrowers. This increase is added to a provision in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the coronavirus outbreak), which included the impacts of the spread of the virus known at that time.

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

The net individual provision totaled NIS 8 million in 2020, compared with a provision in the amount of NIS 668 million in 2019. The decrease mainly resulted from a decrease in the gross individual provision, due to provisions in the amount of approximately NIS 0.6 billion recorded in the financial statements for 2019 following the outbreak of the coronavirus crisis.

The net collective provision totaled NIS 1,935 million in 2020, compared with a provision in the amount of NIS 608 million in 2019. The increase in the collective provision mainly resulted from an increase in allowance rates in the various sectors of the economy, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was mainly apparent in the economic sector of private individuals; the real-estate activity sector; the commerce sectors; and the hotels, hospitality, and food services sector. The increase in the net collective provision also resulted from an increase in the amount of approximately NIS 286 million in the provision for credit losses in respect of housing loans.

For further information regarding the development of balances of credit to the public, see the section "Structure and development of assets, liabilities, capital, and capital adequacy," below.

For further information regarding the change in the allowance for credit losses, see Note 29 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, 2020	December 31, 2019
	NIS millions	
Individual provision for credit losses	**928**	1,619
Decrease in individual allowance for credit losses and recovery of charged off debts	**(920)**	(951)
Net individual provision for credit losses	**8**	668
Net provision in respect of the collective allowance for credit losses and net charge-offs	**1,935**	608
Total provision (income) for credit losses*	**1,943**	1,276
* Of which:		
Net provision for credit losses in respect of commercial credit risk	**1,181**	1,055
Net provision for credit losses in respect of housing credit risk	**317**	31
Net provision for credit losses in respect of other private credit risk	**448**	191
Net income for credit losses in respect of risk of credit to banks and governments	**(3)**	(1)
Total provision for credit losses	**1,943**	1,276

	%	
Provision as a percentage of total credit to the public:		
Percentage of individual provision (income) for credit losses	**0.31%**	0.55%
Gross provision (income) for credit losses as a percentage of the average recorded balance of credit to the public***	**0.95%**	0.76%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**0.64%**	0.44%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.09%**	0.12%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**4.28%**	7.48%

** 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 3,291 million in 2020, compared with NIS 3,330 million in 2019. Income from fees totaled NIS 3,155 million in 2020, compared with NIS 3,240 million in 2019. Income from fees was influenced, among other factors, by the effects of the spread of the coronavirus, which led to a decrease in income from account management fees and in income from credit cards. By contrast, securities activity increased, mainly in the first quarter, as a result of the volatility in the capital markets and the increase in transaction turnovers.

Other income totaled NIS 136 million in 2020, compared with NIS 90 million in 2019. The increase resulted from capital gains from the sale of real estate.

Table 2-5: Details of fees and other income

	For the year ended		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Fees			
Account management fees	**772**	870	(11.3%)
Securities activity	**803**	698	15.0%
Credit cards, net	**257**	321	(19.9%)
Credit handling	**216**	222	(2.7%)
Financing transaction fees	**508**	479	6.1%
Other fees	**599**	650	(7.8%)
Total operating fees	**3,155**	3,240	(2.6%)
Total others	**136**	90	51.1%
Total operating income and other income	**3,291**	3,330	(1.2%)

Operating and other expenses totaled NIS 7,501 million in 2020, compared with NIS 8,776 million in 2019, a decrease in the amount of approximately NIS 1.3 billion. The decrease in expenses mainly resulted from exceptional expenses recorded in 2019 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, and from a decrease in salary expenses.

Table 2-6: Details of operating and other expenses

	For the year ended		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Wages	**3,836**	*4,108	(6.6%)
Maintenance and depreciation of buildings and equipment	**1,377**	1,334	3.2%
Other expenses	**2,288**	*3,334	(31.4%)
Total operating and other expenses	**7,501**	8,776	(14.5%)

* Reclassified.

Salary expenses totaled NIS 3,836 million in 2020, compared with NIS 4,108 million in 2019, a decrease in the amount of approximately NIS 272 million.

The decrease in salary expenses resulted from continued cost savings due to efficiency processes, and from a decrease in the amount of the bonus, due to the payment of a bonus to employees subject to the collective agreement in respect of the signing of the wage agreement in the preceding year, as well as from a large expense for equity compensation recorded in 2019, due to an increase in the share price of the Bank.

Up to this point, no material changes affecting salary expenses have been performed in employees' terms of employment and benefits, despite the spread of the coronavirus. Concurrently, in view of the effects of the spread of the coronavirus, the Bank decided to accelerate the implementation of the efficiency plan it reported on January 8, 2020. For further details, see Note 22H to the Financial Statements.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,377 million in 2020, compared with NIS 1,334 million in 2019, an increase in the amount of approximately NIS 43 million, which mainly resulted from impairment of software projects.

Other expenses totaled NIS 2,288 million in 2020, compared with NIS 3,334 million in 2019, a decrease in the amount of approximately NIS 1.0 billion. The decrease mainly resulted from exceptional expenses in 2019 in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and the related legal expenses, and from a decrease in marketing and advertising expenses.

The provision for taxes on profit from continued operations amounted to NIS 1,590 million in 2020, compared with a total of NIS 1,681 million in 2019.

The effective tax rate for the Bank reached 42.6% in 2020, compared with a statutory tax rate of 34.2% The provision for taxes of the Bank in 2020 was mainly affected by losses at subsidiaries for which no deferred taxes were included; taxes in respect of previous years, due to recovery of charged-off debts; and other unrecognized expenses.

Net profit (loss) from a discontinued operation amounted to a loss of NIS 109 million in 2020, compared with profit of NIS 296 million in 2019.

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

Non-controlling interests' share in net results of consolidated companies amounted to a loss of NIS 13 million in 2020, compared with a loss in the amount of NIS 17 million in 2019.

Net profit attributed to shareholders of the Bank totaled NIS 2,056 million in 2020, compared with a total of NIS 1,799 million in 2019.

Basic net earnings attributed to the shareholders of the Bank from continued operations per share of par value NIS 1 amounted to NIS 1.62 in 2020, compared with NIS 1.13 in 2019.

2.2.2. Developments in comprehensive income

Table 2-7: Comprehensive income

	For the year ended	
	December 31, 2020	December 31, 2019
	NIS millions	
Net profit before attribution to non-controlling interests	**2,043**	1,782
Net loss attributed to non-controlling interests	**13**	17
Net profit attributed to shareholders of the Bank	**2,056**	1,799
Other comprehensive income (loss) before taxes:		
Net adjustments in respect of bonds available for sale at fair value	**369**	581
Net adjustments from translation of financial statements,* after hedge effects	**(16)**	-
Adjustments of employee benefit liabilities**	**85**	(876)
Other comprehensive income (loss) before taxes	**438**	(295)
Effect of related tax	**(96)**	119
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**342**	(176)
Net of other comprehensive loss attributed to non-controlling interests	**1**	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**343**	(176)
Comprehensive income before attribution to non-controlling interests	**2,385**	1,606
Comprehensive loss attributed to non-controlling interests	**14**	17
Comprehensive income attributed to shareholders of the Bank	**2,399**	1,623

* 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.

Comprehensive income totaled NIS 2,399 million in 2020, compared with a total of NIS 1,623 million in 2019. Beyond the increase in net profit, comprehensive income was influenced by an increase in adjustments of employee benefit liabilities, due to a decrease in the shekel interest rate used to discount actuarial liabilities in 2019, and recognition of actuarial losses due to the declaration of an efficiency plan in the preceding year. By contrast, a decrease occurred in adjustments of bonds available for sale, mainly as a result of a more moderate increase in prices of government bonds, primarily due to the continued downward trend in the long-term dollar interest rate, compared with a more significant increase in bond values in 2019, as a result of a decrease in the long-term shekel interest rate.

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 2020:				
Costs in respect of wages and related expenses	**305**	**-**	**-**	**305**
Outsourcing costs, including consultants' fees	**117**	**-**	**-**	**117**
Costs of acquisitions or usage licenses[4]	**36**	**95**	**-**	**131**
Costs of equipment, buildings, and land	**-**	**-**	**30**	**30**
Total	**458**	**95**	**30**	**583**
Balances of assets[2] in respect of the information-technology system as at December 31, 2020				
Total depreciated cost	**1,426**	**346**	**58**	**1,830**
Of which: in respect of wages and related expenses	**741**	**-**	**-**	**741**
Expenses in respect of the information-technology system as included in the profit and loss statement in 2020:				
Expenses in respect of wages and related expenses	**432**	**115**	**-**	**547**
Expenses in respect of acquisitions or usage licenses not discounted to assets	**194**	**45**	**16**	**255**
Outsourcing expenses, including consultants' fees	**68**	**18**	**-**	**86**
Depreciation and amortization expenses	**320**	**82**	**18**	**420**
Other expenses	**70**	**19**	**[5]61**	**150**
Total expenses	**1,084**	**279**	**95**	**1,458**
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 and amortization expenses	220	92	17	329
Other expenses	71	19	[5]50	140
Total expenses	1,002	258	87	1,347

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 3 million (December 31, 2019: NIS 12 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 203 million (December 31, 2019: NIS 216 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 of the information-technology units, 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, 2020, totaled NIS 539.6 billion, compared with NIS 463.7 billion at the end of 2019. The increase mainly resulted from an increase in deposits from the public, due to the effects of the spread of the coronavirus, and customers' transition to conservative investment channels.

Table 2-9: Developments in principal balance sheet items

	Balance as at		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Total assets	**539,602**	463,688	16.4%
Net credit to the public	**301,828**	292,940	3.0%
Cash and deposits with banks	**138,711**	88,122	57.4%
Securities	**71,885**	59,486	20.8%
Investment constituting a discontinued operation*	**-**	849	(100.0%)
Deposits from the public	**435,217**	361,645	20.3%
Bonds and subordinated notes	**23,490**	26,853	(12.5%)
Shareholders' equity	**39,873**	38,181	4.4%

* From the second quarter of 2019 to March 9, 2020, when the remaining holding in Isracard shares was distributed as a dividend in kind, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an investment constituting a discontinued operation. For further details, see Note 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 credit to the public by management approach activity segment

	Balance as at December 31		Change
	2020	2019	
	NIS millions		
Private customers	**37,233**	41,456	(10.2%)
Small businesses	**31,371**	31,022	1.1%
Housing loans	**98,737**	89,331	10.5%
Commercial	**42,290**	40,138	5.4%
Corporate	**78,103**	77,310	1.0%
International activity	**12,521**	12,978	(3.5%)
Financial management	**1,573**	705	123.1%
Total	**301,828**	292,940	3.0%

For further information regarding the development of credit and credit risks by economic sector, see the chapter "Credit risk" in Section 3.2.3, "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, 2020			December 31, 2019		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**3,971**	**669**	**4,640**	4,442	861	5,303
Substandard credit risk[2]	**2,254**	**158**	**2,412**	1,476	270	1,746
Credit risk under special supervision	**4,405**	**781**	**5,186**	3,240	597	3,837
Total problematic credit risk*	**10,630**	**1,608**	**12,238**	9,158	1,728	10,886
Net problematic credit risk	**8,294**	**1,460**	**9,754**	7,144	1,643	8,787
* Of which, unimpaired debts in arrears of 90 days or more[2]	**728**	**-**	**728**	913	-	913

(1) Credit risk that is impaired, substandard, or under special supervision.
(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1D to the Financial Statements.

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

For further information regarding the analysis of the credit portfolio and problematic credit risk, including the scenarios and sensitivity analyses tested, see the section "Credit risk" in the chapter "Review of Risks," below.

Off-balance sheet credit

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

	Balance as at		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives			
Documentary credit	**828**	816	1.5%
Guarantees and other commitments*,**	**52,213**	51,134	2.1%
Unutilized credit-card credit facilities under the Bank's responsibility	**15,744**	15,640	0.7%
Unutilized revolving overdraft and other credit facilities in on-demand accounts*	**47,997**	44,695	7.4%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**71,776**	58,323	23.1%

* Includes off-balance sheet credit risk in the amount of approximately NIS 11,819 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 13,797 million).

** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 91 million (December 31, 2019: NIS 94 million).

Securities

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

Investments in securities totaled approximately NIS 71.9 billion as at December 31, 2020, compared with approximately NIS 59.5 billion at the end of 2019, an increase of approximately 20.8%, which mainly resulted from net purchases of government bonds, primarily of the government of Israel.

The volume of the share portfolio of the Bank increased by a total of approximately NIS 612 million in 2020, mainly due to an increase in non-tradable investments.

Profit in the amount of approximately NIS 70 million was recorded in respect of the share portfolio of the Bank in 2020. A loss in the amount of approximately NIS 122 million was recorded in the first quarter, due to a decrease in the market value of the shares in the capital market, as a result of the crisis of the spread of the coronavirus. The loss was offset by profit in the amount of approximately NIS 192 million in the following quarters, due to the recovery in the markets.

The Bank's portfolio of bonds available for sale posted gains in value in the amount of approximately NIS 525 million in 2020. A decrease in value of approximately NIS 583 million was recorded in the first quarter of 2020 (of which, a decrease in value of approximately NIS 434 million in foreign corporate and financial bonds). Later in the year, due to the market recovery, the value of the portfolio of bonds available for sale increased by a total of approximately NIS 1,108 million (of which, an increase in value of approximately NIS 601 million in foreign corporate and financial bonds, and an increase of approximately NIS 507 million in government bonds). The changes in the value of the portfolio of bonds available for sale were allocated to the capital reserve and are classified into profit and loss at the time of the 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, 2020								
Israeli government bonds	**6,213**	**8.6%**	**43,335**	**60.3%**	**1**	**0.0%**	**49,549**	**68.9%**
US government bonds	**-**	**-**	**9,168**	**12.8%**	**-**	**-**	**9,168**	**12.8%**
Government bonds – other foreign countries	**2**	**0.0%**	**1,394**	**1.9%**	**-**	**-**	**1,396**	**1.9%**
Total government bonds	**6,215**	**8.6%**	**53,897**	**75.0%**	**1**	**0.0%**	**60,113**	**84.0%**
Corporate bonds – Israel	**-**	**-**	**-**	**-**	**425**	**0.6%**	**425**	**0.6%**
Corporate bonds – foreign countries	**-**	**-**	**8,962**	**12.5%**	**-**	**-**	**8,962**	**12.5%**
Total corporate bonds	**-**	**-**	**8,962**	**12.5%**	**425**	**0.6%**	**9,387**	**13.1%**
Shares	**-**	**-**	**2,385**	**3.3%**	**-**	**-**	**2,385**	**3.3%**
Total securities	**6,215**	**8.6%**	**65,244**	**90.8%**	**426**	**0.6%**	**71,885**	**100.0%**
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%

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

	December 31, 2020		December 31, 2019	
	Balance sheet value	Percentage of total corporate bonds	Balance sheet value	Percentage of total corporate bonds
	NIS millions		NIS millions	
Mining and quarrying	**676**	**7.2%**	540	5.6%
Industry	**1,205**	**12.8%**	700	7.3%
Electricity and water	**404**	**4.3%**	387	4.0%
Information and communications	**497**	**5.3%**	313	3.3%
Banks and financial institutions	**5,483**	**58.5%**	7,129	74.4%
Commerce	**406**	**4.3%**	259	2.7%
Transportation and storage	**340**	**3.6%**	-	-
Others	**376**	**4.0%**	255	2.7%
Total corporate bonds	**9,387**	**100.0%**	9,583	100.0%

For further details regarding amounts measured at fair value, see Note 32B to the Financial Statements.

For details regarding unrealized loss from adjustments to fair value in respect of bonds 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, 2020	December 31, 2019	
	NIS millions		
Deposits from the public	**435,217**	361,645	20.34%
Deposits from banks	**6,591**	3,520	87.24%
Deposits from the government	**761**	685	11.09%
Total	**442,569**	365,850	20.97%

The balance of deposits totaled approximately NIS 442.6 billion as at December 31, 2020, compared with a total of approximately NIS 365.9 billion at the end of 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

Off-balance sheet activity in securities held by the public

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

	Balance as at		Change
	December 31, 2020	December 31, 2019	
	NIS millions		
Securities[1]	**646,484**	723,227	(10.61%)
Mutual fund assets[2]	**76,500**	92,980	(17.72%)

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.
(2) Value of assets of mutual funds receiving services related to account management at various volumes.

Most of the decrease in securities resulted from market declines and from customer redemptions in mutual, provident, and pension funds, mainly due to the effects of the spread of the coronavirus, and from the reduction of activity of a wholly-owned subsidiary of the Bank and the transfer of its remaining activity to the Bank. For additional details, see the section, "Segments of activity based on management approach" in the Corporate Governance Report.

Bonds and subordinated notes totaled NIS 23.5 billion as at December 31, 2020, compared with NIS 26.9 billion at the end of 2019, a decrease of approximately 12.5%, which resulted from maturities of bonds and subordinated notes in a total amount of approximately NIS 5.2 billion, offset by the issuance of subordinated notes in the amount of approximately NIS 1.8 billion and the issuance of bonds in the amount of approximately NIS 0.6 billion.

Table 2-17: Details of bonds and subordinated notes

	December 31, 2020		December 31, 2019	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	**11,651**	**10,029**	12,818	11,066
Bonds	**11,839**	**11,826**	14,035	13,861
Total bonds and subordinated notes	**23,490**	**21,855**	26,853	24,927

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

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

In August 2020, the Bank issued a series of CPI-linked subordinated notes (Series E), bearing annual interest at a rate of 2.97%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2031 (with the option of early maturity, at the initiative of the Bank and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through forced conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

In August 2020, the Bank issued bonds (Series 36) to the public through Hapoalim Hanpakot, via expansion of a traded series, linked to the consumer price index (principal and interest), with principal in a total amount of approximately NIS 574 million, in consideration for a total of approximately NIS 631 million. The bond principal matures in eleven annual payments, on December 2 of each of the years from 2020 to 2030 (inclusive). The bonds bear annual interest at a fixed rate of 1.75%.

Table 2-18: Derivative instruments

	December 31, 2020			December 31, 2019		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**6,025**	**7,180**	**351,385**	6,375	7,105	532,142
Currency contracts	**6,894**	**7,703**	**322,152**	3,762	3,982	312,037
Share-related contracts	**1,925**	**1,914**	**91,017**	991	991	51,920
Commodity and service contracts (including credit derivatives)	**46**	**45**	**407**	15	15	1,667
Total	**14,890**	***16,842**	**764,961**	11,143	*12,093	897,766

* Of which: net fair value of liabilities in respect of embedded derivatives in the amount of NIS 38 million (December 31, 2019: NIS 43 million), included in the balance sheet in the item "deposits from the public."

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, 2020, is NIS 1,335,898,103 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital excluding 1,479,008 ordinary shares purchased by the Bank ("Treasury Shares").

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional details regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see the section "Other matters" in the Corporate Governance Report in the Annual Financial Statements for 2018.

Dividends

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

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

For details regarding the capital-adequacy target of the Bank, see the section "Capital adequacy," below.

Pursuant to the terms of the subordinated notes, if interest payments in respect of these notes are deferred, the Bank shall not pay dividends to its shareholders until all of the deferred interest payments are paid in full.

In light of the uncertainty with respect to the investigation of the United States authorities that existed prior to the approval of the resolutions (see Note 25D to the Financial Statements), for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See also Note 24 to the Annual Financial Statements for 2019.

As a result of the sale of approximately 65.2% of the shares of Isracard in the second quarter of 2019, the Bank accumulated additional capital surplus. In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019. The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

In view of the notification of the Supervisor of Banks of March 29, 2020, and the temporary order established (see Section 2 concerning capital adequacy, below) in connection with the spread of the coronavirus, the Board of Directors of the Bank resolved, on March 31, 2020, that in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the directives and policy of the Banking Supervision Department, until the end of the period of the temporary order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

Table 2-19: Details of dividends paid

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

* Distribution of the remaining holdings of the Bank in Isracard (approximately 33%) as a dividend in kind. Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank. The dividend per share was calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91).

** As noted, paid as a dividend in kind, in shares. The amount stated 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.

These 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 the forth internal processes (the ICAAP – Internal Capital Adequacy Assessment Process) 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 performed by the Banking Supervision Department.

- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

Basel 3 directives

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

Capital-adequacy target and capital management and planning

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months, until March 31, 2021. The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order, provided that the capital ratios of the banking corporation do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower. On March 7, 2021, the Banking Supervision Department issued a draft circular extending the period of validity of the Temporary Order until September 30, 2021, and stating that in the six-month period from the end of the period of validity of the Temporary Order, a reduction in capital ratios of up to 0.3 percentage points relative to the minimum capital ratio shall not be considered a breach of the Temporary Order.
A capital requirement was added to the minimum capital ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio of the Bank (which is a banking corporation of significant importance) required by the Banking Supervision Department, on a consolidated basis, as at December 31, 2020, and for the duration of the period of the Temporary Order, stand at 9.24% and 12.74%, respectively (instead of 10.29% and 13.79% without the Temporary Order).

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

The common equity Tier 1 capital target established by the Bank takes into consideration, among other matters, the results of the internal processes of the Bank for determining capital targets, including the results of internal stress tests run by the Bank, and the outcomes of discussions held with the Banking Supervision Department regarding the specific risk attributes of the Bank, within the most recent supervisory review process and the most recent uniform stress tests performed.

In order to comply with the capital-adequacy target and manage capital effectively, capital planning is performed at the Bank 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.

For further details regarding the capital-adequacy target, capital management, and stress scenarios, see the Report on Risks.

Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.

Since the reliefs were granted, the Bank has announced personnel efficiency plans at a total volume of NIS 1,114 million, net of tax effect.

The effect of the aforesaid plans was allocated to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.

The effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.14% as at December 31, 2020.

With respect to real-estate efficiency, the Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments. Within this process, the Bank is conducting talks for the acquisition of a suitable property, and is negotiations with an entrepreneur establishing one of the alternatives.

The transition, if performed, would enable the Bank to vacate properties it presently uses for these units. For details, see the section "Fixed assets," in the Corporate Governance Report.

Issuance of subordinated notes with a loss-absorption mechanism

In May 2020, the Bank issued a series of subordinated notes with a mechanism for principal loss absorption via write-off of principal, through Hapoalim Hanpakot, in the amount of approximately NIS 1.06 billion, which constitute part of the Tier 2 capital of the Bank.

In August 2020, the Bank issued a series of subordinated notes with a mechanism for principal loss absorption via conversion into shares, in the amount of approximately NIS 0.7 billion, which constitute part of the Tier 2 capital of the Bank. For details regarding the issues, see Note 24K to the Financial Statements.

Early redemption of capital notes in **Tier 2 capital**

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

The subsidiary of the Bank in Turkey

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

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

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

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at December 31, 2020, is an additional decrease of approximately 0.04%.

In June 2020 (and again in November 2020), the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif (see the section “Principal companies,” below), in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 161 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer. The deal is subject to the receipt of regulatory approvals, in Turkey and in Israel, by June 30, 2021. For additional information, see the section “Principal companies,” below.

Guarantees with reduced conversion factors

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

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

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

The Bank implemented the circular in its report for December 31, 2020. The effect of the implementation is an increase of approximately 0.01% in the common equity Tier 1 capital ratio and an increase of approximately 0.02% in the total capital ratio.

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

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

The Bank is preparing to implement this directive; at this stage, it is not possible to estimate its effect. For further details, see Note 1F to the Financial Statements.

Implementation of external credit ratings

In February 2021, the Board of Directors and Board of Management of the Bank approved a transition, beginning in the first quarter of 2021, to the use of a single rater for capital-adequacy measurement purposes (as permitted by the directives), instead of the Bank's previous practice of using the lower of the ratings of two raters. The rating agency to remain in use is S&P (Standard & Poor's). Until that time, the Bank also used the services of Moody's. The effect of the transition to a single rater, based on data for December 31, 2020, is an increase of approximately 0.12% in the common equity Tier 1 capital ratio and an increase of approximately 0.16% in the total capital ratio.

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

	December 31, 2020	December 31, 2019
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital[(1)]	**40,070**	38,795
Additional Tier 1 capital	**488**	733
Total Tier 1 capital[(1)]	**40,558**	39,528
Tier 2 capital	**10,221**	9,707
Total overall capital[(1)]	**50,779**	49,235
2. Weighted balances of risk-adjusted assets		
Credit risk[(2)]	**321,149**	309,303
Market risks	**3,447**	3,528
Operational risk	**23,166**	23,556
Total weighted balances of risk-adjusted assets[(2)]	**347,762**	336,387
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components	**11.52%**	11.53%
Ratio of Tier 1 capital to risk components	**11.66%**	11.75%
Ratio of total capital to risk components	**14.60%**	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department[(3)]	**9.24%**	10.27%
Minimum total capital ratio required by the Banking Supervision Department[(3)]	**12.74%**	13.77%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see Note 24J to the Financial Statements.

(2) A total of NIS 578 million as at December 31, 2020, and NIS 883 million as at December 31, 2019, 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 required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see above in this section). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

(3) Leverage ratio

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

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

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations will maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) shall maintain a leverage ratio of no less than 5.5% (instead of 6%). Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order. On March 7, 2021, the Banking Supervision Department issued a draft circular extending the period of validity of the Temporary Order until September 30, 2021.

Table 2-21: Leverage ratio

	December 31, 2020	December 31, 2019
	NIS millions	
Consolidated data		
Tier 1 capital*	**40,558**	39,528
Total exposures*	**597,837**	519,648
	%	
Leverage ratio	**6.78%**	7.61%
Minimum leverage ratio required by the Banking Supervision Department**	**5.50%**	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, 2020, estimated at approximately 0.08%, is allocated in equal parts over five years, beginning at the inception date thereof.

** Pursuant to the circular of the Banking Supervision Department, the minimum leverage ratio is 5.5% during the period of the Temporary Order. For further details, see the section "Leverage ratio," above.

The decrease in the leverage ratio as at December 31, 2020, mainly resulted from an increase in the volume of the balance sheet, which was reflected in an increase in deposits from the public, and by contrast, an increase in the item of cash and deposits with banks; thus, the decrease mainly stemmed from an increase in liquidity, which does not reflect leverage of credit exposures.

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, 2020										
	Activity in Israel									Activity overseas	Total
	Households[(1)]	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	**3,017**	**76**	**2,028**	**769**	**1,186**	**117**	**2,239**	**1**	**9,433**	**452**	**9,885**
Fees and other income	**1,210**	**146**	**818**	**271**	**416**	**91**	**121**	**183**	**3,256**	**35**	**3,291**
Total income	**4,227**	**222**	**2,846**	**1,040**	**1,602**	**208**	**2,360**	**184**	**12,689**	**487**	**13,176**
Provision (income) for credit losses	**763**	**2**	**602**	**108**	**338**	**4**	**(3)**	**-**	**1,814**	**129**	**1,943**
Operating and other expenses	**3,457**	**171**	**1,686**	**365**	**503**	**165**	**352**	**187**	**6,886**	**615**	**7,501**
Profit (loss) from continued operations before taxes	**7**	**49**	**558**	**567**	**761**	**39**	**2,011**	**(3)**	**3,989**	**(257)**	**3,732**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**3**	**18**	**213**	**234**	**315**	**20**	**799**	**13**	**1,615**	**(25)**	**1,590**
Net profit (loss) from continued operations	**4**	**31**	**345**	**333**	**446**	**19**	**1,222**	**(16)**	**2,384**	**(232)**	**2,152**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**(109)**	**-**	**(109)**
Net profit (loss) attributed to shareholders of the Bank	**4**	**31**	**345**	**333**	**446**	**19**	**1,231**	**(125)**	**2,284**	**(228)**	**2,056**
Balance of gross credit to the public at the end of the reported period	**132,753**	**626**	**54,614**	**30,866**	**71,118**	**3,935**	**-**	**-**	**293,912**	**14,061**	**307,973**
Balance of deposits from the public at the end of the reported period	**156,024**	**33,941**	**79,370**	**27,540**	**56,036**	**64,109**	**-**	**-**	**417,020**	**18,197**	**435,217**

(1) Includes housing loans in the amount of NIS 17.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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

	For the year ended December 31, 2019*										
	Activity in Israel									Activity overseas	Total
	Households[(1)]	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	3,562	176	1,689	382	481	174	344	849	7,657	1,119	8,776
Profit (loss) from continued operations before taxes	891	134	1,103	724	405	20	1,324	(713)	3,888	(732)	3,156
Provision for taxes (tax benefit) on profit (loss) from continued operations	332	49	411	276	153	14	476	(7)	1,704	(23)	1,681
Net profit (loss) from continued operations	559	85	692	448	252	6	859	(706)	2,195	(709)	1,486
Net profit from a discontinued operation	-	-	-	-	-	-	-	296	296	-	296
Net profit (loss) attributed to shareholders of the Bank	559	85	692	448	252	6	866	(410)	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	67,919	1,199	-	-	282,018	15,629	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

* Reclassified. For additional information, see the explanation in Note 28 to the Financial Statements.

(1) Includes housing loans in the amount of NIS 13.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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 4 million in 2020, compared with net profit in the amount of NIS 559 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and a decrease in net financing profit.

Net financing profit totaled NIS 3,017 million in 2020, compared with NIS 3,361 million in the preceding year. The decrease resulted from a decrease in consumer credit balances and spreads, alongside a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates. By contrast, an increase occurred as a result of an increase in the volume of housing credit and the continued increase in the average spread.

Fees and other income totaled NIS 1,210 million in 2020, compared with NIS 1,316 million in the preceding year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in capital-market fees.

The provision for credit losses totaled NIS 763 million in 2020, compared with NIS 224 million in the preceding year. Most of the increase resulted from an increase in the collective allowance, including in respect of housing loans, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was partly offset by a decrease in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 3,457 million in 2020, compared with NIS 3,562 million in the preceding year. The decrease mainly resulted from a decrease in salary expenses, as a result of continued cost savings due to efficiency processes, and from a decrease in the amount of the bonus, due to the payment of a bonus to employees in respect of the signing of the wage agreement in the preceding year, as well as from a large expense for equity compensation recorded in 2019, due to an increase in the share price of the Bank.

Credit to the public totaled approximately NIS 133 billion as at December 31, 2020, compared with approximately NIS 128 billion as at December 31, 2019. The increase in credit balances resulted from an increase in the amount of approximately NIS 10 billion in housing credit balances. This increase was offset by a decrease in the amount of approximately NIS 4 billion in consumer credit balances.

Deposits from the public totaled approximately NIS 156.0 billion as at December 31, 2020, compared with approximately NIS 134.4 billion as at December 31, 2019. The substantial increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus, and from an increase in savings of the public.

Private Banking Segment

Net profit attributed to shareholders of the Bank in the Private Banking Segment totaled NIS 31 million in 2020, compared with net profit in the amount of NIS 85 million in the preceding year. The decrease mainly resulted from a decrease in net financing profit.

Net financing profit totaled NIS 76 million in 2020, compared with NIS 172 million in the preceding year. The decrease mainly resulted from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Fees and other income totaled NIS 146 million in 2020, compared with NIS 138 million in the preceding year. The increase mainly resulted from an increase in capital-market fees.

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

Deposits from the public totaled approximately NIS 33.9 billion as at December 31, 2020, compared with approximately NIS 31.2 billion as at December 31, 2019.

Small Business and Microbusiness Segment

Net profit attributed to shareholders of the Bank in the Small Business and Microbusiness Segment totaled NIS 345 million in 2020, compared with NIS 692 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses and from a decrease in net financing profit.

Net financing profit totaled NIS 2,028 million in 2020, compared with NIS 2,268 million in the preceding year. The decrease mainly resulted from a decrease in credit balances and spreads, and from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Fees and other income totaled NIS 818 million in 2020, compared with NIS 824 million in the preceding year. The decrease mainly resulted from a decrease in account-management fees, partly offset by an increase in capital-market fees.

The provision for credit losses totaled NIS 602 million in 2020, compared with NIS 300 million in the preceding year. Most of the increase resulted from an increase in the collective allowance, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was partly offset by a decrease in automatic charge-offs.

Credit to the public totaled approximately NIS 54.6 billion as at December 31, 2020, compared with approximately NIS 54.8 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 79.4 billion as at December 31, 2020, compared with approximately NIS 61.5 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

Mid-sized Business Segment

Net profit attributed to shareholders of the Bank in the Mid-sized Business Segment totaled NIS 333 million in 2020, compared with NIS 448 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 769 million in 2020, compared with NIS 783 million in the preceding year. The decrease mainly resulted from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

The provision for credit losses totaled NIS 108 million in 2020, compared with income in the amount of NIS 48 million in the preceding year. Most of the increase resulted from an increase in the collective allowance, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 365 million in 2020, compared with NIS 382 million in the preceding year. The decrease mainly resulted from a decrease in salary expenses, as a result of continued cost savings due to efficiency processes, and from a decrease in the amount of the bonus, due to the payment of a bonus to employees in respect of the signing of the wage agreement in the preceding year, as well as from a large expense for equity compensation recorded in 2019, due to an increase in the share price of the Bank.

Credit to the public totaled approximately NIS 30.9 billion as at December 31, 2020, compared with approximately NIS 29.6 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 27.5 billion as at December 31, 2020, compared with approximately NIS 24.5 billion as at December 31, 2019.

Large Business Segment

Net profit attributed to shareholders of the Bank in the Large Business Segment totaled NIS 446 million in 2020, compared with NIS 252 million in the preceding year. The increase mainly resulted from a decrease in the provision for credit losses, due to individual allowances recorded in 2019 following the outbreak of the coronavirus crisis, along with an increase in net financing profit and in income from fees.

Net financing profit totaled NIS 1,186 million in 2020, compared with NIS 1,129 million in the preceding year. The increase resulted from an increase the volume of credit and from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the markets.

Fees and other income totaled NIS 416 million in 2020, compared with NIS 387 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions and in capital-market fees.

The provision for credit losses totaled NIS 338 million in 2020, compared with a provision in the amount of NIS 630 million in the preceding year. The change resulted from an increase in the collective allowance, offset by a decrease in provisions recorded on an individual basis.

Credit to the public totaled approximately NIS 71.1 billion as at December 31, 2020, compared with approximately NIS 67.9 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 56.0 billion as at December 31, 2020, compared with approximately NIS 45.0 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

Institutional Entity Segment

Net profit attributed to shareholders of the Bank in the Institutional Entity Segment totaled NIS 19 million in 2020, compared with NIS 6 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 117 million in 2020, compared with NIS 100 million in the preceding year. The increase resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market, partly offset by a decrease in financial spreads of deposits, as a result of the decrease in the dollar and shekel interest rates.

Credit to the public totaled approximately NIS 3.9 billion as at December 31, 2020, compared with approximately NIS 1.2 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 64.1 billion as at December 31, 2020, compared with approximately NIS 48.8 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

Financial Management Segment

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 1,231 million in 2020, compared with NIS 866 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit totaled NIS 2,239 million in 2020, compared with NIS 1,559 million in the preceding year. The increase resulted from a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, as a result of a negative accrual fair value gap in 2019 due to a decrease in the long-term interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. Income from the activity of the dealing room also increased, due to an increase in the volume of transactions, as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus. By contrast, profits from investment in shares and bonds decreased. In addition, income from linkage differentials decreased due to changes in the rate of the known CPI between the periods.

Fees and other income totaled NIS 121 million in 2020, compared with NIS 108 million in the preceding year. The increase mainly resulted from an increase in syndication fees.

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

Other Segment (activity in Israel)

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 125 million in 2020, compared with a loss in the amount of NIS 410 million in the preceding year.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 16 million in 2020, compared with a loss in the amount of NIS 706 million in the preceding year. The decrease in loss mainly resulted from exceptional expenses in 2019 in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and the related legal expenses, and from an increase in capital gains from the sale of real estate.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in 2020, compared with profit in the amount of approximately NIS 296 million in the preceding year. The loss from a discontinued operation in 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders in March 2020. The Bank's share in the profits of the Isracard Group and in net profit from the sale of approximately 65% of the shares of Isracard in the second quarter of 2019, in the amount of NIS 137 million, were included in 2019.

International Activity Segment

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 228 million in 2020, compared with a loss in the amount of NIS 699 million in the preceding year. The decrease in loss mainly resulted from exceptional expenses in 2019 in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and the related legal expenses.

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

- The loss of the New York branch totaled approximately NIS 27 million in 2020, compared with a loss of approximately NIS 3 million in the preceding year. The increase in loss mainly resulted from a decrease in net financing profit, due to the reduction of the Federal Reserve interest rate. The loss was offset by a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and by a decrease in the associated legal expenses.
- The loss of Hapoalim Switzerland totaled approximately NIS 210 million in 2020, compared with a loss in the amount of approximately NIS 622 million in the preceding year. The decrease in loss resulted from a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and a decrease in the associated legal expenses. In addition, a loss was recorded in 2019 in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.
- In 2020, a loss from impairment in the amount of NIS 30 million was recognized, and the Bank stated the amount of its investment in Bank Pozitif at a total of NIS 3 million. In 2019, loss from impairment in the amount of approximately NIS 56 million was recognized.

Total credit to the public in international activity amounted to approximately NIS 14.1 billion as at December 31, 2020, compared with approximately NIS 15.6 billion as at December 31, 2019. The decrease mainly resulted from the transfer of most of the existing credit portfolio of Banque Hapoalim Luxembourg to Israel.

- Credit to the public at the New York branch totaled approximately NIS 13.6 billion as at December 31, 2020, compared with NIS 13.7 billion as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11.4 billion, of which a total of approximately NIS 5.0 billion in respect of syndication transactions, compared with approximately NIS 11.2 billion as at December 31, 2019, of which a total of approximately NIS 4.8 billion in respect of syndication transactions.
- As at December 31, 2020, balances of credit to the public in the amount of approximately NIS 0.1 billion remained at Banque Hapoalim Luxembourg, compared with approximately NIS 1.4 billion as at December 31, 2019, following the transfer of most of the existing credit portfolio to Israel.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.4 billion as at December 31, 2020, similar to December 31, 2019.

Total deposits from the public in international activity amounted to approximately NIS 18.2 billion as at December 31, 2020, compared with approximately NIS 16.2 billion as at December 31, 2019.
Most of the deposits from the public in international activity as at December 31, 2020, originated with the New York branch, and totaled approximately NIS 18.2 billion, compared with approximately NIS 16.1 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 7.3 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 10.9 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

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

The Bank Group operates in Israel and abroad, and provides a wide range of banking and financial services to its customers. The division into segments of activity according to the management approach is based on types of products and services, or on types of customers and their assignments 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. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results.
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, 2020								
	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	**2,255**	**1,368**	**993**	**1,110**	**1,539**	**408**	**2,202**	**10**	**9,885**
Fees and other income	**1,432**	**550**	**57**	**392**	**519**	**52**	**120**	**169**	**3,291**
Total income	**3,687**	**1,918**	**1,050**	**1,502**	**2,058**	**460**	**2,322**	**179**	**13,176**
Provision for credit losses	**505**	**397**	**317**	**297**	**295**	**129**	**3**	**-**	**1,943**
Operating and other expenses	**3,607**	**1,232**	**303**	**495**	**620**	**622**	**436**	**186**	**7,501**
Profit (loss) from continued operations before taxes	**(425)**	**289**	**430**	**710**	**1,143**	**(291)**	**1,883**	**(7)**	**3,732**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**(145)**	**107**	**160**	**281**	**451**	**(37)**	**752**	**21**	**1,590**
Net profit (loss) from continued operations	**(280)**	**182**	**270**	**429**	**692**	**(254)**	**1,141**	**(28)**	**2,152**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**(109)**
Net profit (loss) attributed to shareholders of the Bank	**(280)**	**182**	**270**	**429**	**692**	**(250)**	**1,150**	**(137)**	**2,056**
Net credit to the public at the end of the reported period	**37,233**	**31,371**	**98,737**	**42,290**	**78,103**	**12,521**	**1,573**	**-**	**301,828**
Deposits from the public at the end of the reported period	**218,490**	**56,303**	**-**	**35,499**	**59,981**	**17,701**	**47,243**	**-**	**435,217**

(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, 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	1,557	15	9,878
Fees and other income	1,500	580	60	370	496	72	137	115	3,330
Total income	4,333	2,192	898	1,471	1,967	523	1,694	130	13,208
Provision (income) for credit losses	220	299	13	89	588	68	(1)	-	1,276
Operating and other expenses	3,688	1,239	293	512	611	1,124	466	843	8,776
Profit (loss) from continued operations before taxes	425	654	592	870	768	(669)	1,229	(713)	3,156
Provision for taxes (tax benefit) on profit (loss) from continued operations	161	249	223	331	298	(2)	428	(7)	1,681
Net profit (loss) from continued operations	264	405	369	539	470	(667)	812	(706)	1,486
Net profit from a discontinued operation	-	-	-	-	-	-	-	296	296
Net profit (loss) attributed to shareholders of the Bank	264	405	369	539	470	(657)	819	(410)	1,799
Net credit to the public at the end of the reported period	41,456	31,022	89,331	40,138	77,310	12,978	705	-	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

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

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. Companies in Israel

Poalim Capital Markets Group

The Poalim Capital Markets Group (hereinafter: "Poalim Capital Markets") serves as the non-financial investment arm of the Bank, operating in two main areas:

- Direct equity and quasi-equity investments (including mezzanine) in companies, and investments and ventures in private investment funds. The investment policy of Poalim Capital Markets is consistent with the restrictions of the Banking (Licensing) Law, and therefore includes, among other matters, minority interests only (up to 20% in any means of control). Poalim Capital Markets invests in various sectors, including, among others, utilities, renewable energy, industry, real estate, technology, and fintech.
- Investment banking in Israel and overseas; within this activity, Poalim Capital Markets provides a range of services including financial and strategic consulting for mergers and acquisitions, guidance for companies in various investments in Israel and overseas, and consulting on public and private capital offerings overseas. Poalim Capital Markets also holds Poalim IBI (at a holding rate of approximately 28.4%), which provides consulting, underwriting, and management services for public offerings in Israel and for capital raising through private offerings.

During the year, the Bank increased the scope of investments executed at Poalim Capital Markets, within a multi-year trajectory for investments through 2023 approved by the Board of Directors of the Bank.

The contribution of Poalim Capital Markets to the results of operations of the Bank in 2020 amounted to profit in the amount of NIS 45 million, similar to the profit in 2019.

The Bank's investment in Poalim Capital Markets totaled NIS 1,498 million as at December 31, 2020, compared with NIS 997 million at the end of 2019.

Return of net profit on investment of the Poalim Capital Markets Group reached NIS 3.61% in 2020, in annualized terms, compared with 4.62% in 2019.

Isracard Group

On March 9, 2020, the Bank distributed its remaining holdings in shares of Isracard (33%) as a dividend in kind to the shareholders of the Bank. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

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

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

For details 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 details regarding VAT assessments for Isracard 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. In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland. At present, there are no remaining customer accounts at Hapoalim Switzerland. The Bank is acting to return the banking license.

The loss of Hapoalim Switzerland totaled CHF 51 million in 2020, compared with a loss in the amount of CHF 191 million in 2019.

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

For details regarding the conclusion of 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.

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

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer.

The deal is subject to the receipt of regulatory approvals, in Turkey and in Israel, by June 30, 2021. The Bank, without the minority shareholder, is responsible for the business representations to the buyer. Subject to completion of the transaction, an agreement has been reached with the minority shareholder regarding mutual waiving by both parties of arguments towards one another.

Subject to completion of the transaction, taking into consideration the depreciated value of the investment in the books of the Bank and the exchange rate of Turkish currency at this time, the Bank is expected to record profit of approximately NIS 40 million at the completion of the transaction (no tax payment is expected). At this time, there is no certainty that the approvals required for the sale will be received, and there is no certainty that the transaction will be completed, or regarding the profit to be recorded, also taking into consideration the economic situation in Turkey and the circumstances of Bank Pozitif.

For details regarding the instructions of the Bank of Israel to raise the weighting rates of risk-adjusted assets and regarding the deduction of the credit line facility from supervisory capital, see the section "Capital and capital adequacy," above.

The balance of credit to the public totaled TRY 700 million (approximately NIS 302 million) as at December 31, 2020, compared with a balance of TRY 641 million (approximately NIS 372 million) at the end of 2019.

The business results of the Bank Pozitif Group in 2020 amounted to a loss of approximately TRY 36 million, compared with loss in the amount of approximately TRY 7 million in 2019.

The Bank's total investment in Bank Pozitif as at December 31, 2020, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 99 million (NIS 3 million in capital and NIS 96 million in credit lines granted to Bank Pozitif, which are expected to be repaid within the completion of the transaction), compared with approximately NIS 154 million (NIS 33 million in capital and NIS 121 million in loans, as noted) at the end of 2019.

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

3. Review of risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed in Section 1.1 above.
Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2020, hereinafter the "Report on Risks."

3.1. General description of risks and risk management

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

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, the Committee for Monitoring the Implementation of the Resolutions with the United States Authorities, 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, Ms. D. Raviv.
The member of the Board of Management responsible for managing market, investment, and liquidity risks is the Head of Financial Markets and International Banking, Mr. Y. Antebi.
Legal risk is managed by Attorney Y. Almog, Chief Legal Advisor.
Technological risk, including cyber risk, is managed by Ms. E. Ben-Zeev, Head of Information Technology.
Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

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, establishment of control mechanisms, 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 according to need.

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 further details in this section and in the Report on Risks.

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.

3.2. 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.

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

Effect of the crisis of the spread of the coronavirus

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

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

Within the preparations of the Bank for the outcomes of the coronavirus crisis, and in order to assess its possible effects, various internal scenarios are examined with regard to the progression of a series of economic parameters, which are used by the Bank to estimate the effects on the Bank. In particular, the Bank examines the potential impacts of the crisis on the credit portfolio, also as a supporting tool for examination of the adequacy of credit losses. It is emphasized that such scenarios are applied using different approaches practiced at each bank, which depend on the risk-management methods and internal approach of the banking corporation; different banking corporations may therefore arrive at estimates that vary, sometimes materially, according to the different scenarios applied by each banking corporation, based on its approach, and estimates may vary among banking corporations even given the same set of assumptions. In the baseline scenario used by the Bank to challenge the collective allowance, the Bank assumes that routine economic activity does not resume until the second quarter of 2021 at the earliest. Following 2.4% GDP contraction in 2020, growth recovers gradually in 2021, to an annual rate of 3.5%.

The unemployment rate (using a broad definition including unpaid leave) stands at 14% in the first quarter of 2021, and falls to 10% in the second half of 2021. Housing prices rise moderately in 2021. The Bank of Israel interest rate remains at 0.1% in the coming four quarters in this scenario. The collective allowance, which totals approximately NIS 5.4 billion at the date of the financial statements, serves as a safety cushion against the possible future materialization of individual credit losses and automatic charge-offs, i.e. recognition of higher credit losses, by increasing the collective allowance against possible future materialization of individual losses and automatic charge-offs. According to the scenario prepared by the Bank, if the data of the scenario materialize, and if the effect of the data in the scenario on portfolio quality is as predicted by the models and assumptions applied, the level of possible credit losses of the Bank in the coming year may, at a non-negligible degree of probability, decrease by NIS 0.5 billion, or increase by NIS 0.6 billion, relative to the provision for credit losses forecast for the coming year in the baseline scenario.

It is emphasized that given the high uncertainty, reflected in volatility of the economic parameters used in the calculation, and in light of the difficulty of fully identifying the credit losses, due to factors including the deferral of borrowers' payments, as described above, the prediction of credit losses in the midst of the crisis is the outcome of assumptions and evaluations, the reasonableness of which is extremely difficult to determine at this stage. Significant factors include the extent of deferral of payments due to the coronavirus crisis, and examination of the degree to which borrowers resume the original payment schedules after the end of such deferral.

The main parameters included in the scenario which the Bank estimates will influence the level of expected credit losses, and which are subject to significant uncertainty, are the unemployment rate and the GDP growth rate. Future actions by the government also affect the estimate of expected credit losses; to the extent that government assistance is granted to businesses and to private individuals, credit losses are expected to decrease further. These estimates and scenarios are continuously updated based on various forecasts, the economic plans of the government, and events in Israel and worldwide.

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

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

3.2.1. 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 quantification and measurement 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 provided 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.

3.2.2. Analysis of credit quality and problematic credit risk

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

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

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

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

With regard to the establishment of the state of arrears, debts that were not previously in arrears and are granted a deferral due to the crisis of the spread of the coronavirus are not classified as debts in arrears as a result of the deferral. When deferral of payments is performed for debts that were in arrears prior to the deferral, the state of arrears should be frozen during the period of deferral of payments, except if the debt has been classified as impaired or charged off. It is possible that without the suspension of the count of days of arrears with respect to deferred payments, as noted above, the balance of debts in arrears would be higher.

The deferral of payments, as noted above, for loans that were not in arrears of thirty days or more at the date of deferral of the payments, does not require the loans to be classified as debts in troubled debt restructuring.

With regard to housing loans, on September 29, 2020 and October 11, 2020, additional instructions were issued regarding housing loans that were not in arrears, due to the coronavirus event; in general, the deferral does not require the housing loans to be classified as debts in troubled debt restructuring, even if the cumulative deferral exceeds six months.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1D to the Financial Statements.

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

Details are presented below regarding the balance of debts the terms of which were changed beginning in March 2020, as part of the measures to cope with the coronavirus, which were not classified as troubled debt restructuring, in accordance with the instructions of the Banking Supervision Department, as noted above. The data represent the balance of debts at the reporting date, after repayments performed on debts for which the payment deferral period has ended.

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

	Debts in payment deferral at report date(1)		
	Recorded debt balance	Number of loans	Amount of deferred payments
	NIS millions		
Large businesses	1,046	66	129
Mid-sized businesses	746	91	67
Small businesses and microbusinesses	2,534	13,403	539
Private individuals excluding housing	2,198	51,696	419
Housing loans	6,821	12,384	188
Total – Israel	13,345	77,640	1,342
Activity overseas	2,099	32	73
Total as at December 31, 2020	**15,444**	**77,672**	**1,415**
Total as at September 30, 2020	21,371	103,193	1,998

(1) As at January 31, 2021, the balance of credit in respect of which payments were deferred totaled approximately NIS 11,226 million; the balance of actual deferred payments totaled approximately NIS 1,196 million.
(2) The payment deferral period is the cumulative period of deferrals granted to a debt, from the beginning of the efforts to cope with the coronavirus, not including deferrals to which the borrower is entitled under any law.
(3) Of which: impaired debts not accruing interest income in the amount of NIS 91 million.

Further details regarding recorded debt balance of debts in payment deferral					Further details regarding debts in payment deferral by duration of deferral[2]		Debts for which the payment deferral period has ended at the report date	
Problematic debts	Non-problematic debts							
	Debts not at credit execution rating	Debts at credit execution rating in arrears of 30 days or more	Debts at credit execution rating not in arrears	Total non-problematic debts	Debts deferred by more than 3 months, up to 6 months	Debts deferred by more than 6 months	Recorded debt balance	Of which: in arrears of 30 days or more
NIS millions								
502	31	-	513	544	469	33	2,307	-
133	44	-	569	613	392	125	1,409	-
212	480	-	1,842	2,322	911	1,129	5,881	33
93	633	-	1,472	2,105	516	1,433	2,670	41
60	599	123	6,039	6,761	3,446	2,900	14,137	388
1,000	1,787	123	10,435	12,345	5,734	5,620	26,404	462
247	997	-	855	1,852	36	1,817	620	2
[3]1,247	**2,784**	**123**	**11,290**	**14,197**	**5,770**	**7,437**	**27,024**	**464**
1,506	2,691	141	17,033	19,865	10,073	8,459	21,968	432

State-backed loans

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

- Interest rate – zero for the first year (paid to the bank by the State); Prime + 1.5% from the second year forward.
- Period – up to five years, including a grace period of up to twelve months.
- Customer collateral – up to 5% of the amount of the loan approved.
- Loan amounts:
  - General track – the lower of 40% of the annual revenue of the customer or NIS 20 million.
  - Amplified track – the lower of 40% of the annual revenue of the customer or NIS 10 million.

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

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

	December 31, 2020	September 30, 2020
	NIS millions	
Small businesses and microbusinesses	**4,366**	3,721
Mid-sized businesses	**995**	895
Large businesses	**306**	234
Total	**5,667**	4,850

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

	Balance as at December 31, 2020				Balance as at December 31, 2019			
	Commercial	Housing	Private	Total	Commercial	Housing	Private	Total
	NIS millions							
Credit risk at credit execution rating[(1)]								
Balance sheet credit risk	**169,306**	**96,376**	**29,709**	**295,391**	166,592	87,802	35,659	290,053
Off-balance sheet credit risk	**127,509**	**7,685**	**21,068**	**156,262**	112,184	7,259	21,009	140,452
Total credit risk at credit execution rating	**296,815**	**104,061**	**50,777**	**451,653**	278,776	95,061	56,668	430,505
Credit risk not at credit execution rating								
a. Non-problematic – balance sheet	**7,627**	**2,415**	**3,374**	**13,416**	3,343	1,198	2,133	6,674
b. Total problematic[(2)]	**9,170**	**653**	**807**	**10,630**	7,550	702	906	9,158
1) Special supervision	**4,383**	**-**	**22**	**4,405**	3,192	-	48	3,240
2) Substandard	**1,555**	**652**	**47**	**2,254**	680	700	96	1,476
3) Impaired	**3,232**	**1**	**738**	**3,971**	3,678	2	762	4,442
Total balance sheet credit risk not at credit execution rating	**16,797**	**3,068**	**4,181**	**24,046**	10,893	1,900	3,039	15,832
Off-balance sheet credit risk not at credit execution rating	**3,369**	**38**	**166**	**3,573**	2,931	8	89	3,028
Total credit risk not at credit execution rating	**20,166**	**3,106**	**4,347**	**27,619**	13,824	1,908	3,128	18,860
Of which, unimpaired debts in arrears of 90 days or more[(3)]	**31**	**652**	**45**	**728**	121	699	93	913
Total overall credit risk of the public	**316,981**	**107,167**	**55,124**	**479,272**	292,600	96,969	59,796	449,365
Additional information regarding total nonperforming assets								
a. Impaired debts not accruing interest income	**2,894**	**1**	**313**	**3,208**	3,487	2	378	3,867
b. Assets received upon settlement of debts	**33**	**-**	**-**	**33**	34	-	-	34
Total nonperforming assets of the public	**2,927**	**1**	**313**	**3,241**	3,521	2	378	3,901

(1) Credit risk for which the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(2) Credit risk that is impaired, substandard, or under special supervision.
(3) Including in respect of housing loans for which an allowance based on the extent of arrears exists, and in respect of housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

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

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

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

	For the year ended December 31, 2020		
	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	**3,678**	**764**	**4,442**
Debts classified as impaired during the period	**643**	**354**	**997**
Debts returned to unimpaired classification	**(12)**	**(4)**	**(16)**
Impaired debts charged off	**(389)**	**(196)**	**(585)**
Impaired debts repaid	**(699)**	**(179)**	**(878)**
Balance of impaired debts at end of period	**3,221**	**739**	**3,960**
Change in balance in troubled debt restructuring			
Balance in troubled debt restructuring at beginning of year	**667**	**707**	**1,374**
Restructured during the period	**1,952**	**323**	**2,275**
Debts in restructuring charged off	**(174)**	**(174)**	**(348)**
Debts in restructuring restored to unimpaired classification or repaid*	**(433)**	**(158)**	**(591)**
Balance in troubled debt restructuring at end of period	**2,012**	**698**	**2,710**
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	**1,272**	**136**	**1,408**
Provision for credit losses – increase in allowance	**670**	**223**	**893**
Provision for credit losses – reduction of allowance	**(211)**	**(52)**	**(263)**
Recoveries of debts charged off in previous years	**(522)**	**(135)**	**(657)**
Allocated to profit and loss – allowance for credit losses	**(63)**	**36**	**(27)**
Charge-offs during the period	**(389)**	**(196)**	**(585)**
Recovery of charged-off debts	**522**	**135**	**657**
Other	**-**	**-**	**-**
Allowance for credit losses in respect of impaired debts at end of period	**1,342**	**111**	**1,453**
* Of which: debts returned to unimpaired classification due to subsequent restructuring	**(6)**	**-**	**(6)**

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

	For the year ended December 31, 2019		
	Commercial	Private	Total
	NIS millions		
Change in balance of impaired debts in respect of credit to the public			
Balance of impaired debts at beginning of year	2,015	706	2,721
Debts classified as impaired during the period	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 the statement of 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 3-5: Credit risk indicators

	As at	
	December 31, 2020	December 31, 2019
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.29%**	1.49%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.24%**	0.31%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**2.00%**	1.58%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	**1.75%**	1.27%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**155.18%**	105.97%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**131.08%**	87.90%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.55%**	2.42%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.64%**	0.44%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.09%**	0.12%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**4.28%**	7.48%

* Before deduction of the allowance for credit losses.
** Includes allowance for credit losses in respect of off-balance sheet credit instruments.

Portfolio quality analysis

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

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

The following indicators decreased (improved) during this period:

- The balance of impaired credit to the public, as a percentage of the balance of credit to the public.
- The balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public.
- Net charge-offs in respect of credit to the public, as a percentage of the average recorded balance of credit to the public.

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

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

Table 3-6: 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, 2020:				
In respect of credit to the public	**1,453**	**758**	**3,934**	**6,145**
In respect of debts other than credit to the public	**-**	**-**	**5**	**5**
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	**100**	**-**	**681**	**781**
Allowance for credit losses as at December 31, 2020	**1,553**	**758**	**4,620**	**6,931**
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

* 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 1,680 million in 2020, mostly due to the collective 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 0.41% relative to the end of 2019.

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; during the coronavirus crisis the model takes into consideration, among other matters, the extent of deferral of payments performed due to the crisis and other factors relevant to the crisis. 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. Qualitative adjustment coefficients were adjusted in 2020, mainly due to the effects of the crisis of the spread of the coronavirus. For details, see Section 4, "Critical accounting policies and estimates," below.

3.2.3. Classification and analysis of credit risk by economic sector

Table 3-7: Credit risk by economic sector

	December 31, 2020						
					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	**32,186**	**30,904**	**826**	**331**	**43**	**14**	**358**
Construction and real estate – construction	**75,580**	**73,583**	**744**	**480**	**(46)**	**(92)**	**568**
Construction and real estate – real-estate activities	**29,529**	**27,119**	**1,009**	**178**	**65**	**(102)**	**569**
Commerce	**38,483**	**35,866**	**1,305**	**456**	**282**	**126**	**966**
Financial services	**41,714**	**41,398**	**186**	**6**	**49**	**8**	**239**
Other business services	**15,257**	**13,941**	**199**	**105**	**134**	**59**	**223**
Public and community services	**8,500**	**8,049**	**79**	**40**	**38**	**11**	**84**
Other sectors	**42,545**	**37,249**	**3,986**	**1,726**	**410**	**17**	**1,663**
Total commercial	**283,794**	**268,109**	**8,334**	**3,322**	**975**	**41**	**4,670**
Private individuals – housing loans	**106,659**	**103,585**	**627**	**1**	**314**	**5**	**752**
Private individuals – other	**54,909**	**50,568**	**808**	**740**	**447**	**209**	**1,023**
Total public – activity in Israel	**445,362**	**422,262**	**9,769**	**4,063**	**1,736**	**255**	**6,445**
Total banks in Israel	**2,833**	**2,833**	**-**	**-**	**-**	**-**	**-**
Israeli government	**51,398**	**51,398**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**499,593**	**476,493**	**9,769**	**4,063**	**1,736**	**255**	**6,445**
Total public – activity overseas	**33,910**	**29,391**	**2,469**	**562**	**210**	**8**	**481**
Banks and governments overseas	**38,156**	**37,504**	**-**	**-**	**(3)**	**-**	**5**
Total activity overseas	**72,066**	**66,895**	**2,469**	**562**	**207**	**8**	**486**
Total activity in Israel and overseas	**571,659**	**543,388**	**12,238**	**4,625**	**1,943**	**263**	**6,931**

(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 321,591, 69,500, 368, 14,890, and 165,310 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 3-7: Credit risk by economic sector (continued)

	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
Banks in Israel	2,905	2,905	-	-	-	-	-
Israeli government	41,585	41,585	-	-	-	-	-
Total activity in Israel	461,023	444,367	9,592	4,636	1,168	316	4,940
Total public – activity overseas	32,832	30,628	1,294	661	109	36	303
Banks and governments overseas	41,733	41,733	-	-	(1)	-	8
Total activity overseas	74,565	72,361	1,294	661	108	36	311
Total activity in Israel and overseas	535,588	516,728	10,886	5,297	1,276	352	5,251

(1) Balance sheet credit risk and off-balance sheet credit risk[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, 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 113 billion as at December 31, 2020.

Table 3-8: 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, 2020			Balance as at December 31, 2019		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions					
Construction for commerce and services	**3,798**	**2,637**	**6,435**	3,566	2,484	6,050
Construction for industry	**354**	**95**	**449**	421	99	520
Housing construction	**18,618**	***31,595**	**50,213**	17,960	*28,208	46,168
Yield-generating properties	**25,673**	**6,486**	**32,159**	22,866	4,945	27,811
Other	**10,848**	**12,590**	**23,438**	9,946	10,498	20,444
Total construction and real-estate sectors	**59,291**	**53,403**	**112,694**	54,759	46,234	100,993

* Includes off-balance sheet credit risk in the amount of approximately NIS 3,098 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees (December 31, 2019: NIS 3,589 million).

On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update states that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, will rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector will rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher.

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 3-9: Principal exposures to foreign countries[1]

	December 31, 2020			December 31, 2019		
	Exposure					
	Balance sheet	Off-balance sheet[2][3]	Total	Balance sheet	Off-balance sheet[2][3]	Total
	NIS millions					
Country						
United States	**20,098**	**6,496**	**26,594**	22,900	6,557	29,457
Switzerland	**1,219**	**1,022**	**2,241**	3,626	1,097	4,723
England	**9,178**	**4,051**	**13,229**	7,951	2,985	10,936
Germany	**847**	**1,249**	**2,096**	1,165	1,463	2,628
France	**1,963**	**1,099**	**3,062**	1,995	1,512	3,507
Others	**9,905**	**2,411**	**12,316**	11,204	1,689	12,893
Total exposures to foreign countries	**43,210**	**16,328**	**59,538**	48,841	15,303	64,144
Of which: total exposure to PIGS (Portugal, Italy, Greece, and Spain)	**133**	**67**	**200**	144	385	529
Of which: total exposure to LDCs	**1,271**	**208**	**1,479**	1,364	187	1,551
Of which: total exposure to countries with liquidity problems*	**9**	**-**	**9**	8	-	8

The line "total LDCs" includes the total exposure to countries defined as Least Developed Countries (LDCs) in Proper Conduct of Banking Business Directive 315, "Supplementary Provision for Doubtful Debts."
Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the branches/subsidiaries of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the branches/subsidiaries of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas branches/subsidiaries of the banking corporation to non-residents of the country in which the branch/subsidiary is located.
Balance sheet exposure of the banking corporation's branches/subsidiaries in a foreign country to local residents includes balance sheet exposure of the branches/subsidiaries of the banking corporation in that foreign country to the residents of the country, less liabilities of those branches/subsidiaries (the deduction is performed up to the level of the exposure).

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

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

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

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

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 3-10: Exposure of the Bank Group to foreign financial institutions[1]

	December 31, 2020			December 31, 2019		
	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-	**2,183**	**2,026**	**4,209**	4,032	2,949	6,981
A+ to A-	**15,141**	**1,924**	**17,065**	13,911	1,709	15,620
BBB+ to BBB-	**765**	**84**	**849**	867	139	1,006
BB+ to B-	**4**	**19**	**23**	12	22	34
Lower than B-	**-**	**-**	**-**	-	-	-
Unrated	**159**	**43**	**202**	312	74	386
Total present credit exposures to foreign financial institutions*	**18,252**	**4,096**	**22,348**	19,134	4,893	24,027
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	**18,252**	**4,096**	**22,348**	19,134	4,893	24,027
Collective allowance for credit losses	**5**	**-**	**5**	4	1	5

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 73 million, of which a total of NIS 42 million rated A-, a total of NIS 12 million rated BBB+, and a total of NIS 19 million rated BBB- (total exposure at the end of 2019 was approximately NIS 163 million, rated A-).
Italy – Total exposure of approximately NIS 16 million, of which a total of NIS 15 million rated BBB- and the remaining amount of NIS 1 million rated BB (total exposure at the end of 2019 was approximately NIS 83 million, of which a total of NIS 76 million rated BBB and the remaining amount of NIS 7 million rated BBB-).
Ireland – Total exposure of NIS 1 million, unrated (there was no exposure to financial institutions in Ireland at the end of 2019).
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 22.3 billion on December 31, 2020, a decrease of approximately NIS 1.7 billion, compared with approximately NIS 24.0 billion at the end of 2019. This decrease resulted from a decrease in balance sheet exposure in the amount of approximately NIS 0.9 billion, and a decrease in off-balance sheet exposure in the amount of approximately NIS 0.8 billion. Approximately 95.2% 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: 82.3% in banks and bank holding companies, 16.6% in insurance companies, and 1.1% in another financial institution.

Most of the Bank Group's exposure is to foreign financial institutions operating in Western European countries (65.2%) and in the United States (19.5%).

The Bank continues to maintain frequent and regular monitoring of the adverse effects of the coronavirus crisis on the global economy and on the financial results of financial institutions worldwide, and, as necessary, acts to reduce all of the relevant risks, including credit risk and settlement risk.

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

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

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

3.2.7. Risks in the housing loan portfolio

Table 3-11: Risks in the housing loan portfolio

	Balance as at	
	December 31, 2020	December 31, 2019
	NIS millions	
Credit balances		
Loans from Bank funds	**99,495**	89,777
Loans from Finance Ministry funds*	**1,055**	1,173
Grants from Finance Ministry funds*	**175**	123
Total	**100,725**	91,073

	For the year ended	
	December 31, 2020	December 31, 2019
	NIS millions	
Execution of housing loans		
Total loans from Bank funds	**20,558**	18,159
Loans from Finance Ministry funds		
Loans	**106**	124
Grants	**61**	42
Total from Finance Ministry funds	**167**	166
Total new loans	**20,725**	18,325
Old loans refinanced from Bank funds	**2,031**	1,235
Total loans granted	**22,756**	19,560

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

Table 3-12: Development of amounts in arrears in housing loans and allowance for credit losses

	Recorded debt balance	Amount over 90 days in arrears, of total problematic debts	Rate of arrears	Allowance for credit losses in respect of housing loans (including allowance based on the extent of arrears)	Rate of allowance for credit losses in respect of housing loans	Problematic debt	Rate of problematic debt
	NIS millions/percent						
December 31, 2020	**99,495**	**122**	**0.12%**	**758**	**0.76%**	**676**	**0.68%**
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%

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

Development of housing credit balances

Table 3-13: 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, 2020	**21,480**	**21.6%**	**38,623**	**38.8%**	**13,619**	**13.7%**	**25,573**	**25.7%**	**200**	**0.2%**	**99,495**	**10.8%**
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%

For details regarding the directive of the Banking Supervision Department amending the limit on housing loans at the Prime rate, see Note 35 to the Financial Statements.

Risk quantification and measurement – housing credit portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank. The Bank manages and hedges risk, among other means, through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Division. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, the rate of arrears, etc. These indicators are also monitored in comparison to the data of the banking system as a whole.

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

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

The Bank uses a statistical model to measure the probability of default and the expected loss in the mortgage portfolio. In addition, within stress scenario testing, the effect on the mortgage portfolio is also examined. Insurance arrangements are also in place (life insurance and building insurance).

Table 3-14: Developments in housing credit balances, last five years

	2020	2019	2018	2017	2016
	NIS millions				
Balances at end of period	**99,495**	89,777	81,454	74,521	69,254
Annual change in balances	**10.8%**	10.2%	9.3%	7.6%	3.0%
Execution of new loans	**20,725**	18,325	15,568	13,437	11,937

Housing loan data – percentage of total new loans executed

Table 3-15: Characteristics of housing credit granted by the Bank

	For the year ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Characteristics			
Financing rate over 60%	**41.2%**	38.5%	32.5%
Ratio of repayment to income greater than 40% (for purchases of homes and in monthly payments)	**0.1%**	0.0%	0.1%
Percentage with floating interest rates varying at a frequency of less than 5 years	**32.7%**	31.7%	31.7%
Percentage with floating rates	**58.7%**	59.1%	58.8%
Percentage of all-purpose loans	**5.1%**	5.7%	6.1%
Loans for investment purposes as a percentage of total purchases of homes	**8.3%**	9.5%	9.8%
Principal planned for repayment after age 67 (excluding investments)	**8.0%**	7.2%	7.2%
Average original term to maturity of loans for purchases of homes, in years (excluding bridge loans)	**24.5**	24.4	24.4

The upward trend in balances of housing loans continued in 2020.

The growth rate in 2020 does not reflect deceleration of activity, and actually exceeds the growth rate of the period preceding the crisis.

The following indicators increased (worsened):

- Data on housing loans granted in 2020 point to an increase (worsening) in the indicator of the percentage of credit granted with a financing rate greater than 60%.
- The percentage of loans with floating interest rates varying at a frequency of less than 5 years.
- The percentage of principal scheduled for repayment after the age of 67.

The following indicators were stable:

- The percentage of loans with payment to income ratios greater than 40% (slight increase).
- The average term to maturity of loans for purchases of homes (excluding bridge loans).

The following indicators decreased:

- Loans for investment purposes as a percentage of total purchases of homes.
- The percentage of execution of all-purpose loans.

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

3.2.8. 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, customers' attention is directed to the existing financial assets in their accounts, 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. 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: a statistical model for rating the credit risk of private borrowers, risk-appetite indicators, credit policies and procedures, a hierarchy of authority, and credit-risk control processes.

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 3-16: Balance of credit to private individuals in Israel

	Balance as at		Change	
	December 31, 2020	December 31, 2019		
	NIS millions			
Balance sheet				
Negative balance in current accounts	**2,402**	3,216	(814)	(25.31%)
Loans[1]	**23,873**	26,996	(3,123)	(11.57%)
Of which: bullet and balloon loans	**62**	78	(16)	(20.51%)
Credit for purchases of motor vehicles[2]	**3,139**	3,511	(372)	(10.60%)
Debtors in respect of credit-card activity	**4,470**	4,958	(488)	(9.84%)
Total balance sheet credit risk	**33,884**	38,681	(4,797)	(12.40%)
Off-balance sheet				
Off-balance sheet credit risk	**21,229**	21,092	137	0.65%
Total credit risk	**55,113**	59,773	(4,660)	(7.80%)

(1) Excluding loans for purchases of motor vehicles.
(2) Including loans granted for the purchase of motor vehicles or with a lien on a motor vehicle.

Table 3-17: Distribution of risk of balance sheet credit to private individuals in Israel, by average income[1] and loan size

	December 31, 2020				December 31, 2019			
	Account income			Total	Account income			Total
	Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand		Up to NIS 10 thousand	NIS 10 to 20 thousand	Over NIS 20 thousand	
	NIS millions							
Credit per borrower in NIS thousands								
Up to 20	**1,475**	**965**	**1,037**	**3,477**	1,645	960	982	3,587
20 to 40	**1,476**	**834**	**920**	**3,230**	1,710	879	1,024	3,613
40 to 80	**3,196**	**2,364**	**1,855**	**7,415**	3,721	2,415	2,052	8,188
80 to 150	**3,040**	**4,252**	**3,540**	**10,832**	3,626	4,782	4,140	12,548
150 to 300	**721**	**2,341**	**4,580**	**7,642**	812	2,805	5,749	9,366
Over 300	**102**	**130**	**1,056**	**1,288**	67	154	1,158	1,379
Total	**10,010**	**10,886**	**12,988**	**33,884**	11,581	11,995	15,105	38,681

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

Table 3-18: Distribution of risk of balance sheet credit to private individuals in Israel, by borrowers' financial asset portfolio balance

	December 31, 2020	December 31, 2019
	Balance sheet credit risk	
	NIS millions	
Size of financial asset portfolio, in NIS thousands		
Up to 10	**18,127**	22,491
10 to 50	**6,280**	6,574
50 to 200	**4,996**	4,999
200 to 500	**2,172**	2,219
Over 500	**2,309**	2,398
Total	**33,884**	38,681

Table 3-19: Distribution of risk of balance sheet credit to private individuals in Israel, by type of interest and remaining repayment period

	December 31, 2020			December 31, 2019		
	Loans at floating interest rates	Loans at fixed interest rates	Total	Loans at floating interest rates	Loans at fixed interest rates	Total
	NIS millions					
Repayment period						
Up to one year	**2,657**	**4,886**	**7,543**	3,066	5,440	8,506
1 to 3 years	**7,278**	**104**	**7,382**	7,473	84	7,557
3 to 5 years	**12,077**	**105**	**12,182**	13,649	115	13,764
Over 5 years	**6,670**	**107**	**6,777**	8,732	122	8,854
Total	**28,682**	**5,202**	**33,884**	32,920	5,761	38,681

Table 3-20: 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, 2020	December 31, 2019		**December 31, 2020**	December 31, 2019
	NIS millions				
Problematic credit risk	**808**	905	(10.7%)	**2.4%**	2.3%
Of which: impaired credit risk	**740**	760	(2.6%)	**2.2%**	2.0%
Debts in arrears of more than 90 days	**45**	93	(51.6%)	**0.1%**	0.2%
Net charge-offs for the period	**209**	297	(29.6%)	**0.6%**	0.8%
Allowance for credit losses	**1,023**	785	30.3%	**3.0%**	2.0%

The balance of loans to private individuals in Israel, including credit for the purchase of motor vehicles, continued to decrease in 2020, by approximately 11.5%. Total balance sheet credit risk decreased by approximately 12.4%.

The balance of debts in arrears of more than ninety days decreased sharply in 2020, by 51.6%. This decrease was influenced, among other matters, by the option to defer payments with suspension of the state of arrears during the payment deferral period. The problematic credit risk balance decreased by 10.7%, but rose as a percentage of total balance sheet credit risk, due to a decrease in the volume of the portfolio. Net charge-offs for the period decreased by 29.6%, influenced, among other matters, by the option to defer payments, as noted.

The allowance for credit losses rose sharply, by 0.3%, mainly influenced by the increase in the collective allowance.

Other than a certain increase in the collective allowance, which affected the allowance for credit losses, the impacts of the spread of the coronavirus have not yet been reflected; a more substantial effect on portfolio quality indicators is expected in the future. The extent of this effect depends on the extent of the actual damage to employers, the success and effectiveness of the vaccination drive, and the ability of the economy to recover rapidly. If the damage to borrowers' wages, and particularly the increase in unemployment, are significant, credit losses may increase significantly. Government measures to support the unemployed and accelerate economic recovery may serve as a moderating factor. To the extent that such measures are successful, the effect of the crisis on the quality of this exposure portfolio will be more moderate.

3.2.9. 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 3-21: The Bank's exposures in respect of leveraged financing, by economic sector of the borrower

	December 31, 2020			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**3**	**586**	**954**	**1,540**
Construction and real estate – real-estate activities	**2**	**608**	**-**	**608**
Mining and quarrying*	**2**	**240**	**-**	**240**
Industry	**1**	**425**	**-**	**425**
Other business services	**1**	**87**	**171**	**258**
Total	**9**	**1,946**	**1,125**	**3,071**

* Net of charge-offs and an individual allowance for credit losses in the amount of approximately NIS 747 million.

	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 – real-estate activities	1	103	110	213
Mining and quarrying*	2	498	-	498
Electricity and water*	1	-	266	266
Information and communications	1	235	9	244
Commerce	1	338	83	421
Industry	2	633	-	633
Total	8	1,807	468	2,275

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

3.2.10. Credit risk in respect of exposure to major borrowers

Table 3-22: 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, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**2**	**1,078**	**3,496**	**4,574**
Electricity and water supply	**1**	**748**	**1,029**	**1,777**
Financial services	**8**	**9,389**	**8,113**	**17,502**
Construction and real estate – construction	**2**	**902**	**2,058**	**2,960**
Motor-vehicle trading	**1**	**729**	**489**	**1,218**
Information and communications	**1**	**919**	**470**	**1,389**
Construction and real estate – civil engineering	**1**	**337**	**1,588**	**1,925**
Total	**16**	**14,102**	**17,243**	**31,345**

	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

3.2.11. Credit risk in respect of exposure to borrower groups

As at December 31, 2020, there is no group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: "Directive 313"), exceeds 15% of the capital of the banking corporation (as defined in Directive 313).

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.

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.

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

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 with a risk level which has been defined as significant for the Group.
For additional information regarding risk management, assessment, and control, see the Report on Risks.

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).
- **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 fair value (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 it does not include changes in the discounted value of long-term assets and liabilities that are not measured in the profit and loss report on a fair-value basis, but does include changes in income arising from changes in the interest rate, which are not part of value sensitivity, mainly in 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 3-23: Adjusted net fair value* of the financial instruments of the Bank and its consolidated companies

	December 31, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Adjusted net fair value*	**32,868**	**275**	**33,143**	32,183	386	32,569
Of which: banking book	**32,463**	**2**	**32,465**	32,307	(291)	32,016

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

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

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

	December 31, 2020			December 31, 2019		
	NIS	Foreign currency	Total	NIS	Foreign currency	Total
	NIS millions					
Parallel changes						
1% parallel increase	**(586)**	**(117)**	**(703)**	56	89	145
Of which: banking book	**(633)**	**(86)**	**(719)**	35	106	141
1% parallel decrease	**629**	**108**	**737**	(19)	(96)	(115)
Of which: banking book	**676**	**80**	**756**	2	(105)	(103)
Non-parallel changes						
Steepening(1)	**(454)**	**(132)**	**(586)**	(339)	(138)	(477)
Flattening(2)	**393**	**150**	**543**	369	129	498
Increase in short-term interest rate	**109**	**29**	**138**	309	84	393
Decrease in short-term interest rate	**(158)**	**(18)**	**(176)**	(340)	(89)	(429)

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

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

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

	December 31, 2020			December 31, 2019		
	Interest income	Non-interest financing income	Total	Interest income	Non-interest financing income	Total
	NIS millions					
1% parallel increase	**1,035**	**176**	**1,211**	924	327	1,251
Of which: banking book	**1,035**	**158**	**1,193**	924	323	1,247
1% parallel decrease	**(412)**	**(368)**	**(780)**	(746)	(406)	(1,152)
Of which: banking book	**(412)**	**(349)**	**(761)**	(746)	(395)	(1,141)

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

For additional information regarding interest-rate risk, see the Report on 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 3-26: Assets and liabilities by linkage base*

	December 31, 2020						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	**405,260**	**50,580**	**61,799**	**8,899**	**3,239**	**9,825**	**539,602**
Total liabilities	**341,662**	**38,477**	**99,901**	**12,546**	**4,342**	**2,775**	**499,703**
Surplus assets (liabilities)	**63,598**	**12,103**	**(38,102)**	**(3,647)**	**(1,103)**	**7,050**	**39,899**
Derivative instruments	**(38,829)**	**(3,125)**	**37,377**	**3,609**	**968**	**-**	**-**
Overall total	**24,769**	**8,978**	**(725)**	**(38)**	**(135)**	**7,050**	**39,899**

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

	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	**280,309	**42,380	85,532	11,550	4,094	1,602	425,467
Surplus assets (liabilities)	**53,740	**7,817	(25,616)	(4,657)	714	6,223	38,221
Derivative instruments	(27,929)	(523)	24,713	4,795	(1,056)	-	-
Overall total	**25,811	**7,294	(903)	138	(342)	6,223	38,221

* Including derivative instruments whose underlying asset refers to a non-monetary item.
** Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.
(1) Including linked to foreign currency.

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

Table 3-27: 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, 2020		December 31, 2019	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	**(38)**	**45**	189	68
EUR	**37**	**(8)**	45	26
	3% increase	3% decrease	3% increase	3% decrease
Consumer price index*	**273**	**(388)**	220	(347)

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

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 at the Bank Group mainly arises 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. The risk-appetite framework in this activity is approved by the Board of Directors, and was increased this year, for gradual implementation by the end of 2023, subject to annual discussion of work plans. For details, see the section "Principal companies," above.
- 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 3-28: Details of the Bank Group's investment in shares in the banking book, by balance sheet classification

	December 31, 2020			December 31, 2019		
	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 a stock exchange	Of which: privately held
	NIS millions					
Investments classified into the trading book	**-**	**-**	**-**	2	2	-
Investments classified as not held for trading	**2,385**	**1,017**	**1,368**	1,771	750	1,021
Total investments in shares	**2,385**	**1,017**	**1,368**	1,773	752	1,021

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.

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.

In 2020, the Bank of Israel issued draft Proper Conduct of Banking Business Directive 222, "Net Stable Funding Ratio (NSFR)." The directive is expected to take effect during the course of 2021. The banks were asked to submit a quantitative impact survey to the Bank of Israel, based on the draft of the directive.

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 3-29: Liquidity coverage ratio*

	For the three months ended December 31, 2020	For the three months ended December 31, 2019
	%	
a. Consolidated data		
Liquidity coverage ratio	**140%**	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
b. Bank data		
Liquidity coverage ratio	**139%**	120%
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 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.

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, 2020, 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 176,673 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 liquidity coverage ratio (LCR) rose substantially over the course of 2020, compared with the fourth quarter of 2019. The increase in the ratio resulted from a sharp increase in deposits from the public (most of the increase was in deposits of private customers), versus a moderate increase in credit to the public.

Table 3-30: Balance of total deposits of the three largest groups* of depositors**

	Balance as at	
	December 31, 2020	December 31, 2019
	NIS millions	
Group A	**7,745**	5,924
Group B	**6,236**	5,414
Group C	**4,502**	4,717

* "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 and Note 31, "Assets and Liabilities by Currency and by Term to Maturity," in the 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.

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

3.5.1. 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; and 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.

Additional related activities:

- An automated operational risk management system (PMLA) 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, "E-Banking."

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 centers, 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; and reduction of the activity that creates the risk.

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.

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 is implementing a multi-year plan to modernize 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 by 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 Unit, and the IT Risk Management Unit.

In view of the spread of the coronavirus, in order to maintain the continuity of service, various measures have been taken at the IT units of the Bank to provide solutions for the Bank's business continuity and for the continued management of its technological portfolio, while protecting the security of its properties and ensuring continuous operation.

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. Recently, there have also been attacks on government agencies and insurance firms, attempting to damage their reputation, as well as supply-chain attacks (attacks on organizations through a supplier or product that they use). The Bank has acted to draw conclusions and update its preparations accordingly. No material cyber events with an effect on the financial statements were discovered at the Bank in 2020. Note that the quantity of phishing attempts and the intensity of DDoS attacks faced by the Bank have grown in recent months, with a certain increase in the strength of this risk; however, as stated, there has been no significant damage.

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

The Bank routinely updates its risk assessment in view of insights from cyber events in Israel and worldwide relevant to the systems and business of the Bank. The Bank also accords high importance to maintaining an organizational culture of risk management, and therefore takes various actions (such as lectures, messaging, and exercises at various levels) to raise employee awareness of cyber risks. The Bank recently updated its cyber risk estimate, in accordance with the development of threats during the period of the spread of the coronavirus, and is taking comprehensive action to reduce this risk, particularly in view of the change in the form of work at the Bank and the significant transition of employees to remote work. This includes the development of a response aimed at reducing the risk of remote work, and instruction of employees and suppliers on ways of reducing the risk, including by raising awareness of the new and developing cyber risks. Preparedness has also been increased with respect to possible phishing and fraud that may be perpetrated against customers through exploitation of the crisis and the fears of the public.

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 operates in accordance with Proper Conduct of Banking Business Directive 362. 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. This process is updated routinely, and presented for approval on an annual basis. The action plan involves all divisions of the Bank, through divisional business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management (BCM) Department, which reports to the Head of Business Continuity of the Bank and to the Head of the Emergency Committee of the Bank (the Head of Finance).

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

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

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

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

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 insurance, 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.

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, unfair, irresponsible, or unethical activity of the Bank or of any of its employees in relation to customers of the Bank or with regard to 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 material damage arising from claims or regulatory orders due to inappropriate, irresponsible, unethical, or unworthy conduct of any of the employees of the Bank;
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance with the law.
- The risk of material damage due to noncompliance with or breach of the agreements of the Bank with the United States authorities of April 30, 2020, which include additional designated actions and commitments in this area, as detailed in Notes 25D and 25E concerning contingent liabilities and special commitments and on the website of the Bank.

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 Israel Securities Enforcement and Compliance Unit; the 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. 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.

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

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

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

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

In light of the request of the State to postpone the termination of correspondent services until the implementation of a long-term solution for the provision of correspondent services, through the establishment of a government company to provide Palestinian banks with these services, an updated letter of indemnity was issued on June 30, 2019. Pursuant to the updated letter of indemnity, the indemnity to which the State has committed towards the Bank, as detailed above, has been amended to an amount of up to NIS 1.5 billion in respect of each proceeding (not cumulatively). An updated letter of the Attorney General extended the immunity period until May 31, 2021, and a letter of the Accountant General of August 18, 2020, extended the period of the letter of indemnity until May 31, 2021.

3.7. Legal risk

Legal risk comprises, 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 internal and external legal counsel in order to manage 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.

Legal risk is managed in accordance with the legal risk exposure management policy document, which is updated and applied on the level of the Group.

Each quarter, legal counsel submits various periodic reports to the Board of Management and to the Risk Management Committee of the Board of Directors regarding legal risks, including statistical information with regard to 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, objectives have been set at the level of the Group with respect to reputational risk, particularly ensuring effective supervision and management of reputational risk and establishing 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 the risk of damage to the Bank's ability to realize and maximize its business objectives as a result of legislative processes and/or amendments of directives of various regulatory agencies that cause changes in the business environment of the Group. Such changes may occasionally influence the Group's ability to offer and deliver certain banking services, and/or may obligate the Group to prepare for complex implementation and to carry out technological and other investments at considerable cost, while disrupting schedules and impairing the ability of the Bank to allocate its resources for the development of other planned services.

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

The Bank operates within a complex regulatory environment, characterized by frequent changes and uncertainty. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Banking Supervision Department constitute the central legal foundation for the Bank Group's activity. Among other matters, they specify the regulatory requirements applicable to the activity of the Bank and to the subsidiaries and affiliates of the Bank Group.

The activity of the Bank is also subject to regulatory requirements of additional regulators 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; the Competition Authority; etc.

The Bank and its subsidiaries operate and manage ordered, dedicated work processes to map and identify all regulatory amendments that are expected to apply to them, in accordance with all relevant laws.

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 and reflecting the opinion of the relevant professionals, prior to the formulation of the regulatory directive. 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 with the subsidiaries and offices in Israel and overseas, in order to ensure that all regulatory requirements are implemented fully and in an effective manner in business terms. With regard to compliance with regulatory directives from the inception of regulatory amendments, see the section "Compliance risk," above.

The Regulation Unit also conducts procedures to routinely monitor significant amendments of international regulation in areas that may affect the activity of the Bank in Israel, and to examine the need for the Bank, its subsidiaries, and/or its overseas offices to implement such amendments.

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," above.

For details regarding the Bank's ways of coping with the crisis of the spread of 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.

Bank Hapoalim continues to monitor the effects of the spread of the coronavirus on the global and local economy, and on the strategic plans of the Bank.

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 and large investments. 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.

In December 2020, the Supervisor of Banks sent a letter to the banking corporations on the subject of the management of environmental risks, with an emphasis on climate risk. The Bank addresses environmental risks as part of its risk-management processes, as stated above, and is preparing to expand its treatment of this issue, as detailed in the letter.

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 protection of 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; and 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.

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.

The risk level established for each risk factor is the most severe of the assessment methods described above.

Table 3-31: Severity of risk factors

	Risk factor	Risk effect
Financial risks		
1.	Credit risk (including counterparty risk)*	Medium-High
1.1.	Of which: risk in respect of the quality of borrowers and/or collateral*	Medium-High
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

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

** Following the approval of the resolutions with the United States authorities regarding the tax investigation and the FIFA investigation (see Note 25D and 25E to the Financial Statements, including with regard to the Bank's obligations pursuant to the resolutions), the level of compliance risk was returned to Medium in the first quarter of 2020 (from the previous level of Medium-High). This also includes the risk to which the Bank is exposed as a result of the aforesaid resolutions.

3.14. Effect of the discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel.

Accordingly, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time.

In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the 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.

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

For further details, see Note 1 to the Financial Statements.

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, 2020. 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.

In 2020, the spread of the coronavirus, as well as the coping measures applied by governments in Israel and worldwide, caused significant damage to business activity in Israel and globally, encompassing most sectors of the economy. In view of the high uncertainty, the Bank estimates that identified credit losses may grow; however, at this stage it is difficult to determine to what extent, or when, due to factors including the processes and measures applied by the government and the Bank of Israel, which may assist the economy in emerging from the crisis more quickly, but if they are unsuccessful, will only postpone the realization of credit risks. The Bank is examining the potential impacts of the crisis on the credit portfolio, also as a supporting tool for examination of the adequacy of credit losses. In addition, in light of the coronavirus outbreak and in view of the extensive uncertainty involved in estimates of credit losses in each of the economic sectors adversely affected by the crisis, the Bank performed an additional adjustment of the allowance coefficient, in order to reflect the negative effect of the crisis on the repayment capability of borrowers.

From the beginning of 2020 to December 31, 2020, the Bank recorded a significant increase in the provision for credit losses, which totaled approximately NIS 1,943 million. Most of the provisions are due to the crisis of the spread of the coronavirus, mainly an increase in the collective allowance in the amount of approximately NIS 1,600 million, including in respect of housing loans.

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.

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, 2020, amounted to a total of approximately NIS 4,918 million. The liabilities are discounted at a real factor of 0.37% 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 421 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 308 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 253 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 247 million.

The actuary estimate for the period ended December 31, 2020, 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 Bank's Board of Management has included sufficient provisions in the financial statements to cover the expected damages, based on legal opinions. In most judicial proceedings, 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.

The preparation of estimates regarding provisions for judicial proceedings involves 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 (including arguments or threats to file a legal claim), the uncertainty increases further.

As the proceedings progress, the Board of Management of the Bank and its legal advisors evaluate, each quarter, whether it is necessary to include or update provisions in respect of the proceedings, updating the estimate performed in the preceding reporting period. The precision of the estimates increases as the proceedings advance, but the amount of the provision remains sensitive to changes in assumptions. Provisions in respect of such unasserted claims are recognized according to the overall probability of success of the claim, if filed (based on the probability of filing of the claim and the probability of success of the claim). In most cases, there is a wide range of possible outcomes for every legal proceeding. 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.

The Bank and its legal advisors 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 progress of the hearings in 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.

Income 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.

Beginning January 1, 2022, in accordance with the directives of the Banking Supervision Department, the Bank will adopt new standards concerning credit losses, which also 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 Note 1F to the Financial Statements.

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. Thus, 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.

4.2. Controls and procedures

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

The provisions of these two sections of the law were integrated into the Public Reporting Directives.

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 2020, 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. In 2020, testing of the effectiveness of key controls that may potentially be affected by the coronavirus crisis was expanded.

Evaluation of controls and procedures concerning disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at December 31, 2020. Based on this assessment, they have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial statement, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in internal control

During the quarter ended on December 31, 2020, no material change occurred in the internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the internal control over financial reporting.

Ruben Krupik
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 10, 2021

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, 2020, 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, 2020, 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, 2020 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 158. 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, 2020.

Ruben Krupik	**Dov Kotler**	**Ram Gev**	**Guy Kalif**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Member of the Board of Management, Chief Accountant

Tel-Aviv, March 10, 2021

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

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

Dov Kotler
President and Chief Executive Officer

Tel-Aviv, March 10, 2021

CFO Declaration

I, Ram Gev, declare that:

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

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

Ram Gev
Senior Deputy Managing Director,
Chief Financial Officer

Tel-Aviv, March 10, 2021

Chief Accountant Declaration

I, Guy Kalif, declare that:

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

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

Guy Kalif
Member of the Board of Management,
Chief Accountant

Tel-Aviv, March 10, 2021

Bank Hapoalim

Financial Statements

2020

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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, 2020, 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, 2020, 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, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and our report dated March 10, 2021, 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, and to the conclusion of the investigation of the Bank Group's business with American customers and the investigation with respect to FIFA.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel Aviv, March 10, 2021

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, 2020 and 2019 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, 2020. 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, 2020 and 2019 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, 2020, 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, and to Notes 25D and 25E regarding the conclusion of the investigation of the business of the Bank Group with American customers and 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, 2020, 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 10, 2021, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

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

Tel Aviv, March 10, 2021

Consolidated Statement of Profit and Loss
for the year ended December 31, 2020

NIS millions

	Note	**2020**	2019	2018
Interest income	2	**10,260**	11,920	11,672
Interest expenses	2	**(1,463)**	(2,601)	(2,766)
Net interest income		**8,797**	9,319	8,906
Provision for credit losses	13	**1,943**	1,276	613
Net interest income after provision for credit losses		**6,854**	8,043	8,293
Non-interest income				
Non-interest financing income	3	**1,088**	559	1,445
Fees	4	**3,155**	3,240	3,318
Other income	5	**136**	90	105
Total non-interest income		**4,379**	3,889	4,868
Operating and other expenses				
Salaries and related expenses	6	**3,836**	*4,108	*4,188
Maintenance and depreciation of buildings and equipment		**1,377**	1,334	1,376
Other expenses	7	**2,288**	*3,334	*3,396
Total operating and other expenses		**7,501**	8,776	8,960
Profit from continued operations before taxes		**3,732**	3,156	4,201
Provision for taxes on profit from continued operations	8	**1,590**	1,681	2,009
Profit from continued operations after taxes		**2,142**	1,475	2,192
The Bank's share in profits of equity-basis investees, after taxes	15(B)	**10**	11	4
Net profit from continued operations		**2,152**	1,486	2,196
Net profit (loss) from a discontinued operation	1G	**(109)**	296	364
Net profit				
Before attribution to non-controlling interests		**2,043**	1,782	2,560
Loss attributed to non-controlling interests		**13**	17	35
Attributed to shareholders of the Bank		**2,056**	1,799	2,595
Earnings per ordinary share in NIS	9			
Basic earnings				
Net profit attributed to shareholders of the Bank		**1.54**	1.35	1.95
Net profit attributed to shareholders of the Bank from continued operations		**1.62**	1.13	1.68
Diluted earnings				
Net profit attributed to shareholders of the Bank		**1.54**	1.35	1.94
Net profit attributed to shareholders of the Bank from continued operations		**1.62**	1.13	1.67

* Reclassified.

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

Ruben Krupik
Chairman of the Board of Directors

Dov Kotler
President and Chief Executive Officer

Ram Gev
Senior Deputy Managing Director, Chief Financial Officer

Guy Kalif
Member of the Board of Management, Chief Accountant

Tel Aviv, March 10, 2021

Consolidated Statement of Comprehensive Income
for the year ended December 31, 2020

NIS millions

	Note	2020	2019	2018
Net profit before attribution to non-controlling interests		**2,043**	1,782	2,560
Net loss attributed to non-controlling interests		**13**	17	35
Net profit attributed to shareholders of the Bank		**2,056**	1,799	2,595
Other comprehensive income (loss) before taxes:	10			
Net adjustments in respect of bonds available for sale at fair value(1)		**369**	581	(920)
Net adjustments from translation of financial statements,* after hedge effects		**(16)**	-	(2)
Adjustments of employee benefit liabilities**		**85**	(876)	379
Other comprehensive income (loss) before taxes		**438**	(295)	(543)
Effect of related tax		**(96)**	119	135
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes		**342**	(176)	(408)
Net of other comprehensive loss attributed to non-controlling interests		**1**	-	-
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**343**	(176)	(408)
Comprehensive income before attribution to non-controlling interests		**2,385**	1,606	2,152
Comprehensive loss attributed to non-controlling interests		**14**	17	35
Comprehensive income attributed to shareholders of the Bank		**2,399**	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.

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

Consolidated Balance Sheet
as at December 31, 2020

NIS millions

	Note	December 31 2020	2019
Assets			
Cash and deposits with banks	11	**138,711**	88,122
Securities[(1)(2)]	12	**71,885**	59,486
Securities borrowed or purchased under agreements to resell		**368**	471
Credit to the public		**307,973**	297,647
Allowance for credit losses		**(6,145)**	(4,707)
Net credit to the public	13, 29	**301,828**	292,940
Credit to governments	14	**2,193**	1,971
Investments in equity-basis investees	15	**556**	192
Buildings and equipment	16	**3,319**	3,233
Assets in respect of derivative instruments	27	**14,890**	11,143
Other assets[(1)]	17	**5,852**	5,281
Investment constituting a discontinued operation[(3)]	1G	**-**	849
Total assets		**539,602**	463,688
Liabilities and capital			
Deposits from the public	18	**435,217**	361,645
Deposits from banks	19	**6,591**	3,520
Deposits from the government		**761**	685
Securities lent or sold under agreements to repurchase		**6**	3
Bonds and subordinated notes	20	**23,490**	26,853
Liabilities in respect of derivative instruments	27	**16,804**	12,050
Other liabilities (of which: 781; 537, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[(1)]	21	**16,834**	20,711
Total liabilities		**499,703**	425,467
Shareholders' equity	24	**39,873**	38,181
Non-controlling interests		**26**	40
Total capital		**39,899**	38,221
Total liabilities and capital		**539,602**	463,688

(1) With regard to amounts measured at fair value, see Note 32B.
(2) For details regarding securities pledged to lenders, see Note 26.
(3) From the second quarter of 2019 to its distribution as a dividend in kind during the first quarter of 2020, the balance of the investment in the Isracard Group was accounted for using the equity method, and was stated in one line within an "investment constituting a discontinued operation."

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

Statement of Changes in Equity
for the year ended December 31, 2020

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, 2018	8,124	59	8,183	(786)	28,466	35,863	141	36,004
Net profit (loss) for the year	-	-	-	-	2,595	2,595	(29)	2,566
Dividends	-	-	-	-	(496)	(496)	-	(496)
Buyback of shares	(24)	-	(24)	-	-	(24)	-	(24)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	14	14	-	-	14	-	14
Exercise of equity compensation into shares	35	(35)	-	-	-	-	-	-
Net other comprehensive loss after tax effect	-	-	-	(408)	-	(408)	-	(408)
Balance as at 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 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).
(1) The cumulative effect of the initial implementation of generally accepted accounting principles for US banks concerning financial instruments (ASU 2016-01) and concerning derivatives and hedging (ASU 2017-12), including the associated updates.

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

Statement of Changes in Equity
for the year ended December 31, 2020 (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, 2020	**8,167**	**20**	**8,187**	**(1,352)**	**31,346**	**38,181**	**40**	**38,221**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**2,056**	**2,056**	**(13)**	**2,043**
Dividends	**-**	**-**	**-**	**-**	**(720)**	**(720)**	**-**	**(720)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**13**	**13**	**-**	**-**	**13**	**-**	**13**
Exercise of equity compensation into shares	**16**	**(16)**	**-**	**-**	**-**	**-**	**-**	**-**
Net other comprehensive income (loss) after tax effect	**-**	**-**	**-**	**343**	**-**	**343**	**(1)**	**342**
Balance as at December 31, 2020	**8,183**	**17**	**8,200**	**(1,009)**	**32,682**	**39,873**	**26**	**39,899**

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

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

Consolidated Statement of Cash Flows

for the year ended December 31, 2020

NIS millions

	2020	2019	2018
Cash flows from (for) operating activity			
Net profit for the period	**2,043**	1,782	2,566
Adjustments necessary to present cash flows from operating activity			
The Bank's share in profits of equity-basis investees	**(10)**	(11)	(4)
Depreciation of buildings and equipment	**580**	520	590
Amortizations	**19**	21	19
Provision for credit losses	**1,943**	1,276	765
Gain from sale of bonds available for sale and shares not held for trading**	**(156)**	(256)	(153)
Realized and unrealized loss (gain) from adjustments to fair value of securities held for trading	**(13)**	30	(25)
Realized and unrealized gain from adjustments to fair value of shares not held for trading**	**(59)**	(335)	(378)
Loss (gain) from realization and impairment of affiliates (including discontinued operation)	**126**	(81)	-
Gain from realization of buildings and equipment	**(57)**	(4)	(28)
Change in benefit due to share-based payment transactions	**(271)**	64	(40)
Net change in liabilities in respect of employee benefits	**(214)**	(483)	(98)
Deferred taxes, net	**(91)**	(21)	(21)
Gain from sale of credit portfolios	**(21)**	(9)	(56)
Dividends received from equity-basis investees	**9**	-	22
Adjustments in respect of exchange-rate differences	**1,440**	1,527	(409)
Accumulation differentials included in investing and financing activities	**249**	7,956	(2,247)
Net change in current assets			
Assets in respect of derivative instruments	**(3,747)**	(609)	1,481
Securities held for trading	**405**	(259)	(1,142)
Other assets	**209**	*872	(371)
Net change in current liabilities			
Liabilities in respect of derivative instruments	**4,755**	2,374	(2,426)
Other liabilities	**(4,339)**	*(6,842)	1,180
Net cash from (for) operating activity	**2,800**	7,512	(775)

* Reclassified.
** 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, 2020 (continued)

NIS millions

	2020	2019	2018
Cash flows from (for) investing activity			
Deposits with banks	**1,425**	7	1,018
Credit to the public	**(1,964)**	(7)	(7,487)
Credit to governments	**(222)**	457	(136)
Securities borrowed or purchased under agreements to resell	**103**	237	(24)
Acquisition of bonds held to maturity	**(157)**	(15)	-
Proceeds from redemption of bonds held to maturity	**43**	126	35
Acquisition of bonds available for sale and shares not held for trading*	**(50,103)**	(56,555)	(34,725)
Proceeds from sale of bonds available for sale and shares not held for trading*	**27,038**	43,958	36,622
Proceeds from redemption of bonds available for sale	**10,205**	9,671	10,515
Acquisition of credit portfolios	**(8,657)**	(7,804)	(11,768)
Proceeds from sale of credit portfolios	**55**	113	382
Investment in equity-basis investees	**(363)**	(136)	(5)
Proceeds from realization of investment in deconsolidated subsidiary (Appendix A)	**-**	1,356	-
Acquisition of buildings and equipment	**(682)**	(642)	(683)
Proceeds from realization of buildings and equipment	**72**	(52)	47
Net cash from investing activity	**(23,207)**	(9,286)	(6,209)

* 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, 2020 (continued)

NIS millions

	2020	2019	2018
Cash flows from (for) financing activity			
Deposits from banks	**3,071**	242	1,003
Deposits from the public	**73,572**	9,878	4,761
Deposits from the government	**76**	477	(112)
Securities lent or sold under agreements to repurchase	**3**	3	(380)
Issuance of bonds and subordinated notes	**2,372**	3,539	6,359
Redemption of bonds and subordinated notes	**(5,233)**	(6,161)	(5,390)
Dividend paid to shareholders of the Bank	**-**	(1,000)	(496)
Buyback of shares	**-**	-	(24)
Dividend paid to minority interests in consolidated companies	**-**	*(16)	-
Net cash from financing activity	**73,861**	6,962	5,721
Increase (decrease) in cash – includes balances of cash and cash equivalents attributed to a discontinued operation	**53,454**	5,188	(1,263)
Net of the increase (decrease) in cash and cash equivalents attributed to a discontinued operation	**-**	(8)	1
Increase (decrease) in cash	**53,454**	5,196	(1,264)
Balance of cash from continued operations at beginning of year	**85,886**	82,217	82,856
Effect of changes in exchange rates on cash balances	**(1,440)**	(1,527)	625
Balance of cash from continued operations at end of year	**137,900**	85,886	82,217

* Reclassified.

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

Consolidated Statement of Cash Flows
for the year ended December 31, 2020 (continued)

NIS millions

	2020	2019	2018
Interest and taxes paid and/or received			
Interest received	**10,749**	13,120	11,747
Interest paid	**(2,720)**	(3,330)	(2,466)
Dividends received	**11**	17	49
Income tax paid	**(2,163)**	(2,285)	(2,615)
Income tax received	**447**	373	232

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 10, 2021.

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. These directives are primarily based on generally accepted accounting principles in the United States.

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, 2020, the Bank has implemented new accounting directives and standards on the following subjects:

1. Instructions of the Banking Supervision Department on coping with the coronavirus.
2. Reporting according to US GAAP on leases.

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) Instructions of the Banking Supervision Department on coping with the coronavirus

In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to comply with their contractual payment obligations due to the coronavirus, the Banking Supervision Department issued supervision emphases regarding changes in the terms of loans, on April 21, 2020, October 11, 2020, December 3, 2020, and December 17, 2020, the main points of which are described below:

Note 1 Significant Accounting Policies (continued)

a. Classification as troubled debt restructuring due to changes in the terms of loans

Short-term changes (up to six months cumulatively) – When a banking corporation acts to stabilize borrowers who are not in arrears on their existing loans and who encounter short-term financial or operational problems as a result of the coronavirus event, in general, such action is not considered as troubled debt restructuring. Specifically, the banking corporation is permitted to assume that the borrower is not in financial difficulties at the time of the change, and therefore there is no requirement to perform additional separate analysis of every change in the terms of the loan included in the plan in order to determine whether the change constitutes troubled debt restructuring, if the change was performed due to the coronavirus event; the borrower was not in arrears when the plan to change the terms was implemented (with regard to the determination of the state of arrears, see (b) below); and the change is for a short period – six months. An additional change in the terms of a loan should be examined on a cumulative basis, to determine whether it constitutes troubled debt restructuring.

Deferral of payments on a loan executed up to December 31, 2020, within a lateral payment deferral program – In general, for a loan that was not in arrears of thirty days or more at the date of deferral of the payments, there is no requirement to classify the loan as a debt in troubled debt restructuring, even if the cumulative deferral exceeds six months. However, with regard to some of the loans, it is reasonable to assume that credit quality has worsened, and there is a requirement to examine the appropriate classification of the loans in the reports to the public, in accordance with the existing rules. With regard to small debts, the examination can be performed at the level of a group of debts with similar risk attributes, such as the cumulative duration of the deferral, repayment capability, and value of collateral.

Other changes in the terms of loans – The changes must be evaluated, according to the Public Reporting Directives and internal accounting policies, to decide whether they constitute troubled debt restructuring.

b. Determining the status of arrears

Debts that were not previously in arrears and were granted a deferral due to the coronavirus event shall not be considered debts in arrears during the deferral period.

With regard to debts that were in arrears and were granted a deferral due to the coronavirus event, the status of the arrears shall be frozen, as it stood prior to the deferral, during the period of deferral of payments (except if the debt has been classified as an impaired debt or charged off). Borrowers are not considered borrowers in arrears if they are in arrears of less than thirty days, according to the contractual terms, at the date of implementation of the plan for changes. The status of arrears is reported according to the amended contractual terms of the loan.

c. Classification of problematic debts, including impaired debts that do not accrue interest income, and charge-offs

During the period of short-term arrangements, as noted, such loans, in general, shall not be reported as impaired debts not accruing interest.

Note 1 Significant Accounting Policies (continued)

If new information is accumulated indicating that the probability of repayment of a specific loan has decreased, or that a specific loan will not be paid, the banking corporation must act in accordance with the Public Reporting Directives on the subject of the classification of problematic debts and charge-offs, and determine whether the loan whose terms have been changed should be reported as an asset not accruing interest income.

d. Disclosure in reports to the public

A bank that chooses not to classify loans as troubled debt restructuring which were not in arrears of thirty days or more at the date of deferral of payments, regarding which deferral of payments was performed, between January 1, 2021, and March 31, 2021, within the additional trajectory for deferral of payments, even if the cumulative deferral exceeds six months, shall include a pro-forma disclosure in its quarterly and annual reports to the public in 2021, presenting the main effects of the implementation of this choice on the financial statements.

(2) Leases

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

1. Operating lease liabilities and right-of-use assets are recognized at the beginning of the lease based on the present value of the future lease payments over the period of the lease, discounted by the incremental interest rate of the Bank. Lease payments include: fixed leasing payments (net of incentives paid to the lessee), variable leasing payments due to linkage to an index or rate, penalty payments due to cancellation of the lease, and amounts expected to be paid by the lessee to the lessor in respect of the guaranteed residual value. The lease period is the period stated in the contract, and includes extension options exercise of which by the Bank is reasonably certain, or a cancellation option reasonably certain not to be exercised by the Bank. The lease period is determined at the beginning of the lease, and subsequently when circumstances arise that necessitate reassessment. Right-of-use assets are adjusted for direct costs incurred in the lease and advance leasing payments, net of leasing incentives received.
2. Liabilities in respect of an operating lease are stated within other liabilities, and the related right-of-use assets are stated within other assets. Expenses in respect of an operating lease are recognized on a straight-line basis over the period of the lease, and reported in other expenses (within operating and other expenses). Variable leasing payments are recognized as incurred, together with operating lease expenses.

Note 1 Significant Accounting Policies (continued)

3. With regard to leases with an original lease period of less than one year, the Bank has chosen to apply the practical relief pursuant to which these leases are treated such that the leasing fee is allocated to profit and loss using the straight-line method over the period of the lease, without recognition of a right-of-use asset and a liability in respect of the lease in the balance sheet.
4. When possible, pursuant to the standard, the Bank has chosen the policy whereby, in real-estate leases, management fees do not constitute part of the leasing payments, and therefore do not constitute part of the asset and liability in respect of the lease. In addition, value-added tax does not constitute part of the leasing payments, and therefore does not constitute part of the asset or liability.

The new directives were implemented beginning January 1, 2020, via adjusted retrospective implementation, without restatement of comparative figures. Pursuant to the relief permitted by the standard, the Bank chose to maintain prior determinations with regard to the classification of existing leases.

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

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, 2022, 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.

Note 1 Significant Accounting Policies (continued)

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;
- 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 (until December 31, 2018, the functional currency of Bank Hapoalim Switzerland was the Swiss franc).

Hedge of net investment in a foreign operation

Until December 31, 2018, the Bank applied hedge accounting to exchange-rate differences between the functional currency of Hapoalim Switzerland and the functional currency of the Bank. The balance of the net negative capital reserve, in the amount of approximately NIS 38 million, was reclassified to profit and loss, in view of the discontinuation of the business operation and the progress of the closure processes of Hapoalim Switzerland.

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:

	2020	2019	2018	**2020**	2019
	Points			Change in % for the year	
Consumer price index					
November CPI ("known")	**102.1**	102.7	102.4	**(0.6)**	0.3
	NIS				
Exchange rate as at December 31					
USD exchange rate (in NIS per 1 USD)	**3.215**	3.456	3.748	**(7.0)**	(7.8)
EUR exchange rate (in NIS per 1 EUR)	**3.944**	3.878	4.292	**1.7**	(9.6)
CHF exchange rate (in NIS per 1 CHF)	**3.650**	3.575	3.807	**2.1**	(6.1)
TRY exchange rate	**0.433**	0.581	0.708	**(25.4)**	(18.0)

	2020	2019	2018
As at December 31			
Bank of Israel interest rate	**0.10%**	0.25%	0.25%

2. Investments in affiliates

a. Consolidated financial statements and non-controlling interests

Subsidiaries are entities controlled by the Group. 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 which, according to its plan, complies with one or more of the following conditions: (1) the total investment in equity capital at risk is not sufficient to permit the entity to finance its activities without needing additional subordinated financial support provided by any parties, including equity capital holders; (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 returns, 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.

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.

Payments received in respect of 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.

b. 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.

c. 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)

d. 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 material or otherwise. Accordingly, the Bank examines whether the present value of the cash flows, according to the new terms of the loan, differs by at least 10% from the present value of the remaining cash flows according to the present terms (plus an early repayment fee). In cases where the change is material (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 not material (are minor).

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

f. 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.

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

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

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

Credit to the public and other debt balances – application of the directives

The Bank implements, with regard to all debt balances, 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 by banks in the United States. Debt balances regarding which specific rules have not been established in the Public Reporting Directives, such as credit to the public, deposits with banks, bonds, securities borrowed or purchased in resale agreements, and credit to governments, are reported in the books of the Bank according to the recorded debt balance. The recorded debt balance is defined as the balance of the debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of that debt.

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.

Note 1 Significant Accounting Policies (continued)

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.

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 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.

Note 1 Significant Accounting Policies (continued)

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.
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 effective 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.

Note 1 Significant Accounting Policies (continued)

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, macroeconomic 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.

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.

In addition, in light of the coronavirus outbreak and in view of the extensive uncertainty involved in estimates of credit losses in each of the economic sectors adversely affected by the crisis, the Bank performed an additional adjustment of the allowance coefficient, in order to reflect the negative effect of the crisis on the repayment capability of borrowers.

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.

Note 1 Significant Accounting Policies (continued)

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.

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.

Note 1 Significant Accounting Policies (continued)

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.

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.

Note 1 Significant Accounting Policies (continued)

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 where 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. 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. 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.

e. Fair value designation – The directives of the Banking Supervision Department allow a choice, at specified dates, to measure financial instruments at fair value, such that unrealized profits and losses in respect of the changes in fair value of the items for which the fair-value option is selected are reported in the statement of profit and loss in every subsequent reporting period. In addition, prepaid costs and fees related to items for which the fair-value option has been selected are recognized in profit and loss as incurred. The choice to apply the fair-value option is performed instrument by instrument and irrevocably.

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 a 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 a 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 complied with:

- 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 a participatory right. 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. The difference between the fair value of the net proceeds received and the book value of the financial assets sold is recognized in the statement of profit and loss. 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 Bank 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 an 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.

Note 1 Significant Accounting Policies (continued)

Software costs

Software acquired by the Bank is measured at cost, with the deduction of amortization and losses from impairment.

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. 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 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.

13. Leases

Contracts that grant the Bank control over the use of a property within a lease for a period of time, for a consideration, are treated as leases. Most of the leasing transactions at the Bank are transactions in which the Bank is the lessee in an operating lease. At initial recognition, a liability is recognized in an amount equal to the present value of the future leasing fees over the period of the lease (these payments do not include variable leasing payments). Concurrently, a right-of-use asset is recognized in the amount of the liability in respect of the lease, adjusted for leasing payments paid in advance or accrued, less leasing incentives, plus direct costs incurred in the lease.

The lease period is determined as the period in which the lease cannot be canceled, together with the periods covered by an option to extend or cancel the lease, if it is reasonably certain that the lessee will or will not exercise the option, respectively, and together with periods covered by an option to extend or not to cancel the lease when the exercise right is controlled by the lessor.

The Bank has chosen to apply the practical relief pursuant to which short-term leases of up to one year are treated such that the leasing fee is allocated to profit and loss using the straight-line method over the period of the lease, without recognition of a right-of-use asset and/or liability in respect of the lease in the balance sheet.

Note 1 Significant Accounting Policies (continued)

Subsequent measurement

After the initial recognition, the liability in respect of the (operating) lease is measured at depreciated cost, according to the effective interest rate method. At every subsequent reporting date, a right-of-use asset is recognized in the amount of the depreciated cost of the liability in respect of the lease, adjusted for leasing payments paid in advance or accrued, less the balance of leasing incentives, plus undeducted direct costs, and less losses from impairment accrued in respect of the right-of-use asset. The Bank also examines the right-of-use asset for impairment, in accordance with the directives regarding impairment in respect of fixed assets.

Operating lease payments

Leasing payments, with the exception of variable leasing fees, are allocated to profit and loss using the straight-line method, over the period of the lease. Leasing incentives received are recognized as an inseparable part of the total leasing expenses, using the straight-line method, over the period of the lease. Variable leasing payments dependent on an index or interest rate are recognized in profit and loss in the period of the change. Variable leasing payments not dependent on an index or interest rate are recognized in profit and loss in the period in which the specific objective leading to the variation in leasing payments is expected to be attained, and canceled in the period in which it is no longer expected that the specific objective will be attained.

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.

Note 1 Significant Accounting Policies (continued)

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.
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 deposits 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.

Note 1 Significant Accounting Policies (continued)

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 settled 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.

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 settlement. 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 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.

Note 1 Significant Accounting Policies (continued)

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.

A provision for contingent liabilities is recorded if the following two conditions are met: (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 is made in their respect.

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.

Note 1 Significant Accounting Policies (continued)

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.

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 utilized.

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.

Note 1 Significant Accounting Policies (continued)

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.

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."

Note 1 Significant Accounting Policies (continued)

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 2016-13, "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. The existing definitions in the directives with regard to impaired debts and impaired credit risk have also been replaced with definitions of non-accruing debts and non-accruing credit risk. The Banking Supervision Department has also updated the requirements for classification and write-off of housing loans.	January 1, 2022. In general, the new rules will be applied by recording the cumulative effect in retained earnings at the initial implementation date. Pursuant to the draft directives of the Banking Supervision Department, at the initial implementation date the banking corporation is permitted to add the decrease recorded at the initial implementation date back to common equity Tier 1 capital over the course of three years; 75% on January 1 of the first year of implementation, 50% in the second year, and 25% in the third year.	The Bank is preparing to implement this standard. The expected effect cannot be estimated at this stage.

Discontinuation of publication of the LIBOR interest rate

Beginning at the end of 2021, the global financial system is expected to discontinue publication of the LIBOR interest rates and cease using these rates. The LIBOR rates serve as the basis for calculation of interest rates applicable to financial products in principal foreign currencies, or linked to these currencies, with floating rates. Within the intention to establish alternative benchmark rates for the relevant currencies, global institutions such as the ISDA (International Swaps and Derivatives Association) and the ARRC (Alternative Reference Rate Committee) are formulating alternatives to these interest rates, new legal language, and proposals for substitution mechanisms. The anticipated change will affect the entire banking industry, globally and in Israel.

Note 1 Significant Accounting Policies (continued)

Accordingly, a steering committee has been established at the Bank, to follow the international publications and examine the impact of the substitution on the activity of the Bank. The committee updates the Board of Management and Board of Directors periodically. Within the activity of the committee, the various products at the Bank that are based on the interest rates due to be eliminated have been mapped; changes have been made to legal documents; and training has been provided to Bank employees. The Bank has also begun preparations to adapt its technological systems to the new interest rates and mechanisms. In late January 2020, letters were sent to customers of the Bank describing the future change, according to the information in the possession of the Bank at that time.
In light of the uncertainty concerning the continued execution of this process, which is influenced, as noted, by international decisions, the Bank is unable to perform quantitative evaluations regarding the 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.
On March 22, 2020, the FASB issued reliefs regarding the accounting treatment of the conversion of LIBOR-based contracts to alternative benchmark rates. The reliefs primarily concern the treatment of changes in terms of debts and hedge accounting, with the aim of allowing continuity in accounting in the situation of replacement of the LIBOR with alternative benchmark rates. The Bank is examining the implementation of these reliefs with respect to the relevant contracts.

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

	Total transactions as at December 31, 2020		Of which: transactions continuing beyond 2021	
	Amount in NIS millions	Number of transactions	Amount in NIS millions	Number of transactions
Loans	**21,250**	**4,318**	13,894	3,719
Deposits	**2,257**	**1,038**	1,332	419
Derivatives (gross) – par value	**113,080**	**1,623**	70,416	1,170

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

G. Discontinued operation

Beginning with the financial statements for the second quarter of 2018, the activity of the Isracard Group was 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.

Note 1 Significant Accounting Policies (continued)

In April 2019, in accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering. 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 was accounted for using the equity method and presented within the item, "assets attributed to a discontinued operation."

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

For details 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 details regarding VAT assessments of Isracard 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).

Note 2 Interest Income and Expenses

NIS millions

	2020	2019	2018
A. Interest income*			
From credit to the public	**9,455**	10,511	10,524
From credit to governments	**49**	66	70
From deposits with banks	**113**	361	266
From deposits with the Bank of Israel and from cash	**100**	110	56
From bonds	**543**	871	755
From other assets	**-**	1	1
Total interest income	**10,260**	11,920	11,672

	2020	2019	2018
B. Interest expenses*			
On deposits from the public	**(1,042)**	(1,766)	(1,636)
On deposits from the government	**(5)**	(6)	(6)
On deposits from banks	**(14)**	(21)	(29)
On securities lent or sold under agreements to repurchase	**-**	(1)	-
On bonds and subordinated notes	**(401)**	(803)	(1,085)
On other liabilities	**(1)**	(4)	(10)
Total interest expenses	**(1,463)**	(2,601)	(2,766)
Total net interest income	**8,797**	9,319	8,906

	2020	2019	2018
C. Details of net effect of hedging derivative instruments on interest income and expenses**			
Interest income	**(125)**	(6)	(43)
Interest expenses	**20**	6	(4)

	2020	2019	2018
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**13**	11	13
Available for sale	**499**	825	701
Held for trading	**31**	35	41
Total included in interest income	**543**	871	755

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

Note 3 Non-Interest Financing Income

NIS millions

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

	2020	2019	2018
1. From activity in derivative instruments			
Total from activity in derivative instruments(1)	**(1,585)**	(1,513)	*2,006
2. From investment in bonds			
Gains from sale of bonds available for sale	**196**	269	188
Losses from sale of bonds available for sale(2)	**(40)**	(13)	(35)
Total from investment in bonds	**156**	256	153
3. Net exchange-rate differences	**1,862**	1,288	(1,518)
4. Gains (losses) from investment in shares			
Net realized and unrealized gains from adjustments to fair value of shares not held for trading(3)(4)(5)	**59**	335	378
Dividend from shares not held for trading	**11**	17	27
Adjustment to fair value of investment in affiliate(6)	**3**	(56)	-
Total from investment in shares	**73**	296	405
5. Net gains (losses) in respect of securitization transactions	**-**	-	-
6. Net gains in respect of loans sold	**21**	9	56
Total non-interest financing income in respect of non-trading activities	**527**	336	1,102

* 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 2 million for the period of the year ended December 31, 2020 (2019: approximately NIS 0 million; 2018: approximately NIS 0 million).

(3) Including provisions for impairment in the amount of approximately NIS 29 million for the year ended December 31, 2020 (2019: approximately NIS 23 million; 2018: approximately NIS 71 million).

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

(5) Until December 31, 2018, shares available for sale.

(6) Includes a provision for impairment in the amount of NIS 30 million (2019: approximately NIS 56 million) in respect of the Bank's investments in Bank Pozitif.

Note 3 Non-Interest Financing Income (continued)

NIS millions

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

	2020	2019	2018
Net income in respect of derivative instruments held for trading	**548**	253	**318
Net realized and unrealized gains (losses) from adjustments to fair value of bonds held for trading[1]	**13**	(31)	27
Net realized and unrealized gains (losses) from adjustments to fair value of shares held for trading	**-**	1	(2)
Total non-interest financing income in respect of trading activities***	**561**	223	343
Total non-interest financing income	**1,088**	559	1,445
Details of non-interest financing income in respect of trading activities, by risk exposure:			
Interest rate exposure	**179**	9	**83
Foreign currency exposure	**367**	201	**245
Share exposure	**15**	13	**15
Total	**561**	223	343

* 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 2 million (2019: NIS 68 million; 2018: NIS(6) million).

Note 4 Fees by Management Approach Segment

NIS millions

	For the year ended December 31, 2020								
	Retail activity			Business activity					
	Private customers	Small businesses	Housing loans	Commercial	Corporate	International activity	Financial management	Adjustments	Total
Account management	**394**	**245**	**-**	**42**	**50**	**3**	**38**	**-**	**772**
Credit cards	**204**	**47**	**-**	**5**	**1**	**-**	**-**	**-**	**257**
Securities activity	**520**	**51**	**-**	**14**	**88**	**1**	**53**	**76**	**803**
Financial product distribution fees[1]	**149**	**7**	**-**	**2**	**3**	**-**	**-**	**-**	**161**
Management, operations, and trust services for institutional entities[2]	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Credit handling	**-**	**20**	**1**	**104**	**89**	**2**	**-**	**-**	**216**
Conversion differences	**136**	**102**	**-**	**12**	**5**	**-**	**4**	**2**	**261**
Foreign-trade activity	**2**	**34**	**-**	**22**	**11**	**2**	**1**	**-**	**72**
Net income from credit portfolio services	**1**	**-**	**10**	**-**	**15**	**-**	**-**	**-**	**26**
Management fees and fees from life insurance and home insurance	**-**	**-**	**46**	**-**	**-**	**-**	**-**	**-**	**46**
Financing transaction fees	**7**	**40**	**-**	**191**	**254**	**15**	**1**	**-**	**508**
Other fees	**13**	**3**	**-**	**-**	**1**	**-**	**15**	**-**	**32**
Total fees	**1,426**	**549**	**57**	**392**	**517**	**23**	**113**	**78**	**3,155**

* Reclassified.
(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds, which were discontinued as of July 2019.

Note 4 Fees by Management Approach Segment (continued)

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	13	2	-	-	1	-	11	-	27
Total fees	1,490	576	58	370	496	41	125	84	3,240

* Reclassified.
(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds, which were discontinued as of July 2019.

Note 4 Fees by Management Approach Segment (continued)

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	Adjustments	Total
Account management	471	288	-	45	46	31	39	-	920
Credit cards	219	54	-	7	2	-	-	-	282
Securities activity	462	33	-	10	76	12	59	89	741
Financial product distribution fees[(1)]	170	8	-	3	1	1	-	-	183
Management, operations, and trust services for institutional entities[(2)]	-	-	-	-	-	-	37	-	37
Credit handling	-	18	1	108	86	10	-	-	223
Conversion differences	158	101	-	14	6	1	7	4	291
Foreign-trade activity	3	33	-	27	14	6	1	-	84
Net income from credit portfolio services	5	-	15	-	13	-	-	-	33
Management fees and fees from life insurance and home insurance	-	-	45	-	-	-	-	-	45
Financing transaction fees	8	46	-	137	238	21	-	-	450
Other fees	16	2	-	-	-	2	9	-	29
Total fees	1,512	583	61	351	482	84	152	93	3,318

* Reclassified.
(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds, which were discontinued as of July 2019.

Note 5 Other Income

NIS millions

Composition

	2020	2019	2018
Capital gains from sale of buildings and equipment	**57**	4	28
Income from sale of global private banking customer portfolios	**7**	12	28
Others	**72**	74	49
Total other income	**136**	90	105

Note 6 Salaries and Related Expenses

Composition

	2020	2019	2018
Salaries	**2,398**	*2,477	*2,653
Expense incurred from share-based payment transactions**(1)	**14**	158	65
Other related expenses, including study funds, vacation, and sick days	**646**	647	665
Long-term benefits	**3**	7	2
National Insurance and wage tax	**613**	669	648
Pension expenses (including severance pay and allowances)	**157**	146	151
Other post-employment benefits	**5**	4	4
Total salaries and related expenses(2)	**3,836**	*4,108	*4,188
(1) Of which: expenses arising from transactions accounted for as share-based payment transactions settled in capital instruments	**14**	14	14
(2) Of which: salaries and related expenses abroad	**229**	301	321

* Reclassified.
** For information regarding the conversion of equity compensation into a regular salary component under the wage agreement signed in January 2020, see Note 22A(2).

Note 7 Other Expenses

NIS millions

Composition

	2020	2019	2018
Pension expenses (including severance pay and allowances), defined benefit (excluding service cost)	**272**	241	270
Marketing and advertising	**111**	165	141
Communications	**201**	191	191
Computers[(1)]	**444**	*463	*359
Office	**31**	36	39
Insurance	**30**	20	11
Professional services[(2)]	**434**	724	784
Wages and reimbursement of expenses for members of the Board of Directors	**10**	7	7
Training and further education	**42**	65	63
Fees	**238**	225	195
Contribution to the community	**25**	35	36
Provision in respect of the investigation of the Bank Group's business with American customers and FIFA[(3)]	**59**	822	1,049
Others	**391**	340	251
Total other expenses	**2,288**	*3,334	*3,396

* Reclassified.
(1) Not including 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, until the conclusion of the investigation of the authorities, in the amount of NIS 108 million (2019: NIS 406 million; 2018: NIS 526 million).
(3) Of which, expenses (income) for exchange-rate differences in respect of revaluation of the provision, until the date of settlement, in the amount of NIS 45 million (2019: NIS (177) million; 2018: NIS 67 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

	2020	2019	2018
Current taxes:			
In respect of current year	**1,575**	1,602	1,879
In respect of previous years	**106**	100	138
Total current taxes	**1,681**	1,702	2,017
Additions (deductions):			
Deferred taxes:			
In respect of current year	**(91)**	(21)	118
In respect of previous years	**-**	-	(126)
Total deferred taxes	**(91)**	(21)	(8)
Total provision for taxes[1]	**1,590**	1,681	2,009
(1) Of which: provision for taxes for tax authorities overseas	**8**	10	5

The above table does not include the effect of tax on other comprehensive income. For details, 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

	2020	2019	2018
Profit before taxes	**3,732**	3,156	4,201
Rate of tax applicable to the Bank in Israel (%)	**34.19**	34.19	34.19
Amount of tax based on statutory tax rate	**1,276**	1,079	1,436
Added (deducted) tax expenses (tax savings) in respect of:			
Income of subsidiaries abroad	**25**	45	82
Exempt income and income taxable at limited rates	**-**	(3)	(40)
Non-deductible expenses	**38**	336	378
Timing differences for which deferred taxes were not recorded	**67**	87	94
Taxes in respect of previous years:			
Additional amounts payable in respect of problematic debts	**41**	38	34
Others	**65**	62	(22)
Income of subsidiaries in Israel	**1**	(3)	49
Translation differences in respect of consolidated companies abroad	**76**	40	(1)
Other differences	**1**	-	(1)
Provision for taxes on profit	**1,590**	1,681	2,009

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 2014.
2. During the years 2016-2019, Isracard and Premium Express (a subsidiary of Isracard) received tax assessments from the Customs and VAT Division of the Israel Tax Authority, further to a lateral sectoral audit which primarily concerned account settlement of Isracard and Premium Express with respect to issuer fees received from international organizations in connection with cardholders' transactions with businesses overseas. Objections to the tax assessments filed by Isracard and Premium Express, based on the opinions of their legal advisors, were rejected by the VAT authorities. 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. The Bank included a provision against this liability in the reported period, in accordance with the estimates of its legal advisors.
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 tax expenses in respect of the sale of the Isracard Group in its statements. If the position of the Tax Assessment Officer, described above, is accepted, the tax liability 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, the Bank did not include a provision for tax in respect of this matter in its statements.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes

	Balance as at December 31, 2019	Changes allocated to profit and loss	Changes allocated to other comprehensive income	Balance as at December 31, 2020	Average tax rate December 31, 2020
	NIS millions				%
Deferred tax assets					
From allowance for credit losses	1,758	**395**	**-**	**2,153**	**34.2**
From the provision for vacation and bonuses	311	**(186)**	**-**	**125**	**34.2**
From employee benefits	1,845	**(76)**	**(20)**	**1,749**	**34.2**
Losses carried forward for tax purposes	389	**65**	**-**	**454**	**22.0**
From securities and other monetary items	15	**(28)**	**3**	**(10)**	**23.3**
From software assets	72	**29**	**-**	**101**	**34.2**
From other non-monetary items	32	**(4)**	**-**	**28**	**34.1**
Gross balance of deferred tax assets	4,422	**195**	**(17)**	**4,600**	**32.4**
Unrecognized deferred tax assets	337	**53**	**-**	**390**	**21.8**
Balance of deferred tax assets net of unrecognized deferred tax assets	4,085	**142**	**(17)**	**4,210**	**34.0**
Deferred tax liabilities					
From securities	32	**16**	**(3)**	**45**	**21.5**
Fixed assets and leases	143	**-**	**-**	**143**	**26.6**
In respect of investments in affiliates*	134	**16**	**-**	**150**	**11.9**
Other	1	**(1)**	**-**	**-**	**0.0**
Gross balance of deferred tax liabilities	310	**31**	**(3)**	**338**	**16.8**
Net balance of deferred tax assets**	3,775	**111**	**(14)**	**3,872**	**37.3**
* Effects included in discontinued operation	(38)	**(20)**	**-**	**(58)**	
** Of which: in respect of activity overseas	2	**(1)**	**-**	**1**	

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

D. Change in deferred taxes (continued)

	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 Balance as at 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 software 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
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)

E. Legislation concerning taxes

Income tax

The rate of corporate tax from 2018 forward is 23%.

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

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			
2018 forward	17.00%	23.00%	34.19%

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.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

NIS millions

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 2020, the cumulative amounts of the undistributed profits before tax at the aforesaid foreign subsidiary totaled approximately NIS 217 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 75 million as at December 31, 2020.

H. Losses carried forward for tax purposes

	December 31, 2020				
	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	**451**	**103**	**(56)**	**47**	**-**
Subsidiaries overseas	**1,614**	**351**	**(350)**	**1**	**2023**

	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

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

I. Agreement of principles regarding the method of recognition for tax purposes of the allowance 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		
	2020	2019	2018
Basic earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**2,056**	1,799	2,595
Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions	**2,165**	1,503	2,231
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	**1,335,168,159**	1,333,703,474	1,333,065,159
Effect of RSU	**495,184**	1,029,783	1,269,814
Effect of shares purchased during the period	**-**	-	(562,192)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,335,663,343**	1,334,733,257	1,333,772,781
Diluted earnings			
Net profit attributed to the ordinary shareholders of the Bank, in NIS millions	**2,056**	1,799	2,595
Net profit attributed to the ordinary shareholders of the Bank from continued operations, in NIS millions	**2,165**	1,503	2,231
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	**1,335,663,343**	1,334,733,257	1,333,772,781
Effect of RSU	**653,077**	830,756	2,103,931
Weighted average number of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,336,316,420**	1,335,564,013	1,335,876,712
Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**1.54**	1.35	1.95
Net earnings per share from continued operations	**1.62**	1.13	1.68
Diluted earnings			
Net earnings per share	**1.54**	1.35	1.94
Net earnings per share from continued operations	**1.62**	1.13	1.67

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, 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)
Net change during the year	392	-	(568)	(176)	-	(176)
Balance as at January 1, 2020	**250**	**(38)**	**(1,561)**	**(1,349)**	**3**	**(1,352)**
Net change during the year	**239**	**38**	**65**	**342**	**(1)**	**343**
Balance as at December 31, 2020	**489**	**-**	**(1,496)**	**(1,007)**	**2**	**(1,009)**

* 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.

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, 2020			December 31, 2019			December 31, 2018		
	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 – securities) available for sale at fair value[3]									
Net unrealized gains (losses) from adjustments to fair value	**525**	**(180)**	**345**	834	(275)	559	(495)	163	(332)
(Gains) losses in respect of bonds available for sale reclassified to the statement of profit and loss[1]	**(156)**	**50**	**(106)**	(253)	86	(167)	(425)	84	(341)
Net change during the year	**369**	**(130)**	**239**	581	(189)	392	(920)	247	(673)
Adjustments from translation*									
Adjustments from translation of financial statements	**-**	**-**	**-**	-	-	-	51	-	51
Hedges	**-**	**-**	**-**	-	-	-	(53)	18	(35)
Net (gains) losses reclassified to the statement of profit and loss, including in respect of the realization of an activity	**(16)**	**54**	**38**	-	-	-	-	-	-
Net change during the year	**(16)**	**54**	**38**	-	-	-	(2)	18	16
Employee benefits									
Net actuarial profit (loss) for the year	**(46)**	**25**	**(21)**	(993)	348	(645)	233	(85)	148
Net (gains) losses reclassified to the statement of profit and loss[2]	**131**	**(45)**	**86**	117	(40)	77	146	(45)	101
Net change during the year	**85**	**(20)**	**65**	(876)	308	(568)	379	(130)	249
Total net change during the year	**438**	**(96)**	**342**	(295)	119	(176)	(543)	135	(408)
Changes in components of other comprehensive loss attributed to non-controlling interests									
Total net change during the year	**(1)**	**-**	**(1)**	-	-	-	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank									
Total net change during the year	**439**	**(96)**	**343**	(295)	119	(176)	(543)	135	(408)

* Adjustments from the translation of financial statements of a foreign operation whose functional currency, until December 31, 2018, differed from the functional currency of the Bank.
** Net gains (losses) in respect of net hedging of investments in foreign currency.
(1) 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	
	2020	2019
Cash and deposits with central banks	**135,469**	83,316
Deposits with commercial banks	**3,242**	4,806
Total*,**	**138,711**	88,122
* Of which: cash, deposits with banks, and deposits with central banks for an original period of up to three months	**137,900**	85,886
** Excluding collective allowance for credit losses	**1**	1

Note:
For information regarding liens, see Note 26.

Note 12 Securities

NIS millions

	December 31, 2020				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Israeli government	**1**	**1**	**-**	**-**	**1**
Financial institutions in Israel	**425**	**425**	**8**	**-**	**433**
Total bonds held to maturity	**426**	**426**	**8**	**-**	**434**

	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	**43,335**	**42,969**	**368**	**(2)**	**43,335**
Foreign governments	**10,562**	**10,456**	**157**	**(51)**	**10,562**
Foreign financial institutions	**5,058**	**4,918**	**142**	**(2)**	**5,058**
Foreign others	**3,904**	**3,787**	**120**	**(3)**	**3,904**
Total bonds and debentures available for sale	**62,859**	**62,130**	**(1)787**	**(1)(58)**	**62,859**

	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	**2,385**	**2,203**	**(2)198**	**(2)(16)**	**2,385**
Of which: shares without readily determinable fair value	**1,368**	**1,368**	**-**	**-**	**1,368**
Total securities not held for trading	**65,670**	**64,759**	**993**	**(74)**	**65,678**

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.
(2) Charged to the statement of profit and loss.

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

Note 12 Securities (continued)

NIS millions

	December 31, 2020				
	Balance sheet value	Depreciated cost (in shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
4) Securities held for trading					
Bonds and debentures					
Israeli government	**6,213**	**6,145**	**71**	**(3)**	**6,213**
Foreign governments	**2**	**2**	**-**	**-**	**2**
Total bonds and debentures held for trading	**6,215**	**6,147**	**71**	**(3)**	****6,215**
Shares					
Total securities held for trading	**6,215**	**6,147**	**(1)71**	**(1)(3)**	**6,215**
Total securities(2)	**71,885**	**70,906**	**1,064**	**(77)**	**71,893**

	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	**1,006**	**(2)**	**-**	**(2)**	**-**	**-**	**-**	**-**
Foreign governments	**4,349**	**(41)**	**-**	**(41)**	**658**	**(10)**	**-**	**(10)**
Foreign financial institutions	**115**	**(2)**	**-**	**(2)**	**-**	**-**	**-**	**-**
Foreign others	**98**	**(2)**	**-**	**(2)**	**90**	**(1)**	**-**	**(1)**
Total bonds and debentures available for sale	**5,568**	**(47)**	**-**	**(47)**	**748**	**(11)**	**-**	**(11)**

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

** Of which, securities in the amount of NIS 3,826 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 4.6 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				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures					
Financial institutions in Israel	299	299	4	-	303
Total bonds held to maturity	299	299	4	-	303

	Balance sheet value	Depreciated cost	Accumulated other comprehensive income		Fair value*
			Gains	Losses	
2) Bonds available for sale					
Bonds and debentures					
Israeli government	33,417	33,155	264	(2)	33,417
Foreign governments	8,108	8,146	23	(61)	8,108
Foreign financial institutions	6,830	6,722	108	-	6,830
Foreign others	2,454	2,426	31	(3)	2,454
Total bonds and debentures available for sale	50,809	50,449	(1)426	(1)(66)	50,809

	Balance sheet value	Depreciated cost (in shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Investments in shares not held for trading					
Shares not held for trading	1,771	1,626	(2)150	(2)(5)	1,771
Of which: shares without readily determinable fair value	1,021	1,021	-	-	1,021
Total securities not held for trading	52,879	52,374	580	(71)	52,883

* Fair-value data are usually based on stock-exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Included in equity in the item "adjustments for presentation of bonds available for sale at fair value" within other comprehensive income.
(2) Charged to the statement of profit and loss.

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

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*
4) Securities held for trading					
Bonds and debentures					
Israeli government	6,602	6,533	69	-	6,602
Foreign governments	3	3	-	-	3
Total bonds and debentures held for trading	6,605	6,536	69	-	**6,605
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

	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 securities 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)
Foreign others	97	(2)	-	(2)	319	(1)	-	(1)
Total bonds and debentures available for sale	3,908	(43)	-	(43)	2,324	(23)	-	(23)

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

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

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

(2) Of which: securities in the amount of approximately NIS 2.6 billion were pledged to lenders. 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 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, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	**147,900**	**1**	**952**	**148,853**	**13,618**	**162,471**
Debts examined on a collective basis(1)	**26,743**	**99,442**	**32,935**	**159,120**	**-**	**159,120**
(1) Of which: allowance calculated based on the extent of arrears	**52**	**99,311**	**-**	**99,363**	**-**	**99,363**
Total(2)	**174,643**	**99,443**	**33,887**	**307,973**	**13,618**	**321,591**
(2) Of which:						
Debts in restructuring	**2,012**	**-**	**698**	**2,710**	**-**	**2,710**
Other impaired debts	**1,209**	**1**	**40**	**1,250**	**-**	**1,250**
Total impaired debts	**3,221**	**1**	**738**	**3,960**	**-**	**3,960**
Debts in arrears of 90 days or more	**31**	**652**	**45**	**728**	**-**	**728**
Other problematic debts	**5,794**	**-**	**24**	**5,818**	**-**	**5,818**
Total problematic debts	**9,046**	**653**	**807**	**10,506**	**-**	**10,506**
Allowance for credit losses in respect of debts						
In respect of debts examined on an individual basis	**3,942**	**-**	**118**	**4,060**	**5**	**4,065**
In respect of debts examined on a collective basis(3)	**500**	**758**	**827**	**2,085**	**-**	**2,085**
(3) Of which: allowance calculated based on the extent of arrears***	**-**	**758**	**-**	**758**	**-**	**758**
Total allowance for credit losses(4)	**4,442**	**758**	**945**	**6,145**	**5**	**6,150**
(4) Of which: allowance in respect of impaired debts	**1,342**	**-**	**111**	**1,453**	**-**	**1,453**

* 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 52 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.

*** 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 609 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, 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 extended to purchasing groups currently in the process of construction.

*** 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.

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	Housing	Other private	Total		
Allowance for credit losses as at January 1, 2018	(1)2,923	(1)396	940	4,259	7	4,266
Provision for credit losses	(1)121	(1)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	(1)2,997	(1)424	904	4,325	9	4,334
Provision (income) 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)
Other	(2)	-	(5)	(7)	-	(7)
Allowance for credit losses as at December 31, 2019	4,007	446	790	5,243	8	5,251
Provision (income) for credit losses	**1,181**	**317**	**448**	**1,946**	**(3)**	**1,943**
Charge-offs	**(648)**	**(14)**	**(551)**	**(1,213)**	**-**	**(1,213)**
Recoveries of debts charged off in previous years	**602**	**9**	**339**	**950**	**-**	**950**
Net charge-offs	**(46)**	**(5)**	**(212)**	**(263)**	**-**	**(263)**
Allowance for credit losses as at December 31, 2020	**5,142**	**758**	**1,026**	**6,926**	**5**	**6,931**
Of which: in respect of off-balance sheet credit instruments						
December 31, 2018	532	-	35	567	1	568
December 31, 2019	497	-	39	536	1	537
December 31, 2020	**700**	**-**	**81**	**781**	**-**	**781**

* 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	
	2020	2019
Credit to the government of Israel	**954**	794
Credit to foreign governments	**1,239**	1,177
Total credit to governments*	**2,193**	1,971
* Excluding collective allowance for credit losses	**4**	6

Note 15 Investments in Affiliates and Information Regarding the Affiliates

A. Composition

	2020	2019
	Equity-basis investees	
Investments in shares stated on an equity basis	**503**	175
Other investments		
Investment in subordinated notes	**-**	-
Investment in owner loans	**53**	17
Total investments	**556**	192
Of which:		
Accrued post-acquisition profits, net	**59**	49
Details of the book value and market value of marketable investments		
Book value	**39**	38
Market value	**106**	73

B. Share in profits of equity-basis investees, net

	2020	2019	2018
The Bank's share in net profits of equity-basis investees	**10**	11	4

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											
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Consolidated companies												
Hapoalim Switzerland Ltd.[2]	**100%**	100%	**483**	315	**-**	-	**(343)**	(689)	**-**	-	**136**	2
Bank Pozitif Kredi ve Kalkinma Bankasi A.S., a commercial bank in Turkey[3]	**69.8%**	69.8%	**3**	33	**-**	-	**(30)**	(42)	**-**	-	**-**	(1)
Poalim Capital Markets - Investment House Ltd.	**100%**	100%	**1,498**	997	**-**	-	**45**	45	**-**	-	**-**	-
Tarshish Holdings and Investments Poalim Ltd., financial company	**100%**	100%	**4,311**	4,740	**-**	-	**33**	(16)	**-**	-	**(6)**	48
Opaz Ltd., investments and holdings	**100%**	100%	**1,468**	1,461	**-**	-	**11**	21	**-**	-	**(4)**	30
Continental Poalim Ltd., financial company	**100%**	100%	**529**	531	**-**	-	**3**	3	**(5)**	-	**-**	-
Hapoalim Nechasim (Menayot) Ltd., holding company	**100%**	100%	**719**	697	**-**	-	**24**	32	**-**	-	**(2)**	11
Zohar Hashemesh Lehashkaot Ltd.	**100%**	100%	**913**	918	**850**	850	**(1)**	84	**-**	-	**(4)**	21
Equity-basis investees												
Isracard Ltd., credit-card services[4]	**-**	33.0%	**-**	849	**-**	-	**(109)**	296	**-**	(851)	**-**	(4)

(1) Including adjustments in respect of the presentation of certain securities of affiliates at fair value.
(2) For details, see Section D below.
(3) In addition, the Bank provided credit lines for Bank Pozitif in a total amount of NIS 161 million (2019: NIS 173 million), of which a total of approximately NIS 96 million was utilized (2019: NIS 121 million). 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. Poalim Capital Markets Group

The Poalim Capital Markets Group (hereinafter: "Poalim Capital Markets") serves as the non-financial investment arm of the Bank, operating in two main areas:

- Direct equity and quasi-equity investments (mezzanine) in companies, and investments and ventures in private investment funds. The investment policy of Poalim Capital Markets is consistent with the restrictions of the Banking (Licensing) Law, and therefore includes, among other matters, minority interests only (up to 20% in any means of control). Poalim Capital Markets invests in various sectors, including, among others, utilities, renewable energy, industry, real estate, technology, and fintech.
- Investment banking in Israel and overseas; within this activity, Poalim Capital Markets provides a range of services including financial and strategic consulting for mergers and acquisitions, guidance for companies in various investments in Israel and overseas, and consulting on public and private capital offerings overseas. Poalim Capital Markets also holds Poalim IBI (at a holding rate of approximately 28.4%), which provides consulting, underwriting, and management services for public offerings in Israel and for capital raising through private offerings.

During the year, the Bank increased the scope of investments executed at Poalim Capital Markets, within a multi-year trajectory for investments through 2023 approved by the Board of Directors of the Bank.

E. Isracard Group

On March 9, 2020, the Bank distributed its remaining holdings in shares of Isracard (33%) as a dividend in kind to the shareholders of the Bank. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. Due to the share price falling below the balance of the investment in the Bank's books as at December 31, 2019, the Bank recognized a loss from impairment of the investment in the amount of approximately NIS 109 million (after tax effect), within profit from a discontinued operation, in its financial statements for the first quarter of 2020. As of the date of the distribution of the shares, the Bank does not hold shares in Isracard; the Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition.

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

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

For details 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 details regarding VAT assessments for Isracard 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).

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

F. Hapoalim Switzerland

In September 2017, the Bank decided to act to discontinue the activity of Hapoalim Switzerland. At present, there are no remaining customer accounts at Hapoalim Switzerland.

The Bank is acting to return the banking license.

G. 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.

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

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer.

The deal is subject to the receipt of regulatory approvals, in Turkey and in Israel, by June 30, 2021. The Bank, without the minority shareholder, is responsible for the business representations to the buyer. Subject to completion of the transaction, an agreement has been reached with the minority shareholder regarding waiving by both parties of mutual contentions.

Subject to completion of the transaction, taking into consideration the depreciated value of the investment in the books of the Bank and the exchange rate of Turkish currency at this time, the Bank is expected to record profit of approximately NIS 40 million at the completion of the transaction (no tax payment is expected). At this time, there is no certainty that the approvals required for the sale will be received, and there is no certainty that the transaction will be completed, or regarding the profit to be recorded, also taking into consideration the economic situation in Turkey and the circumstances of Bank Pozitif.

For details regarding the instructions of the Bank of Israel to raise the weighting rates of risk-adjusted assets and regarding the deduction of the credit line facility from supervisory capital, see the section "Capital and capital adequacy," above.

The balance of credit to the public totaled TRY 700 million (approximately NIS 302 million) as at December 31, 2020, compared with a balance of TRY 641 million (approximately NIS 372 million) at the end of 2019.

The business results of the Bank Pozitif Group in 2020 amounted to a loss of approximately TRY 36 million, compared with a loss in the amount of approximately TRY 7 million in 2019.

The Bank's total investment in Bank Pozitif as at December 31, 2020, after recognition of a loss from impairment of the investment, as noted above, amounted to NIS 99 million (NIS 3 million in capital and NIS 96 million in credit lines granted to Bank Pozitif, which are expected to be repaid within the completion of the transaction), compared with approximately NIS 154 million (NIS 33 million in capital and NIS 121 million in loans, as noted) at the end of 2019.

Note 15 Investments in Affiliates and Information Regarding the Affiliates (continued)

H. The Bank holds 10% of the shares of Automatic Bank Services Ltd. ("ABS") and 25% of the shares of Bank Clearing Center Ltd. ("BCC"). On October 28, 2019, ABS received a notice from the Competition Authority in which it was argued that the significant affinities between the companies constitute an alleged restrictive arrangement that has not been granted approval or temporary permission by the Competition Commissioner. In the conclusion of its notice, the Authority asked the company to act immediately to terminate the alleged violation and remedy the situation. In light of this position, on May 10, 2020, the companies filed a request to approve a restrictive arrangement with the Competition Tribunal. On December 27, 2020, the Competition Commissioner filed a request with the Competition Tribunal to exercise the authority granted to her by law and order ASB and BCC, among other matters, to terminate the restrictive arrangement between them within a specified period of time. The tribunal denied the request of the Competition Authority on February 10, 2021. Concurrently with the procedure underway in the tribunal, on January 5, 2021, ABS contacted the shareholders of BCC, including the Bank, with a non-binding bid to acquire their shares in BCC (the "Transaction"). On February 28, 2021, ABS gave notice that after acting to promote the Transaction, including with the shareholders of BCC, it had reached the conclusion that under the present circumstances the Transaction was not feasible. The committee therefore notified the shareholders of BCC, on February 28, 2021, that it was revoking its bid, suspending its operations, and retaining the right to apply in the future, according to developments.

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, 2018	4,077	2,320	4,455	10,852
Additions	71	144	427	642
Subtractions	(55)	(1)	(11)	(67)
Balance as at December 31, 2019	4,093	2,463	4,871	11,427
Additions	**83**	**143**	**456**	**682**
Subtractions	**(90)**	**(8)**	**(2)**	**(100)**
Balance as at December 31, 2020*	**4,086**	**2,598**	**5,325**	**12,009**
Depreciation and losses from impairment				
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)
Balance as at December 31, 2019	2,475	1,980	3,739	8,194
Annual depreciation	**126**	**134**	**286**	**546**
Loss from impairment	**-**	**-**	**34**	**34**
Subtractions	**(74)**	**(8)**	**(2)**	**(84)**
Balance as at December 31, 2020	**2,527**	**2,106**	**4,057**	**8,690**
Book value				
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
Balance as at December 31, 2020	**1,559**	**492**	**1,268**	**3,319**
Weighted average depreciation rate, in %, as at December 31, 2019	4.7	14.0	20.0	
Weighted average depreciation rate, in %, as at December 31, 2020	**4.2**	**13.1**	**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 1,630 million.
Equipment, including computers, furniture, and vehicles: NIS 1,637 million; software costs: NIS 3,897 million.

(1) Of which: capitalized costs of software developed in-house with a net balance sheet balance in the amount of NIS 1,111 million (December 31, 2019: NIS 959 million; December 31, 2018: NIS 784 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 – up to 5 years.

C. The balance sheet balance of buildings available for sale, in the amount of NIS 27 million (December 31, 2019: NIS 36 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 31 million.

D. Rights to land in the amount of NIS 35 million (December 31, 2019: NIS 31 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.

E. The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 29 million (December 31, 2019: NIS 39 million), representing investment property rented to others, in both periods.

Note 16 Buildings and Equipment (continued)

NIS millions

F. Leases

As of January 1, 2020, the Bank applies Codification Topic 842 concerning leases.

Within leasing arrangements, the Bank leases real estate (primarily office space and branches), vehicles, and equipment, mainly used for the business operations of the Bank. Most of the leasing arrangements of the Bank are classified as operating leases.

The lease payments in respect of the real-estate and vehicle leasing contracts entered into by the Bank are mainly linked to the consumer price index at the date of the entry into the lease. In equipment leasing contracts entered into by the Bank, leasing payments are based on usage. The average lease period of real estate is approximately 8.3 years. As the interest rate inherent in a lease is not easily determinable, the incremental interest rate of the Bank is used. The Bank does not have significant leasing arrangements classified as finance leases. The lease periods are the contractual periods stated in the leasing contracts, and also include periods arising from extension options which there is a reasonable certainty that the Bank will exercise. Leasing expenses are recognized within the item "maintenance and depreciation of buildings and equipment" in the statement of profit and loss.

The Bank also enters into transactions for leasing of vehicles for its employees, for periods of three years.

a. Leasing expenses

	For the year ended December 31 2020
Expenses in respect of operating leases	**129**
Expenses in respect of short-term leases	**5**
Variable leasing expenses	**8**
Income in respect of subleases	**-**
Total leasing expenses	**142**

b. Additional information regarding leases

	For the year ended December 31 2020
Net capital gain (loss) from resale and re-lease transactions	**-**
Cash paid in respect of balances included in lease liability measurement	
Cash flow in respect of routine operations in operating leases	**129**
Right-of-use assets recognized in respect of new operating leases	**43**
Weighted average remaining period (in years)	
In operating leases	**8.3**
Weighted average discount rate	
In operating leases	**0.79%**

Note 16 Buildings and Equipment (continued)

NIS millions

F. Leases (continued)

c. Undiscounted cash flows and liabilities in respect of operating leases, by maturity period

	December 31, 2020	
	Undiscounted cash flows	Liability in respect of lease
Up to one year	**136**	**130**
Over 1 year up to 2 years	**118**	**113**
Over 2 years up to 3 years	**103**	**98**
Over 3 years up to 4 years	**88**	**83**
Over 4 years up to 5 years	**69**	**65**
Over 5 years	**307**	**297**
Total	**821**	**786**

d. Right-of-use assets and liabilities in respect of leases

	December 31, 2020
Right-of-use assets in respect of operating leases	
Other assets	**791**
Liabilities in respect of operating leases	
Other liabilities	**786**

Note 17 Other Assets

NIS millions

Composition

	December 31	
	2020	2019
Deferred tax assets, net*	**3,955**	3,856
Current taxes – excess of advances paid over current liability for income tax	**33**	48
Assets received in respect of credit settled	**30**	30
Expenses for issuance of bonds and subordinated notes	**58**	61
Income receivable	**173**	202
Prepaid expenses	**325**	296
Assets in respect of activity in the Maof market(1)	**6**	24
Other receivables and debit balances	**481**	764
Right-of-use assets in respect of operating leases(2)	**791**	-
Total other assets	**5,852**	5,281

* See also Note 8D.
(1) Stated at fair value.
(2) For additional information, see Note 1D(2).

Note 18 Deposits from the Public

NIS millions

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

	December 31	
	2020	2019
In Israel		
On demand		
Non-interest bearing	**194,435**	145,695
Interest bearing	**107,302**	86,408
Total on demand	**301,737**	232,103
Fixed term	**115,283**	113,332
Total deposits from the public in Israel*	**417,020**	345,435
Outside Israel		
On demand		
Non-interest bearing	**1,335**	1,193
Interest bearing	**6,168**	5,306
Total on demand	**7,503**	6,499
Fixed term	**10,694**	9,711
Total deposits from the public outside Israel	**18,197**	16,210
Total deposits from the public	**435,217**	361,645
* Of which:		
Deposits of private individuals	**189,965**	165,615
Deposits of institutional entities	**64,109**	48,817
Deposits of corporations and others	**162,946**	131,003

B. Deposits from the public by size

	December 31	
	2020	2019
Deposit ceiling		
Up to 1	**145,035**	122,404
Over 1 up to 10	**110,768**	90,385
Over 10 up to 100	**61,471**	55,261
Over 100 up to 500	**42,604**	35,698
Over 500	**75,339**	57,897
Total	**435,217**	361,645

Note 19 Deposits from Banks

NIS millions

Composition

	December 31	
	2020	2019
In Israel		
Commercial banks		
On-demand deposits	**3,288**	2,105
Fixed-term deposits	**937**	532
Acceptances	**360**	339
Central banks		
On-demand deposits	**601**	122
Fixed-term deposits	**1,209**	-
Outside Israel		
Commercial banks		
On-demand deposits	**1**	8
Fixed-term deposits	**180**	196
Acceptances	**15**	14
Central banks		
Fixed-term deposits	**-**	204
Total deposits from banks	**6,591**	3,520

Note 20 Bonds and Subordinated Notes

A. Composition

	December 31			
	2020			2019
	Average duration[1]	Internal rate of return[2]	NIS millions	
Bonds and subordinated notes not convertible into shares				
In Israeli currency[3]				
Unlinked	**0.7**	**6.0%**	**596**	955
CPI-linked	**2.8**	**1.5%**	**20,551**	23,972
In foreign currency				
USD	**0.1**	**2.8%**	**13**	152
Other	**-**	**-**	**-**	22
Bonds and subordinated notes convertible into shares				
In Israeli currency[3]				
CPI-linked	**2.8**	**4.2%**	**2,330**	1,752
Total bonds and subordinated notes*	**2.7**	**1.8%**	**23,490**	26,853
Of which: subordinated notes				
Included in Tier 1 capital	**-**	**-**	**488**	733
Included in Tier 2 capital	**-**	**-**	**6,207**	5,929
Others not included in capital	**-**	**-**	**4,956**	6,156
Total subordinated notes	**2.2**	**2.9%**	**11,651**	12,818

* 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 21,855 million (December 31, 2019: NIS 24,927 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 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) Subordinated capital notes Series 1 issued in June 2009 for a period of 50 years, which can be redeemed early on July 1 of each year beginning in 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.

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

(3) In May 2020, Hapoalim Hanpakot issued CPI-linked subordinated notes (Series U), bearing annual interest at a rate of 2.59%, with principal in a total amount of approximately NIS 1.06 billion, maturing in 2031 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2026). The 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.

In August 2020, the Bank issued CPI-linked subordinated notes (Series E), bearing annual interest at a rate of 2.97%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2031 (with the option of early maturity, at the initiative of the Bank and with the approval of the Bank of Israel, in 2026). The notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

Note 21 Other Liabilities

NIS millions

Composition

	December 31	
	2020	2019
Deferred tax liability, net*	**83**	81
Current taxes – surplus current income-tax liability over advances paid	**294**	309
Income in advance	**258**	286
Employees, in respect of salaries	**570**	1,124
Provision for severance pay, retirement compensation, and pensions**	**4,899**	5,198
Expenses payable	**670**	2,246
Creditors in respect of credit-card activity	**7,554**	8,118
Allowance for credit losses in respect of off-balance sheet credit risk	**781**	537
Liabilities in respect of activity in the Maof market(1)	**6**	24
Other creditors and credit balances	**933**	2,788
Liabilities in respect of operating leases(2)	**786**	-
Total other liabilities	**16,834**	20,711

* See also Note 8D.
** See also Note 22.
(1) Stated at fair value.
(2) For additional information, see Note 1D(2).

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 (most recently in January 2020) 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 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. Remuneration in phantom units

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, during 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.
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.

Note 22 Employee Benefits (continued)

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:

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 influenced by employee age, 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.

Note 22 Employee Benefits (continued)

(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.

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 as at the end of 2020, 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 is estimated at approximately 3.5% during the period of the agreement.
b. A one-time signing bonus of a total cost of NIS 210 million.
c. The plan for granting phantom units to employees, which was the customary practice at the Bank (Section 2 above), was converted to wages and benefits paid to the eligible 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 encompassed the full consideration granted to the employees for the years 2018-2022; all labor disputes and strike announcements declared by the employee representatives prior to the signing of the agreement have been rescinded.

The effect of this agreement amounted to 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.

Note 22 Employee Benefits (continued)

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.

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 2016 remuneration policy of the Bank for officers, valid for a period of three years; on December 26, 2019, the general meeting of shareholders of the Bank approved the extension of the term of the remuneration policy until December 31, 2020. The remuneration policy is consistent with the Financial Corporations Officer Remuneration Law (Special Approval and Non-Deduction of Expenses for Tax Purposes due to Exceptional Remuneration), 2016 (the "Remuneration Limit Law") and 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"), which were updated from time to time. The Bank also applied some of the principles of its 2016 Remuneration Policy to its subsidiaries in Israel and overseas and to its branches overseas.

On October 22, 2020, the general meeting of shareholders of the Bank approved a remuneration policy for officers, valid for three years, in effect from 2021 forward. This remuneration policy conforms with the Remuneration Limit Law and the ceiling established therein, the Companies Law, and the Banking Corporation Remuneration Policy Directive (the "2020 Remuneration Policy"). In September 2020, the Bank also adopted a comprehensive remuneration policy for its senior executives, and is in the process of updating the other sections of the policy with regard to the other categories of employees at the Bank (all of these sections of the remuneration policy, concerning all of the categories, shall hereinafter be referred to, jointly, as the "2020 Remuneration Policy"). The Bank also adopted a remuneration plan in accordance with the 2021 Remuneration Policy (the "2021 Plan"). See Section D below regarding the principal changes included in the 2020 Remuneration Policy.

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.

Note 22 Employee Benefits (continued)

2. Previous Chairman of the Board of Directors

The late Mr. Oded Eran served as Chairman of the Board of Directors of the Bank from January 1, 2017, to June 18, 2020. The terms of his service included 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, and a proportional share for part of a year). The employment agreement with the previous Chairman was extended, with the approval of the general meeting of December 26, 2019 (following approval by the Remuneration Committee and the Board of Directors), with no change, until the end of 2020, except with regard to the linkage of the remuneration to the CPI. In connection with the resignation of the late Oded Eran from the position of Chairman of the Board, in June 2020, the Bank, with the approval of the Remuneration Committee and of the Board of Directors, waived the work of the chairman during the advance notice period (six months), without detriment to the Chairman's right to the full terms of remuneration in respect of this period.

3. Chairman of the Board of Directors

Mr. Ruben Krupik (the "Chairman") serves as an external director, pursuant to Proper Conduct of Banking Business Directive 301 ("301 External Director"), and as an independent director, pursuant to the directives of the Companies Law, at the Bank as of February 18, 2016, and was appointed for a second term of service, ending February 17, 2022, at the general meeting of July 18, 2019. Mr. Ruben Krupik has served as Chairman of the Board of Directors of the Bank since June 28, 2020. Prior to his appointment as Chairman, beginning June 9, 2020, the date on which the late Mr. Oded Eran, the previous Chairman of the Board, took a leave of absence due to illness, Mr. Krupik served as Acting Chairman.

The main points of the terms of service approved for the Chairman at the general meeting of October 22, 2020, include a consideration in a total amount of NIS 2.4 million per year (NIS 200,000 per month), linked to the CPI, against an invoice, plus VAT as relevant, without benefits (without deposits into severance pay or provident funds, or employer contributions to a study fund); the terms shall be in effect (subject to the statements below) from June 28, 2020 (the date of the election of Mr. Krupik to the office of Chairman of the Board of the Bank) to December 31, 2023.

Prior to his appointment to the office of Chairman, Mr. Krupik was entitled to the payment of remuneration due to his service as a director, in accordance with the Remuneration Regulations. In view of the appointment of Mr. Krupik to the office of Chairman, taking into consideration the significant change in the scope of his position (to a full-time position) and the responsibility inherent in this office, the remuneration terms described above, which exceed ordinary remuneration of directors and are commensurate with his position, were brought before the general meeting for approval.

Note 22 Employee Benefits (continued)

In August 2019, the Banking Supervision Department issued a letter concerning principles for the establishment of the terms of service of a chairperson of the board of directors of a bank without a controlling core (the "Supervision Letter"). The Supervision Letter states, among other matters, that service as a board chairperson at a bank without a controlling core does not, in itself, create an affinity for the chairperson that impairs the chairperson's qualification for office, provided that the duties and authority of the chairperson do not exceed the scope of duties and authority granted to the chairperson according to the provisions of the law. In December 2020, the Banking Supervision Department issued a similar letter, in effect until the end of June 2021. The terms of service approved for the Chairman were established with due attention to the principles set forth in the Supervision Letter. The position of the Bank is that taking into consideration the fact that the Bank is a banking corporation without a controlling core, in which all of the directors are effectively required to be independent of the Bank, under the provisions of the Banking Ordinance, the service of Mr. Krupik as an independent director pursuant to the provisions of the Companies Law does not, in itself, preclude the approval of the terms of service proposed for his office as Chairman of the Board of Directors (which exceed the remuneration owed to the other directors pursuant to the Remuneration Regulations). In view of the fact that the Israel Securities Authority issued a position summary in the past, not referring specifically to a bank without a controlling core, indicating a different position, the Bank approached and is in contact with the authorities and the supervisory bodies (including the Israel Securities Authority) with regard to this matter. Until the Board of Directors of the Bank resolves that the provisions of the law and the guidelines of the supervisory bodies do not preclude the payment of the terms of service of the Chairman approved by the general meeting, the Chairman shall be entitled to continue to receive remuneration in accordance with the Remuneration Regulations (Remuneration of Directors), similar to the remuneration he received prior to his appointment as Chairman. If and when the Board of Directors of the Bank resolves that it is possible to pay Chairman according to the aforesaid approved terms of service, the Bank shall supplement the payment to the Chairman with the balance of the remuneration to which he is entitled, from the date of the beginning of his term of office as Chairman. The Bank included a provision in respect of this component.

4. 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 (after approval by the Remuneration Committee and the Board of Directors in November 2019), it was resolved to approve the existing terms of employment of the CEO, until the end of 2020. The CEO gave notice to the Bank that he unilaterally and irrevocably waives the linkage of his remuneration to the maximum ceiling permitted by law.

Note 22 Employee Benefits (continued)

The terms of remuneration of the CEO for 2020 conformed with the 2016 Remuneration Policy, pursuant to which the CEO received (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).

On October 22, 2020, the general meeting of the Bank approved the terms of remuneration for the CEO for the period from January 1, 2021, to December 31, 2023, following approval by the Remuneration Committee on August 27, 2020, and by the Board of Directors on September 6 and 17, 2020. The main points of the terms of service and employment of the CEO approved for 2021-2023 include a monthly salary of NIS 201,500, linked to the CPI; benefits including deposits into severance pay and provident funds, and employment contributions to a study fund; reimbursement of expenses necessary for the discharge of his duties; fixed equity compensation through restricted shares at a value of NIS 100,000, linked to the CPI, restricted from exercise for a period of three years; and an annual bonus up to a ceiling of five monthly salaries (subject to the ceiling stated in the Remuneration Limit Law of 35 times the salary of the lowest salary recipient; if necessary, the bonus for the CEO will be capped at the level of the ceiling permitted by law). The annual bonus will consist of two components: (a) a component of the performance of the Bank – a bonus component of 0.25 to 2 monthly salaries, paid according to return on equity, based on the model applicable to the other officers (i.e. according to a return on equity range of 7%-10%, subject to possible adjustment of up to 1% by the Board of Directors); and (b) a component at the discretion of the Remuneration Committee and the Board of Directors, in the amount of up to three monthly salaries. If the threshold return on equity conditions are not attained (7%, subject to adjustment as noted above), the Remuneration Committee and the Board of Directors shall be permitted to approve a bonus of up to three monthly salaries for the CEO.

5. Members of the Board of Management

Pursuant to the 2016 Plan (which was the plan in effect in 2020), the members of the Board of Management are entitled to the following rights and benefits:

Fixed remuneration

(1) General information – Fixed remuneration may include the following components: monthly salary; 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.

(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.

Note 22 Employee Benefits (continued)

Variable remuneration – risk-adjusted performance-based annual bonus

(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) 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.

(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. 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.

(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. 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 (hereinafter: "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. Taking into consideration the return on equity achieved by the Bank in 2019, 89,771 restricted stock units (RSU) expired in March 2020, which were granted under previous remuneration plans, in respect of previous years, as deferred variable remuneration for the previous CEO of the Bank, members of the Board of Management, senior executives, and key employees of the Bank. Most of the balance of the RSU vested, and the Bank allocated 218,855 shares (0.02% of the issued capital) in respect thereof, of the shares held in treasury.

(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.

Note 22 Employee Benefits (continued)

Retirement arrangements

(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.

(2) Pursuant to arrangements in previous employment agreements with the Senior Employees, 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%.

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 of different scope, 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.

Note 22 Employee Benefits (continued)

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 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.

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.

Note 22 Employee Benefits (continued)

The foregoing notwithstanding, senior executives who were subject to a collective agreement on April 12, 2016, will be transferred from a collective agreement to an executive personal contract after that date, and 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.

D. 2020 Remuneration Policy

The 2020 Remuneration Policy was approved by the general meeting in October 2020, and is in effect as of January 1, 2021, for a period of three years. The principal changes in this remuneration policy (relative to the previous policy) include the following, among other matters:

- The annual bonus for officers, which shall have a ceiling of five monthly salaries (and at certain ranks seven monthly salaries), is contingent upon compliance with threshold conditions referring to the attainment of a minimum rate of return on equity (7%), and shall be paid according to gradations in the range of return on equity of 7%-10%. The Remuneration Committee and the Board of Directors are permitted to raise or lower the aforesaid return on equity thresholds (minimum and maximum) by up to 1%, provided that the difference remains 3%. It is possible to approve a discretionary bonus in the event of noncompliance with the threshold conditions, in the amount of up to three monthly salaries.
- The new remuneration policy allows the update of the remuneration (as defined in the Remuneration Limit Law) of officers reporting to the CEO, beyond the remuneration grade pursuant to the directives of Section 2(a) of the Remuneration Limit Law (i.e., at the date of the report, beyond NIS 2.55 million per year), with the approval of the Remuneration Committee and the Board of Directors, without further approval by the general meeting of shareholders of the Bank.
- Within the new remuneration policy, directives were amended with regard to the arrangements for the return of bonus amounts in the event of revision of the financial statements (pursuant to the Companies Law) and under exceptional circumstances (pursuant to the directives of the Banking Supervision Department). This includes, among other matters, the determination that damage at a rate of 3% of shareholders' equity is considered "exceptional damage," and that, with due attention to the importance accorded by the Bank to compliance with the directives of the law and with the policies and procedures of the Bank, if the criteria for return are met, the amount returned shall be up to the full amount of the bonus (excluding the part deducted and paid as tax to the Tax Authority). It was also clarified that the return arrangements established in the remuneration policy shall not detract from any other remedy that may be available to the Bank under the law with respect to an officer, in the event that the Bank incurs damage.
- A framework of liability limits has been established for the acquisition of an officer liability insurance policy, a POSI (public offering of securities insurance) policy, and a run-off officer liability insurance policy (providing coverage for past activity) under circumstances of structural changes.

Note 22 Employee Benefits (continued)

NIS millions

- Updates consistent with the changes in the model, as noted, were also performed in the section concerning senior executives in the remuneration policy of the Bank for the years from 2021 forward, with the necessary changes. The section of the remuneration policy concerning the category of additional key employees and the section of the remuneration policy concerning employees who are not key employees (which also includes employees under a collective agreement) are currently being updated by the Bank, and contain models that differ from the model described above, adapted to these categories.

E. Employee benefit liabilities

	December 31	
	2020	2019
Early retirement and severance pay		
Amount of liability	**7,533**	8,262
Fair value of plan assets	**(3,671)**	(4,138)
Surplus liability over plan assets (included in other liabilities)	**3,862**	4,124
Grant for non-utilization of sick days		
Amount of liability	**364**	395
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**364**	395
25-year service grant		
Amount of liability	**35**	36
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**35**	36
Other benefits at end of employment and post-employment		
Amount of liability	**692**	664
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**692**	664
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**4,953**	5,219
* Of which: in respect of benefits for employees overseas	**42**	34

Note 22 Employee Benefits (continued)

NIS millions

F. 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	
	2020	2019
Net commitment in respect of forecast benefit at beginning of period	**5,183**	4,319
Service cost	**159**	139
Interest cost	**124**	128
Deposits by plan participants	**(12)**	(29)
Actuarial loss	**48**	1,013
Changes in foreign-currency exchange rates	**(2)**	(5)
Benefits paid	**(582)**	(343)
Subtraction of balances attributed to a discontinued operation	**-**	(39)
Net commitment in respect of forecast benefit at end of period	**4,918**	5,183
Net commitment in respect of cumulative benefit at end of period	**4,660**	5,005

b. Amounts recognized in the consolidated balance sheet

	December 31	
	2020	2019
Amounts recognized in the item "other liabilities"	**4,918**	5,183

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

	December 31	
	2020	2019
Net actuarial loss	**2,265**	***2,350
Closing balance in accumulated other comprehensive income	**2,265**	***2,350

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

	December 31	
	2020	2019
Commitment in respect of forecast benefit	**8,589**	9,321
Commitment in respect of cumulative benefit	**8,331**	9,143
Fair value of plan assets	**(3,671)**	(4,138)

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

Note 22 Employee Benefits (continued)

NIS millions

F. 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		
	2020	2019	2018
Service cost	**159**	139	135
Interest cost	**124**	128	136
Subtraction of unrecognized amounts:			
Net actuarial loss	**131**	117	146
Net total benefit cost	**414**	384	417

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

	For the year ended December 31		
	2020	2019	2018
Net actuarial loss (profit) for the period	**48**	1,013	(237)
Subtraction of actuarial loss	**(131)**	(117)	(146)
Changes in foreign-currency exchange rates	**(2)**	(5)	4
Subtraction of balances attributed to a discontinued operation	**-**	(15)	-
Total recognized in other comprehensive income (loss)	**(85)**	876	(379)
Net total benefit cost	**414**	384	417
Total recognized in net benefit cost for the period and in other comprehensive income	**329**	1,260	38

c. Estimate of amounts included in accumulated other comprehensive income and expected to be subtracted from accumulated other comprehensive income to the statement of profit and loss as an expense (as income) in 2021, before tax effect

Net actuarial loss	**158**
Total expected to be subtracted from accumulated other comprehensive income	**158**

Note 22 Employee Benefits (continued)

F. 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	
	2020	2019
Capitalization rate	**0.37%**	0.44%
Rate of increase in the CPI	**1.5%**	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	
	2020	2019	2020	2019	2020	2019	2020	2019
Capitalization rate	**0.78%**	0.69%	0.66%	1.24%	1.99%	1.25%	0.44%	1.89%
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	
	2020	2019	**2020**	2019
	NIS millions			
Capitalization rate	**(421)**	(423)	**502**	502
Rate of increase in the CPI	**(50)**	(42)	**62**	52
Departure rate	**253**	188	**(247)**	(184)
Rate of increase in remuneration	**308**	318	**(261)**	(271)

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

Note 22 Employee Benefits (continued)

NIS millions

F. 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	
	2020	2019
Liability for severance pay	**3,540**	3,933
Amounts funded for severance pay	**(3,425)**	(3,841)
Net liability	**115**	92

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.

G. Cash flows

(1) Deposits

	Forecast	Actual deposits	
		For the year ended December 31	
	2021*	**2020**	2019
Deposits	**176**	**162**	182

* Estimated deposits which the Bank expects to pay into pension plans for a defined benefit during 2021.

Note 22 Employee Benefits (continued)

NIS millions

(2) Future benefit payments expected by the Bank

Year	
2021	535
2022	423
2023	370
2024	341
2025	322
2026-2030	1,270
2031 forward	1,990
Total	5,251

H. 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.

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.

Note 22 Employee Benefits (continued)

In view of the effects of the spread of the coronavirus, with the aim of improving the preparedness of the Bank for the challenges and opportunities presented by the current crisis, the implementation of the efficiency plan for 2020-2022 was accelerated, with an emphasis on retirement at a higher rate than planned in 2020.

In accordance with the reliefs permitted in the letters of the Banking Supervision Department, the effect of the costs of the efficiency plans on the ratio of common equity Tier 1 capital to risk components, which is estimated at approximately 0.14% as at December 31, 2020, is 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, 2020.

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 was 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. A negligible balance of phantom units granted but unrealized remains, in respect of inactive employees.

The consideration for the remaining phantom units (the part for which a liability has not yet been recorded) shall be paid upon the retirement of each employee, with an age pension or within voluntary retirement, based on the rate established in the wage agreement, linked to the consumer price index.

The Bank also applied a similar mechanism to employees under personal contract who were 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 remuneration plan for members of the Board of Management and senior executives, 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, 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 or acquisition increment in respect thereof is equal to zero, and they are eligible for dividend distribution, or, with respect to RSU, 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, 2020

	Number of units									
	Previous 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	-	-	-	-	-	-	-	-	-	**22,923**
Granted during the year[1]	**19,467**	-	**10,357**	-	**131,020**	-	**350,245**	-	-	**28,257**
Forfeited during the year	-	-	-	-	-	-	-	-	-	-
Exercised during the year[2]	**(19,467)**	-	**(10,357)**	-	**(131,020)**	-	**(350,245)**	-	-	**(23,640)**
Expired during the year	-	-	-	-	-	-	-	-	-	-
Outstanding at end of year[3]	-	-	-	-	-	-	-	-	-	**27,540**
(1) Weighted average fair value of shares granted during the year at the date of measurement, in NIS	**26.18**		**26.18**		**26.18**		**26.18**		**26.18**	
(2) Weighted average share price at the exercise date of the units exercised during the year, in NIS	**26.18**		**26.18**		**26.18**		**26.18**		**21.99**	
(3) Shares outstanding at end of year:										
Number of shares	-	-	-	-	-	-	-	-	-	**27,540**
Weighted average balance of contractual lifetime (in years)	-	-	-	-	-	-	-	-	-	**1.34**

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, 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)	-	-	-	-	-	-	-	-	-	1.38

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity

A. Share capital

	December 31			
	2020	2019	**2020**	2019
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,335,898,103**	1,335,168,159

* Issued capital after the deduction of 1,479,008 ordinary shares (December 31, 2019: 2,208,952 ordinary shares) purchased by the Bank, as detailed below. The shares are registered for trading on the Tel Aviv Stock Exchange.

B. Dividends

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

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 was in respect of a decrease in the operational risk of Isracard, which will be recognized gradually, over a period of three years). In September 2019, the Board of Directors of the Bank declared the distribution of dividends in respect of this capital surplus, in the amount of NIS 1 billion, paid in October 2019.

The remaining holdings of the Bank in the shares of Isracard (approximately 33% of the issued and paid-up capital of Isracard) were distributed as a dividend in kind to the shareholders of the Bank on March 9, 2020.

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

* Distribution of the remaining holdings of the Bank in Isracard (approximately 33%) as a dividend in kind. Approximately 0.0494 shares of Isracard were distributed as a dividend in kind in respect of each share of the Bank. The dividend per share was calculated based on the value of Isracard shares on March 8, 2020 (NIS 10.91).

** As noted, paid as a dividend in kind, in shares. The amount stated 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 30% and 20%, respectively, in 2019 and 2020.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital adequacy in consolidated data

	December 31, 2020	December 31, 2019
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital(1)	**40,070**	38,795
Additional Tier 1 capital	**488**	733
Total Tier 1 capital(1)	**40,558**	39,528
Tier 2 capital	**10,221**	9,707
Total overall capital(1)	**50,779**	49,235
2. Weighted balances of risk-adjusted assets		
Credit risk(2)	**321,149**	309,303
Market risks	**3,447**	3,528
Operational risk	**23,166**	23,556
Total weighted balances of risk-adjusted assets(2)	**347,762**	336,387
	%	
3. Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components	**11.52%**	11.53%
Ratio of Tier 1 capital to risk components	**11.66%**	11.75%
Ratio of total capital to risk components	**14.60%**	14.64%
Minimum common equity Tier 1 capital ratio required by the Banking Supervision Department(3)	**9.24%**	10.27%
Minimum total capital ratio required by the Banking Supervision Department(3)	**12.74%**	13.77%

(1) The data are presented in accordance with Proper Conduct of Banking Business Directive 202, "Capital Measurement and Adequacy – Supervisory Capital," and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299. The data also include adjustments in respect of the efficiency plans, allocated in equal parts over five years, beginning at the inception date thereof. For additional details regarding the effect of the efficiency plan adjustments, see Section J below.
(2) A total of NIS 578 million as at December 31, 2020, and NIS 883 million as at December 31, 2019, 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 required minimum common equity Tier 1 capital ratio and minimum total capital ratio were 10% and 13.5%, respectively, until March 31, 2020, and stand at 9% and 12.5%, respectively, as of that date and for the duration of the Temporary Order (see Section I below). A capital requirement was added to these ratios at a rate representing 1% of the balance of housing loans at the dates of the financial statements, excluding housing loans granted during the period of the Temporary Order.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital adequacy in consolidated data (continued)

	December 31, 2020	December 31, 2019
	%	
4. Significant subsidiaries		
Hapoalim Switzerland(1)(2)		
Ratio of common equity Tier 1 capital to risk components	**96.32%**	18.27%
Ratio of Tier 1 capital to risk components	**96.32%**	18.27%
Ratio of total capital to risk components	**96.32%**	18.31%
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%
Bank Pozitif(1)		
Ratio of Tier 1 capital to risk components	**32.07%**	33.09%
Ratio of total capital to risk components	**33.13%**	33.09%
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 financial statements for the fourth quarter of 2019, and in order for Hapoalim Switzerland to comply with the regulatory capital-adequacy ratio required in Switzerland, the Bank invested an amount of CHF 95 million, in March 2020, immediately upon receiving the approval of the Banking Supervision Department for such enlargement of its investment.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Capital components for the calculation of the capital ratio

	December 31, 2020	December 31, 2019
	NIS millions	
Common equity Tier 1 capital		
Total capital	**39,899**	38,221
Differences between total capital and common equity Tier 1 capital	**(16)**	(25)
Total common equity Tier 1 capital, before supervisory adjustments and deductions	**39,883**	38,196
Supervisory adjustments and deductions:		
Goodwill and intangible assets	**-**	(7)
Deferred tax assets	**(62)**	(50)
Other supervisory adjustments and deductions – common equity Tier 1 capital*	**(185)**	(1)
Total supervisory adjustments and deductions, before efficiency plan adjustments – common equity Tier 1 capital	**(247)**	(58)
Total efficiency plan adjustments – common equity Tier 1 capital**	**434**	657
Total common equity Tier 1 capital, after supervisory adjustments and deductions	**40,070**	38,795
Additional Tier 1 capital		
Total additional Tier 1 capital	**488**	733
Total Tier 1 capital, after supervisory adjustments and deductions	**40,558**	39,528
Tier 2 capital		
Tier 2 capital – instruments, before deductions	**6,207**	5,929
Tier 2 capital – allowance for credit losses, before deductions	**4,014**	3,778
Total Tier 2 capital	**10,221**	9,707
Total overall capital	**50,779**	49,235

* The balance as at December 31, 2020, includes a total of NIS 161 million resulting from deduction of the credit line for Bank Pozitif, in accordance with the requirement of the Banking Supervision Department. For further details, see the section "Subsidiary of the Bank in Turkey," below.

** Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section, "Improving operational efficiency," below), are allocated in equal parts over five years from inception.

G. Effect of efficiency plan adjustments on the common equity Tier 1 capital ratio

	December 31, 2020	December 31, 2019
	%	
Ratio of capital to risk components		
Ratio of common equity Tier 1 capital to risk components before the effect of the efficiency plan adjustments	**11.38%**	11.31%
Effect of efficiency plan adjustments*	**0.14%**	0.22%
Ratio of common equity Tier 1 capital to risk components	**11.52%**	11.53%

* Adjustments in respect of the efficiency plans, in accordance with the directives of the Banking Supervision Department (see the section, "Improving operational efficiency," below), are allocated in equal parts over five years from inception.

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, 2020

	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

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months, until March 31, 2021. The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order, provided that the capital ratios of the banking corporation do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower. On March 7, 2021, the Banking Supervision Department issued a draft circular extending the period of validity of the Temporary Order until September 30, 2021, and stating that in the six-month period from the end of the period of validity of the Temporary Order, a reduction in capital ratios of up to 0.3 percentage points relative to the minimum capital ratio shall not be considered a breach of the Temporary Order.

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

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

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, 2020, and for the duration of the period of the Temporary Order, stand at 9.24% and 12.74%, respectively (instead of 10.29% and 13.79% without the Temporary Order).
In the statement issued by the Banking Supervision Department in connection with the Temporary Order, boards of directors of banks were asked, among other matters, to reexamine their dividend policies, with the intention of using the capital resources released as a result of the reduced capital requirements in order to increase credit, rather than for distribution. In view of the statement of the Banking Supervision Department, and in order to allow realization of the purpose of the directive, the Board of Directors of the Bank resolved on March 31, 2020, to adjust the minimum target common equity Tier 1 capital ratio to 9.5%. The Board of Directors further resolved that, taking into consideration the existing distribution policy of the Bank (distribution of up to 40% of quarterly net operating profit), in light of the uncertainty in macroeconomic conditions, and in order to fulfill the purpose of the Temporary Order and the policy of the Banking Supervision Department, until the end of the period of the Temporary Order and until conditions are clearer, the Bank will continue to refrain from performing distributions from ongoing earnings.

J. Improving operational efficiency

The circulars of the Banking Supervision Department grant reliefs to banks that apply improvements in efficiency, with respect to personnel and to real estate.
Since the reliefs were granted, the Bank has announced personnel efficiency plans at a total volume of NIS 1,114 million, net of tax effect.
The effect of the aforesaid plans was allocated to capital, and, for the purposes of calculation of the capital ratio and leverage ratio, deducted from supervisory capital over a period of five years from the date of beginning of implementation of each plan.
The effect of the reliefs in respect of the efficiency plans on the common equity Tier 1 capital ratio is estimated at approximately 0.14% as at December 31, 2020.
With respect to real-estate efficiency, the Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments. Within this process, the Bank is conducting talks for the acquisition of a suitable property, and is negotiations with an entrepreneur establishing one of the alternatives.
The transition, if performed, would enable the Bank to vacate properties it presently uses for these units.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

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

In May 2020, the Bank issued a series of CPI-linked subordinated notes (Series U), through Hapoalim Hanpakot (a wholly owned subsidiary that serves as the funding arm of the Bank), bearing annual interest at a rate of 2.59%, with principal in a total amount of approximately NIS 1.06 billion, maturing in 2031 (with the option of early maturity, at the initiative of Hapoalim Hanpakot and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through partial or full write-off of principal in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

In August 2020, the Bank issued a series of CPI-linked subordinated notes (Series E), bearing annual interest at a rate of 2.97%, with principal in a total amount of approximately NIS 0.7 billion, maturing in 2031 (with the option of early maturity, at the initiative of the Bank and with the approval of the Bank of Israel, in 2026). The subordinated notes include a mechanism for principal loss absorption, in accordance with Proper Conduct of Banking Business Directive 202, through conversion into ordinary shares of the Bank, in the event that the common equity Tier 1 capital ratio of the Bank falls below 5%, or in accordance with a decision of the Banking Supervision Department; the subordinated notes constitute part of the Tier 2 capital of the Bank.

L. Early redemption of capital notes in Tier 2 capital

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

M. The subsidiary of the Bank in Turkey

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

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

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

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

Accordingly, beginning January 1, 2020, the Bank weighted risk-adjusted assets in respect of Bank Pozitif at 300%. The effect on the financial statements for the first quarter of 2020 is a decrease of approximately 0.04% in the common equity Tier 1 capital ratio. The effect of this instruction on the common equity Tier 1 capital ratio, assuming weighting of the risk-adjusted assets at 600%, based on data as at December 31, 2020, is an additional decrease of approximately 0.04%.

In June 2020 (and again in November 2020), the Bank renewed a credit line for Bank Pozitif (which it holds at approximately 70%) in the amount of approximately USD 50 million, at an interest rate below market terms, taking into consideration, among other matters, the special circumstances of Bank Pozitif, of the credit line granted to it by the Bank, and of the relationship with the minority shareholder, and the efforts of the Bank to sell its investment in Bank Pozitif, in view of the challenging condition of the Turkish economy and of Bank Pozitif. In accordance with a requirement of the Banking Supervision Department, due to the aforesaid pricing, the balance of the credit line, in the amount of approximately NIS 161 million, was deducted from supervisory capital. The effect of this instruction on the common equity Tier 1 capital ratio is a decrease of approximately 0.05%.

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer. The deal is subject to the receipt of regulatory approvals, in Turkey and in Israel, by June 30, 2021.

N. Guarantees with reduced conversion factors

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

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

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

The Bank implemented the circular in its report for December 31, 2020. The effect of the implementation is an increase of approximately 0.01% in the common equity Tier 1 capital ratio and an increase of approximately 0.02% in the total capital ratio.

O. Effect of the expected implementation of accounting rules concerning estimated credit losses on supervisory capital

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

The Bank is preparing to implement this directive; at this stage, it is not possible to estimate its effect. For further details, see Note 1F above.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

P. Implementation of external credit ratings

In February 2021, the Board of Directors and Board of Management of the Bank approved a transition, beginning in the first quarter of 2021, to the use of a single rater for capital-adequacy measurement purposes (as permitted by the directives), instead of the Bank's previous practice of using the lower of the ratings of two raters. The rating agency to remain in use is S&P (Standard & Poor's). Until that time, the Bank also used the services of Moody's. The effect of the transition to a single rater, based on data for December 31, 2020, is an increase of approximately 0.12% in the common equity Tier 1 capital ratio and an increase of approximately 0.16% in the total capital ratio.

Q. Leverage ratio

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

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

Pursuant to the Directive, banking corporations shall maintain a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system shall maintain a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank is 6%.

On November 15, 2020, the Banking Supervision Department issued a circular updating Proper Conduct of Banking Business Directive 250 concerning the leverage ratio. Banking corporations will maintain a leverage ratio of no less than 4.5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 24% or more of the total balance sheet assets in the banking system (the Bank is such a banking corporation) shall maintain a leverage ratio of no less than 5.5% (instead of 6%). Implementation of the directive begins on the date of its publication. When the Temporary Order expires, the relief will continue to apply for an additional 24 months, provided that the leverage ratio does not fall below the lower of the leverage ratio at the end of the period of the order, and the minimum leverage ratio applicable to the banking corporation prior to the Temporary Order. On March 7, 2021, the Banking Supervision Department issued a draft circular extending the period of validity of the Temporary Order until September 30, 2021.

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

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.

	December 31, 2020	December 31, 2019
	NIS millions	
a. Consolidated data		
Tier 1 capital*	**40,558**	39,528
Total exposures*	**597,837**	519,648
	%	
Leverage ratio	**6.78%**	7.61%
Minimum leverage ratio required by the Banking Supervision Department**	**5.50%**	6.00%
b. Significant subsidiary		
Bank Pozitif		
Leverage ratio	**29.84%**	29.73%
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, 2020, estimated at approximately 0.08%, is allocated in equal parts over five years, beginning at the inception date thereof.

** Pursuant to the circular of the Banking Supervision Department, the minimum leverage ratio is 5.5% during the period of the Temporary Order. For further details, see the section "Leverage ratio," above.

	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, 2020		
The Bank in consolidated data	**(0.02%)**	**(0.01%)**

Note 24 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

R. Liquidity coverage ratio

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

	For the three months ended December 31, 2020	For the three months ended December 31, 2019
	%	
a. Consolidated data		
Liquidity coverage ratio	**140%**	121%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%
b. Bank data		
Liquidity coverage ratio	**139%**	120%
Minimum liquidity coverage ratio required by the Banking Supervision Department	**100%**	100%

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	
	2020	2019
Credit balance from deposits based on extent of collection[2]		
Israeli currency unlinked	**21**	24
Israeli currency linked to the CPI	**1,062**	1,183
Foreign currency	**152**	175
Total	**1,235**	1,382

(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 175 million (2019: NIS 123 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, 2020							December 31, 2019
	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	**6**	**8**	**5**	**6**	**4**	**1**	**30**	41
Expected future cash flows after management estimate of early repayments	**6**	**8**	**4**	**4**	**2**	**-**	**24**	33
Capitalized expected cash flows after management estimate of early repayments[3]	**6**	**8**	**4**	**4**	**2**	**-**	**24**	34

Information on loans granted during the year at mortgage banks:

	December 31	
	2020	2019
Loans from deposits, based on extent of collection	**106**	124
Standing loans	**61**	42

(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 rate was -0.72% (2019: -0.59%).

Note 25 Contingent Liabilities and Special Commitments (continued)

B. Contingent liabilities and other special commitments

	December 31	
	2020	2019
	NIS millions	
1. Commitment to purchase securities	**571**	577
2. Construction and acquisition of buildings and equipment	**7**	19
3. Long-term rent contracts – rent for buildings and equipment*		
First year		147
Second year		142
Third year		133
Fourth year		123
Fifth year		106
Over five years		763
Total rent on buildings and equipment		1,414

* The information refers to rental agreements as at December 31, 2019. For information regarding rental contracts for 2020, see Note 16C, "Information regarding leases."

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 had 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 2021, 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 1,265 million at the balance sheet date, and the balance of members' accounts amounted to NIS 6,099 million at the balance sheet date. The "fair value" of the Bank's liability in respect of the aforesaid guarantees as at December 31, 2020, 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 2020, 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 indemnification letters 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, or in connection with their role at the Bank). Such letters of indemnity are limited to an indemnity ceiling (separate from the indemnity ceiling of the officers, as noted) 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, during 1988-2020, to approve indemnification in respect of prospectuses according to which shelf offer reports were published for the issuance of bonds, subordinated notes, and subordinated capital notes which it issued 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. 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. In 2020, the Bank sold consolidated companies of the Bank which were engaged in a range of trust services, both in the business field and in the private and personal fields, for various beneficiaries who own monies, rights, and other assets, 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. The aforesaid sales had no material effect on the results of the Bank.

11.a. In October 1985, Hapoalim Switzerland leased a building used as management premises in Zurich, for a period of approximately 100 years, for an annual leasing fee, linked to the CPI, in the amount of CHF 2 million (at this time, approximately CHF 3 million per annum). Close to the beginning of the lease period, Hapoalim Switzerland divided the leased property and sold approximately half of the lease to a third party (a foreign banking corporation) (the "Third Party"), which has borne half of the annual leasing fee since then. To the best of the knowledge of the Bank, the banking corporation wished to sell its share of the leased property, but is engaged in a legal proceeding with the owner of the property (the lessor) with regard to its liability for the leasing fee after the sale. During the aforesaid legal proceeding, the lessor notified Hapoalim Switzerland that according to its position, Hapoalim Switzerland is responsible for the payment of the full leasing fee in respect of the property in its entirety, and in particular if the court rules that the banking corporation will not bear liability for the leasing fee after the sale of its share. Hapoalim Switzerland disputed this position, and did not believe that it would held responsible for the share of the banking corporation in the lease. Accordingly, Hapoalim Switzerland recorded a provision in 2019 in the amount of approximately CHF 23 million in respect of the difference between the contractual leasing fee for its share of the property (not the share of the banking corporation) and the fair value of the liability in respect of its share for the remainder of the period of the lease. In October 2020, an agreement was signed between Hapoalim Switzerland and the lessor, pursuant to which Hapoalim Switzerland was released from the long-term lease contract in consideration for a payment of CHF 23 million, an amount for which a provision had been recorded, as noted. The property was placed under the ownership of the lessor. Concurrently, a rental agreement was signed, until September 2021.

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. The commitments are in effect until December 2028.

Note 25 Contingent Liabilities and Special Commitments (continued)

c. In June 2019, an agreement was signed between Hapoalim Switzerland and Hyposwiss Private Bank Geneva SA for the sale of the remaining customer portfolio at the Switzerland and Luxembourg branches. The sale was 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. The commitments are in effect until June 2025.

12. The Bank and its subsidiaries, from time to time, under commonly accepted conditions and circumstances and during the ordinary course of business, grant letters of indemnity, with limited amount and period or unlimited amount and period, including within transactions for the sale of holdings in the companies of the Group, contractual engagements with suppliers, etc.

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, 2020, that have a "reasonably possible" probability of materialization amounts to approximately NIS 370 million.

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

a. Set out below are details of the claims, including petitions to certify and administer claims as class actions, the claimed amount of which (at the filing date) is material. In the opinion of the Bank's Board of Management, based on the opinion of the management of the consolidated companies, 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 August 16, 2010, a claim was filed with the US Bankruptcy Court of the Southern District of New York (the "Bankruptcy Court") against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank, and against others. The claimant, Fairfield Sentry Limited, through its liquidators (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 (the "Fairfield Claims"). 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.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

In addition to the aforesaid claim, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC ("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 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 in this section above. Pursuant to the ruling of the Bankruptcy Court of December 2018, the Fund filed an amended claim statement on January 15, 2020, which includes the components pertaining to the Fairfield Claims that were not rejected in the aforesaid ruling (the "Amended Claim"). The defendants filed a motion for dismissal in limine of the Amended Claim in March 2020 (the "Dismissal Motion"). The Fund submitted its objection to the Motion, and the defendants submitted their response to this objection in June 2020. On December 14, 2020, the Bankruptcy Court ruled to accept the Dismissal Motion, in part (the "Dismissal Motion Ruling"). When the judicial order pursuant to the ruling is received, subject to the possibility of appeal, the claim against Bank Hapoalim Switzerland will continue in respect of one argument (the "Remaining Claim"). Dates have not yet been set for the hearing of the Remaining Claim. In addition, in December 2019 the Fund appealed the ruling of the Bankruptcy Court of December 2018 with the US District Court for the Southern District of New York, with regard to the components pertaining to the Fairfield Claims that were rejected (the "Appeal"). The defendants submitted their objection to the Appeal in March 2020, and the Fund submitted its response to the objection in April 2020. A ruling has not yet been given on the Appeal. A joint motion filed by the Fund and the defendants was accepted by the District Court, such that the Appeal will be heard jointly with an appeal to be filed of the Dismissal Motion Ruling.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

2. 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, inter alia, the management of money in the accounts of deceased members. It is argued 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, that it does not endeavor to find members with which it has lost contact, and that it raised management fees unlawfully. 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 ("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 (the "Enlarged Claim Amount"). 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). Approximately half of the Enlarged Claim Amount refers to money located in the member accounts managed by Psagot, and the remedy requested in respect of this money is declarative only. Further to the mediation proceeding conducted between the claimant of the class action and the represented group, and Psagot, a motion to approve a settlement was filed with the court on January 16, 2020. On January 30, 2020, the court ordered the publication of a notice regarding the settlement and the transfer of the motion to approve the settlement to the Attorney General, the Director of Courts, and the Israel Securities Authority. On June 12, 2020, a ruling was given approving the settlement, pursuant to which Psagot will bear payments for compensation, remuneration, attorneys' fees, and miscellaneous expenses in a total amount of approximately NIS 61 million.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

3. 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. ("Psagot"), in its capacity as a manager of provident funds. The amount of the claim has been set at NIS 1 billion. The petitioners contend that the claim is complementary to the class-action suit described in Section 2 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, declarants on behalf of the parties were questioned, and the case was scheduled for summations. On February 1, 2021, a motion to approve a settlement signed by the parties was filed with the court, pursuant to which Psagot would bear a total payment of NIS 5.5 million. In accordance with the ruling of the court, the parties issued a notice regarding the settlement and submitted a copy of this notice and of the motion to approve the settlement and the annexes thereto for comment by the Supervisor of Insurance and the Attorney General, whose response is to be submitted by June 1, 2021.

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 certification petitions filed against other banks was approved, and the Bank gave notice that it was 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 April 6, 2021.

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 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 petitioners (the respondent banks) have filed motions for dismissal in limine (the "Dismissal Motions"). On June 21, 2020, the court accepted the Dismissal Motions and ordered rejection of the certification petition in limine (the "Ruling"). On July 7, 2020, the Bank was presented with an appeal of the Ruling that had been filed with the Supreme Court (the "Appeal"). In the Appeal, an order was granted for the submission of summations, and oral supplementation of arguments was scheduled for July 28, 2021.

6. 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 (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 property (which was intended to serve as collateral). It is therefore argued that the conduct of the Bank constitutes violation of the Discrimination Prohibition Law, violation of a legislated duty, and injury to the dignity of the petitioners and the members of the group under the Basic Law: Human Dignity and Liberty. The petitioner estimates the total damages (pecuniary and non-pecuniary damages) at NIS 1.15 billion. The Bank replied to the certification petition, arguing, among other matters, that the petition is factually and judicially unfounded; that the Bank does not discriminate against its customers; and that it has granted and grants housing loans to customers residing in Judea and Samaria. A pretrial hearing for the case has been scheduled for April 7, 2021.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

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

1. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations of flaws, deficiencies, and misleading statements in the reports of the Bank pursuant to the Securities Law, since 2015, pertaining to the tax investigation of the United States authorities and the management of the internal investigation conducted by the Bank, and in particular, flaws in the reports of the Bank pertaining to the non-appointment of an Independent Examiner and external accounting firm at an early stage of the investigation; pertaining to the position of the DOJ with regard to the findings of the internal self-investigation and its demand to appoint an Independent Examiner and repeat the investigation, or part thereof; and pertaining to the damage caused to the Bank as a result of the lack of a timely appointment of an Independent Examiner. According to the petitioner, the amount of the personal claim and the amount of the class action cannot be estimated at this stage. The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank between March 1, 2015, and April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In the proceeding, two motions were filed pursuant to Section 7 of the Class Action Law, 2006 (the "Section 7 Motions"), by the petitioner in this proceeding and by a petitioner in another proceeding (described in Section 2 below; the "Additional Proceeding"), in which each petitioner seeks expungement of the opposing motion. On August 10, 2020, the Attorney General gave notice that at this stage he does not find it appropriate to participate in the proceedings. On August 10, 2020, the court ruled to expunge the Additional Proceeding and retain the hearing of this Certification Petition. On September 10, 2020, the petitioner in the Additional Proceeding filed an appeal of the court ruling on the Section 7 Motions (the "Appeal"). A hearing of the Appeal has been scheduled for December 6, 2021. A motion of the Bank to extend the deadline for submission of its reply to the Certification Petition until after the receipt of the findings of the independent committee in connection with the American matter (see Section D below), or after the final ruling on the Section 7 Motions, was denied. The Bank must submit its response to the Certification Petition by March 15, 2021.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

2. A claim and a petition to certify the claim as a class action against the Bank and against past and present officers of the Bank were filed with the District Court of Tel-Aviv-Jaffa on May 5, 2020 (the "Certification Petition"). The petition contains allegations that the Bank violated disclosure duties pursuant to the Securities Law in connection with the tax investigation of the US authorities. According to the petitioner, the Bank acted to obstruct the investigation of the DOJ, including through concealment of data from the United States authorities and submission of unreliable data, conduction of an independent internal investigation that failed to meet appropriate standards, and failure to appoint a supervising accountant. The petitioner alleges that the Bank did not disclose these actions in its reports and that it acted to obstruct the investigation by performing such actions. This petition was also filed against the former controlling shareholder of the Bank (Arison Holdings (1998) Ltd.). The class which the petitioner seeks to represent consists of anyone who purchased shares of the Bank from November 23, 2017, to April 30, 2020, and held shares at that date (with the exception of the respondents and anyone acting on their behalf). According to the petitioner, the damage caused to the members of the represented class, in total, stands at approximately 2.34% of the amount for which the class members purchased the shares which they purchased during the aforesaid period and held on April 30, 2020. The Bank has not yet submitted a response to the Certification Petition. In connection with this petition, two motions pursuant to Section 7 of the Class Action Law, 2006, were submitted, by the petitioner in this proceeding and by the petitioner in the proceeding described in Section 1 above (the "Section 7 Motions"). On August 10, 2020, the court ruled to expunge the Certification Petition and retain the hearing of the certification petition described in Section 1 above. On September 10, 2020, the petitioner filed an appeal of the court ruling on the Section 7 Motions. A hearing of the Appeal has been scheduled for December 6, 2021. The summations of the appellant were submitted on February 22, 2021. The submission of summations by the Bank has been scheduled for April 22, 2021.

3. A claim statement and a petition to certify the claim as a class action against the Bank and two additional banks were filed with the District Court of Tel Aviv on May 17, 2020 (the "Certification Petition"). The petition alleges, among other matters, that the Bank transfers personal information of its customers, in violation of privacy and banking secrecy, through its use of online advertising tools (such as Google and Facebook), and through online services that process information in the cloud, which are used by the Bank to provide services to its customers. The arguments against the Bank refer to the digital platforms: the website of the Bank, the Account Management application, and the Bit application. It is also alleged that the privacy protection policy and the terms of use published on these platforms include provisions constituting discriminatory provisions in a uniform contract. The petition does not state the amount of damage to the group. The amount of the personal claim has been set at a total of NIS 1,000. The reply of the Bank to the certification petition was submitted on February 16, 2021. The case is scheduled for a hearing on July 15, 2021.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

4. A claim statement and a petition to certify the claim as a class action against the Bank, filed with the Center District Court, concerning inactive deposits, as defined in the Banking Ordinance, were received on May 21, 2020. The petition alleges, among other matters, that the Bank violated its duty to find and report to the owners of the accounts with regard to these accounts, collected fees, and obtained unjust enrichment. Among other matters, it is argued that the Bank must pay the amounts of the deposits, according to the real value thereof, with the addition of the fees that have been collected. The claim does not state the amount of damage to the group. A motion was filed to amend the certification petition by the addition of two affidavits (petitioners) to the petition, in which it was argued that it constituted no change in the contentions of the petitioner and in the contentions presented within the certification petition. The court accepted the amendment motion, and the Bank submitted its reply to the certification petition on February 7, 2021. A hearing of the case was scheduled for April 7, 2021.

5. A claim statement and a petition to certify a class action were received on December 9, 2020, filed against seven banks, including the Bank, with the District Court of Jerusalem. The petition alleges, among other matters, violation by the Bank of the provisions of the Credit Data Law, 2016, and the regulations enacted thereunder, due to the submission of reports to the credit data repository regarding the existence of legal proceedings against customers, in a manner inconsistent with the provisions of the law and which impaired the customers' ability to receive credit, infringed on their privacy, and caused damage to their reputation. The petition does not state the amount of damage to the group.

6. A claim statement and a petition to certify a class action were received on February 15, 2021, filed against the Bank and three additional banks with the District Court of Tel Aviv (the "Petition"). The Petition alleges, among other matters, that due to a failure and/or defect in automatic bank devices placed at branches, customers of the Bank are required to perform several deposit transactions in order to deposit the full amount of cash in their possession, and that the Bank charges a fee for each deposit transaction, without providing disclosure and unlawfully. The amount of the damage to the group is estimated at NIS 385 million, of which the part attributed to the Bank is of NIS 245 million.

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. On March 1, 2015, a petition to certify a derivative claim against the Bank and against officers who served between 2000 and 2015, as well as against the external auditors of the Bank, was filed with the District Court of Tel Aviv, in which it is argued that the respondents must compensate the Bank for damages they caused it through their acts and omissions (estimated at that time in the amount of USD 228 million), which the Bank will be required to pay to United States enforcement agencies. It is further argued 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. 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. On March 1, 2015, an additional petition was filed 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 clients. The hearing of the motions has been consolidated, at the request of the parties and in accordance with the ruling of the court. With the consent of the parties, the hearing in this proceeding was stayed until completion of the investigation of the United States authorities. On March 18, 2020, the petitioners filed an update notification pursuant to which, as indicated by the Immediate Report issued by the Bank on that date (the "Notification of the Bank"), the proceedings in the investigation referenced in the petition had concluded, also referencing the assent of the Bank and the Board of Directors of the Bank to the directive of the Supervisor of Banks to establish an independent committee, as indicated by the Notification of the Bank. In their notification, the petitioners asked the court to order the Bank to submit a full report regarding this affair, including various documents. The court ordered the Bank to submit a detailed response to the motion by April 29, 2020, including reference to the identity of the members of the independent committee and the parties appointing the committee. The Bank submitted its response on April 22, 2020. Concurrently with the submission of the response of the Bank, a joint motion of the Bank and the petitioners to approve a procedural arrangement was also submitted, within which the parties agreed that the petitioners would submit a consolidated and amended petition to certify a derivative claim within sixty days of the date of final approval of the resolutions with the United States authorities (the "Approval Date" and the "Procedural Arrangement"). The Bank will not object to the filing of such a petition, in itself (without expressing any position regarding the content of the petition), and the petition will be filed without an expense order; the proceedings will be stayed for six months from the Approval Date, in order to allow the independent committee to perform its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On April 22, 2020, the court ruled that the motion would be transferred to the Attorney General, who would submit his position. The Attorney General has given notice that he does not express any position regarding the petition at this stage, but reserves the right to participate in the proceedings in the future. On June 3, 2020, the Procedural Arrangement was approved, and it was determined that the parties would provide an update by January 3, 2021. In addition, in accordance with the Procedural Arrangement, an amended

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

petition to certify a derivative claim against the Bank and other respondents (including present and past officers) was filed (the "Amended Petition"), thereby rendering unnecessary the motion for disclosure of documents prior to filing a derivative claim, the hearing of which was consolidated with this proceeding. In the Amended Petition, the amount of the damage caused to the Bank, as alleged by the petitioner, is estimated at approximately NIS 4.5 billion, at least. The assessment of the damage is based on amounts paid by the Bank to the United States authorities, and on legal and other expenses in the course of the tax investigation, and also refers to additional components that have not been quantified. Causes of the claim were also added to the Amended Petition, including with regard to the alleged lack of cooperation of the Bank with the United States authorities during the period of the Investigation. On January 3, 2021, an update notification was submitted to the court on behalf of the Bank, containing a request to provide an additional update within six months. On January 4, 2021, the court ordered the parties to provide an update by July 1, 2021.

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 conduit for holding and transferring bribes paid to senior FIFA officials (the "Disclosure Petition"). The reply of the Bank to the motion has not yet been submitted. On September 17, 2019, the court granted validity to a procedural arrangement between the parties, pursuant to which the hearing would be stayed until completion of the investigation. Accordingly, beginning on that date, the court stayed the proceedings from time to time. On May 3, 2020, the parties gave notice (in separate notifications) that a non-prosecution agreement (NPA) had been reached between the respondents and the United States Department of Justice. On July 8, 2020, a motion was filed to approve a procedural arrangement between the parties, pursuant to which the court was asked to stay the proceedings in the motion until January 3, 2021, in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. On July 9, 2020, the court ruled that prior to approval of the procedural arrangement, the parties must give notice that they agree to waive all arguments regarding limitation periods, primarily with regard to a lack of evidence arising from the procedural arrangement and the time elapsed as a consequence. On July 15, 2020, the parties gave notice of their agreement to the statements in the ruling, without prejudice to any other right or argument available to them. On July 18, 2020, the motion for approval of a procedural arrangement was accepted, and it was determined that the parties would provide an update by January 3, 2021. On January 3, 2021, an update notification was submitted on behalf of the Bank, containing a request to provide an additional update within six months. It was determined that the parties must provide an update on the status of this matter by July 4, 2021.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

3. On March 31, 2020, a motion was filed with the District Court of Tel Aviv for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law. The motion concerns the decision of the Board of Directors of the Bank to establish an independent committee, as described in Section D below. The petitioner argues that the tasks assigned to the committee are in material conflict, and that an attempt to fulfill these tasks simultaneously may constitute violation of the duty of confidentiality established in Section 15A(a) of the Banking Ordinance, 1941. The petitioner contends that the Board of Directors of the Bank should therefore have appointed two separate committees, or clearly separated the tasks assigned to the committee. A reply to the motion and a response to the reply were submitted, and a hearing of the motion was held on September 9, 2020, in which the court ordered the Bank of Israel to present its position on this issue, after which the parties would present their positions. On October 14, 2020, the Bank of Israel submitted its position, in which it clarified that the decision for the Bank to examine the exhaustion of rights (as differentiated from the requirement to examine managerial processes) was not based on a demand of the Supervisor, but the relevant parties at the Banking Supervision Department were advised in advance of the decision that the committee would also address this matter. The Bank of Israel chose not to address the merits of the arguments of the petitioner (and a motion filed by the petitioner for the court to order the Bank of Israel to submit a supplementary position also addressing the petitioner's arguments in the derivative proceeding on their merits was denied by the court). On December 6, 2020, after submission of the positions of the parties with regard to the position of the Bank of Israel, and with due attention to the statements therein, the court ordered the petitioner to give notice of whether, under the circumstances, he insists on his motion. A consensual motion to expunge the motion was filed on December 24, 2020. A ruling was given on December 27, 2020, stating that the motion is expunged without an expense order, thereby concluding the proceeding.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

4. On May 3, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents in advance of filing a petition for a derivative claim pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns the argument that part of the amounts of the fines imposed upon the Bank within the resolution with the United States authorities, as detailed in Section D of this note, below, is attributed to the noncooperation of the Bank with these authorities for most of the duration of the investigation, and that the Motion is filed in order to impose liability for the damages of the Bank on those responsible for these acts and omissions (including, according to the petitioner, employees, officers, and external advisors of the Bank and of Bank Hapoalim Switzerland), and in order to quantify the surplus fines imposed upon the Bank due to this conduct, and allow the petitioner to examine and evaluate the feasibility of filing a derivative claim. On June 14, 2020, the court approved a procedural arrangement between the parties pursuant to which the court would stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On January 7, 2021, an update notification was submitted to the court on behalf of the Bank, containing a request to provide an additional update within six months. On January 10, 2021, the court ordered the parties to provide an update within six months, or upon completion of the work of the committee, whichever is earlier. On June 30, 2020, the petitioner in the petition to certify a derivative claim described in Section 1 above filed a motion to expunge this petition (the "Expungement Motion"). The reply of the Bank and the response of the petitioner to the Expungement Motion have been submitted; a ruling has not yet been handed down. The hearing of the Expungement Motion is scheduled for June 13, 2021. The petitioner in the Expungement Motion filed a motion for a ruling to be given on the Expungement Motion on the basis of the filings submitted to the court, without a hearing, which was denied.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

5. On May 21, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure of documents prior to a derivative claim pursuant to Section 198A of the Companies Law. The motion concerns contentions regarding damages caused to the Bank due to taxation aspects pertaining to payments paid by the Bank to government authorities in the matter of the United States tax investigation. It is argued in the motion that due to various tax aspects, the actual damage caused to the Bank is greater than the amount of the payments to the United States authorities. In view of these contentions, the petitioner is seeking to receive various documents in order to consider whether to file a petition to certify a derivative claim on behalf of the Bank against those responsible for this alleged damage. The petitioner estimates the amount of damage caused to the Bank due to the taxation aspects at approximately USD 448 million. On June 17, 2020, the court approved a procedural arrangement between the parties pursuant to which the court would stay the proceedings in order to allow the independent committee established by the Bank to complete its work and submit its conclusions and recommendations to the Board of Directors of the Bank. It was determined that the parties would provide updates by January 3, 2021. On January 4, 2021, an update notification was submitted to the court on behalf of the Bank, containing a request to provide an additional update within six months. On January 5, 2021, the court ordered the parties to provide an update within six months, or upon completion of the work of the committee, whichever is earlier. On July 2, 2020, the petitioner in the petition to certify a derivative claim described in Section 1 above filed a motion to expunge this petition (the "Expungement Motion"). The reply of the Bank and the reply of the petitioner have been submitted; a ruling on the Expungement Motion has not yet been handed down. The hearing of the Expungement Motion is scheduled for June 13, 2021. The petitioner in the Expungement Motion filed a motion for a ruling to be given on the Expungement Motion on the basis of the filings submitted to the court, without a hearing, which was denied.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

6. 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 petition, 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.

7. A petition to certify a derivative claim against the Bank and past and present officers of the Bank (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 a motion for permission to appeal filed on behalf of the Bank with the Supreme Court, and concerns allegations of failures of the Bank in granting credit to companies in the group of Mr. Eliezer Fishman (the “Fishman Group”), in not closing a “position” of the Fishman Group in connection with currency transactions (the “Turkish Lira”), and in the Bank refraining from applying collection proceedings against the Fishman Group. It is argued in the petition that due to the acts and omissions 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. The replies of the Bank and of the additional Respondents to the petition were submitted on July 14, 2019. The petitioner’s response to the reply of the Bank and of the additional Respondents was submitted on January 28, 2020. A pretrial hearing was held on May 20, 2020. Subsequently, on November 30, 2020, the respondents submitted supplementary replies to the response of the petitioner. A motion was filed within the proceeding for disclosure and perusal of documents (the “Disclosure Motion”), a ruling on which was given on January 6, 2021, further to an additional pretrial hearing held on that day. The court gave partial assent to the Disclosure Motion, and ordered delivery of some of the requested documents. The date for completion of the disclosure of documents has been set at March 15, 2021.

Note 25 Contingent Liabilities and Special Commitments (continued)

C. Legal proceedings (continued)

8. In August 2020, a letter of request and demand for disclosure of documents pursuant to Sections 194 and 198A of the Companies Law, 1999, was received at the Bank, concerning contentions pertaining to credit granted to Mr. Fishman, corporations under his control, and related parties; control and enforcement measures taken by the Bank with respect to this credit; and the support of the Bank for the mediation arrangements with members of the Fishman family and with Ms. Ronit Even, within the bankruptcy proceedings of Mr. Fishman. In September 2020, the Bank sent a letter in reply in which it rejects the request and demand for disclosure of documents.

9. On June 15, 2020, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure and perusal of documents pursuant to Section 198A of the Companies Law. It is argued in the motion, among other matters, that the officers of the Bank granted credit to companies in the Yedioth Ahronoth Group and to the controlling shareholder of the group, Mr. Arnon (Noni) Mozes, in the amount of approximately NIS 1 billion, for the purpose of trading in high-risk speculative financial instruments, disregarding the best interests of the Bank. In the motion, the petitioner seeks disclosure of various documents in connection with this matter. The court approved a procedural arrangement pursuant to which the petitioner would file a motion to amend the motion, and a response and a reply to the response would be submitted by the Bank and the petitioner, respectively. A hearing of this case was held on January 19, 2021; the petitioners subsequently filed a motion to amend the disclosure motion on February 19, 2021. The Bank must reply to this motion by March 21, 2021.

10. On January 6, 2021, a motion was filed with the District Court of Tel-Aviv-Jaffa for disclosure of documents pursuant to Section 198A of the Companies Law (the "Motion"). The Motion concerns two transactions entered into by the receivers appointed, at the request of the Bank, for shares of Yedioth Ahronoth (shares pledged in favor of the Bank, which served as a collateral for debt of companies in the Fishman Group to the Bank), for the sale of the pledged shares to Yedioth Ahronoth Ltd. (as a buyback) and to a related company thereof. According to the contention in the Motion, these transactions, which were approved by the court, resulted in significant strengthening of the control of the controlling shareholder over Yedioth Ahronoth, with the assistance of the Bank, at the expense of maximization of returns for the Bank itself from the disposal of the pledged shares. The Bank must submit its reply to the Motion by April 11, 2021.

D. On April 30, 2020, resolutions with the United States authorities in connection with the tax investigation were announced and entered into force, as follows:

a. A Deferred Prosecution Agreement ("DPA") between the Bank and the DOJ, with respect to the Bank's activity and dealings with its US customers during the period that was the subject of the investigation (2002-2014), to the extent related to Bank Hapoalim in Israel, Poalim Trust Services Ltd., and Bank Hapoalim branches and subsidiaries outside of Israel (excluding Hapoalim Switzerland).

Note 25 Contingent Liabilities and Special Commitments (continued)

As part of the DPA, the Bank accepted responsibility under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the DPA, to which the Bank has admitted. Pursuant to the DPA, as approved by a federal court in the State of New York, the charges against the Bank are being deferred for a period of three years, such that if the Bank meets the conditions of the agreement during the said period, the charges (detailed in the Information document attached to the resolution) will be dismissed with no criminal conviction. In the event that the Bank breaches the agreement, the DOJ will have the right, among others, to extend the deferral period for a period of one additional year, and to take other measures against the Bank, including canceling the agreement and prosecuting the Bank. Pursuant to the DPA, the Bank paid the US government a total sum of USD 214,385,612. The said amount is comprised of the following components: a total of USD 77,877,099 for the tax loss restitution component, a total of USD 35,696,929 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 100,811,584 for the penalty component.

b. A Plea Agreement between the DOJ and Hapoalim Switzerland Ltd. (formerly Bank Hapoalim (Switzerland) Ltd.) ("Hapoalim Switzerland") that relates to the activity and dealings of Hapoalim Switzerland with its US customers during the period that was the subject of the investigation (2002-2014).

As part of the Plea Agreement, Hapoalim Switzerland has pleaded guilty and was convicted of an offense under US laws for assisting US customers in evading their obligations under US tax laws, as detailed in the Statement of Facts attached to the Plea Agreement, to which Hapoalim Switzerland admitted.

Pursuant to the Plea Agreement, Hapoalim Switzerland paid the US government a total sum of USD 402,534,921. The said amount is comprised of the following components: a total of USD 138,908,073 for the tax loss restitution component, a total of USD 124,628,449 for the component of forfeiture of gross fees paid to the Bank by the relevant US customers, and a total of USD 138,998,399 for the penalty component.

c. A Consent Order issued by the New York State Department of Financial Services (the "NYDFS"), according to which the Bank paid the NYDFS a civil monetary penalty in the amount of USD 220,000,000.

d. A Cease and Desist Order issued by the Board of Governors of the Federal Reserve System (the "Fed"), according to which the Bank paid the Fed a civil monetary penalty in the amount of USD 37,350,000.

In total, under the said resolutions, the Bank Group paid the aforesaid three US authorities an aggregate sum of USD 874,270,533 in connection with the Tax Investigation (NIS 3,066 million). The said amount is higher by approximately USD 4.2 million (approximately NIS 15 million) than the total amount of the provision recorded by the Bank until the entry into force of the resolutions; the difference arises from amendments and updates of the method of calculation of the amounts which the Bank was required to pay performed since the publication of the aforesaid financial statements. The additional amount was recorded in the financial statements for the first quarter of 2020.

The entry into force of the aforesaid resolutions brings to an end the Tax Investigation conducted by the US authorities against the Bank Group.

Note 25 Contingent Liabilities and Special Commitments (continued)

The DPA and the Plea Agreement contain Statements of Facts documents, which detail the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with US laws. The resolution documents also detail the considerations for determining the various penalty amounts, including, inter alia, the nature and seriousness of the conduct of the Bank Group in each case; partial credit given by the relevant authorities for the payments made to other authorities; the participation of individuals with high-level positions in the offense; the level of cooperation of the Bank Group with the relevant authorities; and the Bank Group's lack of criminal history.

The resolutions with the DOJ described above include various undertakings by the Bank and Hapoalim Switzerland to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the investigations, including, among other matters, to continue providing assistance and various types of information to the DOJ, and to submit a periodic report to the DOJ regarding loans granted by the Bank's branches in the US that are guaranteed by accounts held with branches of the Bank outside the US, as well as related internal controls.

The Consent Order and the Cease and Desist Order require the Bank to agree to a number of undertakings, including, among others, with respect to employee discipline, internal controls, reporting, and cooperation. The resolutions do not include the appointment of a monitor.

The resolutions described above relate to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only, and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the various resolution documents. The resolutions do not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as concerns the obligations of the Bank Group to cooperate in accordance with the resolutions and not to breach the provisions of the resolutions.

The resolutions described above and the attachments thereto are available for reading on the Bank's website, at https://www.bankhapoalim.co.il/he/node/757.

In accordance with the requirement of the Supervisor of Banks, the Board of Directors of the Bank decided that an independent committee, headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"), would examine the managerial and supervisory processes that allowed the actions that are the subject of the Tax Investigation in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors. Pursuant to the decision of the Board of Directors, the Committee will examine exhausting the Bank's rights in connection with the Tax Investigation, including whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. The Committee began its work near the date of approval of the resolutions with the United States authorities.

The Board of Directors of the Bank has established a committee of the Board of Directors to monitor the implementation of the resolutions of the Bank with the US authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions.

Note 25 Contingent Liabilities and Special Commitments (continued)

E. On April 30, 2020, a Non Prosecution Agreement ("NPA") was signed and entered into force between the DOJ and the Bank and Hapoalim Switzerland with respect to the FIFA investigation. The NPA does not involve criminal charges, an indictment, or a criminal conviction. Pursuant to the NPA the Bank admitted, among other things, that certain employees of the Bank Group participated in a scheme to launder funds constituting bribes paid to soccer officials, as detailed in the Statement of Facts attached to the NPA, which details the acts and omissions that the Bank and Hapoalim Switzerland have admitted and for which they accepted responsibility in accordance with the laws of the United States. According to the NPA, the Bank Group paid the US government a sum of USD 30,063,317 (NIS 107 million). The said amount is comprised of the following components: a sum of USD 20,733,322 for forfeiture of funds transferred or attempted to be transferred through accounts at the Bank Group as part of the FIFA matter, and a penalty of USD 9,329,995.
The NPA includes different undertakings by the Bank and Hapoalim Switzerland, including an undertaking to continue to cooperate fully with the US authorities in connection with the issues that are the subject of the said investigation. The resolution does not include the appointment of a monitor.
The entry into force of the NPA brings to an end the investigation conducted by the DOJ against the Bank Group in this matter.
The resolution relates to the Bank and Hapoalim Switzerland, as applicable, and to the entities included in the Bank Group only and to the responsibility such entities are accepting under US laws for the acts and omissions detailed in the resolution. The resolution does not apply to individuals, including employees or other role holders in the Bank Group, current or former, except as such things concern the obligations of the Bank Group to cooperate in accordance to the resolutions and not to breach the provisions of the resolution.
The NPA and its attachments are available for reading on the Bank's website at https://bankhapoalim.co.il/he/node/757.
On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee headed by Justice (Retired) Danziger (see Note Section (d) above) to also encompass an examination of the FIFA affair. Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see Note 25C(4)). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

Note 25 Contingent Liabilities and Special Commitments (continued)

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.

The agreement with Isracard of February 2021 states that Isracard, as an issuance operator, will operate at least 40% of the new credit cards until February 2023 (instead of until October 2021 under a previous agreement).

The Bank has completed technological preparations and contractual engagements with the operators CAL (Cartisei Ashrai LeIsrael) and MAX, and currently issues its cards through the three operators active in Israel (CAL, MAX, and Isracard).

Digital wallets

The Bank has launched a digital wallet for smartphones running on Android operating systems, which will be administered as an additional service within the Bit application (the "Bit Wallet"). The Bit Wallet will serve as a technological platform for Bit users, relying on contactless EMV proximity-based payment technology, for executing transactions with businesses using charge cards by tapping the smartphone to the point of sale (the payment terminal). The Bit Wallet is an "open" wallet, meaning that Bit users can use it with charge cards of the Bank as well as with cards issued to them by other issuers who have granted consent to such use. Bit users will also be able to use the Bit Wallet with a designated non-bank club card, the Bitcard, to be issued by Cartisei Ashrai LeIsrael Ltd. (CAL) to Bit users. Bit users who register for Bit with charge cards whose issuers have not consented to the use of the Bit Wallet will be able to use the Bit Wallet through the Bitcard.

The Bit Wallet will be launched and implemented in accordance with the trajectory established by the Bank of Israel for ventures of this type, which addresses, among other matters, limits applied at this stage to the use of the information collected within the digital wallet, the option for the wallet user to set up several cards (including of different issuers), and the inclusion of Bitcard credit facilities, at this stage, in the credit facilities granted by the Bank, in the context of the limit established in the Law for Increasing Competition.

As part of the Bit Wallet launch process, the Bank entered into a series of agreements, including with various service providers and a charge-card issuer, and with other operators of wallet services.

The Bank also reached an agreement with Isracard within which transactions for money transfers between people (P2P) using cards from the MasterCard and Visa brands will be cleared, beginning in April 2021/May 2021, respectively, through the payment solutions Moneysend and Visa Direct, respectively, which are offered by the international organizations MasterCard and Visa, respectively.

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 1.6 billion as at December 31, 2020 (December 31, 2019: NIS 1.1 billion), are 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. Foreign bonds with a balance in the amount of NIS 1.7 billion as at December 31, 2020 (December 31, 2019: NIS 0 million) are pledged to secure loans from the Bank of Israel.

C. 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 193 million) as at December 31, 2020 (December 31, 2019: approximately USD 60 million (NIS 207 million)).

D. Bonds with a balance in the amount of NIS 6 million as at December 31, 2020 (December 31, 2019: NIS 3 million) were pledged to secure deposits received within sale transactions of assets under repurchase agreements.

E. 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, 2020 totaled NIS 1.0 billion (maximum balance during 2020: NIS 1.1 billion).
The balance of bonds pledged as at December 31, 2019 totaled NIS 1.3 billion (maximum balance during 2019: NIS 2.1 billion).
In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 1 million (December 31, 2019: NIS 27 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 64 million (December 31, 2019: NIS 32 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.

F. 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, 2020, the Bank Group provided deposits to counterparties at a value of USD 1,527 million (December 31, 2019: USD 746 million), and pledged securities in the amount of NIS 291 million (December 31, 2019: NIS 177 million).

Note 26 Liens and Other Restrictions (continued)

NIS millions

G. 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 (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.

H. All of the pledged securities listed in Sections A-G above are included in the portfolio available for sale, and the lenders are not permitted to sell or pledge these securities.

	December 31, 2020	December 31, 2019
I. 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	**368**	471
J. 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	**6**	3

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates

NIS millions

A. Nominal amount of derivative instruments

	December 31, 2020		
	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts			
Future and forward contracts	**3,187**	**21,327**	**24,514**
Options written	**-**	**1,667**	**1,667**
Options bought	**96**	**1,667**	**1,763**
Swaps[(1)]	**21,141**	**302,300**	**323,441**
Total[(2)]	**24,424**	**326,961**	**351,385**
Of which: hedging derivatives	**15,432**	**-**	**15,432**
Foreign-currency contracts			
Future and forward contracts	**7,578**	**245,286**	**252,864**
Options written	**-**	**17,816**	**17,816**
Options bought	**253**	**16,266**	**16,519**
Swaps	**262**	**34,691**	**34,953**
Total[(3)]	**8,093**	**314,059**	**322,152**
Of which: hedging derivatives	**-**	**-**	**-**
Share-related contracts			
Future and forward contracts	**-**	**23,927**	**23,927**
Options written	**1,741**	**19,546**	**21,287**
Options bought[(4)]	**487**	**19,546**	**20,033**
Swaps	**875**	**24,895**	**25,770**
Total	**3,103**	**87,914**	**91,017**
Commodity and other contracts			
Future and forward contracts	**-**	**177**	**177**
Options written	**-**	**125**	**125**
Options bought	**-**	**105**	**105**
Total	**-**	**407**	**407**
Total nominal amount	**35,620**	**729,341**	**764,961**

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 172,938 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 27,411 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 12,511 million.
(4) Of which: traded on the stock exchange in the amount of NIS 19,546 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, 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
Total	-	1,667	1,667
Total nominal amount	44,515	853,251	897,766

(1) Of which: swaps for which the banking corporation pays a fixed rate of interest, in the amount of NIS 243,475 million.
(2) Of which: NIS-CPI swap contracts in the amount of NIS 28,255 million.
(3) Of which: foreign-currency spot swap contracts in the amount of NIS 11,213 million.
(4) Of which: traded on the stock exchange in the amount of NIS 11,102 million.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

NIS millions

B. Gross fair value of derivative instruments

	December 31, 2020					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	**347**	**5,678**	**6,025**	**1,052**	**6,128**	**7,180**
Of which: hedging derivatives	**35**	**38**	**73**	**308**	**554**	**862**
Foreign-currency contracts	**63**	**6,831**	**6,894**	**53**	**7,650**	**7,703**
Share-related contracts	**42**	**1,883**	**1,925**	**42**	**1,872**	**1,914**
Commodity and other contracts	**-**	**46**	**46**	**-**	**45**	**45**
Total gross assets (liabilities) in respect of derivatives[1]	**452**	**14,438**	**14,890**	**1,147**	**15,695**	**16,842**
Amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Balance sheet balance	**452**	**14,438**	**14,890**	**1,147**	**15,695**	**16,842**
Of which: not subject to a netting arrangement or similar arrangements	**76**	**1,310**	**1,386**	**145**	**1,703**	**1,848**

(1) Of which, net fair value of liabilities in respect of embedded derivatives in the amount of NIS 38 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, 2019					
	Gross assets in respect of derivatives			Gross liabilities in respect of derivatives		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
Interest contracts	263	6,112	6,375	637	6,468	7,105
Of which: hedging derivatives	21	11	32	183	344	527
Foreign-currency contracts	445	3,317	3,762	332	3,650	3,982
Share-related contracts	53	938	991	50	941	991
Commodity and other contracts	-	15	15	-	15	15
Total gross assets (liabilities) in respect of derivatives(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

C. Accounting hedges

1. Effect of accounting hedges

	For the year ended December 31	
	2020	2019
	Interest income (expenses)	
Profit (loss) from fair-value hedges		
Interest contracts		
Hedged items	**301**	407
Hedging derivatives	**(300)**	(405)

2. Items hedged in fair-value hedges

	Balance as at December 31, 2020	
	Book value	Cumulative fair-value adjustments that increased the book value
Securities	**15,678**	**756**

	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, 2020					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments	**188**	**7,791**	**2,484**	**414**	**4,013**	**14,890**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(6,300)**	**(1,985)**	**-**	**(1,278)**	**(9,563)**
Credit risk mitigation in respect of cash collateral received	**-**	**(1,244)**	**(179)**	**(414)**	**(1,136)**	**(2,973)**
Net total assets in respect of derivative instruments	**188**	**247**	**320**	**-**	**1,599**	**2,354**
Off-balance sheet credit risk in respect of derivative instruments[(1)]	**376**	**3,667**	**2,042**	**113**	**4,872**	**11,070**
Off-balance sheet credit risk mitigation	**-**	**(1,773)**	**(664)**	**-**	**(1,524)**	**(3,961)**
Total gross credit risk in respect of derivative instruments	**564**	**11,458**	**4,526**	**527**	**8,885**	**25,960**
Balance sheet balance of liabilities in respect of derivative instruments[(2)]	**218**	**7,351**	**2,841**	**-**	**6,432**	**16,842**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**(6,300)**	**(1,985)**	**-**	**(1,278)**	**(9,563)**
Cash collateral pledged	**-**	**(616)**	**(504)**	**-**	**(3,033)**	**(4,153)**
Net total liabilities in respect of derivative instruments	**218**	**435**	**352**	**-**	**2,121**	**3,126**

(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 38 million (December 31, 2019: NIS 43 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, 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 38 million (December 31, 2019: NIS 43 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, 2020				
	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	**3,195**	**3,984**	**13,896**	**6,336**	**27,411**
Other	**29,738**	**66,417**	**167,608**	**60,211**	**323,974**
Foreign-currency contracts	**176,487**	**98,779**	**34,421**	**12,465**	**322,152**
Share-related contracts	**61,963**	**23,260**	**5,591**	**203**	**91,017**
Commodity and other contracts (including credit derivatives)	**374**	**11**	**22**	**-**	**407**
Total	**271,757**	**192,451**	**221,538**	**79,215**	**764,961**

	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
Total	347,220	215,925	250,060	84,561	897,766

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.

- 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.

Note 27 Activity in Derivative Instruments – Volume, Credit Risks, and Maturity Dates (continued)

- 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 included the activity of the Isracard Group, which was classified as a discontinued operation, as detailed in Note 1G.

In addition, pursuant to the directive of the Banking Supervision Department, if the annual revenue of a business client does not reflect the volume of the client's activity, and the client's indebtedness 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 the total balance sheet assets of the business, 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.

Reclassification of comparative figures

The model for the allocation of expenses to the supervisory segments was altered and adjusted during the year, with broader reliance on data based on the customer level, which were previously allocated based on a model, this in order to properly reflect the expenses attributed to each segment and intersegmental activities. Some data were also reclassified to properly reflect improvements in segment measurement methods.

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments

	For the year ended December 31, 2020				
	Activity in Israel				
	Households	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Interest income from externals	4,053	9	2,118	886	1,541
Interest expenses for externals	(226)	(137)	(94)	(73)	(112)
Net interest income:					
From externals	3,827	(128)	2,024	813	1,429
Inter-segmental	(815)	204	(10)	(54)	(309)
Total net interest income	3,012	76	2,014	759	1,120
Non-interest income:					
Non-interest financing income	5	-	14	10	66
Fees and other income	1,210	146	818	271	416
Total non-interest income	1,215	146	832	281	482
Total income	4,227	222	2,846	1,040	1,602
Provision (income) for credit losses	763	2	602	108	338
Operating and other expenses:					
For externals	3,457	171	1,686	365	503
Inter-segmental	-	-	-	-	-
Total operating and other expenses	3,457	171	1,686	365	503
Profit (loss) from continued operations before taxes	7	49	558	567	761
Provision for taxes (tax benefit) on profit (loss) from continued operations	3	18	213	234	315
Profit (loss) from continued operations after taxes	4	31	345	333	446
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	4	31	345	333	446
Loss from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	4	31	345	333	446
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	4	31	345	333	446

NIS millions

	For the year ended December 31, 2020								
	Activity in Israel				Activity overseas				Total
	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
	33	912	-	9,552	-	553	155	708	10,260
	(186)	(394)	-	(1,222)	-	(131)	(110)	(241)	(1,463)
	(153)	518	-	8,330	-	422	45	467	8,797
	213	825	-	54	-	(43)	(11)	(54)	-
	60	1,343	-	8,384	-	379	34	413	8,797
	57	896	1	1,049	-	-	39	39	1,088
	91	121	183	3,256	7	27	1	35	3,291
	148	1,017	184	4,305	7	27	40	74	4,379
	208	2,360	184	12,689	7	406	74	487	13,176
	4	(3)	-	1,814	-	129	-	129	1,943
	165	323	199	6,869	229	220	183	632	7,501
	-	29	(12)	17	-	(17)	-	(17)	-
	165	352	187	6,886	229	203	183	615	7,501
	39	2,011	(3)	3,989	(222)	74	(109)	(257)	3,732
	20	799	13	1,615	(18)	27	(34)	(25)	1,590
	19	1,212	(16)	2,374	(204)	47	(75)	(232)	2,142
	-	10	-	10	-	-	-	-	10
	19	1,222	(16)	2,384	(204)	47	(75)	(232)	2,152
	-	-	(109)	(109)	-	-	-	-	(109)
	19	1,222	(125)	2,275	(204)	47	(75)	(232)	2,043
	-	9	-	9	-	-	4	4	13
	19	1,231	(125)	2,284	(204)	47	(71)	(228)	2,056

Note 28 Supervisory Activity Segments (continued)

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020				
	Activity in Israel				
	Households[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	127,219	557	51,393	28,950	65,679
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public[1]	128,554	563	52,455	29,576	67,559
Balance of gross credit to the public at the end of the reported period	132,753	626	54,614	30,866	71,118
Balance of impaired debts	739	-	1,052	369	1,295
Balance of debts in arrears of more than 90 days	671	-	29	2	-
Average balance of liabilities[1]	149,745	33,908	69,878	25,672	47,420
Of which: average balance of deposits from the public[1]	149,742	33,907	69,741	25,551	47,290
Balance of deposits from the public at the end of the reported period	156,024	33,941	79,370	27,540	56,036
Average balance of risk-adjusted assets[1][2]	94,284	1,171	64,487	42,730	87,479
Balance of risk-adjusted assets at the end of the reported period[2]	94,927	1,263	65,500	44,249	91,707
Average balance of assets under management[1][3]	63,468	45,017	30,648	16,147	77,601
Segmentation of net interest income:					
Spread from credit granting activity	2,720	6	1,891	720	1,071
Spread from deposit taking activity	292	70	123	39	49
Other	-	-	-	-	-
Total net interest income	3,012	76	2,014	759	1,120

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers. The average balance of assets under management for the three months ended March 31, 2020, in the institutional customer segment has been updated, and stands at NIS 399,730 million.
(4) Includes housing loans in the amount of NIS 17.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

NIS millions

	For the year ended December 31, 2020								
	Activity in Israel				Activity overseas				Total
	Institutional entities	Financial management	Other	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
	1,902	191,933	140	467,773	25	13,888	15,337	29,250	497,023
	-	385	-	385	-	-	-	-	385
	1,505	-	-	280,212	25	14,316	966	15,307	295,519
	3,935	-	-	293,912	-	14,061	-	14,061	307,973
	-	-	-	3,455	-	505	-	505	3,960
	-	-	-	702	26	-	-	26	728
	53,136	59,048	9	438,816	9	7,022	13,115	20,146	458,962
	53,075	-	-	379,306	9	7,005	11,179	18,193	397,499
	64,109	-	-	417,020	1	7,283	10,913	18,197	435,217
	5,925	21,334	4,611	322,021	216	18,566	254	19,036	341,057
	6,295	20,964	4,139	329,044	207	18,313	198	18,718	347,762
	357,657	42,813	3,778	637,129	114	-	-	114	637,243
	17	2,417	-	8,842	-	473	140	613	9,455
	33	(1,357)	-	(751)	-	(94)	(197)	(291)	(1,042)
	10	283	-	293	-	-	91	91	384
	60	1,343	-	8,384	-	379	34	413	8,797

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020								
	Household Segment				Private Banking Segment				Total
	Housing loans	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Interest income from externals	**2,108**	**20**	**1,925**	**4,053**	**5**	**-**	**4**	**9**	**4,062**
Interest expenses for externals	**-**	**-**	**(226)**	**(226)**	**-**	**-**	**(137)**	**(137)**	**(363)**
Net interest income:									
From externals	**2,108**	**20**	**1,699**	**3,827**	**5**	**-**	**(133)**	**(128)**	**3,699**
Inter-segmental	**(1,117)**	**(2)**	**304**	**(815)**	**(3)**	**-**	**207**	**204**	**(611)**
Total net interest income	**991**	**18**	**2,003**	**3,012**	**2**	**-**	**74**	**76**	**3,088**
Non-interest income:									
Non-interest financing income	**-**	**-**	**5**	**5**	**-**	**-**	**-**	**-**	**5**
Fees and other income	**57**	**193**	**960**	**1,210**	**-**	**3**	**143**	**146**	**1,356**
Total non-interest income	**57**	**193**	**965**	**1,215**	**-**	**3**	**143**	**146**	**1,361**
Total income	**1,048**	**211**	**2,968**	**4,227**	**2**	**3**	**217**	**222**	**4,449**
Provision (income) for credit losses	**316**	**-**	**447**	**763**	**1**	**-**	**1**	**2**	**765**
Operating and other expenses:									
For externals	**303**	**189**	**2,965**	**3,457**	**-**	**1**	**170**	**171**	**3,628**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total operating and other expenses	**303**	**189**	**2,965**	**3,457**	**-**	**1**	**170**	**171**	**3,628**
Profit (loss) from continued operations before taxes	**429**	**22**	**(444)**	**7**	**1**	**2**	**46**	**49**	**56**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**165**	**8**	**(170)**	**3**	**-**	**1**	**17**	**18**	**21**
Net profit (loss) attributed to shareholders of the Bank	**264**	**14**	**(274)**	**4**	**1**	**1**	**29**	**31**	**35**

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020								
	Household Segment				Private Banking Segment				Total
	Housing loans[4]	Credit cards	Other	Total	Housing loans	Credit cards	Other	Total	
Average balance of assets[1]	93,619	3,784	29,816	127,219	288	89	180	557	127,776
Average balance of gross credit to the public[1]	94,218	3,784	30,552	128,554	289	89	185	563	129,117
Balance of gross credit to the public at the end of the reported period	99,173	4,597	28,983	132,753	270	126	230	626	133,379
Balance of impaired debts	1	-	738	739	-	-	-	-	739
Balance of debts in arrears of more than 90 days	626	-	45	671	-	-	-	-	671
Average balance of liabilities[1]	-	-	149,745	149,745	-	-	33,908	33,908	183,653
Of which: average balance of deposits from the public[1]	-	-	149,742	149,742	-	-	33,907	33,907	183,649
Balance of deposits from the public at the end of the reported period	-	-	156,024	156,024	-	-	33,941	33,941	189,965
Average balance of risk-adjusted assets[1][2]	54,827	4,966	34,491	94,284	160	185	826	1,171	95,455
Balance of risk-adjusted assets at the end of the reported period[2]	57,451	4,585	32,891	94,927	142	171	950	1,263	96,190
Average balance of assets under management[1][3]	-	-	63,468	63,468	-	-	45,017	45,017	108,485
Segmentation of net interest income:									
Spread from credit granting activity	991	18	1,711	2,720	2	-	4	6	2,726
Spread from deposit taking activity	-	-	292	292	-	-	70	70	362
Total net interest income	991	18	2,003	3,012	2	-	74	76	3,088

(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 17.6 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020									
	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	**678**	**1,440**	**2,118**	**455**	**431**	**886**	**447**	**1,094**	**1,541**	**4,545**
Interest expenses for externals	**(8)**	**(86)**	**(94)**	**(4)**	**(69)**	**(73)**	**(6)**	**(106)**	**(112)**	**(279)**
Net interest income:										
From externals	**670**	**1,354**	**2,024**	**451**	**362**	**813**	**441**	**988**	**1,429**	**4,266**
Inter-segmental	**(68)**	**58**	**(10)**	**(72)**	**18**	**(54)**	**(59)**	**(250)**	**(309)**	**(373)**
Total net interest income	**602**	**1,412**	**2,014**	**379**	**380**	**759**	**382**	**738**	**1,120**	**3,893**
Non-interest income:										
Non-interest financing income	**3**	**11**	**14**	**1**	**9**	**10**	**15**	**51**	**66**	**90**
Fees and other income	**185**	**633**	**818**	**145**	**126**	**271**	**141**	**275**	**416**	**1,505**
Total non-interest income	**188**	**644**	**832**	**146**	**135**	**281**	**156**	**326**	**482**	**1,595**
Of which: income from credit cards	**-**	**57**	**57**	**-**	**3**	**3**	**-**	**2**	**2**	**62**
Total income	**790**	**2,056**	**2,846**	**525**	**515**	**1,040**	**538**	**1,064**	**1,602**	**5,488**
Provision (income) for credit losses	**111**	**491**	**602**	**1**	**107**	**108**	**30**	**308**	**338**	**1,048**
Operating and other expenses:										
For externals	**335**	**1,351**	**1,686**	**159**	**206**	**365**	**144**	**359**	**503**	**2,554**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total operating and other expenses	**335**	**1,351**	**1,686**	**159**	**206**	**365**	**144**	**359**	**503**	**2,554**
Profit (loss) from continued operations before taxes	**344**	**214**	**558**	**365**	**202**	**567**	**364**	**397**	**761**	**1,886**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**132**	**81**	**213**	**151**	**83**	**234**	**149**	**166**	**315**	**762**
Net profit (loss) attributed to shareholders of the Bank	**212**	**133**	**345**	**214**	**119**	**333**	**215**	**231**	**446**	**1,124**

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020									
	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]	**17,934**	**33,459**	**51,393**	**14,296**	**14,654**	**28,950**	**18,584**	**47,095**	**65,679**	**146,022**
Average balance of gross credit to the public[1]	**18,236**	**34,219**	**52,455**	**14,588**	**14,988**	**29,576**	**18,897**	**48,662**	**67,559**	**149,590**
Balance of gross credit to the public at the end of the reported period	**18,230**	**36,384**	**54,614**	**15,370**	**15,496**	**30,866**	**21,455**	**49,663**	**71,118**	**156,598**
Balance of impaired debts	**312**	**740**	**1,052**	**248**	**121**	**369**	**64**	**1,231**	**1,295**	**2,716**
Balance of debts in arrears of more than 90 days	**7**	**22**	**29**	**1**	**1**	**2**	**-**	**-**	**-**	**31**
Average balance of liabilities[1]	**10,976**	**58,902**	**69,878**	**4,159**	**21,513**	**25,672**	**7,789**	**39,631**	**47,420**	**142,970**
Of which: average balance of deposits from the public[1]	**10,868**	**58,873**	**69,741**	**4,055**	**21,496**	**25,551**	**7,721**	**39,569**	**47,290**	**142,582**
Balance of deposits from the public at the end of the reported period	**11,925**	**67,445**	**79,370**	**4,069**	**23,471**	**27,540**	**9,196**	**46,840**	**56,036**	**162,946**
Average balance of risk-adjusted assets[1][2]	**27,016**	**37,471**	**64,487**	**23,627**	**19,103**	**42,730**	**27,587**	**59,892**	**87,479**	**194,696**
Balance of risk-adjusted assets at the end of the reported period[2]	**27,513**	**37,987**	**65,500**	**24,296**	**19,953**	**44,249**	**32,510**	**59,197**	**91,707**	**201,456**
Average balance of assets under management[1][3]	**-**	**30,648**	**30,648**	**-**	**16,147**	**16,147**	**-**	**77,601**	**77,601**	**124,396**
Segmentation of net interest income:										
Spread from credit granting activity	**585**	**1,306**	**1,891**	**374**	**346**	**720**	**375**	**696**	**1,071**	**3,682**
Spread from deposit taking activity	**17**	**106**	**123**	**5**	**34**	**39**	**7**	**42**	**49**	**211**
Total net interest income	**602**	**1,412**	**2,014**	**379**	**380**	**759**	**382**	**738**	**1,120**	**3,893**

(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, 2020				
	Financial management segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Interest income from externals	21	891	-	-	912
Interest expenses for externals	-	(394)	-	-	(394)
Net interest income:					
From externals	21	497	-	-	518
Inter-segmental	-	828	-	(3)	825
Total net interest income	21	1,325	-	(3)	1,343
Non-interest financing income					
From externals	(1,447)	2,252	70	21	896
Inter-segmental	1,837	(1,837)	-	-	-
Fees and other income	-	73	-	48	121
Total non-interest income	390	488	70	69	1,017
Total income	411	1,813	70	66	2,360
Provision for credit losses	-	(3)	-	-	(3)
Operating and other expenses:					
For externals	193	36	47	47	323
Inter-segmental	-	29	-	-	29
Total operating and other expenses	193	65	47	47	352
Profit (loss) from continued operations before taxes	218	1,751	23	19	2,011
Provision for taxes (tax benefit) on profit (loss) from continued operations	75	710	8	6	799
Profit (loss) from continued operations after taxes	143	1,041	15	13	1,212
The Bank's share in profits of equity-basis investees	-	-	10	-	10
Net profit (loss) before attribution to non-controlling interests	143	1,041	25	13	1,222
Loss (profit) attributed to non-controlling interests	-	9	-	-	9
Net profit (loss) attributed to shareholders of the Bank	143	1,050	25	13	1,231

Note 28 Supervisory Activity Segments (continued)

NIS millions

Information regarding supervisory activity segments (continued)

	For the year ended December 31, 2020				
	Financial management segment				
	Trading activity	Asset and liability management activity	Non-financial investment activity	Other	Total
Average balance of assets[1]	19,525	169,320	2,098	990	191,933
Of which: investments in equity-basis investees[1]	-	-	385	-	385
Average balance of liabilities[1]	11,787	46,928	-	333	59,048
Average balance of risk-adjusted assets[1][2]	5,809	13,397	2,128	-	21,334
Balance of risk-adjusted assets at the end of the reported period[2]	5,385	12,908	2,671	-	20,964
Average balance of assets under management[1][3]	-	-	-	42,813	42,813
Components of net interest income and non-interest income					
Net exchange-rate differences[4]	111	140	-	-	-
Net CPI differences[4]	-	(93)	-	-	-
Net interest exposures[4]	126	618	-	-	-
Net share exposures[4]	15	-	-	-	-
Interest spreads attributed to financial management	-	907	-	-	-
Total net interest income and non-interest income based on accrual base	252	1,572	-	-	-
Profits or losses from sale or other-than-temporary impairment of bonds	-	156	-	-	-
Change in gap between fair value and accrual base of derivative instruments recorded in profit and loss	-	85	-	-	-
Other non-interest income	159	-	-	-	-
Total net interest income and non-interest income	411	1,813	-	-	-

(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, 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	3,562	176	1,689	382	481
Inter-segmental	-	-	-	-	-
Total operating and other expenses	3,562	176	1,689	382	481
Profit (loss) from continued operations before taxes	891	134	1,103	724	405
Provision for taxes on profit from continued operations	332	49	411	276	153
Profit (loss) from continued operations after taxes	559	85	692	448	252
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	559	85	692	448	252
Net profit from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	559	85	692	448	252
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	559	85	692	448	252

* Reclassified; for additional information, see explanation above.

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
174	319	859	7,642	425	300	409	1,134	8,776
-	25	(10)	15	-	(15)	-	(15)	-
174	344	849	7,657	425	285	409	1,119	8,776
20	1,324	(713)	3,888	(408)	265	(589)	(732)	3,156
14	476	(7)	1,704	38	84	(145)	(23)	1,681
6	848	(706)	2,184	(446)	181	(444)	(709)	1,475
-	11	-	11	-	-	-	-	11
6	859	(706)	2,195	(446)	181	(444)	(709)	1,486
-	-	296	296	-	-	-	-	296
6	859	(410)	2,491	(446)	181	(444)	(709)	1,782
-	7	-	7	-	-	10	10	17
6	866	(410)	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[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	123,671	734	51,746	27,822	60,583
Of which: investments in equity-basis investees[1]	-	-	-	-	-
Average balance of gross credit to the public[1]	125,075	742	53,576	28,348	61,787
Balance of gross credit to the public at the end of the reported period	127,833	618	54,834	29,615	67,919
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

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 13.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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	
2,180	152,854	3,917	423,507	51	16,057	16,054	32,162	455,669
-	122	-	122	-	-	-	-	122
1,867	-	3,777	275,172	51	15,486	153	15,690	290,862
1,199	-	-	282,018	14	15,615	-	15,629	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	3,599	824,257	45	182	-	227	824,484
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	196	3,068	3,562	1	2	173	176	3,738
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	298	196	3,068	3,562	1	2	173	176	3,738
Profit (loss) from continued operations before taxes	567	66	258	891	2	3	129	134	1,025
Provision for taxes (tax benefit) on profit (loss) from continued operations	213	23	96	332	1	1	47	49	381
Net profit (loss) attributed to shareholders of the Bank	354	43	162	559	1	2	82	85	644

* Reclassified; for additional information, see explanation above.

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[4]	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
Total net interest income	836	22	2,499	3,357	3	-	168	171	3,528

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 13.3 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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	338	1,351	1,689	154	228	382	121	360	481	2,552
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	338	1,351	1,689	154	228	382	121	360	481	2,552
Profit (loss) from continued operations before taxes	429	674	1,103	375	349	724	466	(61)	405	2,232
Provision for taxes (tax benefit) on profit (loss) from continued operations	162	249	411	144	132	276	176	(23)	153	840
Net profit (loss) attributed to shareholders of the Bank	267	425	692	231	217	448	290	(38)	252	1,392

* Reclassified; for additional information, see explanation above.

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	46,014	60,583	140,151
Average balance of gross credit to the public[1]	18,550	35,026	53,576	12,973	15,375	28,348	14,799	46,988	61,787	143,711
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	51,093	67,919	152,368
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
Total net interest income	626	1,629	2,255	349	422	771	312	765	1,077	4,103

* Reclassified; for additional information, see explanation above.
(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 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	20	35	72	319
Inter-segmental	-	25	-	-	25
Total operating and other expenses	192	45	35	72	344
Profit (loss) from continued operations before taxes	36	1,005	306	(23)	1,324
Provision for taxes (tax benefit) on profit (loss) from continued operations	12	367	105	(8)	476
Profit (loss) from continued operations after taxes	24	638	201	(15)	848
The Bank's share in profits of equity-basis investees	-	-	11	-	11
Net profit before attribution to non-controlling interests	24	638	212	(15)	859
Net profit attributed to non-controlling interests	-	7	-	-	7
Net profit attributed to shareholders of the Bank	24	645	212	(15)	866

* Reclassified; for additional information, see explanation above.

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 assets[1]	15,275	135,554	1,626	399	152,854
Of which: investments in equity-basis investees[1]	-	-	122	-	122
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	(153)	-	-	-
Net CPI differences[4]	-	22	-	-	-
Net interest exposures[4]	53	398	-	-	-
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	-	-	-

* Reclassified; for additional information, see explanation above.
(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	3,450	174	1,644	373	469
Inter-segmental	-	-	-	-	-
Total operating and other expenses	3,450	174	1,644	373	469
Profit (loss) from continued operations before taxes	618	139	991	644	1,267
Provision for taxes (tax benefit) on profit (loss) from continued operations	223	51	364	235	465
Profit (loss) from continued operations after taxes	395	88	627	409	802
The Bank's share in profits of equity-basis investees	-	-	-	-	-
Net profit (loss) from continued operations	395	88	627	409	802
Net profit from a discontinued operation	-	-	-	-	-
Net profit (loss) before attribution to non-controlling interests	395	88	627	409	802
Loss (profit) attributed to non-controlling interests	-	-	-	-	-
Net profit (loss) attributed to shareholders of the Bank	395	88	627	409	802

* Reclassified; for additional information, see explanation above.

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
	197	275	614	7,196	1,153	320	291	1,764	8,960
	-	39	(27)	12	-	(15)	3	(12)	-
	197	314	587	7,208	1,153	305	294	1,752	8,960
	85	2,035	(451)	5,328	(1,084)	63	(106)	(1,127)	4,201
	31	661	(63)	1,967	19	34	(11)	42	2,009
	54	1,374	(388)	3,361	(1,103)	29	(95)	(1,169)	2,192
	-	4	-	4	-	-	-	-	4
	54	1,378	(388)	3,365	(1,103)	29	(95)	(1,169)	2,196
	-	-	364	364	-	-	-	-	364
	54	1,378	(24)	3,729	(1,103)	29	(95)	(1,169)	2,560
	-	16	-	16	-	11	8	19	35
	54	1,394	(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[4]	Private banking	Small businesses and microbusinesses	Mid-sized businesses	Large businesses
Average balance of assets[1]	118,790	910	50,699	24,101	57,719
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	58,148
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; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 10.8 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.
(5) 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[5]	Total activity in Israel	Private individuals	Business activity	Other	Total activity overseas	
2,617	149,476	14,003	418,315	256	17,112	16,179	33,547	451,862
-	120	-	120	-	-	-	-	120
2,226	-	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	3,170	945,587	4,698	14,323	-	19,021	964,608
34	3,209	-	9,727	6	427	364	797	10,524
53	(2,011)	-	(1,133)	17	(27)	(493)	(503)	(1,636)
10	(217)	-	(207)	-	-	225	225	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	191	2,990	3,450	2	2	170	174	3,624
Inter-segmental	-	-	-	-	-	-	-	-	-
Total operating and other expenses	269	191	2,990	3,450	2	2	170	174	3,624
Profit (loss) from continued operations before taxes	450	44	124	618	3	5	131	139	757
Provision for taxes (tax benefit) on profit (loss) from continued operations	164	15	44	223	1	2	48	51	274
Net profit (loss) attributed to shareholders of the Bank	286	29	80	395	2	3	83	88	483

* Reclassified; for additional information, see explanation above.

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[4]	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
Total net interest income	691	23	2,509	3,223	5	-	150	155	3,378

* Reclassified; for additional information, see explanation above.
(1) Average balances are calculated based on the balance at the beginning of a quarter or at the beginning of a month.
(2) Risk-weighted assets – as calculated for the purposes of capital adequacy (Proper Conduct of Banking Business Directive 201).
(3) Assets under management – including assets of provident funds, study funds, mutual funds, and securities of customers.
(4) Includes housing loans in the amount of NIS 10.8 billion to individuals whose business activity is classified into the Small Businesses and Microbusinesses Segment.

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	329	1,315	1,644	150	223	373	118	351	469	2,486
Inter-segmental	-	-	-	-	-	-	-	-	-	-
Total operating and other expenses	329	1,315	1,644	150	223	373	118	351	469	2,486
Profit (loss) from continued operations before taxes	361	630	991	341	303	644	590	677	1,267	2,902
Provision for taxes (tax benefit) on profit (loss) from continued operations	133	231	364	126	109	235	217	248	465	1,064
Net profit (loss) attributed to shareholders of the Bank	228	399	627	215	194	409	373	429	802	1,838

* Reclassified; for additional information, see explanation above.

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	44,878	57,719	132,519
Average balance of gross credit to the public[1]	17,569	34,012	51,581	11,010	13,515	24,525	13,009	45,139	58,148	134,254
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	14,299	48,189	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; for additional information, see explanation above.
(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 (income) for credit losses	-	2	-	-	2
Operating and other expenses:					
For externals	188	(49)	34	102	275
Inter-segmental	-	39	-	-	39
Total operating and other expenses	188	(10)	34	102	314
Profit (loss) from continued operations before taxes	19	1,650	362	4	2,035
Provision for taxes (tax benefit) on profit (loss) from continued operations	6	530	124	1	661
Profit (loss) from continued operations after taxes	13	1,120	238	3	1,374
The Bank's share in profits of equity-basis investees	-	-	4	-	4
Net profit (loss) before attribution to non-controlling interests	13	1,120	242	3	1,378
Loss (profit) attributed to non-controlling interests	-	16	-	-	16
Net profit (loss) attributed to shareholders of the Bank	13	1,136	242	3	1,394

* Reclassified; for additional information, see explanation above.

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	133,272	1,804	89	149,476
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	-	-	-

* Reclassified; for additional information, see explanation above.
(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 Hapoalim Switzerland, the New York branch, 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 results of operations of the Poalim Capital Markets Group are included in this segment.

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. 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 included the activity of the Isracard Group, which was 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 provision 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, 2020								
	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	**1,643**	**1,329**	**2,113**	**1,226**	**1,764**	**409**	**307**	**6**	**8,797**
Inter-segmental	**604**	**34**	**(1,120)**	**(130)**	**(356)**	**(38)**	**1,006**	**-**	**-**
Non-interest financing income	**8**	**5**	**-**	**14**	**131**	**37**	**889**	**4**	**1,088**
Total net financing profit	**2,255**	**1,368**	**993**	**1,110**	**1,539**	**408**	**2,202**	**10**	**9,885**
Fees and other income	**1,432**	**550**	**57**	**392**	**519**	**52**	**120**	**169**	**3,291**
Total income	**3,687**	**1,918**	**1,050**	**1,502**	**2,058**	**460**	**2,322**	**179**	**13,176**
Provision (income) for credit losses	**505**	**397**	**317**	**297**	**295**	**129**	**3**	**-**	**1,943**
Operating and other expenses:									
From externals	**3,531**	**889**	**453**	**463**	**595**	**619**	**705**	**246**	**7,501**
Inter-segmental	**76**	**343**	**(150)**	**32**	**25**	**3**	**(269)**	**(60)**	**-**
Profit (loss) from continued operations before taxes	**(425)**	**289**	**430**	**710**	**1,143**	**(291)**	**1,883**	**(7)**	**3,732**
Provision for taxes (tax benefit) on profit (loss) from continued operations	**(145)**	**107**	**160**	**281**	**451**	**(37)**	**752**	**21**	**1,590**
Profit (loss) from continued operations after taxes	**(280)**	**182**	**270**	**429**	**692**	**(254)**	**1,131**	**(28)**	**2,142**
The Bank's share in profits of equity-basis investees, after taxes	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Net profit (loss) from continued operations	**(280)**	**182**	**270**	**429**	**692**	**(254)**	**1,141**	**(28)**	**2,152**
Loss from a discontinued operation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**(109)**
Net profit (loss):									
Before attribution to non-controlling interests	**(280)**	**182**	**270**	**429**	**692**	**(254)**	**1,141**	**(137)**	**2,043**
Attributed to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**4**	**9**	**-**	**13**
Attributed to shareholders of the Bank	**(280)**	**182**	**270**	**429**	**692**	**(250)**	**1,150**	**(137)**	**2,056**
Net credit to the public at the end of the reported period	**37,233**	**31,371**	**98,737**	**42,290**	**78,103**	**12,521**	**1,573**	**-**	**301,828**
Deposits from the public at the end of the reported period	**218,490**	**56,303**	**-**	**35,499**	**59,981**	**17,701**	**47,243**	**-**	**435,217**

(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

* Reclassified.

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

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

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[1]	Adjustments[2]	Total
1,737	1,503	2,284	1,166	1,847	686	85	11	9,319
1,091	107	(1,446)	(75)	(451)	(223)	997	-	-
5	2	-	10	75	(12)	475	4	559
2,833	1,612	838	1,101	1,471	451	1,557	15	9,878
1,500	580	60	370	496	72	137	115	3,330
4,333	2,192	898	1,471	1,967	523	1,694	130	13,208
220	299	13	89	588	68	(1)	-	1,276
3,451	1,019	452	512	617	1,119	715	891	8,776
237	220	(159)	-	(6)	5	(249)	(48)	-
425	654	592	870	768	(669)	1,229	(713)	3,156
161	249	223	331	298	(2)	428	(7)	1,681
264	405	369	539	470	(667)	801	(706)	1,475
-	-	-	-	-	-	11	-	11
264	405	369	539	470	(667)	812	(706)	1,486
-	-	-	-	-	-	-	296	296
264	405	369	539	470	(667)	812	(410)	1,782
-	-	-	-	-	10	7	-	17
264	405	369	539	470	(657)	819	(410)	1,799
41,456	31,022	89,331	40,138	77,310	12,978	705	-	292,940
188,766	45,959	-	25,143	53,035	16,147	32,595	-	361,645

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

* Reclassified.

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

(2) This section also includes the results of activities of the Bank Group with negligible volumes, each of which does not constitute a reportable segment, and expenses allocated in Israel pertaining to the investigation of the Bank Group's business with American customers. 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	1,211	12	1,445
2,767	1,624	696	1,012	1,483	560	2,178	31	10,351
1,520	584	61	351	482	136	164	125	3,423
4,287	2,208	757	1,363	1,965	696	2,342	156	13,774
455	392	37	(37)	(333)	101	(2)	-	613
3,356	943	403	478	648	1,744	745	643	8,960
247	171	(132)	28	(33)	13	(238)	(56)	-
229	702	449	894	1,683	(1,162)	1,837	(431)	4,201
85	260	164	333	624	31	571	(59)	2,009
144	442	285	561	1,059	(1,193)	1,266	(372)	2,192
-	-	-	-	-	-	4	-	4
144	442	285	561	1,059	(1,193)	1,270	(372)	2,196
-	-	-	-	-	-	-	364	364
144	442	285	561	1,059	(1,193)	1,270	(8)	2,560
-	-	-	-	-	20	15	-	35
144	442	285	561	1,059	(1,173)	1,285	(8)	2,595
44,099	32,561	81,030	37,489	72,141	14,136	1,051	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)

NIS millions

B. Pro-forma data regarding the effect of expenses pertaining to the business of the Bank Group in Israel with American customers on the segments of activity

The expenses allocated at Hapoalim Switzerland and at the New York branch pertaining to the investigation of the Bank Group's business with American customers were attributed, within the disclosure of segments of activity based on the management approach, to the International Activity Segment.

The expenses allocated in Israel pertaining to the Bank Group's business with American customers include a provision in respect of customers with certain American indications at the branches of the Bank in Israel, as well as a provision in respect of exposure to amounts for other United States authorities (other than the DOJ), in respect of customers in Israel and overseas. These expenses were allocated, within the disclosure of segments of activity based on the management approach, to the Adjustments Segment.

If the expenses allocated in Israel, in the year ended December 31, 2020, and in the year ended December 31, 2019, were allocated equally to the Retail Banking Segment and to the International Activity Segment (rather than to the Adjustments Segment), the net profit of retail banking would total approximately NIS 159 million and approximately NIS 772 million, respectively; the loss of the International Activity Segment for the period would total approximately NIS 264 million and approximately NIS 922 million, respectively; and a loss in the amount of approximately NIS 110 million and net profit of approximately NIS 121 million, respectively, would be recorded in the Adjustments Segment.

C. Information regarding geographical segments[1]

	For the year ended December 31			For the year ended December 31			December 31	
	2020	2019	2018	**2020**	2019	2018	**2020**	2019
	Income[2]			Net profit (loss) attributed to shareholders of the Bank			Total assets	
Israel	**12,726**	12,696	13,032	**2,428**	2,173	3,373	**512,897**	429,330
North America	**363**	478	480	**(52)**	33	65	**24,808**	27,897
Europe	**90**	37	259	**(208)**	(699)	(1,209)	**1,814**	5,523
Other	**(3)**	(3)	3	**(3)**	(4)	2	**83**	89
Total outside Israel	**450**	512	742	**(263)**	(670)	(1,142)	**26,705**	33,509
Total consolidated	**13,176**	13,208	13,774	**2,165**	1,503	2,231	**539,602**	462,839

(1) The division into geographical areas was performed according to the location of the assets.
(2) Income: net interest income and non-interest income.

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*

	2020					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	**4,007**	**446**	**790**	**5,243**	**8**	**5,251**
Provision (income) for credit losses(1)	**1,181**	**317**	**448**	**1,946**	**(3)**	**1,943**
Charge-offs	**(648)**	**(14)**	**(551)**	**(1,213)**	**-**	**(1,213)**
Recoveries of debts charged off in previous years	**602**	**9**	**339**	**950**	**-**	**950**
Net charge-offs	**(46)**	**(5)**	**(212)**	**(263)**	**-**	**(263)**
Allowance for credit losses at year end(2)	**5,142**	**758**	**1,026**	**6,926**	**5**	**6,931**
(1) Of which: in respect of off-balance sheet credit instruments	**203**	**-**	**42**	**245**	**(1)**	**244**
(2) Of which: in respect of off-balance sheet credit instruments	**700**	**-**	**81**	**781**	**-**	**781**

* 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)

	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)
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

* 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)

	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 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)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and regarding the underlying debts*

	December 31, 2020					
	Credit to the public				Banks and governments	Total
	Commercial**	Housing	Other private	Total		
Recorded debt balance of debts:*						
Examined on an individual basis	**147,900**	**1**	**952**	**148,853**	**13,618**	**162,471**
Examined on a collective basis(1)	**26,743**	**99,442**	**32,935**	**159,120**	**-**	**159,120**
Total debts*	**174,643**	**99,443**	**33,887**	**307,973**	**13,618**	**321,591**
(1) Of which: allowance for which was calculated according to the extent of arrears	**52**	**99,311**	**-**	**99,363**	**-**	**99,363**
Allowance for credit losses in respect of debts:*						
Examined on an individual basis	**3,942**	**-**	**118**	**4,060**	**5**	**4,065**
Examined on a collective basis(2)	**500**	**758**	**827**	**2,085**	**-**	**2,085**
Total allowance for credit losses	**4,442**	**758**	**945**	**6,145**	**5**	**6,150**
(2) Of which: allowance for which was calculated according to the extent of arrears***	**-**	**758**	**-**	**758**	**-**	**758**

	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

* 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 52 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2019: NIS 75 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 609 million (December 31, 2019: NIS 314 million).

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, 2020					
	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	**29,531**	**161**	**245**	**29,937**	**5**	**15**
Construction and real estate – real-estate activities	**22,082**	**806**	**164**	**23,052**	**3**	**13**
Financial services	**20,191**	**162**	**6**	**20,359**	**1**	**32**
Commercial – other	**78,203**	**2,923**	**2,302**	**83,428**	**22**	**46**
Total commercial	**150,007**	**4,052**	**2,717**	**156,776**	**31**	**106**
Private individuals – housing loans[5]	**98,329**	**626**	**1**	**98,956**	**626**	**775**
Private individuals – other	**33,033**	**68**	**737**	**33,838**	**45**	**71**
Total public – activity in Israel	**281,369**	**4,746**	**3,455**	**289,570**	**702**	**952**
Banks in Israel	**188**	**-**	**-**	**188**	**-**	**-**
Israeli government	**954**	**-**	**-**	**954**	**-**	**-**
Total activity in Israel	**282,511**	**4,746**	**3,455**	**290,712**	**702**	**952**

* 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 123 million (December 31, 2019: NIS 167 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (December 31, 2019: NIS 62 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, 2020					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public – commercial						
Construction and real estate	**5,277**	**644**	**215**	**6,136**	**-**	**16**
Commercial – other	**10,313**	**1,129**	**289**	**11,731**	**-**	**60**
Total commercial	**15,590**	**1,773**	**504**	**17,867**	**-**	**76**
Private individuals	**508**	**27**	**1**	**536**	**26**	**15**
Total public – activity overseas	**16,098**	**1,800**	**505**	**18,403**	**26**	**91**
Banks overseas	**11,233**	**-**	**-**	**11,233**	**-**	**10**
Governments overseas	**1,243**	**-**	**-**	**1,243**	**-**	**-**
Total activity overseas	**28,574**	**1,800**	**505**	**30,879**	**26**	**101**
Total public	**297,467**	**6,546**	**3,960**	**307,973**	**728**	**1,043**
Total banks	**11,421**	**-**	**-**	**11,421**	**-**	**10**
Total governments	**2,197**	**-**	**-**	**2,197**	**-**	**-**
Total	**311,085**	**6,546**	**3,960**	**321,591**	**728**	**1,053**

* 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 123 million (December 31, 2019: NIS 167 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, 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 123 million (December 31, 2019: NIS 167 million), were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans arranged in a settlement with the borrower, in the amount of approximately NIS 59 million (December 31, 2019: NIS 62 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 123 million (December 31, 2019: NIS 167 million), were classified as unimpaired problematic debts.

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 in cases where customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases where, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not grant under other conditions, the debt is considered a troubled debt restructuring.

Troubled debt restructuring may constitute a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc.

The Bank can consent to receive assets or an interest in the equity capital of the debtor, in cash, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

For details regarding the instructions of the Banking Supervision Department on coping with the coronavirus, see Note 1D above.

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, 2020				
	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**	**34**	**86**	**245**	**1,495**
Construction and real estate – real-estate activities	**103**	**11**	**61**	**164**	**1,033**
Financial services	**5**	**1**	**1**	**6**	**274**
Commercial – other	**2,084**	**1,124**	**218**	**2,302**	**5,437**
Total commercial	**2,351**	**1,170**	**366**	**2,717**	**8,239**
Private individuals – housing loans	**-**	**-**	**1**	**1**	**1**
Private individuals – other	**735**	**111**	**2**	**737**	**1,625**
Total public – activity in Israel	**3,086**	**1,281**	**369**	**3,455**	**9,865**
Borrower activity overseas					
Public – commercial					
Construction and real estate	**172**	**120**	**43**	**215**	**267**
Commercial – other	**85**	**52**	**204**	**289**	**557**
Total commercial	**257**	**172**	**247**	**504**	**824**
Private individuals	**1**	**-**	**-**	**1**	**3**
Total public – activity overseas	**258**	**172**	**247**	**505**	**827**
Total public*	**3,344**	**1,453**	**616**	**3,960**	**10,692**
* Of which:					
Measured at the present value of cash flows	**3,029**	**1,371**	**331**	**3,360**	**-**
Debts in troubled debt restructuring	**2,203**	**1,004**	**507**	**2,710**	**-**

** 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, 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)

b. Average balance and interest income

	For the year ended December 31, 2020		
	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	251	3	1
Construction and real estate – real-estate activities	238	-	-
Financial services	27	-	-
Commercial – other	2,384	30	16
Total commercial	2,900	33	17
Private individuals – housing loans	1	-	-
Private individuals – other	759	47	14
Total public – activity in Israel	3,660	80	31
Borrower activity overseas			
Public – commercial			
Construction and real estate	226	1	-
Commercial – other	274	6	-
Total commercial	500	7	-
Private individuals	2	-	-
Total public – activity overseas	502	7	-
Total public	4,162	87	31

* 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 330 million would have been recorded for the year ended December 31, 2020 (2019: NIS 435 million; 2018: NIS 284 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, 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 – housing loans	-	-	-
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 330 million would have been recorded for the year ended December 31, 2020 (2019: NIS 435 million; 2018: NIS 284 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 – housing loans	-	-	-
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 330 million would have been recorded for the year ended December 31, 2020 (2019: NIS 435 million; 2018: NIS 284 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, 2020			
	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	**33**	**-**	**42**	**75**
Construction and real estate – real-estate activities	**10**	**-**	**5**	**15**
Financial services	**3**	**-**	**2**	**5**
Commercial – other	**1,465**	**-**	**158**	**1,623**
Total commercial	**1,511**	**-**	**207**	**1,718**
Private individuals – other	**273**	**-**	**425**	**698**
Total public – activity in Israel	**1,784**	**-**	**632**	**2,416**
Borrower activity overseas				
Public – commercial				
Construction and real estate	**172**	**-**	**22**	**194**
Commercial – other	**2**	**-**	**98**	**100**
Total commercial	**174**	**-**	**120**	**294**
Total public	**1,958**	**-**	**752**	**2,710**

* 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 in the terms of the credit totaled approximately NIS 74 million as at December 31, 2020 (December 31, 2019: NIS 23 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, 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 in the terms of the credit totaled approximately NIS 74 million as at December 31, 2020 (December 31, 2019: NIS 23 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)

	Debts restructured		
	In the year ended December 31, 2020		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public – commercial			
Construction and real estate – construction	**213**	**58**	**55**
Construction and real estate – real-estate activities	**38**	**21**	**20**
Financial services	**18**	**3**	**2**
Commercial – other	**1,344**	**1,626**	**1,560**
Total commercial	**1,613**	**1,708**	**1,637**
Private individuals – other	**6,478**	**341**	**323**
Total public – activity in Israel	**8,091**	**2,049**	**1,960**
Borrower activity overseas			
Public – commercial			
Construction and real estate	**3**	**191**	**191**
Commercial – other	**4**	**124**	**124**
Total commercial	**7**	**315**	**315**
Private individuals	**12**	**-**	**-**
Total public – activity overseas	**19**	**315**	**315**
Total public	**8,110**	**2,364**	**2,275**

* 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, 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	-	-
Commercial – other	-	-	-
Total commercial	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
Total commercial	4	70	70
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)

	Failed restructured debts*					
	In the year ended December 31, 2020		In the year ended December 31, 2019		In the year ended December 31, 2018	
	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	**180**	**11**	153	5	140	10
Construction and real estate – real-estate activities	**15**	**-**	14	5	18	1
Financial services	**7**	**-**	5	-	5	1
Commercial – other	**782**	**1,003**	645	28	552	31
Total commercial	**984**	**1,014**	817	38	715	43
Private individuals – other	**3,656**	**56**	3,234	44	3,136	60
Total public – activity in Israel	**4,640**	**1,070**	4,051	82	3,851	103
Borrower activity overseas						
Public – commercial						
Commercial – other	**-**	**-**	-	-	1	54
Private individuals	**7**	**-**	6	-	6	-
Total public – activity overseas	**7**	**-**	6	-	7	54
Total public	**4,647**	**1,070**	4,057	82	3,858	157

* 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, 2020			
		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%	**62,645**	**1,511**	**39,950**	**3,872**
	Over 60%	**35,959**	**423**	**23,935**	**3,634**
Secondary lien or no lien		**839**	**36**	**484**	**218**
Total		**99,443**	**1,970**	**64,369**	**7,724**

		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

* 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").

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, 2020					For the year ended December 31, 2019				
	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	**34**	**-**	**24**	**21**	**2,205**	104	-	28	9	2,312
Private individuals – housing loans	**-**	**-**	**-**	**-**	**414**	-	-	-	-	508
Total risk of credit to the public	**34**	**-**	**24**	**21**	**2,619**	104	-	28	9	2,820

	Risk of credit to the public acquired							
	For the year ended December 31, 2020				For the year ended December 31, 2019			
	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	**8,409**	**248**	**1**	**2,393**	7,501	303	-	2,482
Total risk of credit to the public	**8,409**	**248**	**1**	**2,393**	7,501	303	-	2,482

* 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, 2020					
	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	**9,479**	**4,685**	**19,384**	**6,281**	**5,009**	**3,210**
Private individuals – other	**7**	**-**	**4**	**-**	**-**	**-**
Total credit to the public	**9,486**	**4,685**	**19,388**	**6,281**	**5,009**	**3,210**

	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 – other	19	-	8	-	-	-
Total credit to the public	9,013	3,307	19,193	4,922	5,152	3,690

* 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, 2020		
	Number of borrowers[1]	Credit*[2]	Off-balance sheet credit risk[2][3]
Credit per borrower in NIS thousands			
Up to 10	**422,725**	**487**	**981**
10 to 20	**253,135**	**1,142**	**1,726**
20 to 40	**210,875**	**2,754**	**3,233**
40 to 80	**210,639**	**7,075**	**5,011**
80 to 150	**170,175**	**13,034**	**5,629**
150 to 300	**110,384**	**17,552**	**5,443**
300 to 600	**73,489**	**26,965**	**5,091**
600 to 1,200	**74,648**	**56,420**	**7,418**
1,200 to 2,000	**21,079**	**26,320**	**4,748**
2,000 to 4,000	**6,324**	**13,724**	**3,169**
4,000 to 8,000	**2,082**	**8,643**	**2,931**
8,000 to 20,000	**1,529**	**12,900**	**6,672**
20,000 to 40,000	**800**	**13,644**	**8,832**
40,000 to 200,000	**1,067**	**56,064**	**35,855**
200,000 to 400,000	**156**	**22,636**	**20,975**
400,000 to 800,000	**71**	**20,136**	**17,660**
800,000 to 1,200,000	**13**	**5,811**	**7,246**
1,200,000 to 1,600,000	**9**	**5,051**	**7,540**
1,600,000 to 2,000,000	**3**	**2,464**	**3,056**
2,000,000 to 3,200,000	**2**	**3,064**	**1,568**
Over 3,200,000	**2**	**3,523**	**5,079**
Total	**1,559,207**	**319,409**	**159,863**

* 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 307,973, 4,751, and 6,685 million, respectively.

(1) The number of borrowers is calculated according to total 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

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, 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
1,200 to 2,000	18,195	22,607	4,248
2,000 to 4,000	5,632	12,154	2,934
4,000 to 8,000	1,923	7,958	2,683
8,000 to 20,000	1,501	13,106	6,009
20,000 to 40,000	807	14,453	8,294
40,000 to 200,000	1,283	52,519	36,343
200,000 to 400,000	132	19,583	16,197
400,000 to 800,000	67	20,690	15,976
800,000 to 1,200,000	12	6,324	5,794
1,200,000 to 1,600,000	5	2,204	4,597
1,600,000 to 2,000,000	1	1,868	28
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.
(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			
	2020	2019	**2020**	2019
	Contract balances*		Allowance for credit losses	
Transactions the balance of which represents a credit risk:				
(a) Documentary credit	**828**	816	**5**	4
(b) Credit guarantees	**5,762**	5,732	**42**	38
(c) Guarantees to purchasers of homes**	**22,680**	20,019	**58**	45
(d) Other guarantees and liabilities***	**23,771**	25,383	**181**	136
(e) Unutilized credit facilities for credit cards under the responsibility of the Bank	**15,744**	15,640	**67**	42
(f) Unutilized revolving overdraft and other credit facilities in on-demand accounts	**47,997**	44,695	**154**	103
(g) Irrevocable commitments to grant credit approved but not yet drawn****	**43,008**	33,279	**195**	106
(h) Commitments to issue guarantees	**28,768**	25,044	**79**	63

* Contract balances or the nominal amounts thereof at year end, before the effect of the allowance for credit losses.

** Beginning December 31, 2020, also includes certain guarantees provided within financing for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions, in respect of which reduced conversion coefficients can be applied according to the circular of the Banking Supervision Department.

*** Includes the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 91 million (December 31, 2019: NIS 94 million).

**** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans."

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, 2020					
	Contract balances or nominal amounts					
	Expiring in 1 year or less	Expiring in 1 year to 3 years	Expiring in more than 3 years up to 5 years	Expiring in more than 5 years	No expiration date	Total
Credit guarantees	**4,268**	**705**	**152**	**611**	**26**	**5,762**
Guarantees to purchasers of homes	**2,709**	**-**	**-**	**2**	**19,969**	**22,680**
Guarantees and other commitments	**11,759**	**6,662**	**1,002**	**4,348**	**-**	**23,771**
Commitments to issue guarantees	**8,558**	**16,140**	**3,196**	**874**	**-**	**28,768**
Total	**27,294**	**23,507**	**4,350**	**5,835**	**19,995**	**80,981**

	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

Note 30 Assets and Liabilities by Linkage Base

NIS millions

	December 31, 2020						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	126,917	-	11,341	231	222	-	138,711
Securities	42,035	482	24,036	2,535	412	2,385	71,885
Securities borrowed or purchased under agreements to resell	368	-	-	-	-	-	368
Net credit to the public[2]	221,460	49,669	23,401	3,927	2,017	1,354	301,828
Credit to governments	274	-	748	1,171	-	-	2,193
Investments in equity-basis investees	53	-	-	-	-	503	556
Buildings and equipment	-	-	-	-	-	3,319	3,319
Assets in respect of derivative instruments	9,630	423	2,180	999	577	1,081	14,890
Other assets	4,523	6	93	36	11	1,183	5,852
Total assets	405,260	50,580	61,799	8,899	3,239	9,825	539,602
Liabilities							
Deposits from the public	315,181	10,290	93,939	10,948	3,453	1,406	435,217
Deposits from banks	4,368	-	1,928	282	13	-	6,591
Deposits from the government	275	2	484	-	-	-	761
Securities lent or sold under agreements to repurchase	-	-	-	-	6	-	6
Bonds and subordinated notes	596	22,881	13	-	-	-	23,490
Liabilities in respect of derivative instruments	10,126	710	3,000	1,230	694	1,044	16,804
Other liabilities	11,116	4,594	537	86	176	325	16,834
Total liabilities	341,662	38,477	99,901	12,546	4,342	2,775	499,703
Surplus assets (liabilities)	63,598	12,103	(38,102)	(3,647)	(1,103)	7,050	39,899
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(41,328)	(3,125)	40,825	3,262	366	-	-
Options in the money, net (in terms of underlying asset)	2,388	-	(2,867)	138	341	-	-
Options out of the money, net (in terms of underlying asset)	111	-	(581)	209	261	-	-
Overall total	24,769	8,978	(725)	(38)	(135)	7,050	39,899
Options in the money, net (nominal present value)	1,801	-	(2,327)	329	197	-	-
Options out of the money, net (nominal present value)	1,162	-	(3,784)	1,271	1,351	-	-

* 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, 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
Investment constituting 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	**12,281	**3,986	3,588	200	354	302	20,711
Total liabilities	**280,309	**42,380	85,532	11,550	4,094	1,602	425,467
Surplus assets (liabilities)	**53,740	**7,817	(25,616)	(4,657)	714	6,223	38,221
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(27,418)	(523)	26,470	2,577	(1,106)	-	-
Options in the money, net (in terms of underlying asset)	69	-	(1,543)	1,444	30	-	-
Options out of the money, net (in terms of underlying asset)	(580)	-	(214)	774	20	-	-
Overall total	**25,811	**7,294	(903)	138	(342)	6,223	38,221
Options in the money, net (nominal present value)	(1,785)	-	(809)	2,736	(142)	-	-
Options out of the money, net (nominal present value)	(3,348)	-	565	2,445	338	-	-

* Including derivative instruments whose underlying asset refers to a non-monetary item.
** Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage bases.

Note 31 Assets and Liabilities by Currency and by Term to Maturity

	December 31, 2020				
	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	**170,270**	**21,340**	**54,503**	**42,058**	**33,953**
Liabilities	**297,146**	**17,629**	**20,140**	**13,642**	**10,623**
Difference	**(126,876)**	**3,711**	**34,363**	**28,416**	**23,330**
Derivative instruments (excluding options)	**(21,862)**	**(2,417)**	**(19,051)**	**(929)**	**177**
Options (in terms of underlying asset)	**119**	**204**	**1,189**	**543**	**6**
Difference after effect of derivative instruments	**(148,619)**	**1,498**	**16,501**	**28,030**	**23,513**
Foreign currency**					
Assets	**20,512**	**4,138**	**8,528**	**7,907**	**5,876**
Liabilities	**81,994**	**8,066**	**18,017**	**4,073**	**1,799**
Difference	**(61,482)**	**(3,928)**	**(9,489)**	**3,834**	**4,077**
Of which: difference in USD	**(51,167)**	**(4,104)**	**(9,716)**	**2,761**	**3,408**
Of which: difference in respect of foreign operations	**1,436**	**(684)**	**(623)**	**(79)**	**2,196**
Derivative instruments (excluding options)	**21,862**	**2,411**	**19,072**	**923**	**(179)**
Options (in terms of underlying asset)	**(119)**	**(204)**	**(1,189)**	**(543)**	**(6)**
Difference after effect of derivative instruments	**(39,739)**	**(1,721)**	**8,394**	**4,214**	**3,892**
Total as at December 31, 2020					
Assets***	**190,782**	**25,478**	**63,031**	**49,965**	**39,829**
Liabilities****	**379,140**	**25,695**	**38,157**	**17,715**	**12,422**
Difference	**(188,358)**	**(217)**	**24,874**	**32,250**	**27,407**
*** Of which: credit to the public	**49,612**	**21,954**	**51,820**	**37,871**	**30,060**
**** Of which: deposits from the public	**361,756**	**20,604**	**28,699**	**9,260**	**6,202**

* 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 3,304 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 13,548 million, of which amounts in excess of revolving credit facilities in the amount of NIS 1,867 million.

December 31, 2020								
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								%
24,256	26,231	60,500	44,076	15,014	492,201	2,699	455,964	2.3%
4,064	3,040	15,757	1,314	18	383,373	23	380,305	1.5%
20,192	23,191	44,743	42,762	14,996	108,828	2,676	75,659	-
(48)	(207)	(69)	(63)	-	(44,469)	-	(44,272)	-
544	-	-	-	-	2,605	-	2,356	-
20,688	22,984	44,674	42,699	14,996	66,964	2,676	33,743	-
5,410	4,090	19,122	965	7	76,555	605	73,760	1.8%
1,158	712	900	247	5	116,971	1	116,623	0.9%
4,252	3,378	18,222	718	2	(40,416)	604	(42,863)	-
2,248	2,888	16,748	396	(3)	(36,541)	387	(38,307)	-
931	1,026	2,407	156	-	6,766	-	5,889	-
16	230	76	58	-	44,469	-	44,272	-
(544)	-	-	-	-	(2,605)	-	(2,356)	-
3,724	3,608	18,298	776	2	1,448	604	(947)	-
29,666	30,321	79,622	45,041	15,021	568,756	3,304	[4]529,724	2.2%
5,222	3,752	16,657	1,561	23	500,344	24	496,928	1.3%
24,444	26,569	62,965	43,480	14,998	68,412	3,280	32,796	1.8%
22,945	17,936	45,419	44,471	14,972	337,060	3,068	300,474	2.7%
2,909	1,900	3,297	1,491	1	436,119		433,811	1.4%

Note 31 Assets and Liabilities by Currency and by Term to Maturity (continued)

	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	**119,854	22,676	59,635	36,130	30,635
Liabilities	235,166	17,647	21,737	11,586	11,924
Difference	(115,312)	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	(122,834)	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****	144,121	26,756	68,102	44,384	36,920
Liabilities*****	299,216	26,333	43,718	14,189	13,074
Difference	(155,095)	423	24,384	30,195	23,846
**** Of which: credit to the public	**54,848	21,043	53,135	35,843	28,037
***** Of which: deposits from the public	284,927	21,895	32,655	6,114	5,554

* 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.

** Restated.

*** 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	**420,791	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	95,251	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	76,544	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	496,810	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	69,798	4,409	31,950	2.2%
22,373	17,021	44,697	40,149	13,138	**330,284	4,365	292,296	3.0%
3,921	3,052	3,273	1,843	1	363,235	-	360,948	1.8%

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.

Note 32 Balances and Fair-Value Estimates of Financial Instruments (continued)

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 9 million.

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 66 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, 2020				
	Balance sheet balance	Fair value[1]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	**138,711**	**3,082**	**-**	**135,665**	**138,747**
Securities*	**71,885**	**51,749**	**18,177**	**1,967**	**71,893**
Securities borrowed or purchased under agreements to resell	**368**	**-**	**-**	**368**	**368**
Net credit to the public***	**301,828**	**3,085**	**-**	**300,850**	**303,935**
Credit to governments	**2,193**	**-**	**-**	**2,205**	**2,205**
Assets in respect of derivative instruments	**14,890**	**1,049**	**10,617**	**3,224**	**14,890**
Other financial assets	**652**	**6**	**-**	**642**	**648**
Total financial assets	****530,527**	**58,971**	**28,794**	**444,921**	**532,686**
Financial liabilities					
Deposits from the public***	**435,217**	**3,465**	**-**	**433,368**	**436,833**
Deposits from banks	**6,591**	**-**	**-**	**6,570**	**6,570**
Deposits from the government	**761**	**-**	**-**	**773**	**773**
Securities lent or sold under agreements to repurchase	**6**	**-**	**-**	**6**	**6**
Bonds and subordinated notes	**23,490**	**21,784**	**1,552**	**803**	**24,139**
Liabilities in respect of derivative instruments	**16,804**	**1,051**	**9,862**	**5,891**	**16,804**
Other financial liabilities	**9,894**	**6**	**-**	**9,888**	**9,894**
Total financial liabilities	****492,763**	**26,306**	**11,414**	**457,299**	**495,019**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	**-**	**-**	**-**	**104**	**104**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 1,368 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 91,248 million and in the amount of NIS 30,201 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 38 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, 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

B. Items measured at fair value on a recurring basis

	December 31, 2020			
	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	35,878	7,457	-	43,335
Foreign government bonds	9,563	999	-	10,562
Bonds of foreign financial institutions	-	4,893	165	5,058
Bonds of foreign others	15	3,889	-	3,904
Total bonds available for sale	45,456	17,238	165	62,859
Investments in tradable shares not held for trading	78	939	-	1,017
Securities held for trading				
Israeli government bonds	6,213	-	-	6,213
Foreign government bonds	2	-	-	2
Total securities held for trading	6,215	-	-	6,215
Assets in respect of derivative instruments				
NIS-CPI contracts	-	275	199	474
Other interest contracts	-	5,155	396	5,551
Foreign-currency contracts	12	4,355	2,527	6,894
Share contracts	1,037	810	78	1,925
Commodity and other contracts	-	22	24	46
Total assets in respect of derivative instruments	1,049	10,617	3,224	14,890
Credit in respect of inter-customer lending	3,179	-	-	3,179
Assets in respect of activity in the Maof market	6	-	-	6
Total assets	55,983	28,794	3,389	88,166
Liabilities				
Liabilities in respect of derivative instruments				
NIS-CPI contracts	-	362	30	392
Other interest contracts	-	6,510	278	6,788
Foreign-currency contracts	12	2,963	4,729	7,704
Share contracts	1,039	6	830	1,875
Commodity and other contracts	-	21	24	45
Liabilities in respect of embedded derivatives	-	20	18	38
Total liabilities in respect of derivative instruments	1,051	9,882	5,909	16,842
Deposits in respect of inter-customer lending	3,179	-	-	3,179
Liabilities in respect of activity in the Maof market	6	-	-	6
Liabilities in respect of securities lending	286	-	-	286
Total liabilities	4,522	9,882	5,909	20,313

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, 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
Total assets in respect of derivative instruments	634	9,097	1,412	11,143
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
Total liabilities in respect of derivative instruments	638	11,051	404	12,093
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

C. Items measured at fair value on a nonrecurring basis

	December 31, 2020				
	Fair value measurements using			Total fair value	Total loss in respect of changes in value in the period ended December 31, 2020
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**600**	**600**	**(1)(36)**
Investments in shares	**-**	**-**	**28**	**28**	**(2)(29)**
Total	**-**	**-**	**628**	**628**	**(65)**

	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

(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 Dec. 31, 2019	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains included in equity[(2)]	Acquisitions	Issuance	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Dec. 31, 2020	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2020
Assets										
Bonds available for sale and shares not held for trading										
Bonds of foreign financial institutions	**177**	**(16)**	**4**	**-**	**-**	**-**	**-**	**-**	**165**	**(2)(1) 4**
Net balances in respect of derivative instruments										
NIS-CPI contracts	**113**	**95**	**-**	**-**	**-**	**(39)**	**-**	**-**	**169**	**(3) 62**
Other interest contracts	**645**	**(316)**	**-**	**8**	**-**	**(219)**	**-**	**-**	**118**	**(3)(1) (209)**
Foreign-currency contracts	**464**	**(2,533)**	**-**	**333**	**-**	**(466)**	**-**	**-**	**(2,202)**	**(3) 11**
Share contracts	**(206)**	**(770)**	**-**	**-**	**-**	**224**	**-**	**-**	**(752)**	**(3) 67**
Commodity and other contracts	**9**	**(1)**	**-**	**1**	**-**	**(9)**	**-**	**-**	**-**	**(3) -**
Embedded derivatives	**(17)**	**(8)**	**-**	**-**	**-**	**7**	**-**	**-**	**(18)**	**(3) (8)**
Total	**1,185**	**(3,549)**	**4**	**342**	**-**	**(502)**	**-**	**-**	**(2,520)**	**(73)**

(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 Dec. 31, 2018	Gains (losses) included in statement of profit and loss(1)(3)	Losses included in equity(2)	Acquisitions	Issuance	Extinguishment	Transfers to Level 3	Transfers from Level 3	Fair value as at Dec. 31, 2019	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2019
Assets										
Securities available for sale										
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."

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, 2020			
	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	**165**	Quote from transaction counterparty	Quote from transaction counterparty	
Net balances in respect of derivative instruments				
NIS-CPI contracts	**169**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-4.84% (1.68%)
Other interest contracts	**118**	Interest-rate derivatives pricing model	Transaction counterparty risk	0.23%-15.52% (2.04%)
Foreign-currency contracts	**(2,208)**	Option pricing model	Transaction counterparty risk	0.23%-15.78% (0.51%)
Share contracts	**(770)**	Share derivatives pricing model	Transaction counterparty risk	0.23%-2.76% (0.29%)
Share contracts	**18**	Option pricing model	Quote from counterparty	
Foreign-currency contracts	**6**	Option pricing model	Quote from counterparty	
Share contracts(1)	**0.36**	Option pricing model	Standard deviation	107.95%-107.95% (107.95%)
			Dividend yield	0.00%-0.00% (0.00%)
			Unlinked NIS interest rate	0.10%-0.10% (0.10%)
Commodity and other contracts	**-**	Currency derivatives pricing model	Transaction counterparty risk	0.23%-14.62% (0.88%)
Embedded derivatives(2)	**(18)**	Option pricing model	Quote from counterparty	
2. Items measured at fair value on a nonrecurring basis				
Investment in non-tradable shares	**28**	Valuation		
Impaired credit the collection of which is contingent on collateral	**600**	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, 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 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.

For details regarding a credit line granted by the Bank to Bank Pozitif at pricing below market terms, due to the special circumstances of Bank Pozitif, see Note 24M above.

A. Balance sheet balances

	December 31, 2020							
	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**	**-**	**-**	**-**	**-**	**-**	**-**
Credit to the public	**181**	**181**	**674**	**830**	**8**	**9**	**1,049**	**1,928**
Allowance for credit losses	**-**	**-**	**(6)**	**(6)**	**-**	**-**	**(5)**	**(5)**
Net credit to the public	**181**	**181**	**668**	**824**	**8**	**9**	**1,044**	**1,923**
Other assets	**59**	**162**	**33**	**41**	**-**	**-**	**529**	**711**
Liabilities								
Deposits from the public	**1,284**	**1,971**	**-**	**-**	**43**	**77**	**6,709**	**10,997**
Bonds and subordinated notes	**15**	**22**	**-**	**-**	**-**	**-**	**11**	**13**
Other liabilities	**231**	**232**	**-**	**-**	**38**	**38**	**882**	**1,078**
Shares (included in equity)	**18,030**	**18,030**	**-**	**-**	**28**	**28**	**-**	**-**
Credit risk in off-balance sheet financial instruments* **	**154**	**183**	**566**	**767**	**6**	**7**	**2,266**	**3,216**

* 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, 2020					
	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						
Credit to the public	-	-	106	137	105	185
Allowance for credit losses	-	-	(2)	(2)	(2)	(2)
Net credit to the public	-	-	104	135	103	183
Investments in equity-basis investees[(1)]	-	-	556	556	-	-
Other assets	-	-	3	3	-	-
Liabilities						
Deposits from the public	1	8	116	128	64	284
Other liabilities	-	-	2	3	2	4
Credit risk in off-balance sheet financial instruments**	-	-	184	264	411	423

* 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, 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)	(6)	-	-	(2)	(2)
Net credit to the public	77	135	816	918	9	10	434	1,253
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)	(39)	(3)	(3)
Net credit to the public	-	-	4,182	4,188	512	575
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

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2020							
	Interested parties				Related parties held by the Bank and its consolidated companies			Total
	Shareholders	Others	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	**(3)**	**-**	**-**	**4**	**-**	**2**	**5**	**8**
Provision for credit losses	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Non-interest income (expenses)	**(3)**	**-**	**-**	**(143)**	**-**	**2**	**3**	**(141)**
Of which: management and service fees	**-**	**-**	**-**	**48**	**-**	**2**	**3**	**53**
Operating and other expenses(2)	**(26)**	**-**	(1)**(43)**		**-**		**-**	**(69)**
Of which: interested party employed by or on behalf of the corporation: 21	**-**	**-**	**(35)**	**-**	**-**	**-**	**-**	**(35)**
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 8	**-**	**-**	**(8)**	**8**	**9**	**16**	**-**	**25**
Total	**(32)**	**-**	**(43)**	**(139)**	**-**	**4**	**7**	**(203)**

* 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 30 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 1 million; share-based payment – NIS 4 million.
(2) Includes donations to non-profit organizations with a connection to a related party of the Bank in the amount of NIS 600 thousand.

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, 2019							
	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*	(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)	(87)
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	(252)	-	(44)	(201)	(2)	117	34	(348)

* 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
Income (provision) in respect of credit losses	-	-	-	-	-	-	-	-
Non-interest income	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	2	-	(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

C. Net interest income in transactions with interested and related parties

	2020	2019	2018
Income (expenses)			
In respect of assets			
From credit to the public	**26**	40	8
From deposits with banks	**-**	-	-
From securities borrowed or purchased under agreements to resell	**-**	-	-
From bonds	**-**	-	-
From other assets	**3**	3	-
In respect of liabilities			
On deposits from the public	**(20)**	53	-
On deposits from banks	**-**	-	-
On securities borrowed or purchased under agreements to repurchase	**-**	-	-
On bonds and subordinated notes	**(1)**	(2)	-
On other liabilities	**-**	-	-
Other			
Financing transaction fees	**-**	-	-
Other financing income	**-**	-	-
Total	**8**	94	8

Note 34 Condensed Financial Statements of the Bank

NIS millions

A. Condensed statement of profit and loss

	2020	2019	2018
Interest income	**10,175**	11,826	11,571
Interest expenses	**(1,477)**	(2,611)	(2,748)
Net interest income	**8,698**	9,215	8,823
Provision for credit losses	**1,951**	1,270	570
Net interest income after provision for credit losses	**6,747**	7,945	8,253
Non-interest income			
Non-interest financing income	**1,213**	562	1,036
Fees	**3,019**	3,094	3,124
Other income	**70**	44	51
Total non-interest income	**4,302**	3,700	4,211
Operating and other expenses			
Salaries and related expenses	**3,695**	*3,891	*3,953
Maintenance and depreciation of buildings and equipment	**1,355**	1,309	1,342
Other expenses	**2,089**	*2,763	*2,182
Total operating and other expenses	**7,139**	7,963	7,477
Profit from continued operations before taxes	**3,910**	3,682	4,987
Provision for taxes on profit from continued operations	**1,516**	1,615	1,937
Profit from continued operations after taxes	**2,394**	2,067	3,050
Share of the Bank in profits of affiliates, after taxes, attributed to a discontinued operation	**(109)**	296	364
Share of the Bank in other affiliates	**(229)**	(564)	(819)
Net profit:			
Attributed to shareholders of the Bank	**2,056**	1,799	2,595

* Reclassified.

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

B. Condensed balance sheet

	December 31	
	2020	2019
Assets		
Cash and deposits with banks	**138,605**	87,618
Securities	**62,958**	50,541
Securities borrowed or purchased under agreements to resell	**368**	471
Credit to the public	**307,484**	295,713
Allowance for credit losses	**(6,088)**	(4,640)
Net credit to the public	**301,396**	291,073
Credit to governments	**2,193**	1,971
Investment in a discontinued operation	**-**	849
Investments in other affiliates	**13,303**	13,108
Buildings and equipment	**3,143**	3,041
Assets in respect of derivative instruments	**14,885**	10,986
Other assets	**5,594**	4,899
Total assets	**542,445**	464,557
Liabilities and capital		
Deposits from the public	**450,136**	378,950
Deposits from banks	**6,687**	3,405
Deposits from the government	**761**	685
Subordinated notes	**11,651**	12,818
Liabilities in respect of derivative instruments	**16,800**	11,882
Other liabilities	**16,537**	18,636
Total liabilities	**502,572**	426,376
Capital	**39,873**	38,181
Total liabilities and capital	**542,445**	464,557

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows

	2020	2019	2018
Cash flows from (for) operating activity			
Net profit for the year	**2,056**	1,799	2,595
Adjustments necessary to present cash flows from operating activity			
The Bank's share in profits of affiliates	**338**	268	453
Depreciation of buildings and equipment	**528**	504	532
Amortizations	**53**	21	20
Provision for credit losses	**1,928**	605	570
Gain from sale of a subsidiary	**1**	(210)	-
Gain from realization of securities available for sale and held to maturity	**(129)**	(361)	(213)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(10)**	(253)	(26)
Realized and unrealized loss from adjustments to fair value of shares not held for trading	**24**	-	-
Gain from realization of buildings and equipment	**(57)**	(4)	(28)
Change in benefit due to share-based payment transactions	**(256)**	72	(37)
Net change in liabilities in respect of employee benefits	**(209)**	3	(30)
Deferred taxes, net	**(129)**	(79)	(21)
Gain from sale of credit portfolios	**(21)**	(8)	(56)
Adjustments in respect of exchange-rate differences	**1,470**	1,306	(453)
Accumulation differentials included in investing and financing activities	**1,139**	1,462	(2,221)
Net change in current assets			
Assets in respect of derivative instruments	**(3,899)**	(621)	1,511
Securities held for trading	**348**	(387)	(1,135)
Other assets	**(678)**	687	(322)
Net change in current liabilities			
Liabilities in respect of derivative instruments	**4,818**	2,376	(2,491)
Other liabilities	**(1,813)**	1,011	6,978
Net cash from (for) operating activity	**5,502**	8,191	5,626

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows (continued)

	2020	2019	2018
Cash flows for investing activity			
Deposits with banks	**2,603**	248	(511)
Credit to the public	**(3,016)**	(639)	(17,200)
Credit to governments	**(222)**	457	(136)
Securities borrowed or purchased under agreements to resell	**103**	237	(24)
Acquisition of bonds held to maturity	**(157)**	(15)	-
Proceeds from redemption of bonds held to maturity	**43**	126	35
Acquisition of securities available for sale	**(46,929)**	(52,737)	(29,639)
Proceeds from sale of securities available for sale	**24,030**	41,074	32,407
Proceeds from redemption of securities available for sale	**9,981**	9,188	9,821
Acquisition of credit portfolios	**(9,022)**	(7,803)	(8,165)
Proceeds from sale of credit portfolios	**55**	113	382
Dividends received from affiliates	**81**	1,150	97
Investments in affiliates	**(385)**	(1,090)	(183)
Proceeds from realization of investments in affiliates	**2**	2,164	2
Acquisition of buildings and equipment	**(679)**	(641)	(552)
Proceeds from realization of buildings and equipment	**72**	6	46
Net cash for investing activity	**(23,440)**	(8,162)	(13,620)

Note 34 Condensed Financial Statements of the Bank (continued)

NIS millions

C. Condensed statement of cash flows (continued)

	2020	2019	2018
Cash flows from (for) financing activity			
Deposits from banks	**3,282**	(1,004)	378
Deposits from the public	**71,186**	8,723	7,780
Deposits from the government	**76**	477	(112)
Issuance of bonds and subordinated notes	**1,740**	1,031	1,799
Redemption of bonds and subordinated notes	**(3,285)**	(4,107)	(1,349)
Dividend paid to shareholders of the Bank	**-**	(1,000)	(496)
Buyback of shares	**-**	-	(24)
Net cash from (for) financing activity	**72,999**	4,120	7,976
Increase (decrease) in cash	**55,061**	4,149	(18)
Balance of cash at beginning of year	**84,084**	81,241	80,806
Effect of changes in exchange rates on cash balances	**(1,470)**	(1,306)	453
Balance of cash at end of year	**137,675**	84,084	81,241

Interest and taxes paid and/or received			
Interest received	**10,576**	12,911	11,238
Interest paid	**(1,917)**	(2,513)	(2,741)
Dividends received	**81**	1,111	17
Income tax paid	**(2,123)**	(2,233)	(2,374)
Income tax received	**446**	373	196

Note 35 Regulatory Initiatives

The coronavirus crisis and the banking system

The coronavirus crisis began in Israel in February 2020. In view of the crisis and the adjustments necessary in the activity of the banking system, the Bank of Israel issued a series of regulatory reliefs during the course of 2020 aimed at coping with the crisis. Most of the reliefs granted have been extended until March 2021, and an additional extension until the end of September 2021 is likely, according to the draft circular issued by the Banking Supervision Department on March 7, 2021. Most of the reliefs are set forth in Proper Conduct of Banking Business Directive 250.

Proper Conduct of Banking Business Directive 301, "Activity of the Board of Directors" – The board of directors of a bank is permitted to conduct board meetings without convening in person, without the restrictions in Directive 301 regarding the discussions and resolutions permitted in meetings conducted via telecommunications.

Proper Conduct of Banking Business Directive 308A, "Handling of Public Complaints" – Responses to public complaints may be provided in writing or orally, according to the circumstances; it has been clarified that this refers only to exceptional circumstances, such as full lockdown or a significant cutback of personnel. The processing, the bank's answer, and the bank's notification to the customer must be documented. In addition, the Supervisor has been granted authority, under exceptional circumstances, to extend the response and processing times for addressing complaints received.

Proper Conduct of Banking Business Directive 311, "Credit Risk Management" – The tax authorities have announced an extension of the period for submitting financial statements; the extension also applies to cases in which there is a requirement to receive financial statements in order to grant credit to borrowers. In the absence of an annual financial statement, credit for small businesses shall be approved subject to the receipt of up-to-date financial data allowing the bank to reliably analyze the financial condition of the borrower, such as a VAT report. In addition, the terms based on which the bank agrees to grant credit shall conform with the risk-management policy of the bank.

Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit" – Total credit (net of indebtedness for national infrastructures) for the construction and real-estate sector is raised from 20% to 22% of total indebtedness of the public (this limit including indebtedness for national infrastructures is raised from 24% to 26%). This relief, which was due to expire in September 2022, has been extended until 24 months have elapsed from December 31, 2025.

Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts" – In view of the estimate that more customers will encounter cash-flow problems due to the crisis, the amendments to the directive are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the formation of the deviation.

Proper Conduct of Banking Business Directive 326, "Project Finance" – The definition stating that a bank must issue a guarantee to a buyer in respect of an amount paid through a payment stub within fourteen days of the date of payment has been canceled.

Note 35 Regulatory Initiatives (continued)

Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans" – Banks will be permitted to grant all-purpose loans secured by a mortgage on a residence at a financing rate of up to 70%, versus the present rate of 50%. Loans will be granted according to this relief subject to a declaration of the borrower that the loan is not for the purpose of purchasing a residence as an investment. The bank can also rely on the income of the borrower prior to the period of the coronavirus, under certain conditions.

Proper Conduct of Banking Business Directive 355, "Business Continuity Management" – Banks are permitted to operate in a reduced format, with minimal impairment of banking services for the public. The Banking Supervision Department has also approved the operation of mobile branches, in accordance with the general permit for banks to open and relocate branches during emergencies. The use of the permit to open mobile branches is limited to the end of the present situation, or until an emergency is declared and other instructions are given.

Proper Conduct of Banking Business Directive 360, "Continuous Vacations" – The updates are intended to enable the banking system to manage the implementation of the requirement for continuous vacations in 2020, given that during the emergency period some employees worked in a "capsule" format.

Proper Conduct of Banking Business Directive 367, "E-Banking," and Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication" – In order to support the accessibility of existing communication channels to customers, with an emphasis on possibilities for remote activities, it has been agreed that banks are permitted to proactively send their customers messages through e-banking channels proposing registration for these services and guiding them on how to do so, even without having the customer sign an e-banking agreement. An update has also been issued raising the volume of activity subject to the reliefs with regard to identification and verification from NIS 50,000 to NIS 100,000.

Proper Conduct of Banking Business Directive 439, "Debits by Authorization" – The Bank of Israel allows banks to receive orders from customers to cancel debits by authorization or account debit authorizations via telephone, rather than only by written notice, provided that the call is documented.

Proper Conduct of Banking Business Directive 451, "Procedures for Granting Housing Loans" – The periods of time granted to banks for the issuance to customers of letters of intent, confirmation of settlement, and notification of insurance provided for a borrower on behalf of the bank have been extended.

The Insolvency and Economic Rehabilitation Bill (Amendment No. 4) (Stay of Proceedings for the Formulation and Approval of a Debt Arrangement) (Temporary Order – Novel Coronavirus), 2021, passed in the first reading on January 11, 2021, and is currently in legislation proceedings. The purpose of the bill is to create a trajectory for coping with the increase in the number of debtors who seek debt arrangement procedures or insolvency procedures as a result of the period of the coronavirus pandemic, and to apply adaptations to the specific characteristics of these debtors, by delaying the possibility for creditors to initiate insolvency proceedings and by encouraging debtors to seek debt arrangement proceedings.

Note 35 Regulatory Initiatives (continued)

The stay of proceedings will be allowed for a period of one year, with debtors to retain control of their assets during the stay of proceedings. The stay of proceedings for the purpose of formulating and approving a debt arrangement will be granted for a period of up to three months, at the discretion of the court. When a ruling of a stay of proceedings is given, the corporation will not be permitted to pay its past debts, and legal proceedings and collection proceedings with respect to the corporation will be suspended. A debt arrangement administrator will be appointed for the corporation, with the authority to receive information. The stay of proceedings will end when the debt arrangement is approved. Individuals will be permitted to submit a request for a stay of proceedings in order to formulate a debt arrangement with their creditors. The stay of proceedings will be granted within seven days of submission of the request, for a period of 45 days. When a ruling to stay proceedings is given, a debt arrangement administrator will be appointed, with special authority. Within thirty days of the appointment, the debt arrangement administrator will hold a meeting with the individual and the creditors, to present the proposed arrangement to them and continue the formulation of the arrangement. With regard to debts of less than NIS 150,000, it will be possible to reach a debt arrangement without the positive consent of the creditors, such that the creditors disregarding the matter or not submitting a response is considered consent to the arrangement.
It is further proposed, with regard to corporations that have been harmed by the crisis and wish to promote debt arrangements:

- To allow the arrangements to be approved under the Securities Law, and not to require approval under the Insolvency Law, within a temporary order, which will be in effect for one year.
- To allow companies meeting certain conditions interested in temporarily deferring payment dates with the consent of the holders to do so through a resolution of a bondholder meeting, without requiring a court procedure.

Regulatory reforms for increased competition in the banking system

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in preliminary stages.

Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel

The Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017, was published in January 2017, on the basis of the report of the public committee appointed by the Minister of Finance and the Governor of the Bank of Israel (the Strum Committee).

- The law states that credit-card companies are to be separated from the two largest banks (the Bank and Bank Leumi). The Bank completed its separation from the Isracard Group, as required by the Law for Increasing Competition, on March 9, 2020.

Note 35 Regulatory Initiatives (continued)

- As part of the infant competitor protections for the credit-card companies, the Bank will be required to reduce its credit facilities by 50%, relative to the credit facilities it allocated in 2015, by February 2021. Subsequently, the Bank will not be permitted to enlarge its credit facilities for three additional years. The Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts with Regard to the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 11, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000. The Bank has acted to reduce the credit facilities, as required, and is in compliance with this requirement as of the date noted.

Law for Online Bank Account Switching

The law for the establishment of an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, was passed by the Knesset in February 2018, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer.

In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system.

In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system. On December 16, 2019, the Bank of Israel issued the Banking Rules (Service to Customers) (Transferring the Financial Activity of Customers Between Banks), and Proper Conduct of Banking Business Directive 448, "Online Transfers of the Financial Activity of Customers Between Banks," which regulates the series of actions required of the receiving bank and the transferring bank when switching banks, and specifies the obligations applicable to each bank (the transferring bank and the receiving bank). Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020.

In a related and supplementary legislative procedure, the Bill for Electronic Clearing of Checks and Checks Without Cover (Legislative Amendments), 2021, passed in the second and third readings on February 8, 2021.

Payment services reform

The Payment Services Law, issued in January 2019, took effect on October 14, 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to additional means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated.

Note 35 Regulatory Initiatives (continued)

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 of the financial information of a customer by a third party. 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.

An updated schedule was issued by the Bank of Israel on April 7, 2020: the banks are to be prepared with regard to a consent model, balances, and current-account transactions by March 31, 2021; October 10, 2021 – statements for bank and non-bank charge cards, and access to the issuance of orders to transfer payment from the customer's bank account; March 31, 2022 – access to additional information of customers – credit and loans, deposits and savings, and information regarding the customer's securities portfolio.

Additional material directives and initiatives in 2020

- **Exemption from restrictive arrangement for Masav –** On June 18, 2020, the Competition Authority extended the restrictive arrangement exemption for Masav, which permits cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, or until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to "unreasonably refuse" the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.
- **Proper Conduct of Banking Business Directive 432 –** On June 23, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request. This directive took effect on December 23, 2020.

Note 35 Regulatory Initiatives (continued)

- **Update of Proper Conduct of Banking Business Directive 203, "Standardized Approach – Credit Risk," Proper Conduct of Banking Business Directive 315, and Proper Conduct of Banking Business Directive 313 –** Issued in September 2020. The purpose of the update is to equalize the rules applicable to bank guarantees securing the investments of buyers of homes not granted according to the Sale Law with the rules established for guarantees granted according to the Sale Law, by setting reduced conversion factors for certain guarantees granted within project finance for evacuation and construction projects, National Outline Plan (TAMA) 38 (Type 2) projects, or combination transactions. The Bank implemented the circular in its report for December 31, 2020.
- **Update of Proper Conduct of Banking Business Directive 450, concerning debt collection procedures, issued in October 2020 –** The purpose of the update is to achieve an easier process for obtaining customer consent to a debt arrangement between the customer and the bank. Towards that end, the requirement to sign the arrangement has been replaced by a requirement to obtain documented consent, in accordance with common practice and as enacted in parallel legislation during the recent period. A requirement has also been added to publish contact details on the bank's website of the specific function responsible for debt collection, to make it easier to contact this function.
- **Update of Proper Conduct of Banking Business Directive 411, concerning the management of money laundering and terrorism financing prohibition risk, issued in October 2020 –** Since the last update in March 2011, which regulated the opening of accounts for asylum seekers in Israel and for people under temporary protection, issues have arisen from time to time regarding the implementation of the update. These issues derived, among other things, from changes in the identification procedures and confirmations issued by the Population and Immigration Authority, which required adjustment of the arrangement to allow asylum seekers and people under temporary protection to open accounts and administer the accounts properly by presenting the confirmations issued to them. Accordingly, the Banking Supervision Department found it appropriate to issue the aforesaid update, which establishes the addition of Appendix B1 to Directive 411, formalizing the arrangement established by the Supervisor of Banks regarding the methods of identification, verification of information, confirmations, and alternative documents for the purpose of opening and administering accounts for asylum seekers and people under temporary protection.
- **Immediate payments –** The Bank of Israel notified the banks that the banks were required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, banks are required to allow their customers to receive payments through the immediate payment service. The Bank complied with the schedule, as required.
- **Proper Conduct of Banking Business Directive 311A, "Consumer Credit Management" –** Proper Conduct of Banking Business Directive 311A concerning the management of consumer credit was issued on February 4, 2021. The purpose 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.

Note 35 Regulatory Initiatives (continued)

  - Strict adherence to relevant and complete disclosure to customers.
  - Ensuring that remuneration mechanisms at the Bank do not encourage unfair conduct.
- **New Proper Conduct of Banking Business Directive 443, "Inactive Deposits and Accounts of Deceased Owners," of November 15, 2020 –** A new Proper Conduct of Banking Business Directive has been issued, specifying the obligations of banks, with respect to inactive deposits, to attempt to contact the owner of an inactive deposit, near the maturity date of the deposit. The obligation to find the owner specified in the procedure establishes, among other matters, a hierarchy of required actions, according to the circumstances, which the bank must apply in order to contact the owner of an inactive deposit, by using the information in the bank's records and by contacting the Population Registry, as relevant.
- **Drafts of a Proper Conduct of Banking Business Directive on the subject of implementation of the CECL rules in housing loans, issued December 20, 2020 –** Further to the letter of the Banking Supervision Department of March 28, 2018, concerning the adoption of US GAAP on the subject of allowances for current expected credit losses (CECL), the Banking Supervision Department issued drafts concerning the implementation of the financial reporting rules expected to apply to housing loans. The drafts include an update of the relevant Public Reporting Directives, Proper Conduct of Banking Business Directives, and an updated file of questions and answers on this subject. The Bank is preparing to implement this standard, which is expected to take effect beginning with the publication of the financial statements for the first quarter of 2022.
- On December 29, 2020, the Bank of Israel issued **the new Proper Conduct of Banking Business Directive 366, "Reporting Technological Failure Events and Cyber Incidents,"** aimed at simplifying and improving the efficiency of the process for reporting by banks to the Banking Supervision Department on technological failure events and cyber incidents, by aggregating all of the reporting requirements on this subject in a single organized procedure and simplifying the process with respect to all types of events. This procedure replaces Supervision Reporting Directive 848, "Reporting on Cyber Events."
- **Update of Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans," of December 27, 2020 –** Removes the Prime limit which applied until now. Section 7 of the directive establishes two limits: first, that the part of the loan at a Prime interest rate shall not exceed one-third of the total loan, and second, that the overall part of the loan at a floating rate of interest shall not exceed two-thirds of the total loan. The update removes the first limit (the Prime rate limit), but retains the limit on the floating rate, which states that at least one-third of the total mortgage must be granted at a fixed rate of interest, and up to the remaining two-thirds can be granted at a floating rate of interest. The amendment took effect on January 17, 2021, with respect to new mortgage takers, and on February 28, 2021, with respect to mortgage refinancing.
- **Amendment 9 to Proper Conduct of Banking Business Directive 367, "E-Banking," of December 29, 2020 –** States that remote opening of an account without the need to physically visit a branch shall also be possible for corporations, whereas until now this was only permitted in accounts opened for individuals. Pursuant to the amendment, an authorized signatory on behalf of the corporation applying to open a bank account shall be identified and verified remotely using one of the two methods established in the directive.

Note 35 Regulatory Initiatives (continued)

Bills published in the Official Gazette of the Israeli Government taking effect in the near future

- **The Checks Without Cover Law (Amendment 14), 2020**, passed in the second and third readings on August 18, 2020, and was published in the Official Gazette of the Israeli Government. The law, which is slated to take effect in August 2021, states that banks must notify customers that a check they have given is designated for rejection, and the customers must be given one business day to deposit money in their account in order for the check to clear. Implementation of the law requires significant preparations and extensive developments.
- **The Equal Pay for Male and Female Workers Law (Amendment – Mandatory Publication of Annual Report), 2020,** passed in the second and third readings on August 25, 2020, and was published in the Official Gazette of the Israeli Government. The amendment states than an employer with more than 518 employees must collect data and prepare an internal report, once a year, detailing the average wages of male and female employees, with specifics of the gaps in average wages between men and women in each segment of employees in the workplace. Once annually, the employer must provide information to every employee in the workplace regarding the segment of employees to which the employee belongs, the types of positions included in that segment, and the wage gap in that segment. The inception date of the law is 60 days from the date of publication. The first report pursuant to the directives of the law is to be prepared by June 1, 2022, with reference to the preceding year.

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 Effects of the Coronavirus Crisis

The coronavirus spread rapidly around the world during the first quarter of 2020; in response, governments, including in Israel, took defensive measures such as restriction of international travel, quarantines, reduction of congregation and movement, lockdowns, restrictions of the activity of private businesses and of government and municipal services, and more. The spread of the coronavirus and the defensive measures to combat it have caused material damage to regular economic activity, as well as high volatility in financial asset prices, in Israel and globally. Real activity and financial-market trends are both influenced by fiscal and monetary policies during this period.

Note 36 Effects of the Coronavirus Crisis (continued)

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

In view of the crisis of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit, the Banking Supervision Department reduced credit requirements for banks, under a temporary order, for a period of six months, which was extended by six additional months in September 2020, until March 31, 2021. For further details regarding the directives of the Supervisor of Banks, capital-adequacy targets, and dividends, see Note 24, above.

From the beginning of 2020 to December 31, 2020, the Bank recorded an increase in the provision for credit losses in a total amount of approximately NIS 1,943 million. Most of the provisions are due to the crisis of the spread of the coronavirus, mainly an increase in the collective allowance in the amount of approximately NIS 1,600 million, including in respect of housing loans. This increase is further to an increase in the provision for credit losses due to the crisis of the spread of the coronavirus in the amount of approximately NIS 676 million recorded in the annual financial statements for 2019 (published in the second half of March 2020, after the spread of the coronavirus), which included the effects of the spread of the virus known at that time.

In this context, note that due to the coronavirus crisis, of the total debts in deferral of payments, loan payments (principal and/or interest) in the amount of approximately NIS 1,415 million were deferred as at December 31, 2020.

While decreases in prices of tradable assets, and changes in interest-rate curves in Israel and globally and in bond spreads, exerted a negative effect on the value of the tradable assets of the Bank in the first quarter, the markets and the value of these assets have since recovered. The value of the share portfolio and the bond portfolio increased by approximately NIS 595 million during the year. The value of the share portfolio and the bond portfolio decreased by a total of approximately NIS 705 million in the first quarter, offset by an increase of approximately NIS 1,300 million later in the year, so that the total increase in the value of the share portfolio and the bond portfolio during 2020 amounted to approximately NIS 595 million.

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

Bank Hapoalim

Corporate Governance,
Additional Information and Appendices

2020

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6. Corporate governance

6.1. The Board of Directors and the Board of Management

Members of the Board of Directors of the Bank*

Ruben Krupik	Chairman of the Board; external director pursuant to Directive 301
David Avner	External director pursuant to the Companies Law
Ronit Abramson-Rokach	External director pursuant to the Companies Law
Noam Hanegbi	External director pursuant to Directive 301
Israel Trau	Director
Dalia Lev	External director pursuant to the Companies Law
Stanley Fischer	Director
David Zvilichovsky	Director
Richard Kaplan	Director

Also served during the reported period:
The late Oded Eran, as Chairman of the Board, until June 18, 2020.
Moshe Koren, as a director, until December 31, 2020.

Activity of the Board of Directors

65 meetings of the Board of Directors of the Bank in plenary session and 130 meetings of the committees of the Board of Directors were held in the course of 2020.
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 contacted the Committee for the Appointment of Directors at Banking Corporations to request the proposal of candidates, in advance of the general meeting for 2021, for three positions: two external directors pursuant to Directive 301 (for the office of Ruben Krupik, whose second term of service ends in February 2022, and one additional position), and one "other" director (for the office of Richard Kaplan, whose first term of service ends in October 2021).
For details regarding changes in the composition of the Board of Directors during 2020, 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, seven directors with accounting and financial expertise serve on the Board of Directors of the Bank at the date of publication of this report: Ruben Krupik, Ronit Abramson-Rokach, Dalia Lev, Stanley Fischer, Israel Trau, 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
Guy Kalif	Member of the Board of Management, Chief Accountant as of January 1, 2021
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:

Yael Dromi	Served as Head of Stakeholder Relations until February 29, 2020.
Ofer Levy	Served as Chief Accountant until December 31, 2020.

* 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 (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. Since the initial appointment, the Board of Directors of the Bank (with the recommendation and approval of the Audit Committee and the Remuneration Committee) has extended the employment agreement of the Internal Auditor from time to time (most recently in August 2019, for a period of three years, until September 30, 2022).

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 2020 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 and approval 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.

In the late first quarter of 2020, with the development of the coronavirus pandemic, in accordance with the instructions of the Ministry of Health and the Banking Supervision Department, auditing temporarily operated with a reduced workforce. Internal Audit reduced its routine activity and rechanneled resources to the examination of immediate risks and to the performance of necessary ad-hoc examinations. Upon resuming routine work amid the coronavirus pandemic, Internal Audit adjusted its work plan for 2020, with reference to the developments in the risk environment as a result of the crisis. At this time, there have been no additional material impacts on auditing work.

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. Pozitif and Hapoalim Switzerland have full-time local internal auditors. At Banque Hapoalim Luxembourg, following ECB approval to return its banking license, received January 13, 2021, an internal audit function is no longer required as of that date. The New York branch has a local internal auditor, reporting to the Chief Internal Auditor of the Bank. In November 2020, the auditor of the New York branch gave notice of his wish to leave his position at the Bank. His replacement is expected to take office in mid-March 2021; a period of approximately two months of concurrent work with the outgoing auditor is planned.

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."

An expanded audit plan (EAP) was submitted to the United States authorities in late July 2020, referring to auditing in Israel and at the local audit unit of the New York branch, as required under the resolutions of the Bank with the United States authorities. The plan, which has been implemented since then, addresses auditing in the following areas, among other matters: compliance, prohibition of money laundering, and activity with American customers.

In general, subsidiaries in Israel receive internal audit services from Internal Audit at the Bank. Following a process initiated by the Bank, Poalim Sahar (a wholly-owned subsidiary) ended its membership in the stock exchange on December 6, 2020, and became a technology company supplying IT services to the Bank.

The service of the internal auditor at the company was therefore terminated on December 31, 2020. Internal auditing will be conducted at the company within the work of the Internal Auditor and the Internal Audit Division 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 121 employee positions and 4 outsourced positions in 2020, as detailed below.

Table 6-1: Average number of positions of Internal Audit staff

	Average number of employee positions in 2020		
	Bank	Subsidiaries	Total
Activity in Israel	**107**	**2**	**109**
Activity overseas	**8**	**4**	**12**
Total	**115**	**6**	**121**

In addition, approximately 4 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, also based on the notification of the Internal Auditor, 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 applied to the activity of the Bank in Israel, overseas, and at its subsidiaries, with adjustments to local regulatory requirements, as relevant.

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. All of the summaries of the reports are also distributed to members of the Audit Committee, and substantial audit reports are discussed in meetings of the committee.

In 2020, 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 2019 was submitted on March 29, 2020, and discussed by the Audit Committee on April 1, 2020. A summary of audit activities in the first half of 2020 was submitted on September 12, 2020, and discussed by the Audit Committee on September 16, 2020. A summary of audit activities in 2020 will be discussed by the Audit Committee at the end of the first quarter of 2021.

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 2020: salary in the amount of NIS 1,597 thousand; a benefit in respect of share-based payment in the amount of NIS 335 thousand; value of additional benefits in the amount of NIS 156 thousand; and employer provision payments in the amount of NIS 50 thousand. Total remuneration pursuant to Regulation 21 amounted to NIS 2,138 thousand. Total salaries and related expenses pursuant to the Remuneration Limit Law amounted to NIS 1,605 thousand. The balance of loans granted with ordinary terms amounted to NIS 41 thousand.

The Internal Auditor has holdings at a negligible rate (approximately 0.01%) in shares of the Bank (120,752 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, the Chief Financial 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]

Table 6-2: Remuneration of auditors

	Consolidated		Bank	
	2020	2019	**2020**	2019
	NIS thousands			
For auditing activity[4]				
Joint auditors	**18,342**	19,292	**12,054**	13,175
For audit-related services[5]				
Joint auditors	**5,705**	6,633	**4,954**	6,390
For tax services[6]				
Joint auditors	**2,377**	2,527	**2,004**	1,878
For other services[7]				
Joint auditors	**6,353**	6,085	**1,104**	1,412
Total remuneration of auditors	**32,777**	34,537	**20,116**	22,855

(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.

6.5. Remuneration for interested parties and senior officers

Following the passing 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 "2016 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). The 2016 Remuneration Policy was approved by the shareholders of the Bank on December 19, 2016, and extended until the end of 2020 with the approval of the general meeting of December 26, 2019; for details, see reference no. 2019-01-114429. A new remuneration policy, approved by the Board of Directors of the Bank and by the general meeting of shareholders of the Bank of October 22, 2020, will apply to the remuneration of officers of the Bank beginning in 2021; see the Call to Meeting Report of September 17, 2020, reference no. 2020-01-093667 (the "Call to Meeting Report").

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)

	2020
Name	Position
Ruben Krupik	Chairman of the Board of Directors(6)
Oded Eran, deceased	Previous Chairman of the Board of Directors(7)
Dov Kotler	President and Chief Executive Officer(8)
Barry Elram	CEO of Hapoalim Switzerland
Eti Ben-Zeev	Member of the Board of Management
Yadin Antebi	Member of the Board of Management
Yael Almog	Member of the Board of Management
Tsahi Cohen	Member of the Board of Management

* Low holding rate of 0.01 percent.
** Until the date on which he ceased to serve as Chairman of the Board.
(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) Includes payments for vehicle expenses, daily allowances, and gross-up.
(3) Includes provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, and sick days, as well as unforeseen expenses (income) due to updated actuarial calculations in respect of the Bank's obligation for benefits accrued in the past, before the inception of the Remuneration Limit Law.
(4) Excluding wage tax.
(5) Excluding 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 excluding provisions for past benefits accrued before the inception of the Remuneration Limit Law.
(6) The total remuneration paid to Mr. Krupik in respect of 2020, up to the date of publication of the report, is NIS 747 thousand, less than the amount noted in the table, which was recognized in the financial statements, as detailed below. Mr. Krupik serves at the Bank as an external director (301 External Director) and as an independent director pursuant to the Companies Law. Prior to his election to the office of Chairman of the Board on June 28, 2020, he was entitled to the payment of remuneration for directors, due to his service as a director (an amount of approximately NIS 393 thousand was paid to him in respect of this period – January-June 2020). In view of his appointment as Chairman, remuneration terms were approved for him at the general meeting of October 2020 that exceed the ordinary remuneration of directors, primarily consisting of a consideration in a total amount of NIS 2.4 million per annum (NIS 200,000 per month), linked to the CPI, against an invoice, with the addition of VAT as relevant, without benefits accompanying the salary (without deposits for severance pay and pensions and without employer contributions to a study fund). The Bank has applied to the authorities and supervisory agencies and is in contact with them regarding the approval of the remuneration. Until the Board of Directors resolves that the directives of the law and the guidelines of the supervisory agencies do not preclude the payment of the terms of service of the Chairman approved at the general meeting, the Chairman shall be entitled to continue to receive remuneration for directors (directors' remuneration in the amount of NIS 354 thousand was paid in respect of this period (July-December 2020)). If and when the Board of Directors of the Bank resolves that the terms of service approved as noted can be paid to the Chairman, the Bank will pay the Chairman the balance of the remuneration to which he is entitled, from the date of his election to the office of Chairman, in the amount of approximately NIS 846 thousand, such that the total is NIS 1,593 thousand, as noted in the table. For further details, see Note 22C(2) to the Financial Statements.

2020								
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
-	**1,593**	-	-	-	-	**1,593**	**1,593**	**35**
****0.01**	**2,084**	-	**396**	**5**	**205**	**2,690**	**2,545**	**39**
***0.0**	**2,420**	-	**75**	**2**	**464**	**2,961**	**2,545**	**27**
-	**(9)1,976**	**335**	-	**(9)481**	**324**	**3,116**	**(10)-**	**181**
0.01	**1,616**	**88**	**335**	**75**	**760**	**2,874**	**2,545**	**19**
0.02	**1,672**	**128**	**335**	**8**	**675**	**2,818**	**2,545**	**29**
***0.0**	**1,597**	-	**335**	**76**	**344**	**2,352**	**2,090**	**40**
0.02	**1,597**	-	**335**	**84**	**192**	**2,208**	**2,116**	**297**

(7) Regular salary was paid until June 2020. An amount of approximately NIS 1,142 thousand was paid as redemption of an advance notice period (a monthly salary and employer contributions to a pension).
(8) In 2020, after the publication of the annual financial statements for 2019, the CEO gave notice of waiver of part of the equity compensation in respect of 2019, which reduced the remuneration reported in 2020 in the component of share-based compensation by NIS 25 thousand.
(9) Includes tax paid in Israel through tax gross-up and retention of employee rights (payment of the employer component of National Insurance). Tax gross-up in Israel constitutes a taxable benefit in Switzerland, in respect of which Mr. Elram was required to pay additional tax and national insurance in Switzerland. In January 2021, the Board of Directors of the Bank granted approval for the Bank to bear the additional payment for national insurance in Switzerland in respect of 2018-2021 (a total of approximately 20 thousand Swiss francs) and the additional tax payment in Switzerland (a total of approximately 70 thousand Swiss francs) in respect of each of the years, if it is not refunded to Mr. Elram by the Israel Tax Authority. These amounts will be recognized in the financial statements for 2021.
(10) The Financial Corporations Officer Remuneration Law does not apply to this officer.

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)

		2019								
Name	Position	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, deceased	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	Previous President and 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
Dr. 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[9]	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).
(9) Tax gross-up in Israel constitutes a taxable benefit in Switzerland, in respect of which Mr. Elram was required to pay additional tax and national insurance in Switzerland. In January 2021, the Board of Directors of the Bank granted approval for the Bank to bear the additional payment for national insurance in Switzerland in respect of 2019-2021 (a total of approximately 20 thousand Swiss francs) and the additional tax payment in Switzerland (a total of approximately 70 thousand Swiss francs), if it is not refunded to Mr. Elram by the Israel Tax Authority. These amounts will be recognized in the financial statements for 2021.

General notes

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank (with the exception of the serving Chairman), 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 (with the exception of the serving Chairman) 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 2020, and in accordance with the directives of the remuneration policy that was in effect in 2020, bonuses dependent upon the actual ROE difference were not distributed to the senior officers of the Bank in respect of that year. Pursuant to the directives of the remuneration policy and remuneration plan of the Bank for its officers that were in effect in 2020, with the approval of the Remuneration Committee and the Board of Directors, discretionary bonuses of up to one monthly salary were distributed to two members of the Board of Management.

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 2016 Remuneration Policy and the remuneration plan of the Bank, which were in effect in 2020; 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. Ruben Krupik

Mr. Ruben Krupik was elected to serve as Chairman of the Board of Directors of the Bank (the "Chairman") on June 28, 2020, and the appointment took effect on July 28, 2020, upon its approval by the Supervisor of Banks. In 2020, the Chairman was paid remuneration for directors, in accordance with the Companies Regulations (Rules for Remuneration and Expenses of External Directors), 2000 (the "Remuneration Regulations"). For further details, see Note 22C(3) to the Financial Statements.

Mr. Oded Eran, deceased

Mr. Oded Eran served as Chairman of the Board of Directors of the Bank (the "Previous Chairman") from January 1, 2017, to June 18, 2020.

For the terms of remuneration of the Previous Chairman, see the Call to Meeting Report of November 20, 2019, reference no. 2019-01-112810.

Mr. Dov Kotler

Mr. Dov Kotler took office as CEO of the Bank on October 1, 2019. 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 from the beginning of his service to the end of 2020, see the Call to Meeting Report of the general meeting of November 20, 2019, reference no. 2019-01-112810. On October 22, 2020, the general meeting approved an amendment of the terms of the Chairman, from January 2021 to December 31, 2023. For further details, see Note 22C(4) to the Financial Statements.

Mr. Barry Elram

Mr. Barry Elram serves as CEO of Hapoalim Switzerland as of October 1, 2018.

Ms. Eti Ben-Zeev

Ms. Eti Ben-Zeev serves as Senior Deputy Managing Director, Head of Information Technology, as of February 2016. Her current employment agreement ends on March 31, 2024.

Mr. Yadin Antebi

Mr. Yadin Antebi serves as a Senior Deputy Managing Director at Bank Hapoalim as of August 2013, and as Head of Financial Markets and International Banking as of June 2018. His current employment agreement ends on June 30, 2021.

Ms. Yael Almog

Ms. Yael Almog serves as Senior Deputy Managing Director, Head of Legal Counsel, in the position of Chief Legal Advisor, as of March 1, 2018. Her current employment agreement ends on June 30, 2022.

Mr. Tsahi Cohen

Mr. Tsahi Cohen serves as Senior Deputy Managing Director, Head of Corporate Banking, as of March 1, 2018. His current employment agreement ends on June 30, 2023.

6.6. Other matters

Oded Eran resigned from his position as Chairman of the Board of Directors and as a director at the Bank on June 18, 2020, for health reasons, after taking a leave of absence due to illness beginning June 9, 2020. Mr. Eran passed away a few days later. The Board of Directors wishes to express its gratitude and appreciation for the late Mr. Eran and his family, for his immense contribution to the Bank during the years of his service, particularly in his leadership of the Board of Directors and in matters of corporate governance.

On June 28, 2020, the Board of Directors of the Bank resolved to elect Mr. Ruben Krupik to the position of Chairman of the Board of Directors of the Bank. This appointment took effect on July 28, 2020, after the Supervisor of Banks gave notice that he had no objection to the appointment. Prior to the appointment, Mr. Krupik served as Acting Chairman of the Board of Directors beginning June 9, 2020.

At the annual general meeting of shareholders of the Bank, which convened on October 22, 2020, the following resolutions were discussed and passed:

a. A discussion was held regarding the audited annual financial statements of the Bank as at December 31, 2019, and the Report of the Board of Directors and Board of Management for the year ended on that date.
b. Somekh Chaikin (KPMG), CPA, and Ziv Haft (BDO), CPA, were reappointed as the joint auditors of the Bank, until the end of the next annual general meeting of the Bank.
c. The appointments of four directors (of six candidates proposed by the Committee for the Appointment of Directors at Banking Corporations) were approved, as follows: Ronit Abramson-Rokach and Dalia Lev for second terms as external directors under the Companies Law (also meeting the qualification conditions for external directors pursuant to Directive 301); and Israel Trau and Stanley Fischer as non-external ("other") directors. The appointments took effect following approval by the Supervisor of Banks (Israel Trau on November 24, 2020; Stanley Fischer on January 1, 2021; and Ronit Abramson-Rokach, for a second term, on February 5, 2021); the second term of service of Dalia Lev begins on April 12, 2021.
d. A new remuneration policy for officers of the Bank was approved.
e. The terms of service of the Chairman of the Board of Directors of the Bank were approved.
f. The terms of service and employment of the CEO of the Bank were approved.

For further details regarding the remuneration policy and the terms of service approved for the Chairman of the Board of Directors and CEO of the Bank, see Note 22 to the Financial Statements.

On October 25, 2020, the Board of Directors of the Bank, at the recommendation of the CEO, resolved to approve the appointment of Mr. Guy Kalif, who served as Head of Financial Planning and Budgets, to the position of Chief Accountant of the Bank and member of the Board of Management. The appointment took effect on January 1, 2021, following approval by the Supervisor of Banks. Mr. Kalif succeeded Mr. Ofer Levy, Chief Accountant of the Bank, who retired at the end of 2020, after some forty years of work at the Bank, of which fifteen years as a member of the Board of Management.

Over the last year, the Board of Directors of the Bank and the board committees held frequent discussions of the spread of the coronavirus and the various aspects of its impact on the Bank and on the markets, including the business continuity of the activity of the Bank, the Bank's preparations for various scenarios, and preparation for "the day after." Taking into consideration the circumstances and the regulatory directives, including the Temporary Order issued by the Banking Supervision Department in connection with the crisis, some of the meetings of the Board of Directors and of the board committees have been held through telecommunications since March 2020, without in-person attendance.

Pursuant to the requirement of the Banking Supervision Department, the Board of Directors of the Bank resolved on March 18, 2020, to establish an independent committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger (the "Committee"). Based on the requirements of the Banking Supervision Department, the Committee will examine the managerial and supervisory processes that allowed the actions that are the subject of the American matter in its entirety, while addressing corporate governance aspects and the conduct of the senior management and the Board of Directors, and in this regard will form recommendations as needed. In addition, and noting the legal proceedings pending in connection with the investigations of the United States authorities, including a petition to approve a derivative claim and a petition for disclosure of documents prior to a derivative claim (see Note 25 to the Financial Statements), the Board of Directors of the Bank decided that the Committee would also examine whether the best interests of the Bank justify initiating legal proceedings or other measures towards any third party, and/or reaching other arrangements. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank. Upon approval of the resolutions with the United States authorities (see Note 25D to the Financial Statements), the work of the Committee began. The members of the Committee are: the Honorable Justice (Retired) Prof. Yoram Danziger (chairperson of the Committee), the Honorable Justice (Retired) Yosef Alon, Prof. Gideon Parchomovsky, and Ms. Ronit Abramson-Rokach (an external director of the Bank). The Committee has held dozens of meetings and interviews, and is also aided by additional external experts.

On June 30, 2020, the Board of Directors of the Bank, at the demand of the Banking Supervision Department, resolved to expand the mandate of the Committee to also encompass an examination of the FIFA affair (see Note 25E to the Financial Statements). Accordingly, the Committee will also examine the possible courses of action of the Bank to exhaust its rights in the FIFA affair, including in view of the proceeding for the disclosure of documents prior to filing a derivative claim (see Note 25C(2) to the Financial Statements). In this context, the Committee will examine, among other matters, whether the best interests of the Bank justify initiating legal proceedings or other measures with any third party, and/or reaching other arrangements. The Committee will also examine the managerial and supervisory processes that allowed the actions that are the subject of the FIFA affair, while addressing corporate governance aspects and the conduct of senior management and the Board of Directors. The Committee will form recommendations regarding the course of action that would optimally serve the best interests of the Bank, in view of all of the circumstances, and will submit its recommendations to the Board of Directors of the Bank.

On March 31, 2020, the Board of Directors of the Bank resolved to establish a board committee to monitor the implementation of the resolutions of the Bank with the United States authorities and to supervise the implementation of the requirements and obligations of the Bank included in the resolutions. See also Note 25D and 25E to the Financial Statements. The committee monitors the reports submitted to the United States authorities and the actions required according to the resolutions with them. The Bank is in compliance with the requirements and planned schedules.

In May 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors resolved to approve the extension of the directors and officers' liability insurance policy of the Bank and of subsidiaries of the Bank, for a period of up to one month (i.e. until June 30, 2020, instead of May 31, 2020, the expiration date of the previous insurance policy), in consideration for a premium in the amount of approximately USD 250,000, in order to complete negotiations with insurers regarding renewal of the policy. In June 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Relief Regulations) and the Board of Directors of the Bank approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of approximately USD 178 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 30 million (approximately USD 208 million in total), beginning July 1, 2020, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.9 million.

Decentralization of the controlling core of the Bank and transition to a bank without a controlling core

Until November 2018, Ms. Shari Arison held the permit for control of the Bank, through Arison Holdings (1998) Ltd. ("Arison Holdings"). On November 22, 2018, Ms. Arison's control permit was replaced by a permit to hold means of control, which she received from the Bank of Israel (a "holding permit"), allowing the control of the Bank to be decentralized, and the Bank became a banking corporation without a controlling core. Pursuant to the terms of the holding permit, Ms. Arison, who holds approximately 15.7% of the shares of the Bank at the date of publication of this statement, is required to sell her holdings in the Bank in excess of 5% within several years (by November 2022, with possible extension by an additional two years, with the approval of the Supervisor of Banks). For additional information regarding the holding permit, the change in the structure of control of the Bank, and the consequences thereof, see Section 6.6 in the Corporate Governance section of the Annual Financial Statements of the Bank for 2018.

Imposition of monetary sanctions by the Israel Securities Authority

On January 5, 2021, the Bank received notice from the Israel Securities Authority (the "ISA") of a demand for the payment of a monetary sanction in the amount of NIS 480 thousand, pursuant to Section 38A of the Law for Regulation of the Occupation of Investment Advising, Investment Marketing, and Investment Portfolio Management, 1995 (the "Advising Law").

The monetary sanction was imposed due to deficiencies at the Bank in connection with the execution of an annual procedure for elucidation of its customers' needs in accordance with the directives of the ISA, including documentation of conversations on updates of needs with customers, by two investment advisors at the Bank, without actually conducting the conversations, and failure to conduct conversations on updates of needs for more than one year with certain customers of the aforesaid two investment advisors.

This is the amount of the monetary sanction after a reduction of 40%, which was decided upon by the ISA due, among other matters, to arguments made by the Bank.

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 February 2021, 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 granting of credit of all kinds, 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, a contractual engagement with external service providers to promote business activity, 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 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

The Bank Group provides banking and financial services in various segments of activity, in and outside Israel. For details regarding the segments of activity in which the Bank operates and the assignment of customers to these segments, see Note 28A, "Segments of Activity Based on Management Approach."

7.1. 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.

7.2. Fixed assets

Table 7-1: Fixed assets

	December 31			
	2020			2019
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**4,086**	**2,527**	**1,559**	1,618
Equipment, including computers, furniture, and vehicles	**2,598**	**2,106**	**492**	483
Software	**5,325**	**4,057**	**1,268**	1,132
Total	**12,009**	**8,690**	**3,319**	3,233

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 143 properties with an area of 197 thousand square meters, of which 126 buildings with a total area of 90 thousand square meters used as branches, and 17 buildings with a total area of 107 thousand square meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank Group rents 112 buildings with an area of 97 thousand square meters.
The Bank is examining alternatives for the relocation of Head Office units and the concentration of these units in a single building with advanced infrastructures and work environments; within this process, it is conducting talks for the acquisition of a suitable property, and is negotiations with an entrepreneur to establish one of the alternatives. There is no certainty regarding the completion of this process, or that the negotiations currently underway will lead to a binding agreement. The transition, if performed, would enable the Bank to vacate properties under its ownership which are currently used for its Head Office units, in a process that would take several years. The Bank is promoting plans to improve the aforesaid properties which are expected to be vacated.
Beginning in 2020, the Bank applies ASU 2016-02, "Leases" (ASC 842). The Bank recognized a right-of-use asset in the amount of NIS 791 million.
For further data regarding buildings and equipment, see Note 16 to the Financial Statements; see Note 1D(2) to the Financial Statements with regard to the implementation of the standard concerning leases.

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. 619 external ATMs, 134 internal ATMs, 138 external check-deposit machines, 233 internal check-deposit machines, 32 Adkan information stations, 324 Toran self-service stations, and 116 Night Safes are available to customers.

The Bank has begun a process of upgrading 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.

The Bank is currently changing the configuration of its IT sites. Throughout the migration process, the Bank is maintaining the ability to transition to a backup site (either the present site or the future site). The final configuration will be updated at the conclusion of this process.

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 and affiliates overseas

The IT and operational systems of the subsidiaries and affiliates of the Bank in Israel and overseas are based on independent systems, with the exception of subsidiaries in Israel whose systems are on the infrastructure of the Bank and which receive IT services from the Bank. In both cases, managerial responsibility rests with the managements and boards of directors of the subsidiaries and affiliates, 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. Within these agreements, among other matters, the Bank acquires IT infrastructure components (for the mainframe) from IBM (from its representative in Israel, IBM Israel), and receives maintenance services from it for the core systems of the Bank, with respect to which the Bank has dependence.

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

The Bank views information security and cyber defense as matters of key importance and invests extensive technological and human resources in the protection of customer privacy, secrecy of banking information, and the assets of customers and of the Bank, using some of the most advanced cyber defense methods and information security products in the world.

Information security for the systems of the Bank is operated by embedding defense technologies and cyber controls in multiple levels. Controls are applied on the planes of human resources, organizational infrastructures, policies, procedures, business aspects, technologies, and more.

The Bank has a dedicated information security operations center (SOC) to manage all cyber events and fraud attempts in real time. The SOC, which is staffed by analysts and researchers at all times (24/7), uses automated tools and work processes to identify and address cyber events and fraud.

Projects in the area of information systems at the Bank are accompanied from their inception and throughout the development and maintenance stages by an information-security team that ensures secure development processes and strict compliance with rules, including protection of the privacy of information and restriction of access to information.

The Bank routinely tests the information security of its systems, including through external parties, as required by regulation. In addition, periodic evaluations are performed of the Bank's compliance with its cyber defense policy.
Cyber defense at the Bank is managed in accordance with the requirements of the relevant regulatory directives. The Bank is also certified under the information security standards ISO27001 and ISO27032.

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 Bank has embarked on the implementation of 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 websites aimed at maintaining and solidifying the technological business leadership of Bank Hapoalim, while realizing advanced concepts in visibility and customer service, multi-channel integration, and architectural aspects.
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.

7.3. 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 regularly increase return on human capital, such that the ratio of the total expenditure on human capital to its direct and indirect contribution to the growth of the Bank progressively rises. Increasing the return on human capital is based on methodical, ongoing processes to focus and reduce expenses, alongside systemic processes at the level of the organization and of the individual to raise productivity. These efforts are aimed at adapting the Bank to coping with the challenges of competition in a perpetually evolving financial universe, its business growth objectives, and the future world of work.

To support this strategy, the Human Resources Division was established, and an approach of business partnership was formulated, which links employee connectedness, organizational culture, and the business results of the Bank.

The outbreak of the coronavirus crisis in early 2020 also posed a complex challenge, in terms of the ability to ensure business continuity while caring for the health and well-being of employees and their families. Concurrently, the coronavirus crisis presented an opportunity to promote remote work and learning as part of a permanent policy, to instill the Agile perspective more broadly, to spur processes of learning and drawing conclusions, and to advance structural processes strengthening inter-division cooperation, all while developing and empowering leadership in middle and senior ranks, including management.

In the last quarter of 2020, the division focused on building infrastructure for a multi-year process of organizational and cultural change, under the heading, "Change the Bank." The plan consists of systemic processes focused on improving competitive capability, enhancing connectedness, empowerment, and building the perception of a unified bank. At the same time, structural infrastructure was created for management of the business partnership of the Human Resources Division with all of the divisions of the Bank, under the heading HR Business Partner, and a human-resources plan was formulated, supporting the growth objectives of the Bank and the changes necessary to ensure that these objectives are realized. Both the systemic processes and those that support the objectives of the divisions have become part of the business plan, which is backed by clear targets and indices.

Table 7-2: Data regarding the headcount of the Bank Group, in terms of positions(1)

	2020		2019	
	Annual average	Year-end balance	Annual average	Year-end balance
Bank				
In Israel	**8,527**	**8,240**	*8,791	*8,558
Abroad	**209**	**216**	223	223
Bank total	**8,736**	**8,456**	*9,014	*8,781
Subsidiaries				
In Israel	**176**	**157**	185	184
Abroad	**115**	**95**	193	144
Subsidiaries total	**291**	**252**	378	328
Bank Group total	**9,027**	**8,708**	*9,392	*9,109

* Restated.
(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 614 positions of employees whose wages were capitalized to fixed assets in 2020 (2019: 425 positions).

Principal changes in the headcount of the Bank Group at the end of 2020, in comparison to the end of 2019, are set out below.

The number of positions at the Bank Group as at December 31, 2020, decreased by 401 compared with the number of positions at the end of 2019.

The decrease primarily resulted from the implementation of the efficiency plan of the Bank in Israel. In addition, the number of positions at subsidiaries overseas decreased, mainly at Hapoalim Switzerland. By contrast, the number of positions of employees in the areas of information technology increased, in view of the large volume of investment in this field.

Table 7-3: Distribution of the average number of employee positions in the Bank Group by activity segment according to the management approach[1]

	For the year ended December 31		Change
	2020	*2019	
Private customers	**4,768**	5,053	(5.6%)
Small businesses	**1,421**	1,444	(1.6%)
Housing loans	**474**	447	6.0%
Commercial	**765**	783	(2.3%)
Corporate	**729**	690	5.7%
International activity	**398**	503	(20.9%)
Financial management	**345**	336	2.7%
Adjustments	**127**	136	(6.6%)
Total	**9,027**	9,392	(3.9%)

* Restated.
(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.

Human resource characteristics

The policy of the Bank is to employ, promote, and make decisions concerning employees based on material considerations such as skills and the evaluation of 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.

The average seniority of the Bank's employees was 17.8 years in 2020, compared with 18.5 years in 2019. The average age of employees of the Bank was 45.1 in 2020, compared with 45.5 in 2019.

In 2020, approximately 66.1% of all employees of the Bank were women, versus 66.4% in 2019. In the Bank's senior management (department managers at the Head Office, branch managers, and above), the percentage of women in 2020 was 46.1%, compared with 46% in 2019 (the percentage of women in senior management in 2006 was 29%).

A majority of the employees of the Bank (70.9% in 2020) hold academic degrees, and the percentage of these employees out of total employees of the Bank has risen steadily.

Efficiency at the Bank

In January 2020, the Board of Directors of the Bank approved an efficiency plan, pursuant to which more than 900 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 as determined in the plan.

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

In view of the effects of the spread of the coronavirus, with the aim of improving its preparedness for the challenges and opportunities presented by the current crisis, the Bank decided to accelerate the implementation of the aforesaid efficiency plan, emphasizing retirement at a higher rate than planned in 2020. The plan is focused on technology and digitization, supporting processes at the Head Office, and care for human resources.

With regard to the multi-annual efficiency plan approved by the Board of Directors of the Bank, see Note 22H.

Wage agreement

On January 21, 2020, the Bank and the representatives of the Employee Union signed a wage agreement for 2018-2022. The agreement 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.

The salaries paid to the managers and employees of the Bank are derived from a scale of ranks, which allows promotion and reflects the authority and responsibility of the various levels of the organizational hierarchy. Annual bonuses (if granted) are based, among other matters, on the return on equity of the Bank, and may also be determined by the achievement of measurable (and non-measurable) quantitative and qualitative individual performance objectives, as well as long-term plans and objectives, adapted to the overall strategic plan of the Bank and of its sub-units and to the derived work plans.

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)

	2020	2019**
Cost per employee position, excluding bonuses	**414**	385
Cost per employee position, including bonuses	**423**	432
Salary* per employee position, excluding bonuses	**255**	236
Salary* per employee position, including bonuses	**263**	273

* Salary – calculated according to gross salary as paid to the employee.
** Restated.

Vision, values, and ethics

The vision of the Bank was updated in late 2020: "Committed to growth through innovative and fair banking for our customers."
The vision of the Bank serves as its organizational compass and represents the ambitions and commitment of the organization.
The updated vision of the Bank retains the Bank's mission, "Helping people, communities, and businesses thrive and prosper," and its guiding values: professionalism; fairness and responsibility; humanity and caring; initiative and innovation, while referencing its promise to customers: "Poalim – with you in every decision."
The code of ethics and conduct of the Bank, "Our Way: A Code of Values and Ethics," constitutes a declaration of our identity and uniqueness as employees of Bank Hapoalim. The code of ethics and conduct code reflects the values underlying the Bank and delineates the expectations and behaviors we are all adopting and striving to uphold, among ourselves and towards our customers and other stakeholders. The code 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 ethical dilemmas during their routine work at the Bank.
Four values were formulated in 2020: focus and urgency, delivery, partnership, and growth mindset. These values are congruent with the vision and mission of the Bank, and with its promise to its customers. In 2021, we will integrate all of the Bank's values into a unified coherent approach to the customers and employees of the Bank.

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. This concern was expressed extensively in the course of the coronavirus crisis. 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 an evaluation and feedback session held by managers regarding the performance of 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 process is based on open dialogue and transparency, and supports employee empowerment and professional and personal development. The process is part of an annual sequence of managerial actions to encourage excellence and provide evaluation, appreciation, and compensation.
The employee evaluation and feedback process was changed in 2020, as part of the implementation of an organizational culture encouraging work based on trust, transparency, and professional and personal development. The process is focused on the dialogue between employees and managers regarding the improvement of performance, growth, and development. Emphasis is also placed on four cultural principles instilled at the Bank over the last year: focus and urgency, delivery, growth mindset, and partnership.

Intra-organizational communication

Bank Hapoalim views its employees as full partners in its business and organizational processes.

The coronavirus highlighted the need for continual communication and dialogue, rapid and on equal terms, with the employees of the organization, and for heightened organizational connectedness. Especially during these times, we must create open and cooperative intra-organizational communication between management and employees, between executives and employees, and among the various units. This discourse also supports the process of instilling a new organizational culture at the Bank.

There are several organization-wide channels for internal communication:

(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) 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. During the coronavirus period, a step forward was attained allowing the introduction of additional applications, such as responses to news items, as well as notifications of attendance, quarantine notices, signing of health declarations, and technical problem reports.

(3) Throughout the year, a mechanism was operated for sending immediate messages or text messages to employees to provide real-time updates from the Business Continuity Committee.

(4) During this period, emphasis was placed on digital communication channels, such as Zoom meetings; an organizational meeting was held in the form of a live broadcast with the CEO of the Bank.

(5) Communications devoted extensive space to the empowerment of outstanding employees and units.

A culture of continual learning

The Bank cultivates a culture of continual organizational learning – life-long learning (LLL), and invests in maintaining professional competencies and instilling learning routines as a condition of competitive advantage. Training promotes professionalism in banking, management, and technology and empowers employees, in congruence with the vision and strategic objectives of the Bank, its future needs, the era of digital banking, and the need to impart the skills of tomorrow to employees.

Poalim Campus – A key venue for instilling the Bank's strategy and vision through change-generating learning, leading to personal, organizational, and professional growth and to improved performance. The approach to the development of training content integrates employees' professional development with the enhancement of customers' financial skills as a unified concept, creating uniform language for bankers and customers. Learning programs include courses, professional training, various workshops, coaching days, and dedicated content, advancing the Bank as a learning organization and increasing the shared responsibility of employees and managers for learning.

2020 was characterized by a change in the approach to learning and by adaptation to the dynamic, evolving world, in the shadow of the coronavirus crisis. Emphasis was placed on the creation of digital learning platforms based on advanced technological means, supporting remote learning and providing access to content and creation of learning opportunities for employees. In addition, in view of the coronavirus crisis, the Financial Learning Center adapted its value offer for the general public to offer tools, through advanced digital means, for coping with the crisis and its impact, with an emphasis on astute financial conduct for households and business owners and on content adapted for the challenges of this period.

The Campus is responsible for the professional qualifications of the employees of the Bank. The Banking Studies Center leads training in the area of banking and finance through a wide range of courses, coaching days, learning at workstations, and independent digital and hybrid learning, encompassing professional banking content, integrated with content on compliance, regulation, and business skills. Training is adapted to categories of employees and to the strategic focus areas of the Bank.

Training for bankers includes courses taken when entering a new position, courses to maintain professional qualifications, and expanded courses on various banking topics. Approximately 17,000 days of training in approximately 190 course sessions were held at the Banking Studies Center in 2020.

Training and development of skills for the new world of work – The world of work is undergoing many changes, further accelerated by the coronavirus, demanding new skills of employees. To adapt employees' capabilities to these changes, the Campus trains the employees of the Bank and supplies them with knowledge, tools, and skills needed at this time, such as effectiveness in remote work, negotiation, public speaking, learning how to learn, and more. This content is made accessible to all employees and managers of the Bank through a range of learning channels, including coaching days held via Zoom and the Bank's Online University, which offers employees various courses from leading universities in Israel and around the world. Approximately 3,000 days of training in approximately 80 course sessions were held at in 2020.

Manager training and development – The Leadership and Organizational Development Center in the Organizational Change Area assists managers and units in the entry of managers into new positions, 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. 503 managers at all ranks participated in management and leadership development programs in 2020.

7.4. Material agreements

The following is a summary of the main points of the agreements to which the Bank is a party which may be considered material:

- Collective wage agreement for 2018-2022 – the Bank and the representative body of the Employee Union signed a wage agreement for 2018-2022 in January 2020. For further details, see Note 22A(5) to the Financial Statements.
- For details regarding letters of indemnity received by the officers serving at the Bank, officers who served in the past, and certain employees who are not officers under special circumstances, see Note 25B(5) to the Financial Statements.
- For details regarding letters of indemnity granted in connection with prospectuses and issuances performed by Hapoalim Hanpakot Ltd. (a wholly-owned subsidiary that serves as the funding arm of the Bank), see Note 25B(7) and Note 25B(8).
- For details regarding contractual engagements of the Bank in issuance and operation agreements with credit-card companies, see Note 25F to the Financial Statements.
- For details regarding the IT infrastructures of the Bank and contractual engagements with IBM, see Section 7.2, above.

- For details regarding letters of immunity and indemnity received by the Bank from the Attorney General and the Ministry of Finance in connection with the provision of correspondent services to Palestinian banks, see Section 3.6 (compliance risk) in the Report of the Board of Directors and Board of Management.
- For details regarding resolutions with the United States authorities in connection with the tax investigation and FIFA, see Note 25D and 25E to the Financial Statements.
- The Bank has purchased insurance from foreign insurers for the portfolio of sale guarantees (off-balance sheet credit risk), which at this time totals approximately NIS 11.8 billion.
- For details regarding agreements with the tax authorities, see Note 8 to the Financial Statements.
- For details regarding state-backed loans through a dedicated loan fund, primarily for assisting businesses that encounter cash-flow difficulties as a result of the coronavirus outbreak, see Section 3.2.2 of the Report of the Board of Directors and Board of Management.

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 meetings, proactively initiated telephone calls, and an advanced advisory system aided by decision support tools.

Services are provided to customers through a network of 189 branches, in addition to five Platinum Centers for selected customers, a mobile branch, and five advising centers, as well as through direct channels, including self-service stations at branches and on customer premises, Poalim Online, Poalim Mobile, the Poalim by Telephone call center, the Connect center for digitally oriented customers, the interactive voice response (IVR) system for information and transactions, and social media.

On January 3, 2021, the Board of Management of the Bank approved the transfer of three units from the Innovation and Strategy Division to the Retail Banking Division: the CDO (Chief Digital Officer) Unit, the Credit Tribe, and the Credit Card Unit. Within this process, the Product Area was established, encompassing the Credit Tribe and the Credit Card Unit.

As part of the Bank's approach to service and social responsibility, the Bank considers accessibility to people with disabilities an essential issue and its duty as a business; accordingly, all of the Bank's services have been made accessible to people with disabilities.

There has been an ongoing trend over the last few years of growth in banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the Poalim by Telephone call center).

In addition to this trend, the Bank has increased the use of the service for scheduling appointments with bankers and added channels for scheduling appointments, allowing customers a high-quality, professional, individual encounter.

Actions taken by the Bank to cope with the spread of the coronavirus

Greeters and attendants have been posted at branches open to the public, to assist customers in operating digital means and self-service devices, while adhering to the instructions of the Ministry of Health.

Customers are advised to schedule appointments with the personal, private, and business banking departments.

Appointments scheduled in advance are recommended for customers interested in cash services from a teller. Service is provided without a scheduled appointment for specified population groups: customers over the age of 65, pregnant women, people with disabilities, customers without Israeli means of identification, and exceptional cases.

The Bank has made it easier for customers to receive service at the call centers, and added new transactions and options available through the automated voice response system and through bankers. The age threshold of the dedicated line for elderly customers has been lowered from 70 to 65 (customers who call this line receive service from a human banker, with high availability, sensitivity, and professionalism).

As part of the effort to cope with this complex and challenging situation, the Bank has introduced several products and processes aimed at providing relief to its customers, including:

- Allowing spreading of loan payments for private customers and deferral of principal payments for business clients.
- Proposals for customers of the Bank to receive credit with preferred terms through digital means.
- An online course for customers of the Bank on the possibilities and advantages of the direct channels.
- Extension of the grace period for Instant Credit and multi-channel loans (from three months to six months).
- A relief in Directive 325 concerning deviation from credit facilities.
- New products launched in early October 2020: the Thinking Ahead package, for customers hurt by the coronavirus period.
- A multi-channel loan for professional development, to finance professional studies.
- Loans to finance tuition for students, with an option for a grace period of up to three years (principal or principal and interest).
- A loan designated for spreading of loan payments for up to 96 months, with a grace period of up to one year (at a branch, after exploration of needs).
- A loan for miscellaneous purposes during the coronavirus period, in effect until the end of the first quarter of 2021.

Deferral of payments for customers of the Bank

One of the first economic measures taken at the onset of the crisis to enable people harmed by the pandemic to bridge the cash-flow gap, and to help them navigate the period of uncertainty, was the formulation of a trajectory for the deferral of loan payments, with the Bank of Israel, which was adopted by the banking system. The trajectory allowed customers to defer payments on bank loans in three activity segments: mortgages, consumer credit, and credit for businesses. This trajectory was approved by the Board of Management and implemented at the divisions of the Bank.

The trajectory was extended and expanded by the Bank of Israel several times. Another trajectory applied as of January 1, 2021, allows households to defer mortgage and consumer loan payments for a relatively long period (up to 36 months), with flexible spreading; in contrast to the previous trajectory, the emphasis is on borrowers resuming payment on an easier schedule. The payment deferral trajectories join a long series of policy measures applied by the Bank of Israel since the beginning of the crisis, alongside government assistance for businesses, including state-backed funds, which form a broad package helping many businesses cope with the impacts of the crisis.

Loan payment deferral helped customers and businesses whose income was harmed by the crisis at the time of need, by allowing them to reduce their monthly expenses and come through the crisis successfully. At this time, regular payment has resumed on most of the deferred loans, without arrears.

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 Very Important Students 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 trading 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.

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. Despite the increase in the number of coronavirus cases in the fourth quarter of 2020 and its impact on the economy, the positive trend in returns of provident funds continued, due to capital-market gains.

On December 1, 2020, the Capital Market, Insurance, and Savings Authority issued a non-enforcement position, stating that the Authority would not take enforcement measures against banking corporations that provide pension advising through digital means or by telephone to those who are existing customers in the area of pension advising immediately prior to the notification, during the coronavirus period. Consequently, the advisors of the Bank began to provide pension advising via telephone to existing customers of the Bank.
The draft memorandum of the Law for Supervision of Financial Services (Pension Advising, Marketing, and Clearing Systems) (Amendment 11), 2020, issued July 12, 2020, is aimed at enabling banking corporations to provide pension advising services by telephone or through digital means. Legislation of the memorandum has not progressed due to the dispersal of the Knesset and the nonsubmission of the Arrangements Law.

Collection

Work processes have been adjusted in view of the coronavirus crisis, with the aim of helping customers cope with the economic difficulties of this period:

- Time limits for working with customers have been expanded at Poalim Recovery, the collection centers, and external law firms, with the aim of exhausting the possibilities for settling debts without legal procedures, to the extent possible.
- Collection activities are conducted according to the regulations of the various judicial authorities concerning emergency procedures due to the spread of the coronavirus.
- Evictions from residential properties are not performed (with the exception of realizations with customer consent).

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 view of the coronavirus events over the last year, the Bank has expanded its use of digital means, on the Internet and on mobile applications, which allow customers to receive service without having to visit a branch in person.

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. Competition continues to expand 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

Launch of Bank Hapoalim application

A new application allowing easy banking, which combines the most advanced technological capabilities and an individualized user experience with modern appearance and language and an advanced customer experience, focused value offers, and guidance of customers in informed financial decision-making.

Daily banking during the coronavirus period

In light of the situation, the Bank is preparing to expand the number of customers who use digital channels, while offering new services through these channels, with the aim of providing relief to customers during this period. Among other matters, the following new services are offered: submission of an application to defer mortgage payments directly through the website; deferral of credit-card payments through digital channels; increase of the grace period in Instant Credit to six months; granting of loans to businesses through digital channels; deposits into targeted deposit plans adapted to turbulent market periods through the Bank's website; increase of the amounts of checks that can be deposited using the application; and issuance of a password for Poalim by Telephone using the website.

Written communication with bankers

During the year, a feature was added allowing requests for information and for the execution of transactions by bankers to be sent through the Bank's website.
The goal of this process is to expand the types of actions that can be performed by customers through digital channels (in the first stage, on the Bank's website for private customers), by offering customers the option to perform the action independently on the website or by sending a request to a banker (if the action cannot be performed on the website).
This channel allows the transmission of all types of orders for execution, requests for bankers, and information queries through the website, without the need to visit a branch in person or make a telephone call.

Expansion of Bit application

- The Bit application has continued to expand to allow quick, secure payment on various shopping websites and applications, along with new collaborations in which customers can receive refunds from insurance and pension companies directly through Bit. The Bit application has 2.5 million active customers.
- On January 7, 2021, Bank Hapoalim signed an agreement with CAL for the issuance of a non-bank card, the Bit Card, targeted to customers of foreign banks interested in using the card as a means of payment in the Bit Wallet. The agreement is awaiting approval by the Bank of Israel.

Digital wallets

The Bank has launched a digital wallet for smartphones running on Android operating systems, which will be administered as an additional service within the Bit application (the "Bit Wallet"). The Bit Wallet will serve as a technological platform for Bit users, relying on contactless EMV proximity-based payment technology, for executing transactions with businesses using charge cards by tapping the smartphone to the point of sale (the payment terminal). The Bit Wallet is an "open" wallet, meaning that Bit users can use it with charge cards of the Bank as well as with cards issued to them by other issuers who have granted consent to such use. Bit users will also be able to use the Bit Wallet with a designated non-bank club card, the Bitcard, to be issued by Cartisei Ashrai LeIsrael Ltd. (CAL) to Bit users. Bit users who register for Bit with charge cards whose issuers have not consented to the use of the Bit Wallet will be able to use the Bit Wallet through the Bitcard. The Bit Wallet will be launched and implemented in accordance with the trajectory established by the Bank of Israel for ventures of this type, which addresses, among other matters, limits applied at this stage to the use of the information collected within the digital wallet, the option for the wallet user to set up several cards (including of different issuers), and the inclusion of Bitcard credit facilities, at this stage, in the credit facilities granted by the Bank, in the context of the limit established in the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel, 2017 – see Section 9(c) of this law.
As part of the Bit Wallet launch process, the Bank entered into a series of agreements, including with various service providers and a charge-card issuer, and with other operators of wallet services.
The Bank also reached an agreement with Isracard within which person-to-person (P2P) money transfer transactions using cards from the MasterCard and Visa brands will be cleared, beginning in April 2021/May 2021, respectively, through the payment solutions Moneysend and Visa Direct, respectively, which are offered by the international organizations MasterCard and Visa, respectively.

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:

- **Law for Online Bank Account Switching –** The Knesset plenum passed Amendment 27 to the Banking Law (Service to Customers), 1981, in the second and third readings on March 14, 2018. Within this process, the decision was made to establish an automatic bank account switching system, based on the CASS (Current Account Switch Service) established in England, as part of the economic plan (the Arrangements Law) for 2018. According to the law, banks will be required to allow secure online transfers for customers, within seven business days, at no cost to the customer.
  In June 2019, the Governor of the Bank of Israel issued initial rules pursuant to the law, concerning the types of accounts for which the banks will be required to allow switching within the system. According to the data of the Bank of Israel, approximately 80% of current accounts of households will be transferable using the system.
  In June 2019, the Banking Supervision Department issued a draft of rules regarding the types of products transferable using the system. On December 16, 2019, the Bank of Israel issued the Banking Rules (Service to Customers) (Transferring the Financial Activity of Customers Between Banks), and Proper Conduct of Banking Business Directive 448, "Online Transfers of the Financial Activity of Customers Between Banks," which regulates the series of actions required of the receiving bank and the transferring bank when switching banks, and specifies the obligations applicable to each bank (the transferring bank and the receiving bank).
  Deferral of the inception of the law by six months, to September 22, 2021, was approved on June 30, 2020. In a related and supplementary legislative procedure, the Bill for Electronic Clearing of Checks and Checks Without Cover (Legislative Amendments), 2021, passed in the second and third readings on February 8, 2021.
- **Payment Services Law, 2019 –** The Payment Services Law was issued in January 2019 and took effect on October 14, 2020. This law replaces the Charge Card Law; in essence, it will cause consumer protections previously restricted to cards to also apply to means of payments at banks, such as transfers from accounts and authorizations to debit accounts. Protections will also apply to innovative means of payment, such as payment applications, electronic wallets, and more. The main preparations required of the Bank concern adaptation of contracts, due disclosure, and notifications required for all means of payment offered by the Bank to its customers; obligations and responsibilities imposed upon the Bank with respect to abuse; and account debit authorizations, to which a section of the law is dedicated.
- **Open banking (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 of the financial information of a customer by a third party. 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. An updated schedule was issued by the Bank of Israel on April 7, 2020: the banks are to be prepared with regard to a consent model, balances, and current-account transactions by March 31, 2021; October 10, 2021 – statements for bank and non-bank charge cards, and access to the issuance of orders to transfer payment from the customer's bank account; March 31, 2022 – access to additional information of customers – credit and loans, deposits and savings, and information regarding the customer's securities portfolio.

- **Exemption from restrictive arrangement for Masav –** On June 18, 2020, the Competition Authority extended the restrictive arrangement exemption for Masav, which permits cooperation between the member banks. The new exemption establishes conditions requiring Masav to accept, as a participant, any payment services provider legally permitted to participate and represented by a bank; the five largest banks are prohibited from unreasonably refusing to provide a non-bank entity with the representation services required for connection to Masav as a participant. In order to ensure the cooperation of the banks, the Competition Authority has prohibited banks from using the immediate payment system for the purposes of their own payment applications, unless the bank represents a non-bank entity and the represented entity transmits transactions through the immediate payment system, until June 2022. Concurrently, the Payment Systems Division at the Bank of Israel issued a directive obligating banks not to "unreasonably refuse" the request of a payment services provider for representation in clearing. A bank that receives a request for representation must respond within thirty days, and the preparation period for representation shall be between three and eight months, depending on the type of representation.
- **Proper Conduct of Banking Business Directive 432 –** On June 23, 2020, the Bank of Israel issued an update of this directive, stating that customers will be permitted to submit a request to transfer a securities portfolio through online means, including submission of the reference materials necessary for examination of the request. The Bank is preparing to allow the submission of requests online, as required. This directive took effect on December 23, 2020.
- **The Checks Without Cover Law (Amendment 14), 2020,** passed in the second and third readings on August 18, 2020, and was published in the Official Gazette of the Israeli Government. The law, which is scheduled to take effect in August 2021, states that banks must notify customers before returning a check due to insufficient funds and give the customers one business day to deposit money in their account in order for the check to clear.
- **New Proper Conduct of Banking Business Directive 443, "Inactive Deposits and Accounts of Deceased Owners,"** of November 15, 2020 – A new Proper Conduct of Banking Business Directive has been issued, specifying the obligations of banks, with respect to inactive deposits, to attempt to contact the owner of an inactive deposit, near the maturity date of the deposit. The obligation to find the owner specified in the procedure establishes, among other matters, a hierarchy of required actions, according to the circumstances, which the bank must apply in order to contact the owner of an inactive deposit, by using the information in the bank's records and by contacting the Population Registry, as relevant.

- **Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel –** The Order for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments) (Change in Rate and Amounts for the Reduction of Credit Facilities Pursuant to Section 9(c) of the Law) (Temporary Order), 2020, passed on November 11, 2020, states that in light of the coronavirus crisis and the financial distress of many customers, from the end of January 2021 to the end of January 2022 the cutback will stand at 45% of the credit facility of the customer in 2015, and up to a minimum of NIS 7,500 per month, instead of the originally established minimum of NIS 5,000.
- **Update of Proper Conduct of Banking Business Directive 450,** concerning debt collection procedures, issued in early October 2020 – The purpose of the update is to achieve an easier process for obtaining customer consent to a debt arrangement between the customer and the bank. Towards that end, the requirement to sign the arrangement has been replaced by a requirement to obtain documented consent, in accordance with common practice and as enacted in parallel legislation during the recent period. A requirement has also been added to publish contact details on the bank's website of the specific function responsible for debt collection, to make it easier to contact this function.
- **Immediate payments –** The Bank of Israel has notified the banks that the banks are required to complete connection to the immediate payment system being established at Masav (the Bank Clearing Center) by the end of October 2020. Beginning on that date, banks are required to allow their customers to receive payments through the immediate payment service. The Bank complied with the schedule, as required.
- **Proper Conduct of Banking Business Directive 311A, "Consumer Credit Management" –** Proper Conduct of Banking Business Directive 311A concerning the management of consumer credit was issued on February 4, 2021. The purpose 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.

Regulatory reliefs for coping with the coronavirus crisis

The Bank of Israel issued a series of regulatory reliefs for coping with the coronavirus crisis in the first half of 2020. Most of the reliefs granted have been extended until March 2021, and an additional extension until the end of September 2021 is likely, according to the draft circular issued by the Banking Supervision Department on March 7, 2021.

Reliefs requiring a temporary amendment of requirements of a Proper Conduct of Banking Business Directive were aggregated and specified in Proper Conduct of Banking Business Directive 250, including the following updates, designed to help customers:

- **Proper Conduct of Banking Business Directive 325, "Management of Credit Facilities in Current Accounts" –** During this period, there are expected to be more customers who encounter cash-flow problems due to the crisis. The amendments to the directive are aimed at allowing banks to accept debits of customers who deviate from the credit facility granted to them, and to provide unilateral additional credit facilities at a volume of NIS 5,000 for private customers and NIS 100,000 for commercial customers, for three days from the formation of the deviation.
- **Proper Conduct of Banking Business Directive 326, "Project Finance" –** The definition stating that a bank must issue a guarantee to a buyer in respect of an amount paid through a payment stub within fourteen days of the date of payment has been canceled.
- **Proper Conduct of Banking Business Directive 367, "E-Banking," and Proper Conduct of Banking Business Directive 420, "Sending Notices via Means of Communication" –** In order to support the accessibility of existing communication channels to customers, with an emphasis on possibilities for remote activities, it has been agreed that banks are permitted to proactively send their customers messages through e-banking channels proposing registration for these services and guiding them on how to do so, even without having the customer sign an e-banking agreement. An update has also been issued raising the volume of activity subject to the reliefs with regard to identification and verification from NIS 50,000 to NIS 100,000.
- **Proper Conduct of Banking Business Directive 439, "Debits by Authorization" –** The Bank of Israel allows banks to receive orders from customers to cancel debits by authorization or account debit authorizations via telephone, rather than only by written notice, provided that the call is documented.

These regulatory initiatives sometimes have an adverse effect on the income and expenses of the Bank, and may sometimes have an adverse effect on the business of the Bank Group in the future. The Bank is reviewing the overall implications of the foregoing for the Bank's income, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.
For additional information regarding regulatory initiatives that may have an impact on the activity of the segment, including information regarding the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (the Strum Committee), see Note 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	
	2020	2019*
	NIS millions	
Total net interest income	**2,247**	2,828
Non-interest financing income	**8**	5
Total net financing profit	**2,255**	2,833
Fees and other income	**1,432**	1,500
Total income	**3,687**	4,333
Provision for credit losses	**505**	220
Total operating and other expenses	**3,607**	3,688
Profit (loss) from continued operations before taxes	**(425)**	425
Provision for taxes (tax benefit) on profit (loss) from continued operations	**(145)**	161
Net profit (loss) attributed to shareholders of the Bank	**(280)**	264
Net credit to the public at the end of the reported period	**37,233**	41,456
Deposits from the public at the end of the reported period	**218,490**	188,766

* Reclassified.

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the Private Customer Segment totaled NIS 280 million in 2020, compared with net profit in the amount of NIS 264 million in the preceding year. Most of the change resulted from a decrease in net financing profit and from an increase in the provision for credit losses.

Net financing profit totaled NIS 2,255 million in 2020, compared with NIS 2,833 million in the preceding year. The decrease resulted from a decrease in credit balances and spreads, and from a decrease in spreads on deposits, due to a decrease in the dollar and shekel interest rates.

Income from fees totaled NIS 1,432 million in 2020, compared with NIS 1,500 million in the preceding year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in capital-market fees.

The provision for credit losses totaled NIS 505 million in 2020, compared with NIS 220 million in the preceding year. The increase mainly resulted from an increase in the collective allowance, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was partly offset by a decrease in automatic charge-offs.

Operating and other expenses of the segment totaled NIS 3,607 million in 2020, compared with NIS 3,688 million in the preceding year. The decrease mainly resulted from a decrease in salary expenses, as a result of continued cost savings due to efficiency processes, and from a decrease in the amount of the bonus, due to the payment of a bonus to employees in respect of the signing of the wage agreement in the preceding year, as well as from a large expense for equity compensation recorded in 2019, due to an increase in the share price of the Bank.

Net credit to the public totaled approximately NIS 37.2 billion as at December 31, 2020, compared with approximately NIS 41.5 billion as at December 31, 2019. The decrease mainly resulted from a decrease in credit needs of private customers, and from an increase in the collective allowance for credit losses, due to the coronavirus crisis.

Deposits from the public totaled approximately NIS 218.5 billion as at December 31, 2020, compared with approximately NIS 188.8 billion as at December 31, 2019. The substantial increase mainly resulted from customers' transition to conservative investment channels, due to the effects of the spread of the coronavirus, and from an increase in savings of the public.

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 and through the direct channels (see the section "Private Customer Segment" above). The branch network also provides necessary services to business customers of the Corporate and Commercial Segments.

Services for the segment's customers include routine account management, alongside extensive efforts aimed at support for and growth of this segment, including targeted credit tailored to customers' needs through a wide range of products.

Solutions for customers during the crisis

In addition to the information in the Private Customer Segment, the Bank introduced several products and processes to provide relief to business clients, including:

- Designated loans for small businesses in amounts of up to NIS 400,000 per borrower, for periods of up to sixty months, with a grace period of up to twelve months.
- State-backed loans in amounts derived from customers' business turnover.
- An option to defer loan payments for periods of up to six months, in accordance with the trajectory of the Bank of Israel.

In addition, the tax authorities announced an extension of the period for submitting financial statements; the extension also applies to cases in which there is a requirement to receive financial statements in order to grant credit to borrowers. Accordingly, in the absence of an annual financial statement, credit for small businesses shall be approved subject to the receipt of up-to-date financial data allowing the bank to reliably analyze the financial condition of the borrower, such as a VAT report. In addition, the terms based on which the bank agrees to grant credit shall conform with the risk-management policy of the bank.

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

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 from 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

Bit application

Creation of collaborations with aggregators to promote value offers for small businesses and connections to e-commerce platforms, so that small businesses can accept payment from their customers, with no annual ceiling. Businesses can receive payment remotely through a website, application, or text message, or at a point of sale.

When the coronavirus crisis began, the Bank took a series of measures aimed at helping small businesses continue their banking activities, including remotely, while offering new services to provide relief to customers during this period:

- Establishment of a designated loan fund for self-employed individuals – In April 2020, the Bank and the organization Lahav founded a loan fund targeted to the self-employed, at a volume of NIS 0.5 billion, with interest rates similar to those offered in state-backed loans. Loan applications are submitted in a quick, convenient process on the website or application.

- Suspension of loans using digital channels – The Bank allows customers to suspend loan payments for several months, through the Bank Hapoalim application and the website for private customers, in order to provide cash-flow relief to small businesses that are not corporations (companies).

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

For information regarding regulatory initiatives that may have an impact on the activity of the segment, see Note 35 to the Financial Statements.

See "Private Customer Segment," above.

Amendment 9 to Proper Conduct of Banking Business Directive 367, "E-Banking," of December 29, 2020 – States that remote opening of an account without the need to physically visit a branch shall also be possible for corporations, whereas until now this was only permitted in accounts opened for individuals. Pursuant to the amendment, an authorized signatory on behalf of the corporation applying to open a bank account shall be identified and verified remotely using one of the two methods established in the directive.

Table 7-6: Results of operations and principal data of the Small Business Segment

	For the year ended December 31	
	2020	2019*
	NIS millions	
Total net interest income	**1,363**	1,610
Non-interest financing income	**5**	2
Total net financing profit	**1,368**	1,612
Fees and other income	**550**	580
Total income	**1,918**	2,192
Provision (income) for credit losses	**397**	299
Total operating and other expenses	**1,232**	1,239
Profit (loss) from continued operations before taxes	**289**	654
Provision for taxes (tax benefit) on profit (loss) from continued operations	**107**	249
Net profit (loss) attributed to shareholders of the Bank	**182**	405
Net credit to the public at the end of the reported period	**31,371**	31,022
Deposits from the public at the end of the reported period	**56,303**	45,959

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Small Business Segment totaled NIS 182 million in 2020, compared with NIS 405 million in the preceding year. Most of the decrease resulted from a decrease in net financing profit and from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,368 million in 2020, compared with NIS 1,612 million in the preceding year. The decrease resulted from a decrease in financial spreads on credit and from a decrease in spreads of deposits, due to a decrease in the dollar and shekel interest rates.

Income from fees totaled NIS 550 million in 2020, compared with NIS 580 million in the preceding year. The decrease mainly resulted from a decrease in account-management fees and in credit-card fees, partly offset by an increase in capital-market fees.

The provision for credit losses totaled NIS 397 million in 2020, compared with NIS 299 million in the preceding year. The increase resulted from an increase in the collective allowance, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty. This increase was partly offset by a decrease in automatic charge-offs.

Net credit to the public totaled approximately NIS 31.4 billion as at December 31, 2020, compared with approximately NIS 31.0 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 56.3 billion as at December 31, 2020, compared with approximately NIS 46.0 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

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 significant economic transaction for households, and customers therefore tend to conduct market surveys and compare prices. This market is therefore characterized by a high level of competition.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

Extensive, dedicated regulation applies to housing loans, in addition to the general regulation applicable to credit granted by the Bank.

- Since the beginning of the coronavirus crisis, the Bank has allowed customers with housing loans who meet the criteria to defer loan payments for up to three months (principal and interest payments). Following the instruction of the Bank of Israel of May 7, 2020, an option was granted for an extension of three additional months. When loan payments are deferred, the customer does not perform the scheduled payments during the deferral period; the deferred payments are added to the loan principal balance and spread over the remaining period of the original loan.
- Following the instructions of the Bank of Israel of July 10, 2020 (which was updated on September 29, 2020), customers who have already received a deferral of loan payments can defer the payments until the end of 2020, even if the deferral exceeds six months. Customers who have not yet deferred loan payments can defer payments for a period of six months; applications to defer loan payments were accepted until December 30, 2020.
- In the first quarter of 2020, a relief was granted in Proper Conduct of Banking Business Directive 329, due to the coronavirus crisis, permitting the granting of all-purpose loans with a lien on a residential property at a financing rate of up to 70% (the limit on the financing rate was 50% prior to this relief).
- Additional reliefs due to the coronavirus crisis were granted in Proper Conduct of Banking Business Directive 329 in 2020:
    - To estimate income, banking corporations are permitted to consider the average income of the borrower in the three months preceding unpaid leave, under the condition, among other matters, that the payment to income ratio of the borrower after the unpaid leave begins does not exceed 70%.
    - The requirement to raise the common equity Tier 1 capital target at the rate of 1% of the balance of housing loans has been suspended with respect to loans approved during the period of the Temporary Order. The validity of Proper Conduct of Banking Business Directive 250 in connection with directives relevant to limits on housing loans has been extended until March 31, 2021. An additional extension until the end of September 2021 is likely, according to the draft circular issued by the Banking Supervision Department on March 7, 2021.

  - On November 30, 2020, the Banking Supervision Department gave notice of the formulation of an additional trajectory for the deferral of mortgage payments. Applications can be submitted from January 1, 2021, to March 31, 2021. This applies to the population group fulfilling the following cumulative conditions: loans in payment deferral status; customers whose household income is not greater than NIS 20,000 as at February 28, 2020; and damage to household income of at least 40%. Among other matters, the directive specifies the method for reducing monthly charges, for periods of up to 24 months.
- Update of Proper Conduct of Banking Business Directive 329, "Limits on Issuing Housing Loans," of December 27, 2020 – Removes the Prime limit which applied until now. Section 7 of the directive establishes two limits: first, that the part of the loan at a Prime interest rate shall not exceed one-third of the total loan, and second, that the overall part of the loan at a floating rate of interest shall not exceed two-thirds of the total loan. The update removes the first limit (the Prime rate limit), but retains the limit on the floating rate, which states that at least one-third of the total mortgage must be granted at a fixed rate of interest, and up to the remaining two-thirds can be granted at a floating rate of interest. The amendment took effect on January 17, 2021, with respect to new mortgage takers, and on February 28, 2021, with respect to mortgage refinancing.

Table 7-7: Results of operations and principal data of the Housing Loan Segment

	For the year ended December 31	
	2020	2019
	NIS millions	
Total net interest income	**993**	838
Fees and other income	**57**	60
Total income	**1,050**	898
Provision (income) for credit losses	**317**	13
Total operating and other expenses	**303**	293
Profit (loss) from continued operations before taxes	**430**	592
Provision for taxes (tax benefit) on profit (loss) from continued operations	**160**	223
Net profit (loss) attributed to shareholders of the Bank	**270**	369
Net credit to the public at the end of the reported period	**98,737**	89,331

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Housing Loan Segment totaled NIS 270 million in 2020, compared with NIS 369 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses, and was partly offset by an increase in net financing profit.

Net financing profit totaled NIS 993 million in 2020, compared with NIS 838 million in the preceding year. The increase resulted from an increase in credit volumes and from an continued increase in the average spread.

The provision for credit losses totaled NIS 317 million in 2020, compared with NIS 13 million in the preceding year. The increase resulted from an increase in the collective allowance, as a result of an increase in allowance rates, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Net credit to the public totaled approximately NIS 98.7 billion as at December 31, 2020, compared with approximately NIS 89.3 billion as at December 31, 2019. The increase resulted from an increase in the volume of activity.

For additional information regarding risks in the housing-loan portfolio, see Section 3.2.7 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 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

- **Business Direct Credit –** Loans within an approved credit facility, which can be taken through the Business Online website.
- **FX Trader –** An online trading system with a convenient platform accessible to customers.
- **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.

2020 was characterized by a decrease in economic activity, due to the policy of lockdowns and restrictions applied in view of the coronavirus. Service industries such as hotels, restaurants, culture, and entertainment, as well as the aviation industry and various sectors of commerce, sustained the main damage. The manufacturing and high-technology sectors continued to grow at a rapid pace over the year, reducing the overall damage to annual GDP. The broad unemployment rate (which also includes employees on unpaid leave) rose sharply, standing at approximately 13% at the end of the year. In the residential real-estate market, the number of transactions fell substantially in the first months of the lockdown, but rose again in the second half of the year. The index of prices of homes continued to rise in 2020. Construction starts decreased, due to a decrease in the number of tenders issued by the Israel Land Administration. Restrictions on activity led to a decrease in demand for commercial real estate and office space.

The government acted to provide aid to businesses, including state-backed loans as well as grants for businesses suffering a decline in sales turnovers. The Bank of Israel also formulated a program allowing business clients to defer payments on bank loans.

For further details regarding the effects of the coronavirus, see the section "Risk management" in the Report of the Board of Directors and Board of Management.

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. The CRM system, introduced about a year ago, is a significant tool for the management of customers and business activities with them.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

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	
	2020	2019
	NIS millions	
Total net interest income	**1,096**	1,091
Non-interest financing income	**14**	10
Total net financing profit	**1,110**	1,101
Fees and other income	**392**	370
Total income	**1,502**	1,471
Provision (income) for credit losses	**297**	89
Total operating and other expenses	**495**	512
Profit (loss) from continued operations before taxes	**710**	870
Provision for taxes (tax benefit) on profit (loss) from continued operations	**281**	331
Net profit (loss) attributed to shareholders of the Bank	**429**	539
Net credit to the public at the end of the reported period	**42,290**	40,138
Deposits from the public at the end of the reported period	**35,499**	25,143

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Commercial Segment totaled NIS 429 million in 2020, compared with NIS 539 million in the preceding year. The decrease mainly resulted from an increase in the provision for credit losses.

Net financing profit totaled NIS 1,110 million in 2020, compared with NIS 1,101 million in the preceding year. The increase mainly resulted from an increase in credit volumes, offset by a decrease in spreads of deposits, due to a decrease in the dollar and shekel interest rates.

Income from fees totaled NIS 392 million in 2020, compared with NIS 370 million in the preceding year. The increase mainly resulted from an increase in fees from financing transactions.

The provision for credit losses totaled NIS 297 million in 2020, compared with a provision in the amount of NIS 89 million in the preceding year. Most of the increase resulted from an increase in the collective allowance, due to the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and on the ability to identify and estimate credit losses inherent in the portfolio during the present period of significant uncertainty.

Operating and other expenses of the segment totaled NIS 495 million in 2020, compared with NIS 512 million in the preceding year. The decrease mainly resulted from a decrease in salary expenses, as a result of continued cost savings due to efficiency processes, and from a decrease in the amount of the bonus, due to the payment of a bonus to employees in respect of the signing of the wage agreement in the preceding year, as well as from a large expense for equity compensation recorded in 2019, due to an increase in the share price of the Bank.

Net credit to the public totaled approximately NIS 42.3 billion as at December 31, 2020, compared with approximately NIS 40.1 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 35.5 billion as at December 31, 2020, compared with approximately NIS 25.1 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

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.

For details regarding the effect of the coronavirus outbreak, see Section 7.5.4, "Commercial Segment," above.

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 institutional entities and non-bank financial institutions.

2020 was characterized by a higher average level of bond issues compared with the average issues in 2019.

Regulatory changes – legislative restrictions, standards, and special constraints applicable to the segment

- In view of the spread of the coronavirus and its possible impacts on the condition of the economy and of borrowers, with the aim of encouraging banking corporations to act to stabilize borrowers who fail or are likely to fail to fulfill their contractual payment obligations due to the coronavirus, the Banking Supervision Department issued a trajectory, which was updated from time to time, aimed at reducing risks for borrowers, for the banking system, and for the economy as a whole in the long term. Among other matters, the trajectory establishes conditions for deferral and reliefs regarding the classification of debts the terms of which have been changed as troubled debt restructuring.
  For further details regarding the effects of the payment deferral trajectory, see Section 3.2.2 in the chapter on risks in the Report of the Board of Directors and Board of Management.
- On January 7, 2021, the Bank of Israel issued additional adjustments of Proper Conduct of Banking Business Directive 250 (Temporary Order on Coping with the Coronavirus Crisis), which also addresses Proper Conduct of Banking Business Directive 315, "Industry Indebtedness Limit." The update states that the limit on credit for the construction and real-estate sector, excluding indebtedness for national infrastructures, will rise from 20% to 22% of total indebtedness of the public, and the limit on credit for the construction and real-estate sector will rise from 24% to 26% of total indebtedness of the public. The period of the relief was extended to 24 months from December 31, 2025, provided that the rate does not exceed the rate on December 31, 2025, or the rate of the industry limit as established in Proper Conduct of Banking Business Directive 315, whichever is higher. In addition, the update states that industry indebtedness against which the banking corporation has acquired credit protection that qualifies for credit risk mitigation, as stated in Directive 203, shall be classified according to the sector of activity of the provider of the protection. The update will allow taking into consideration credit and guarantees backed by insurance policies for the purpose of calculating the industry limit.

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 (the "Type Exemption"). The aforesaid Type Exemption 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 directives of the Type Exemption are in effect for three years (i.e. until June 2021), 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. The Competition Authority recently requested various data from the banks in order to consider renewal of the Type Exemption.

Table 7-9: Management approach activity segments – results of operations and principal data of the Corporate Segment

	For the year ended December 31	
	2020	2019*
	NIS millions	
Total net interest income	**1,408**	1,396
Non-interest financing income	**131**	75
Total net financing profit	**1,539**	1,471
Fees and other income	**519**	496
Total income	**2,058**	1,967
Provision (income) for credit losses	**295**	588
Total operating and other expenses	**620**	611
Profit (loss) from continued operations before taxes	**1,143**	768
Provision for taxes (tax benefit) on profit (loss) from continued operations	**451**	298
Net profit (loss) attributed to shareholders of the Bank	**692**	470
Net credit to the public at the end of the reported period	**78,103**	77,310
Deposits from the public at the end of the reported period	**59,981**	53,035

* Reclassified.

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Corporate Segment totaled NIS 692 million in 2020, compared with NIS 470 million in the preceding year. The increase mainly resulted from a decrease in the provision for credit losses, due to individual allowances recorded in 2019 following the outbreak of the coronavirus crisis, along with an increase in net financing profit and in income from fees.

Net financing profit totaled NIS 1,539 million in 2020, compared with NIS 1,471 million in the preceding year. The increase mainly resulted from an increase in income from the activity of the dealing room, due to an increase in the volume of transactions as a result of the volatility in the market, and from an increase in profits in respect of the sale of loans.

Income from fees totaled NIS 519 million in 2020, compared with NIS 496 million in the preceding year. The increase mainly resulted from an increase in capital-market fees and in fees from financing transactions, partly offset by a decrease in fees from foreign-trade activity.

The provision for credit losses totaled NIS 295 million in 2020, compared with a provision in the amount of NIS 588 million in the preceding year. The change resulted from an increase in the collective allowance, offset by a decrease in provisions recorded on an individual basis.

Net credit to the public totaled approximately NIS 78.1 billion as at December 31, 2020, compared with approximately NIS 77.3 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 60.0 billion as at December 31, 2020, compared with approximately NIS 53.0 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

7.5.6. International activity

General information The international activity of the Bank Group includes the New York branch and representative offices in the United States, and Bank Pozitif in Turkey, as well as relationships with banks around the world.

Most of the international business banking activity of the Bank is conducted through the New York branch, which focuses on providing comprehensive banking services to Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, deposits, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance. The branch also grants credit through the acquisition of participations.

Activity with banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit exposure to foreign financial institutions").

In the area of global private banking, the Bank is completing the process of discontinuing its operations overseas and closing its subsidiaries, as detailed below.

Legislative restrictions, standards, and special constraints applicable to international activity

The activity of the International Banking Segment in the various countries is subject to standards relevant to the nature of the activity of the Group in the countries in which its business is conducted (cross-border regulations), and to regulatory supervision by various government agencies in the countries in which the overseas offices of the Bank operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

In addition, rules and limits are imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and regulations, as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad.

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

For details regarding the conclusion of the investigation of the Bank in connection with senior officials of the Fédération Internationale de Football Association (FIFA), see Note 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; since then, its global private banking customer assets have been sold or transferred. At present, there are no remaining customers at Hapoalim Switzerland. The Bank is acting to return the banking license.

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

A banking subsidiary (wholly owned by the Bank), mainly engaged in granting credit to corporations with an affinity to Israel operating in Europe. In June 2019, as part of its strategy for overseas activities, the Board of Directors of the Bank resolved to act to close Banque Hapoalim Luxembourg, by transferring its existing credit portfolio to Israel or settling its balance, and to continue its financing activity in certain countries in Europe directly through the Bank in Israel. At present, there are no remaining customers at Banque Hapoalim Luxembourg, with the exception of one loan planned to be repaid by April 2021. The banking license of Banque Hapoalim Luxembourg was returned to the European Central Bank in January 2021.

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.

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

In February 2021, the Bank, together with the minority shareholder, entered into an agreement for the sale of the full holdings of the parties (100%) in Bank Pozitif to a buyer.

The deal is subject to the receipt of regulatory approvals, in Turkey and in Israel, by June 30, 2021. The Bank, without the minority shareholder, is responsible for the business representations to the buyer. Subject to completion of the transaction, an agreement has been reached with the minority shareholder regarding mutual waiving by both parties of arguments towards one another.

Subject to completion of the transaction, taking into consideration the depreciated value of the investment in the books of the Bank and the exchange rate of Turkish currency at this time, the Bank is expected to record profit of approximately NIS 40 million at the completion of the transaction (no tax payment is expected). At this time, there is no certainty that the approvals required for the sale will be received, and there is no certainty that the transaction will be completed, or regarding the profit to be recorded, also taking into consideration the economic situation in Turkey and the circumstances of Bank Pozitif.

Table 7-10: Results of operations and principal data of the International Activity Segment

	For the year ended December 31	
	2020	2019
	NIS millions	
Total net interest income	**371**	463
Non-interest financing income	**37**	(12)
Total net financing profit	**408**	451
Fees and other income	**52**	72
Total income	**460**	523
Provision (income) for credit losses	**129**	68
Total operating and other expenses	**622**	1,124
Profit (loss) from continued operations before taxes	**(291)**	(669)
Provision for taxes (tax benefit) on profit (loss) from continued operations	**(37)**	(2)
Net profit (loss):		
Before attribution to non-controlling interests	**(254)**	(667)
Attributed to non-controlling interests	**4**	10
Net profit (loss) attributed to shareholders of the Bank	**(250)**	(657)
Net credit to the public at the end of the reported period	**12,521**	12,978
Deposits from the public at the end of the reported period	**17,701**	16,147

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the International Banking Segment totaled NIS 250 million in 2020, compared with a loss in the amount of NIS 657 million in the preceding year. The decrease in loss mainly resulted from exceptional expenses recorded in 2019 in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and the related legal expenses.

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

- The loss of the New York branch totaled approximately NIS 49 million in 2020, compared with net profit of approximately NIS 39 million in the preceding year. The transition to a loss mainly resulted from an increase in the provision for credit losses, due to an increase in collective allowance rates, as a result of the uncertainty arising from the effect of the coronavirus on the condition of the economy and of borrowers, and from a decrease in net financing profit, due to the reduction of the Federal Reserve interest rate. The loss was offset by a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and by a decrease in the associated legal expenses.
- The loss of Hapoalim Switzerland totaled approximately NIS 210 million in 2020, compared with a loss in the amount of approximately NIS 622 million in the preceding year. The decrease in loss resulted from a decrease in expenses attributed to the investigation of the Bank Group's business with American customers, and a decrease in the associated legal expenses. In addition, a loss was recorded in 2019 in respect of the transaction for the sale of the customer asset portfolio of Hapoalim Switzerland.
- In 2020, a loss from impairment in the amount of NIS 30 million was recognized, and the Bank stated its share in the capital of Pozitif at a total of NIS 3 million. In 2019, loss from impairment in the amount of approximately NIS 56 million was recognized.

Total credit to the public in international activity amounted to approximately NIS 12.5 billion as at December 31, 2020, compared with approximately NIS 13.0 billion as at December 31, 2019.

- Credit to the public at the New York branch totaled approximately NIS 12.3 billion as at December 31, 2020, compared with approximately NIS 12.4 billion as at December 31, 2019. Credit in middle-market activity totaled approximately NIS 11.2 billion, of which a total of approximately NIS 5.0 billion in respect of syndication transactions, compared with approximately NIS 11.1 billion as at December 31, 2019, of which a total of approximately NIS 4.8 billion in respect of syndication transactions.
- Credit to the public at Bank Pozitif in Turkey totaled approximately NIS 0.3 billion as at December 31, 2020, compared with approximately NIS 0.4 billion as at December 31, 2019.

Total deposits from the public in international activity amounted to approximately NIS 17.7 billion as at December 31, 2020, compared with approximately NIS 16.1 billion as at December 31, 2019.

Most of the deposits from the public in international activity as at December 31, 2020, originated with the New York branch, and totaled approximately NIS 17.7 billion, compared with approximately NIS 16.0 billion as at December 31, 2019. In middle-market activity, deposits totaled approximately NIS 6.8 billion, compared with approximately NIS 7.8 billion as at December 31, 2019. The balance of brokered CD deposits from the public totaled approximately NIS 10.9 billion, compared with approximately NIS 8.3 billion as at December 31, 2019.

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 ("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 ("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, 2020, the volume of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 77 billion.

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).

Regulation of activity

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	
	2020	2019*
	NIS millions	
Total net interest income	**1,313**	1,082
Non-interest financing income	**889**	475
Total net financing profit	**2,202**	1,557
Fees and other income	**120**	137
Total income	**2,322**	1,694
Provision (income) for credit losses	**3**	(1)
Total operating and other expenses	**436**	466
Profit (loss) from continued operations before taxes	**1,883**	1,229
Provision for taxes (tax benefit) on profit (loss) from continued operations	**752**	428
Profit (loss) from continued operations after taxes	**1,131**	801
The Bank's share in profits of equity-basis investees, after taxes	**10**	11
Net profit (loss):		
Before attribution to non-controlling interests	**1,141**	812
Attributed to non-controlling interests	**9**	7
Net profit (loss) attributed to shareholders of the Bank	**1,150**	819
Net credit to the public at the end of the reported period	**1,573**	705
Deposits from the public at the end of the reported period	**47,243**	32,595

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

Principal changes in net profit and balance sheet balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment totaled NIS 1,150 million in 2020, compared with NIS 819 million in the preceding year. The increase mainly resulted from an increase in net financing profit.

Net financing profit of the segment totaled NIS 2,202 million in 2020, compared with NIS 1,557 million in the preceding year. The increase resulted from a change in the gaps between the fair value of derivatives that are part of the asset and liability management of the Bank, and the measurement of the same assets on an accrual basis, as a result of a negative accrual fair value gap in 2019 due to a decrease in the long-term interest rate. In addition, income from exchange-rate differences increased, mainly due to hedging of currency exposures of non-monetary items. Income from the activity of the dealing room also increased, due to an increase in the volume of transactions, as a result of the volatility in the market resulting from the crisis of the spread of the coronavirus. By contrast, profits from investment in shares and bonds decreased. In addition, income from linkage differentials decreased due to changes in the rate of the known CPI between the periods.

Income from fees totaled NIS 120 million in 2020, compared with NIS 137 million in the preceding year. The decrease mainly resulted from a decrease in operating fees of institutional entities, due to the discontinuation of the activity of providing operational services for provident funds and study funds to management companies in July 2019.

Net credit to the public totaled approximately NIS 1.6 billion as at December 31, 2020, compared with approximately NIS 0.7 billion as at December 31, 2019.

Deposits from the public totaled approximately NIS 47.2 billion as at December 31, 2020, compared with approximately NIS 32.6 billion as at December 31, 2019. The substantial increase resulted from the monetary expansion applied by the Bank of Israel, which enlarged the monetary base and concurrently also deposits from the public, and from an increase in savings of the public.

For details regarding the effect of the spread of the coronavirus on foreign financial institutions, see the section "Credit risk" in the "Review of Risks" in the Report of the Board of Directors and Board of Management.

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. and Peilim Investment Portfolio Management Ltd.; (2) capital gains from the sale of buildings and equipment; (3) legal and other provisions and expenses in connection with the investigation of the Bank Group's business with American customers not attributed to international activity; (4) adjustments of inter-segmental activities.

The segment also includes the activity of the Isracard Group, which was classified as a discontinued operation, until its distribution as a dividend in kind in March 2020.

The discontinuation of the provision of custody and brokerage services through the subsidiary Poalim Sahar was completed during the third quarter of 2020. During the fourth quarter of 2020, the subsidiary ceased to be a member of the Tel Aviv Stock Exchange.

The sale of the company Poalim Trust Services was also completed during the fourth quarter of 2020.

Principal changes in net profit and balance sheet balances

The loss attributed to shareholders of the Bank in the Other Segment totaled NIS 137 million in 2020, compared with a loss in the amount of NIS 410 million in the preceding year.

The loss from continued operations attributed to shareholders of the Bank in this segment totaled NIS 28 million in 2020, compared with a loss in the amount of NIS 706 million in the preceding year. The decrease in loss mainly resulted from exceptional expenses in 2019 in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers, and the related legal expenses, and from an increase in capital gains from the sale of real estate.

In addition, the Other Segment includes loss attributed to a discontinued operation, which totaled NIS 109 million in 2020, compared with profit in the amount of NIS 296 million in the preceding year. The loss from a discontinued operation in 2020 resulted from recognition of loss from impairment of the investment in Isracard, in the amount of approximately NIS 109 million (after tax effect), due to the decrease in the share price to a level lower than the balance of the investment in the Bank's books as at December 31, 2019, compared with the price immediately prior to its distribution as a dividend in kind to the shareholders in March 2020. The Bank's share in the profits of the Isracard Group and in net profit from the sale of approximately 65% of the shares of Isracard in the second quarter of 2019, in the amount of NIS 137 million, were included in 2019.

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 36 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		Stable	October 2020
	S&P	AA-	A-1+	Stable	November 2020
	Fitch Ratings	A+	F1+	Stable	January 2021
Bank Hapoalim					
	Moody's	A2	P-1	Stable	December 2020
	S&P	A	A-1	Stable	December 2020
	Fitch Ratings	A	F1+	Stable	March 2021

	Rating agency	Long-term local currency	Short-term local currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	ilAAA		Stable	December 2020
	Midroog	Aaa.il	P-1.il	Stable	December 2020

In May 2020, S&P Maalot affirmed a rating of AA for notes issued by Poalim Hanpakot Ltd., with a mechanism for loss absorption by write-off of principal (CoCo), which will be recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes. In August 2020, S&P Maalot affirmed a rating of AA for notes issued by the Bank, with a mechanism for loss absorption by forced conversion into ordinary shares of the Bank (CoCo), which were recognized as Tier 2 capital in accordance with the Basel 3 directives. On the same date, Midroog also affirmed a rating of Aa3 with a Positive outlook for these notes.

7.8. Poalim in the community – social involvement and contribution to the community

Strategy and vision

Bank Hapoalim, alongside its business operations, has been committed for many years to the advancement of the society and community of Israel, and has taken action to reduce inequalities and provide aid to disadvantaged groups. Based on this approach, the Poalim for the Community Foundation, within the Social Banking Center, focuses on hundreds of initiatives aimed at strengthening employment, education, and financial resilience for hundreds of thousands of adults, children, and adolescents from every part of Israel. This extensive activity is reflected in partnerships forged with non-profits and social organizations, public institutions, and government agencies, and takes the form of community engagement, monetary donations, money-equivalent contributions, financing and running of workshops at the Financial Growth Center, and widespread volunteering by the employees and managers of the Bank.

A survey conducted by the Bank in November 2020 found that the public appreciates the actions of the Bank and views Bank Hapoalim as the leader in contribution to the community and to society, far ahead of all other business organizations in Israel.

Ongoing activities

The activity of Poalim for the Community is focused on the themes of employment and social mobility, accessibility and empowerment for people with disabilities, digital literacy for senior citizens, and financial education. Through the areas of activity described below, and through the various projects promoted by the Bank, the Bank's involvement in the community in 2020 was expressed in a financial expenditure of approximately NIS 25 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. Of the total expense, approximately NIS 600 thousand was donated to non-profit organizations with a connection to a related party of the Bank, following approval of the donations by the Audit Committee of the Board of Directors.

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.

During the present global health and economic crisis, the Bank continued to lead in social impact, assisting hundreds of thousands of people in Israel: aid for hospitals, aid for paramedics, financial assistance for self-employed people and for families directly hurt by the crisis, assistance for Holocaust survivors, and assistance for job seekers.

Aid was also granted for higher-education institutions, scholarships for university students, education, and the encouragement of entrepreneurship of children and adolescents through innovative educational projects.

Details of the various channels and projects follow.

Job market assistance

Bank Hapoalim promotes employment for the general public in peripheral regions and in various sectors across Israeli society.

Due to the coronavirus crisis, employment has become a burning issue in Israeli society. To respond to these needs appropriately, the Bank created several programs, offered for the benefit of the public free of charge, aimed at helping hundreds of thousands of job seekers quickly find employment again.

The programs are the following:

Social-economic initiatives in collaboration with the Ministry for the Development of the Periphery, the Negev, and the Galilee, and with the Western Negev Cluster, operated by Group 19. The initiative provides job opportunities for workers from Safed, Ofakim, and the Western Negev Cluster in customer service, digital marketing, graphic design, and accounting. Some of the profits are returned to residents, with the aim of strengthening community engagement in the town.

Taasukav Employment Hotline – A telephone assistance line for job seekers, in collaboration with the non-profit organization Be-Atzmi, providing personalized employment assistance, including professional guidance, emotional support, direction, and advice. The hotline has already provided support to more than 6,000 job seekers and is open to the public.

Employment Coaching – A personal coaching program, sponsored by the Bank, in collaboration with the non-profit organization Chasdei Lev, which offers professional knowledge and tools and an occupational coaching process for hundreds of thousands of unemployed people, and an opportunity to rejoin the workforce. This is an online program encompassing a full occupational coaching process. At the completion of the program, participants can receive an occupational coaching session.

From Employee to Self-Employed initiative – A program supporting employment for employees, unemployed people, and workers on unpaid leave interested in taking action to improve their financial situation by starting a small business.

Bank Hapoalim also sponsored two job fairs:

- Career Fair 2020 – A virtual high-tech industry job fair conducted via Zoom for engineers in the Arab community. Over 500 people participated.
- Employment Popup – Conducted with the Ministry of Labor and Welfare and leading Israeli companies, with over 12,000 jobs offered.

The Bank supported a total of 21 initiatives in the area of employment, serving tens of thousands of job seekers.

Support for medical and health-care services

The Bank donated approximately NIS 2 million to Magen David Adom, Yad Sarah, United Hatzalah, and fifteen hospitals across Israel, as part of the fight against the coronavirus pandemic, and provided care packages for medical teams at twenty hospitals.

Assistance and support for population segments affected by the crisis

The Bank led the Social Bit campaign, in which NIS 52,000 were raised in six national fundraising broadcasts (Magen David Adom, Mahpilim Mehalev, Latet, Variety, Krembo Wings, and Shalva). The donations helped families in need, children and adolescents with disabilities, and medical services.
The Bank donated thousands of food packages for people in need and craft kits for childcare centers, and provided sponsorship to a national hotline assisting elderly people.

Scholarships and education

Poalim Success Fund – Bank Hapoalim works to benefit the generation of the future in Israel by reducing social inequalities and promoting social leadership. Scholarships for higher education are doubly strengthening, in that they benefit both the students who receive the tuition aid and the children and adolescents mentored by the students.
Poalim Success Fund, the scholarship fund of Bank Hapoalim, granted 100 scholarships to finance tuition 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. The fund is managed in collaboration with the Educating for Excellence Foundation. Each student volunteers for approximately 160 hours, receiving individual training and providing support to schoolchildren at the Educating for Excellence centers, who gain instruction and tools for personal empowerment and academic support.
The Bank also granted additional scholarships through Sapir College, the Saleh Falah Foundation, Ben Gurion University, and more.
In total, the Bank provided support in the amount of approximately NIS 2.5 million to more than 500 students.
Read & Succeed drive – Poalim for the Community is committed to encouraging the habit of reading among Israeli children and adolescents. After nine years in which the Bank held town book fairs and performances, this year, in view of the restrictions due to the coronavirus, the Bank established a digital Arabic-language library containing fifty children's books on a website accessible for reading from any device, free of charge.
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, especially given the growing need for remote learning, and accordingly donates computers and accompanying equipment each year.
In 2020, the Bank donated approximately 1,000 computers to children and families in need, in collaboration with non-profit organizations and while promoting the employment of people with disabilities.
Support for people with disabilities – Bank Hapoalim sees equal rights and accessibility for people with disabilities as a material issue, and as an integral part of its service concept and social responsibility. Within this approach, the Bank acts to improve the quality of life of people with disabilities and the way they are treated by society. The Bank promoted processes to improve service for approximately 20% of its customers who have disabilities, and completed the placement of wheelchairs, sponsored by the Bank, available to the public free of charge at twenty hospitals nationwide. The wheelchairs in this initiative have been used by approximately 80,000 patients.

Due to the coronavirus crisis and its direct impact on employment in general, and employment of people with disabilities in particular, the Bank is focusing on two areas within its support for this population group: promotion of initiatives for the employment of people with disabilities, and support for technological initiatives aimed at improving the quality of life of people with disabilities.

Activity in the Arab community – The Bank places special emphasis on the promotion of projects with the Arab community, including donations dedicated to a wide range of projects in this sector. The most notable of these endeavors is the placement of approximately 70 Arab people with academic degrees in jobs in the high-tech industry. In addition, the Bank assisted over 200 people with academic degrees in finding high-quality employment at government agencies and leading companies in Israel.

Digital empowerment for senior citizens – In the Poalim Digital Independence project led by the Social Banking Center, the Bank offers courses and training sessions on digital literacy to senior citizens, free of charge, providing tools for independently navigating digital media in various areas of life, with an emphasis on digital banking. The Bank has also developed numerous options for senior citizens, in various languages, for learning from home, Approximately 2,700 senior citizens participated in the instructional activities in 2020.

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 receive the opportunity, together with management, to gain awareness of community needs and strengthen disadvantaged groups in society, addressing a wide range of social issues. This year, the employees of the Bank donated a total of NIS 644,000, primarily to the elderly, Holocaust survivors, and children at risk; the Bank added NIS 0.5 million to this amount, according to employees' choice.

Erech Laderech – An empowerment initiative for non-profit organizations, offering non-profits 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. This year, over 250 non-profit organizations received guidance in a program created specifically to support non-profit organizations during the coronavirus crisis.

Poalim Volunteers – Strengthens and increases the involvement of employees and managers, individually or in groups. Approximately 4,000 Bank Hapoalim employees volunteer regularly, in all areas – well-being and welfare, employment, children and adolescents, women at risk, business mentoring, companionship for solitary elderly people, and more. This year, due to the economic crisis, many families struggled with financial distress. The Bank purchased 2,000 food baskets for families, which were packaged and distributed by employees on Passover and the Jewish New Year.

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. The center operates advanced digital learning tools, via a dedicated website offering lectures by top speakers and interactive learning through digital courses, games for the whole family, lesson plans for elementary and middle-school students, and more. The content for the center was developed with the academic guidance of Prof. Zvi Eckstein, formerly Deputy Governor of the Bank of Israel, based on research and public opinion surveys on economic subjects and aligned with significant financial milestones, such as expansion of the family, taking out a mortgage, career change, retirement planning, and more. The activity of the center is based on collaborations with a range of professionals within and outside the Bank.

In view of the economic crisis of 2020, the center expanded its responsiveness to the public, adding content, tips, and tools for coping with the crisis and its ramifications, with an emphasis on astute financial conduct, entrepreneurship, digital marketing, transition to e-commerce, and more. In addition to the development of content and knowledge according to current needs, the center transitioned to lectures and workshops delivered on digital platforms. In 2020, the center won Product of the Year in the Financial Education category of the Innovation Awards.

- Since the foundation of the center, over 40,000 people have participated in approximately 800 lectures and digital courses, of which approximately 20,000 in 2020. Approximately 70% of the lectures concerned the financial conduct of households, and approximately 30% concerned subjects relevant to small businesses.
- The center oversees over 400 digital learning items; over 1.5 million people viewed the content available online to the public.

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 2016-2020 – multi-period data

	For the year ended December 31				
	2020	2019	2018	2017	2016
	NIS millions				
Interest income	**10,260**	11,920	11,672	10,613	9,962
Interest expenses	**(1,463)**	(2,601)	(2,766)	(2,189)	(2,004)
Net interest income	**8,797**	9,319	8,906	8,424	7,958
Provision for credit losses	**1,943**	1,276	613	202	179
Net interest income after provision for credit losses	**6,854**	8,043	8,293	8,222	7,779
Non-interest income					
Non-interest financing income	**1,088**	559	1,445	652	1,163
Fees	**3,155**	3,240	3,318	3,338	3,617
Other income	**136**	90	105	163	137
Total non-interest income	**4,379**	3,889	4,868	4,153	4,917
Operating and other expenses					
Salaries and related expenses	**3,836**	*4,108	*4,188	*4,300	*4,328
Maintenance and depreciation of buildings and equipment	**1,377**	1,334	1,376	1,350	1,404
Other expenses	**2,288**	*3,334	*3,396	*2,471	*2,410
Total operating and other expenses	**7,501**	8,776	8,960	8,121	8,142
Profit from continued operations before taxes	**3,732**	3,156	4,201	4,254	4,554
Provision for taxes on profit from continued operations	**1,590**	1,681	2,009	1,959	2,229
Profit from continued operations after taxes	**2,142**	1,475	2,192	2,295	2,325
The Bank's share in profits of equity-basis investees, after taxes	**10**	11	4	17	12
Net profit from continued operations	**2,152**	1,486	2,196	2,312	2,337
Net profit (loss) from a discontinued operation	**(109)**	296	364	314	274

* Reclassified.

Table 8-1: Consolidated statement of profit and loss for the years 2016-2020 – multi-period data (continued)

	For the year ended December 31				
	2020	2019	2018	2017	2016
	NIS millions				
Net profit					
Before attribution to non-controlling interests	**2,043**	1,782	2,560	2,626	2,611
Loss attributed to non-controlling interests	**13**	17	35	34	17
Attributed to shareholders of the Bank	**2,056**	1,799	2,595	2,660	2,628
Earnings per ordinary share in NIS					
Basic earnings					
Net profit attributed to shareholders of the Bank	**1.54**	1.35	1.95	2.00	1.98
Net profit attributed to shareholders of the Bank from continued operations	**1.62**	1.13	1.68	1.76	1.77
Net profit attributed to shareholders of the Bank from a discontinued operation	**(0.08)**	0.22	0.27	0.24	0.21
Diluted earnings					
Net profit attributed to shareholders of the Bank	**1.54**	1.35	1.94	1.99	1.97
Net profit attributed to shareholders of the Bank from continued operations	**1.62**	1.13	1.67	1.75	1.76
Net profit attributed to shareholders of the Bank from a discontinued operation	**(0.08)**	0.22	0.27	0.24	0.21

Table 8-2: Consolidated balance sheet for the years 2016-2020 – multi-period data

	December 31				
	2020	2019	2018	2017	2016
	NIS millions				
Assets					
Cash and deposits with banks	**138,711**	88,122	84,459	86,093	80,367
Securities	**71,885**	59,486	56,116	65,416	71,429
Securities borrowed or purchased under agreements to resell	**368**	471	708	684	375
Credit to the public	**307,973**	297,647	286,265	269,505	263,841
Allowance for credit losses	**(6,145)**	(4,707)	(3,758)	(3,652)	(3,963)
Net credit to the public	**301,828**	292,940	282,507	265,853	259,878
Credit to governments	**2,193**	1,971	2,428	2,292	2,561
Investments in equity-basis investees	**556**	192	103	198	150
Buildings and equipment	**3,319**	3,233	3,111	3,123	3,097
Assets in respect of derivative instruments	**14,890**	11,143	10,534	12,013	11,916
Other assets	**5,852**	5,281	5,850	5,323	5,677
Investment constituting a discontinued operation	**-**	849	15,110	13,429	12,655
Total assets	**539,602**	463,688	460,926	454,424	448,105
Liabilities and capital					
Deposits from the public	**435,217**	361,645	352,260	347,344	338,494
Deposits from banks	**6,591**	3,520	4,528	3,649	4,077
Deposits from the government	**761**	685	208	320	345
Securities lent or sold under agreements to repurchase	**6**	3	-	367	484
Bonds and subordinated notes	**23,490**	26,853	30,024	29,058	33,560
Liabilities in respect of derivative instruments	**16,804**	12,050	9,676	12,049	12,587
Other liabilities	**16,834**	20,711	11,841	11,199	9,840
Liabilities attributed to a discontinued operation	**-**	-	14,733	14,434	14,493
Total liabilities	**499,703**	425,467	423,270	418,420	413,880
Shareholders' equity	**39,873**	38,181	37,544	35,863	34,047
Non-controlling interests	**26**	40	112	141	178
Total capital	**39,899**	38,221	37,656	36,004	34,225
Total liabilities and capital	**539,602**	463,688	460,926	454,424	448,105

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 2019-2020 – multi-quarter data

	2020				2019			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions							
Interest income	**2,579**	**2,607**	**2,532**	**2,542**	2,772	2,593	3,730	2,825
Interest expenses	**(341)**	**(406)**	**(366)**	**(350)**	(479)	(310)	(1,264)	(548)
Net interest income	**2,238**	**2,201**	**2,166**	**2,192**	2,293	2,283	2,466	2,277
Provision (income) for credit losses	**(187)**	**193**	**1,128**	**809**	876	(40)	319	121
Net interest income after provision for credit losses	**2,425**	**2,008**	**1,038**	**1,383**	1,417	2,323	2,147	2,156
Non-interest income								
Non-interest financing income	**254**	**335**	**193**	**306**	246	58	166	89
Fees	**791**	**755**	**746**	**863**	836	815	804	785
Other income	**54**	**11**	**49**	**22**	32	11	29	18
Total non-interest income	**1,099**	**1,101**	**988**	**1,191**	1,114	884	999	892
Operating and other expenses								
Salaries and related expenses	**923**	**988**	**963**	**962**	*989	*1,033	*1,035	*1,051
Maintenance and depreciation of buildings and equipment	**399**	**336**	**321**	**321**	345	351	324	314
Other expenses	**586**	**527**	**542**	**633**	*1,603	*586	*633	*512
Total operating and other expenses	**1,908**	**1,851**	**1,826**	**1,916**	2,937	1,970	1,992	1,877
Profit from continued operations before taxes	**1,616**	**1,258**	**200**	**658**	(406)	1,237	1,154	1,171
Provision for taxes on profit from continued operations	**705**	**449**	**73**	**363**	268	523	441	449
Profit (loss) from continued operations after taxes	**911**	**809**	**127**	**295**	(674)	714	713	722
The Bank's share in profits of equity-basis investees, after taxes	**3**	**5**	**1**	**1**	4	3	4	-
Net profit (loss) from continued operations	**914**	**814**	**128**	**296**	(670)	717	717	722
Net profit (loss) from a discontinued operation	**-**	**-**	**-**	**(109)**	38	16	151	91

* Reclassified.

Table 8-3: Quarterly consolidated statement of profit and loss for the years 2019-2020 – multi-quarter data (continued)

	2020				2019			
	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	**914**	**814**	**128**	**187**	(632)	733	868	813
Loss attributed to non-controlling interests	**1**	**2**	**5**	**5**	3	3	3	8
Attributed to shareholders of the Bank	**915**	**816**	**133**	**192**	(629)	736	871	821
Earnings per ordinary share in NIS								
Basic earnings (loss)								
Net profit (loss) attributed to shareholders of the Bank from continued operations	**0.68**	**0.61**	**0.10**	**0.22**	(0.50)	0.54	0.54	0.55
Net profit attributed to shareholders of the Bank from a discontinued operation	**-**	**-**	**-**	**(0.08)**	0.03	0.01	0.11	0.07
Diluted earnings (loss)								
Net profit (loss) attributed to shareholders of the Bank from continued operations	**0.69**	**0.61**	**0.10**	**0.22**	(0.50)	0.54	0.54	0.54
Net profit (loss) attributed to shareholders of the Bank from a discontinued operation	**-**	**-**	**-**	**(0.08)**	0.03	0.01	0.11	0.07

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2019-2020 – multi-quarter data

	2020			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	**138,711**	**128,421**	**113,033**	**89,475**
Securities	**71,885**	**67,835**	**66,513**	**74,500**
Securities borrowed or purchased under agreements to resell	**368**	**437**	**240**	**369**
Credit to the public	**307,973**	**299,021**	**299,690**	**304,817**
Allowance for credit losses	**(6,145)**	**(6,176)**	**(5,990)**	**(5,269)**
Net credit to the public	**301,828**	**292,845**	**293,700**	**299,548**
Credit to governments	**2,193**	**2,573**	**2,548**	**2,701**
Investments in equity-basis investees	**556**	**377**	**222**	**192**
Buildings and equipment	**3,319**	**3,227**	**3,206**	**3,202**
Assets in respect of derivative instruments	**14,890**	**11,773**	**13,063**	**14,946**
Other assets	**5,852**	**6,198**	**6,755**	**6,526**
Total assets	**539,602**	**513,686**	**499,280**	**491,459**
Liabilities and capital				
Deposits from the public	**435,217**	**417,005**	**400,816**	**388,566**
Deposits from banks	**6,591**	**3,280**	**3,418**	**3,980**
Deposits from the government	**761**	**391**	**424**	**401**
Securities lent or sold under agreements to repurchase	**6**	**6**	**4**	**3**
Bonds and subordinated notes	**23,490**	**24,724**	**25,196**	**24,491**
Liabilities in respect of derivative instruments	**16,804**	**12,553**	**14,340**	**15,957**
Other liabilities	**16,834**	**16,729**	**17,028**	**20,394**
Total liabilities	**499,703**	**474,688**	**461,226**	**453,792**
Shareholders' equity	**39,873**	**38,971**	**38,024**	**37,632**
Non-controlling interests	**26**	**27**	**30**	**35**
Total capital	**39,899**	**38,998**	**38,054**	**37,667**
Total liabilities and capital	**539,602**	**513,686**	**499,280**	**491,459**

Table 8-4: Consolidated balance sheet as at the end of each quarter in the years 2019-2020 – multi-quarter data (continued)

	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
Investment constituting 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

8.3. Material developments in income and expenses by quarter

Table 8-5: Quarterly developments in total net financing profit

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**2,579**	**2,607**	**2,532**	**2,542**	2,772	2,593	3,730	2,825
Interest expenses	**(341)**	**(406)**	**(366)**	**(350)**	(479)	(310)	(1,264)	(548)
Net interest income	**2,238**	**2,201**	**2,166**	**2,192**	2,293	2,283	2,466	2,277
Non-interest financing income	**254**	**335**	**193**	**306**	246	58	166	89
Total reported financing profit	**2,492**	**2,536**	**2,359**	**2,498**	2,539	2,341	2,632	2,366
Excluding effects not from regular activity:								
Income from realization and adjustments to fair value of bonds	**13**	**34**	**95**	**27**	3	169	76	(23)
Profit (loss) from investments in shares	**70**	**86**	**36**	**(122)**	91	12	95	155
Adjustment to fair value of investment in affiliate	**4**	**6**	**(18)**	**11**	7	(63)	-	-
Gains in respect of loans sold	**-**	**21**	**-**	**-**	8	-	1	-
Adjustments to fair value of derivative instruments(1)	**47**	**56**	**(27)**	**9**	49	(136)	(77)	(97)
Financing income (expenses) from tax hedging of investments overseas(2)	**79**	**(3)**	**(48)**	**87**	(20)	(28)	(35)	(65)
Total income from regular financing activity(3)	**2,279**	**2,336**	**2,321**	**2,486**	2,401	2,387	2,572	2,396

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

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

(3) Financing profit excluding extraordinary effects, and excluding effects arising mainly from the timing of recording in accounting. Of which, in respect of the effects of changes in the CPI: an expense of NIS 2 million in the fourth quarter of 2020; income of NIS 15 million in the third quarter of 2020; an expense of NIS 36 million in the second quarter of 2020; an expense of NIS 70 million in the first quarter of 2020; an expense of NIS 28 million in the fourth quarter of 2019; an expense of NIS 76 million in the third quarter of 2019; income of NIS 158 million in the second quarter of 2019; and an expense of NIS 33 million in the first quarter of 2019.

Table 8-6: Provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments, by quarter**

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Individual provision for credit losses	**111**	**139**	**354**	**324**	966	155	268	230
Decrease in individual allowance for credit losses and recovery of charged off debts	**(359)**	**(288)**	**(151)**	**(122)**	(191)	(306)	(254)	(200)
Net individual provision (income) for credit losses	**(248)**	**(149)**	**203**	**202**	775	(151)	14	30
Net provision in respect of the collective allowance for credit losses and net charge-offs	**61**	**342**	**925**	**607**	101	111	305	91
Total provision (income) for credit losses*	**(187)**	**193**	**1,128**	**809**	876	(40)	319	121
* Of which:								
Net provision (income) for credit losses in respect of commercial credit risk	**(162)**	**65**	**622**	**656**	852	(100)	253	50
Net provision for credit losses in respect of housing credit risk	**19**	**22**	**244**	**32**	12	4	11	4
Net provision for credit losses in respect of other private credit risk	**(40)**	**105**	**263**	**120**	13	59	54	65
Net provision (income) for credit losses in respect of risk of credit to banks and governments	**(4)**	**1**	**(1)**	**1**	(1)	(3)	1	2
Total provision (income) for credit losses	**(187)**	**193**	**1,128**	**809**	876	(40)	319	121
Provision as a percentage of total credit to the public:***								
Percentage of individual provision for credit losses	**0.15%**	**0.19%**	**0.47%**	**0.43%**	1.31%	0.21%	0.37%	0.32%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	**0.23%**	**0.64%**	**1.69%**	**1.24%**	1.45%	0.36%	0.79%	0.45%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**(0.25%)**	**0.26%**	**1.49%**	**1.07%**	1.19%	(0.05%)	0.44%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**(0.19%)**	**(0.03%)**	**0.32%**	**0.25%**	0.17%	0.01%	0.13%	0.17%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**(9.37%)**	**(1.36%)**	**16.09%**	**14.20%**	10.96%	0.50%	9.47%	12.86%

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

Table 8-7: Details of fees and other income, by quarter

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees								
Account management fees	**187**	**191**	**184**	**210**	218	222	212	218
Securities activity	**200**	**183**	**197**	**223**	177	173	174	174
Credit cards, net	**60**	**67**	**54**	**76**	85	85	88	63
Credit handling	**61**	**43**	**49**	**63**	76	46	46	54
Financing transaction fees	**132**	**128**	**126**	**122**	122	122	119	116
Other fees	**151**	**143**	**136**	**169**	158	167	165	160
Total fees	**791**	**755**	**746**	**863**	836	815	804	785
Other income	**54**	**11**	**49**	**22**	32	11	29	18
Total fee income and other income	**845**	**766**	**795**	**885**	868	826	833	803

Table 8-8: Details of operating and other expenses, by quarter

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Wages	**923**	**988**	**963**	**962**	*989	*1,033	*1,035	*1,051
Maintenance and depreciation of buildings and equipment	**399**	**336**	**321**	**321**	345	351	324	314
Other expenses(1)(2)(3)	**586**	**527**	**542**	**633**	*1,603	*586	*633	*512
Total	**1,908**	**1,851**	**1,826**	**1,916**	2,937	1,970	1,992	1,877

* Reclassified.

(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, and an expense in the amount of NIS 76 million in the second quarter of 2019.

(2) No legal expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA were included in the last two quarters of 2020 (a total of NIS 42 million in the second quarter of 2020, a total of NIS 66 million in the first quarter of 2020, a total of NIS 72 million in the fourth quarter of 2019, a total of NIS 100 million in the third quarter of 2019, a total of NIS 111 million in the second quarter of 2019, and a total of NIS 123 million in the first quarter of 2019).

(3) No expenses in connection with the investigation of the Bank Group's business with American customers and the investigation concerning FIFA were included in the last two quarters of 2020 (income in the amount of NIS 53 million in the second quarter of 2020, an expense in the amount of NIS 112 million in the first quarter of 2020, an expense in the amount of NIS 985 million in the fourth quarter of 2019, income in the amount of NIS 51 million in the third quarter of 2019, income in the amount of NIS 41 million in the second quarter of 2019, and income in the amount of NIS 71 million in the first quarter of 2019).

Table 8-9: Principal data by quarter

	For the three months ended				
	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
	NIS millions				
Main performance indicators					
Return of net profit (loss) on equity attributed to shareholders of the Bank[(1)]	**9.63%**	8.78%	1.41%	2.03%	(6.22%)
Return of net profit on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(2)]	**9.63%**	8.78%	1.71%	3.32%	3.69%
Return of net profit (loss) from continued operations on equity attributed to shareholders of the Bank[(1)]	**9.63%**	8.78%	1.41%	3.19%	(6.59%)
Return of net profit from continued operations on equity attributed to shareholders of the Bank excluding extraordinary items[(1)(3)]	**9.63%**	8.78%	1.71%	3.32%	3.29%
Net profit attributed to shareholders of the Bank excluding extraordinary items[(1)]	**915**	816	161	313	359
Financing margin from regular activity[(1)(4)]	**1.83%**	1.93%	1.96%	2.27%	2.23%

(1) Calculated on an annualized basis.
(2) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, net profit or loss from the separation from Isracard, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(3) Does not include expenses in respect of the update of the provision in connection with the investigation of the Bank Group's business with American customers and FIFA, the effect of the closure of the private-banking activity overseas, and loss from impairment in respect of the Bank's investment in Bank Pozitif.
(4) Financing profit from regular activity (see the Report of the Board of Directors and Board of Management, Section 2.2, "Material developments in income, expenses, and comprehensive income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

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								
	2020			2019*			2018*		
	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	**274,224**	**8,827**	**3.22%**	265,446	9,741	3.67%	257,510	10,063	3.91%
Outside Israel	**14,869**	**628**	**4.22%**	16,073	860	5.35%	15,278	778	5.09%
Total	**289,093**	**[(4)]9,455**	**3.27%**	281,519	[(4)]10,601	3.77%	272,788	[(4)]10,841	3.97%
Credit to governments:									
In Israel	**2,389**	**49**	**2.05%**	2,138	66	3.09%	2,440	70	2.87%
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**2,389**	**49**	**2.05%**	2,138	66	3.09%	2,440	70	2.87%
Deposits with banks:									
In Israel	**6,782**	**83**	**1.22%**	6,072	135	2.22%	3,983	105	2.64%
Outside Israel	**189**	**(6)**	**(3.17%)**	212	(16)	(7.55%)	343	(18)	(5.25%)
Total	**6,971**	**77**	**1.10%**	6,284	119	1.89%	4,326	87	2.01%
Deposits with central banks:									
In Israel	**77,230**	**100**	**0.13%**	43,301	109	0.25%	48,191	56	0.12%
Outside Israel	**9,565**	**36**	**0.38%**	9,866	230	2.33%	9,256	179	1.93%
Total	**86,795**	**136**	**0.16%**	53,167	339	0.64%	57,447	235	0.41%
Securities borrowed or purchased under agreements to resell:									
In Israel	**328**	**-**	**-**	543	-	-	746	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**328**	**-**		543	-	-	746	-	-

* 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 529 million were included in interest income in the period ended December 31, 2020 (December 31, 2019: NIS 517 million; December 31, 2018: NIS 524 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								
	2020			2019*			2018*		
	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	**52,682**	**447**	**0.85%**	54,960	746	1.36%	47,277	598	1.26%
Outside Israel	**3,163**	**65**	**2.06%**	3,224	91	2.82%	4,591	116	2.53%
Total	**55,845**	**512**	**0.92%**	58,184	837	1.44%	51,868	714	1.38%
Bonds held for trading[3]:									
In Israel	**7,895**	**31**	**0.39%**	6,365	35	0.55%	7,073	39	0.55%
Outside Israel	**2**	**-**	**-**	16	-	-	70	2	2.86%
Total	**7,897**	**31**	**0.39%**	6,381	35	0.55%	7,143	41	0.57%
Other assets:									
In Israel	**1,520**	**-**	**-**	1,662	-	-	665	1	0.15%
Outside Israel	**-**	**-**	**-**	6	1	16.67%	-	-	-
Total	**1,520**	**-**	**-**	1,668	1	0.06%	665	1	0.15%
Total interest-bearing assets	**450,838**	**10,260**	**2.28%**	409,884	11,998	2.93%	397,423	11,989	3.02%
Non-interest-bearing debtors in respect of credit cards	**6,426**	**-**	**-**	9,343	-	-	15,776	-	-
Other non-interest-bearing assets[4]	**39,759**	**-**	**-**	36,442	-	-	38,663	-	-
Total assets	**497,023**	**-**	**-**	455,669	-	-	451,862	-	-
Total interest-bearing assets attributed to activities outside Israel	**27,788**	**723**	**2.60%**	29,397	1,166	3.97%	29,538	1,057	3.58%

* 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 405 million for the year ended December 31, 2020 (December 31, 2019: NIS 166 million; December 31, 2018: NIS (80) 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								
	2020			2019*			2018*		
	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	**206,768**	**815**	**0.39%**	194,143	1,396	0.72%	195,874	1,331	0.68%
On demand	**96,472**	**30**	**0.03%**	86,846	215	0.25%	85,968	97	0.11%
Fixed term	**110,296**	**785**	**0.71%**	107,297	1,181	1.10%	109,906	1,234	1.12%
Outside Israel	**16,561**	**227**	**1.37%**	15,729	370	2.35%	14,644	305	2.08%
On demand	**5,304**	**43**	**0.81%**	4,010	83	2.07%	3,831	62	1.62%
Fixed term	**11,257**	**184**	**1.63%**	11,719	287	2.45%	10,813	243	2.25%
Total	**223,329**	**1,042**	**0.47%**	209,872	1,766	0.84%	210,518	1,636	0.78%
Deposits from the government:									
In Israel	**423**	**5**	**1.18%**	235	6	2.55%	189	6	3.17%
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**423**	**5**	**1.18%**	235	6	2.55%	189	6	3.17%
Deposits from central banks:									
In Israel	**245**	**-**	**-**	-	-	-	-	-	-
Outside Israel	**64**	**1**	**1.56%**	363	9	2.48%	388	10	2.58%
Total	**309**	**1**	**0.32%**	363	9	2.48%	388	10	2.58%
Deposits from banks:									
In Israel	**2,637**	**8**	**0.30%**	2,299	4	0.17%	3,530	9	0.25%
Outside Israel	**145**	**5**	**3.45%**	246	10	4.07%	272	14	5.15%
Total	**2,782**	**13**	**0.47%**	2,545	14	0.55%	3,802	23	0.60%
Securities lent or sold under agreements to repurchase:									
In Israel	**1**	**-**	**-**	-	-	-	-	-	-
Outside Israel	**4**	**-**	**-**	7	1	14.29%	79	-	-
Total	**5**	**-**	**-**	7	1	14.29%	79	-	-

* 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								
	2020			2019*			2018*		
	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	**25,203**	**396**	**1.57%**	29,174	786	2.69%	27,983	1,051	3.76%
Outside Israel	**109**	**5**	**4.59%**	262	17	6.49%	583	34	5.83%
Total	**25,312**	**401**	**1.58%**	29,436	803	2.73%	28,566	1,085	3.80%
Other liabilities:									
In Israel	**757**	**-**	**-**	652	5	0.77%	971	11	1.13%
Outside Israel	**1**	**1**	**100.00%**	79	1	1.27%	3	-	-
Total	**758**	**1**	**0.13%**	731	6	0.82%	974	11	1.13%
Total interest-bearing liabilities	**252,918**	**1,463**	**0.58%**	243,189	2,605	1.07%	244,516	2,771	1.13%
Non-interest-bearing deposits from the public	**174,170**	**-**	**-**	140,881	-	-	133,233	-	-
Non-interest-bearing creditors in respect of credit cards	**7,256**	**-**	**-**	9,808	-	-	14,877	-	-
Other non-interest-bearing liabilities(3)	**24,618**	**-**	**-**	22,927	-	-	22,320	-	-
Total liabilities	**458,962**	**-**	**-**	416,805	-	-	414,946	-	-
Total capital means	**38,061**	**-**	**-**	38,864	-	-	36,916	-	-
Total liabilities and capital means	**497,023**	**-**	**-**	455,669	-	-	451,862	-	-
Interest spread	**-**	**-**	**1.70%**	-	-	1.86%	-	-	1.89%
Net return on interest-bearing assets(4)									
In Israel	**423,050**	**8,313**	**1.97%**	380,487	8,635	2.27%	367,885	8,524	2.32%
Outside Israel	**27,788**	**484**	**1.74%**	29,397	758	2.58%	29,538	694	2.35%
Total	**450,838**	**8,797**	**1.95%**	409,884	9,393	2.29%	397,423	9,218	2.32%
Total interest-bearing liabilities attributed to activities outside Israel	**16,884**	**239**	**1.42%**	16,686	408	2.45%	15,969	363	2.27%

* 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								
	2020			2019*			2018*		
	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	**331,590**	**7,620**	**2.30%**	286,066	8,063	2.82%	281,533	7,865	2.79%
Total interest-bearing liabilities	**158,081**	**(392)**	**(0.25%)**	146,257	(531)	(0.36%)	150,111	(484)	(0.32%)
Interest spread	**-**	**-**	**2.05%**	-	-	2.46%	-	-	2.47%
Israeli currency CPI-linked									
Total interest-bearing assets	**50,342**	**1,118**	**2.22%**	50,853	1,579	3.11%	47,443	1,960	4.13%
Total interest-bearing liabilities	**36,178**	**(440)**	**(1.22%)**	40,503	(931)	(2.30%)	39,895	(1,289)	(3.23%)
Interest spread	**-**	**-**	**1.00%**	-	-	0.81%	-	-	0.90%
Foreign currency (includes Israeli currency linked to foreign currency)									
Total interest-bearing assets	**41,118**	**799**	**1.94%**	43,568	1,190	2.73%	38,909	1,107	2.85%
Total interest-bearing liabilities	**41,775**	**(392)**	**(0.94%)**	39,743	(735)	(1.85%)	38,541	(635)	(1.65%)
Interest spread	**-**	**-**	**1.00%**	-	-	0.88%	-	-	1.20%
Total activity in Israel									
Total interest-bearing assets	**423,050**	**9,537**	**2.25%**	380,487	10,832	2.85%	367,885	10,932	2.97%
Total interest-bearing liabilities	**236,034**	**(1,224)**	**(0.52%)**	226,503	(2,197)	(0.97%)	228,547	(2,408)	(1.05%)
Interest spread	**-**	**-**	**1.73%**	-	-	1.88%	-	-	1.92%

* 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, 2020, versus year ended December 31, 2019			Year ended December 31, 2019, versus year ended December 31, 2018*		
	Increase (decrease) due to change[2]		Net change	Increase (decrease) due to change[2]		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
C. Analysis of changes in interest income and expenses						
Interest-bearing assets						
Credit to the public:						
In Israel	**283**	**(1,197)**	**(914)**	291	(613)	(322)
Outside Israel	**(51)**	**(181)**	**(232)**	43	39	82
Total	**232**	**(1,378)**	**(1,146)**	334	(574)	(240)
Other interest-bearing assets:						
In Israel	**161**	**(542)**	**(381)**	44	178	222
Outside Israel	**(3)**	**(208)**	**(211)**	(21)	48	27
Total	**158**	**(750)**	**(592)**	23	226	249
Total interest income	**390**	**(2,128)**	**(1,738)**	357	(348)	9
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**50**	**(631)**	**(581)**	(12)	77	65
Outside Israel	**11**	**(154)**	**(143)**	26	39	65
Total	**61**	**(785)**	**(724)**	14	116	130
Other interest-bearing liabilities:						
In Israel	**(43)**	**(349)**	**(392)**	(8)	(268)	(276)
Outside Israel	**(24)**	**(2)**	**(26)**	(15)	(5)	(20)
Total	**(67)**	**(351)**	**(418)**	(23)	(273)	(296)
Total interest expenses	**(6)**	**(1,136)**	**(1,142)**	(9)	(157)	(166)
Total interest income less interest expenses	**396**	**(992)**	**(596)**	366	(191)	175

* 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

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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

The consideration for the issuance of subordinated notes (Series E) in the amount of approximately NIS 700 million of August 2020 was used by the Bank for its routine operations.

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.
Otsar Bavel 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.
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.)
Hapoalim American Israeli 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	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	1,468	100%	100%	100%	100%
Ordinary shares	1	NIS	200,000	200,000	-	100%	100%	100%	100%
-	-	-	-	-	-	-	99%	99%	99%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	0.0005	NIS	69,640,000	34,820	(193)	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	-	100%	100%	100%	100%
-	-	-	-	-	3	-	70%	70%	70%
Ordinary shares	1	NIS	1,000,000	1,000,000	-	100%	100%	100%	100%
-	-	-	-	-	325	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	3	3	-	38%	38%	38%	38%
-	-	-	-	-	3	-	100%	100%	100%
Common	1	USD	13,579,143	13,579,143	37	100%	100%	100%	100%
Founding shares	100	CHF	650,000	65,000,000	483	100%	100%	100%	100%
Common	1000	USD	250	250,000	9	100%	100%	100%	100%
Ordinary shares	0.001	NIS	93,076,887	93,077	96	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

Company
Hapoalim Hanpakot Ltd.
Hapoalim Nechasim (Menayot) Ltd.
Hapoalim Securities U.S.A. Inc.
Zohar Hashemesh Lehashkaot Ltd.
Nominees Company of Bank Hapoalim Ltd.
Hanyon Allenby 115 Tel-Aviv Ltd.
Chatzron Hevra Lehashkaot Ltd.
Mivnim Vetsiud Ltd.
May-Oz Ltd.
Bank Clearing Center Ltd.
C Bilisim Teknolojileri
Alzur Property Development Company Ltd.
Poalim - Financial Holdings (1993) Ltd.
Poalim Ofakim Ltd.
Poalim IBI - Management and Underwriting Ltd.
Poalim Betevuna Ltd.
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.

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	1	NIS	18,150,006	18,150,006	41	100%	100%	100%	100%
-	-	-	-	-	692	-	100%	100%	100%
-	-	-	-	-	45	-	100%	100%	100%
Ordinary shares	-	NIS	19,999	2	913	100%	100%	100%	100%
Ordinary shares	0.01	NIS	100,000	1,000	-	100%	100%	100%	100%
Ordinary shares	0.001	NIS	42	0	-	42%	42%	42%	42%
-	-	-	-	-	-	-	33%	33%	33%
Ordinary shares	-	NIS	95	10	-	95%	100%	100%	100%
-	-	-	-	-	47	-	100%	100%	100%
Ordinary shares	-	NIS	6,250,000	6,250	-	25%	25%	25%	25%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	-	NIS	100,000	10	-	100%	100%	100%	100%
Ordinary shares	1	NIS	3,070	3,070	6	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	28%	28%	28%
Ordinary shares	1	NIS	10,000	10,000	91	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	54%	54%	100%
-	-	-	-	-	-	-	0%	0%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	4	-	100%	100%	100%
-	-	-	-	-	23	-	100%	100%	100%
Ordinary shares	1	NIS	16,108	16,108	41	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

Company
Poalim Capital Markets - Investment House Ltd.
Poalim Capital Markets - Financial Applications & Research Ltd.
Poalim Capital Markets (Euro) Ltd.
Poalim Capital Markets & Investments - Holdings 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.
Tzadit Ltd.
Continental Poalim Ltd.
Continental Poalim Ltd.
Continental Poalim Ltd.
Revadim (Nechasim) Ltd.
Ramchal Poalim Ltd.
Sure-Ha International Ltd.
Automatic Bank Services 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	1	NIS	40,021	40,021	939	0%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
Ordinary shares	1	NIS	464,308	464,308	-	3%	100%	100%	100%
Ordinary shares	-	NIS	129,050,000	12,905	-	100%	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	100%	100%	100%
-	-	-	-	-	-	-	38%	38%	38%
Ordinary shares	1	NIS	50,000	50,000	212	100%	100%	100%	100%
Ordinary shares 0.001	-	NIS	5,000	5	212	100%	100%	100%	100%
Ordinary shares	100	NIS	370,214	37,021,400	304	100%	100%	100%	100%
Ordinary shares	-	NIS	1	-	-	0%	100%	100%	100%
Ordinary shares	-	NIS	58,351,356,355	5,835,136	529	100%	100%	100%	100%
A management shares	-	NIS	20	-	529	100%	100%	100%	100%
B management shares	-	NIS	20	-	529	100%	100%	100%	100%
Ordinary shares	-	NIS	20,000	2	-	100%	100%	100%	100%
Ordinary shares	-	NIS	32	-	-	100%	100%	100%	100%
Ordinary shares	1	USD	1	1	298	0%	100%	100%	100%
Ordinary shares	0.0001	NIS	4,000,000	400	-	10%	10%	10%	10%

Standard 11 List of investments in subsidiaries and related companies as at the balance sheet date (continued)

A. In shares and convertible securities

Company
Tot Tiyur Vetiyul Ltd.
Tmura Hevra Finansit Ltd.
Teuda Hevra Finansit Ltd.
Teus Development Areas Ltd.
Tarshish Hapoalim Holdings and Investments Ltd.

Share type			Number of shares	Total par value	Balance sheet value (in NIS M)	Holding rate			
Share	Par value per share	Currency				In securities	In capital	In voting	In authority to appoint directors
-	-	-	-	-	-	-	0%	100%	100%
Ordinary shares	-	NIS	5,009,997	501	-	100%	100%	100%	100%
Ordinary shares	-	NIS	60,000,000	6,000	213	100%	100%	100%	100%
-	-	-	-	-	-	-	91%	100%	100%
Ordinary shares	-	NIS	4,420	-	4,311	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 (NIS millions)	Interest rate (%)	Final maturity year
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, 2020

	Balance of loans as at Dec. 31, 2020	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.	**105**	-	4.25	-	-	2021
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	**96**	-	3.20	-	-	2021
Zohar Hashemesh Lehashkaot Ltd.	**850**	-	-	-	-	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

Otsar Bavel Ltd.	In voluntary liquidation
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
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							
Isracard Ltd.			NIS	March 9, 2020	Dividend in kind		720
Hapoalim (Switzerland) Ltd.			CHF	March 16, 2020	Investment		375
Poalim Capital Markets & Investments - Holdings Ltd.			NIS	April 19, 2020	Notes		350
Poalim Capital Markets & Investments - Holdings Ltd.			NIS	November 2, 2020	Investment		200
Poalim Trust Services Ltd.			NIS	December 24, 2020	Sale		2
Poalim Capital Markets & Investments - Holdings Ltd.			NIS	December 28, 2020	Investment		256

Companies closed at the Registrar of Companies during the year

Trinel Ltd. in liquidation.

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.	11				
BHI – USA Holdings Inc.	1				
Bitzur Ltd.					24
Bitan Investments and Mortgages Co. Ltd.	7				
Banque Hapoalim Luxembourg	1			26	
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	(9)		3		
Diur B.P. Ltd.	42				
Hapoalim (Cayman) Ltd.	(1)				
Hapoalim American Israeli Ltd.					14
Hapoalim Nechasim (Menayot) Ltd.	1				
Hapoalim Securities U.S.A. Inc.	(2)				
Zohar Hashemesh Lehashkaot Ltd.	(1)				
May-Oz Ltd.	10				
Alzur Property Development Company Ltd.	27				
Poalim Ventures Ltd.	43				
Poalim Sahar Ltd.	(18)				
Poalim Capital Markets (Euro) Ltd.	(9)				
Poalim Capital Markets & Investments - Holdings Ltd.	8				
Poalit Ltd.	5				13
Peilim Portfolio Management Company Ltd.	21				
Pekaot Poalim Ltd.	3				
Tzadit Ltd.	1				
Continental Poalim Ltd.	3				5
Revadim (Nechasim) Ltd.	54				
Ramchal Poalim Ltd.	4				
Sure-Ha International Ltd.	9				

* 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, 2020.

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					
Teuda Hevra Finansit Ltd.	2				10
Tarshish Hapoalim Holdings and Investments Ltd.	33				

* 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, 2020.

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 431.
Remuneration paid to directors in respect of their service as directors, 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 6,464 thousand in 2020.

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

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.	512705153	210,543,761	15.74	15.76 See note below	15.74	15.74
Clal Insurance Enterprises Holdings Ltd. – nostro	520036120	1,825,467	0.14	0.14	0.14	0.14
Clal Insurance Enterprises Holdings Ltd. – provident funds	520036120	88,913,270	6.65	6.66	6.65	6.65
The Phoenix Holdings Ltd. – nostro	520017450	2,585,351	0.19	0.19	0.19	0.19
The Phoenix Holdings Ltd. – insurance	520017450	232,585	0.02	0.02	0.02	0.02
The Phoenix Holdings Ltd. – provident funds	520017450	47,496,003.66	3.55	3.56	3.55	3.55
Excellence Investments Ltd.	520041989	35,969,238.04	2.69	2.69	2.69	2.69
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	1,709,003	0.13	0.13	0.13	0.13
Harel Insurance and Financial Services Investments Ltd. – mutual funds	520033986	22,583,204.52	1.69	1.69	1.69	1.69
Harel Insurance and Financial Services Investments Ltd. – provident funds	520033986	57,031,286	4.26	4.27	4.26	4.26
Meitav Dash Investments Ltd. – mutual funds	520043795	48,099,655	3.60	3.60	3.60	3.60
Meitav Dash Investments Ltd. – provident funds	520043795	25,579,272	1.91	1.91	1.91	1.91

(1) The Bank holds 1,479,008 dormant shares; this holding constitutes 100% of the dormant shares.
(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)

Holdings of other securities of the Bank by interested parties

Name of interested party	Corporation number	Security	Notional value
Clal Insurance Enterprises Holdings – provident funds	520036120	Subordinated notes E	3,327.00
The Phoenix Holdings Ltd. – nostro	520017450	Subordinated notes E	125.00
The Phoenix Holdings Ltd. – provident funds	520017450	Subordinated notes E	900.00
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	Poalim capital notes C	2,000,000.00
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	Subordinated notes E	15.00
Harel Insurance and Financial Services Investments Ltd. – mutual funds	520033986	Subordinated notes E	160.00
Harel Insurance and Financial Services Investments Ltd. – provident funds	520033986	Subordinated notes E	1,978.00
Meitav Dash Investments Ltd. – provident funds	520043795	Poalim capital notes C	8,580,000.00
Meitav Dash Investments Ltd. – provident funds	520043795	Subordinated notes E	1,785.00

B. Holdings of shares of the Bank by the CEO and directors

Name	ID number		Shares par value in NIS	Rate of holdings in capital	Rate of holdings in voting	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Dov Kotler	054010483	Ordinary shares	1,806	0.00	0.00	0.00	0.00

Holdings of shares of the Bank by senior officers

Amit Oberkovich	059030015	Ordinary shares	826	0.00	0.00	0.00	0.00
Yael Almog	059284745	Ordinary shares	30,243	0.00	0.00	0.00	0.0
Amir Bachar	029331113	Ordinary shares	35,390	0.00	0.00	0.00	0.00
Eti Ben-Zeev	023571540	Ordinary shares	74,953	0.01	0.01	0.01	0.01
Tsahi Cohen	022007587	Ordinary shares	228,770	0.02	0.02	0.02	0.02
Guy Kalif	028761088	Ordinary shares	140,520	0.01	0.01	0.01	0.01
Yadin Antebi	028078525	Ordinary shares	225,670	0.02	0.02	0.02	0.02
Dalit Tova Raviv	024149783	Ordinary shares	45,219	0.00	0.00	0.00	0.00
Golan Scherman	023706583	Ordinary shares	39,155	0.00	0.00	0.00	0.00
Zeev Hayo	057069676	Ordinary shares	120,752	0.01	0.01	0.01	0.01
Gilad Bloch	028487296	Ordinary shares	3,974	0.00	0.00	0.00	0.00
Asaf Azulay	052807120	Ordinary shares	13,485	0.00	0.00	0.00	0.00

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)

C. Holdings of interested parties and senior officers in bonds of Hapoalim Hanpakot Ltd.

	Corporation/ID number	Security	Quantity
Interested party			
Clal Insurance Enterprises Holdings Ltd. – nostro	520036120	POALIM HAN B10	5,302.00
		POALIM HAN B11	328,435.00
		POALIM HAN N1	146,539.00
		POALIM HAN B14	4,416,191.00
		POALIM HAN B32	29,931,072.00
		POALIM HAN B15	637,781.00
		POALIM HAN B34	23,775,401.00
		POALIM HAN B35	1.00
		POALIM HAN B36	24,375,624.00
Clal Insurance Enterprises Holdings Ltd. – provident funds	520036120	POALIM HAN B10	74,824,709.58
		POALIM HAN B11	6,895.00
		POALIM HAN N1	162,269,780.33
		POALIM HAN B14	126,571,585.73
		POALIM HAN B32	205,767,592.00
		POALIM HAN B15	6,726,632.00
		POALIM HAN B16	301,081.00
		POALIM HAN B34	229,589,488.31
		POALIM HAN B18	1,215.00
		POALIM HAN B19	1,616.00
		POALIM HAN B36	180,215,275.34
		POALIM HAN B20	2,938.00
		POALIM HAN B21	1,500.00
The Phoenix Holdings Ltd. – nostro	520017450	POALIM HAN B10	3,659,091.10
		POALIM HAN B11	45,691.00
		POALIM HAN N1	4,308,981.18
		POALIM HAN B14	5,683,421.47
		POALIM HAN B32	14,348,954.00
		POALIM HAN B15	7,331,743.00
		POALIM HAN B16	65,796.00
		POALIM HAN B34	13,008,507.62
		POALIM HAN B18	199.00
		POALIM HAN B35	400,000.00
		POALIM HAN B19	3.00
		POALIM HAN B36	10,991,169.71
		POALIM HAN B20	385.00
		POALIM HAN B21	346.00
The Phoenix Holdings Ltd. – insurance	520017450	POALIM HAN B10	11,450.50
		POALIM HAN B14	296,371.00
		POALIM HAN B32	2,502,520.00
		POALIM HAN B15	70,000.00
		POALIM HAN B34	312,285.60
		POALIM HAN B19	10.00
		POALIM HAN B36	5,700,135.99

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 bonds of Hapoalim Hanpakot Ltd. (continued)

	Corporation/ID number	Security	Quantity
Interested party			
The Phoenix Holdings Ltd. – provident funds	520017450	POALIM HAN B10	642,222.95
		POALIM HAN B14	15,504,031.51
		POALIM HAN B32	34,602,307.00
		POALIM HAN B15	10,649,129.00
		POALIM HAN B16	2,104,161.00
		POALIM HAN B34	22,464,767.93
		POALIM HAN B18	1,120.00
		POALIM HAN B35	18,739,774.44
		POALIM HAN B19	584.00
		POALIM HAN B36	47,816,204.95
		POALIM HAN B20	883.00
		POALIM HAN B21	1,907.00
Excellence Investments Ltd.	520041989	POALIM HAN B10	21,701,295.45
		POALIM HAN B11	2,081,680.61
		POALIM HAN N1	8,534,031.95
		POALIM HAN B14	47,554,666.95
		POALIM HAN B32	169,679,867.55
		POALIM HAN B15	34,693,162.31
		POALIM HAN B16	16,584,877.25
		POALIM HAN B34	73,449,549.75
		POALIM HAN B18	115.00
		POALIM HAN B35	67,427,980.15
		POALIM HAN B19	73.00
		POALIM HAN B36	213,293,899.05
		POALIM HAN B20	30.00
		POALIM HAN B21	284.00
Harel Insurance and Financial Services Investments Ltd. – nostro	520033986	POALIM HAN B10	8,150,737.00
		POALIM HAN B11	-0.83
		POALIM HAN B14	40,064,218.90
		POALIM HAN B32	69,069,808.00
		POALIM HAN B15	38,156,409.00
		POALIM HAN B16	-608.00
		POALIM HAN B34	-123,449.61
		POALIM HAN B18	796.00
		POALIM HAN B35	174,227.09
		POALIM HAN B19	775.00
		POALIM HAN B36	43,963,883.20
		POALIM HAN B20	1,192.00
		POALIM HAN B21	430.00

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)

C. Holdings of interested parties and senior officers in bonds of Hapoalim Hanpakot Ltd. (continued)

	Corporation/ID number	Security	Quantity
Interested party			
Harel Insurance and Financial Services Investments Ltd. – mutual funds	520033986	POALIM HAN B10	29,288,161.92
		POALIM HAN B11	11,400,195.47
		POALIM HAN N1	18,730,116.65
		POALIM HAN B14	52,624,757.02
		POALIM HAN B32	105,195,004.00
		POALIM HAN B15	21,976,394.00
		POALIM HAN B16	10,259,313.00
		POALIM HAN B34	60,685,282.53
		POALIM HAN B18	393.00
		POALIM HAN B35	48,416,864.76
		POALIM HAN B19	735.00
		POALIM HAN B36	130,427,269.79
		POALIM HAN B20	604.00
		POALIM HAN B21	992.00
Harel Insurance and Financial Services Investments Ltd. – provident funds	520033986	POALIM HAN B10	820.00
		POALIM HAN B11	0.63
		POALIM HAN N1	25,520,379.70
		POALIM HAN B14	11,791,235.20
		POALIM HAN B32	54,160,114.00
		POALIM HAN B15	23,440,916.00
		POALIM HAN B18	3,107.00
		POALIM HAN B19	2,412.00
		POALIM HAN B36	101,493,294.66
		POALIM HAN B20	3,134.00
		POALIM HAN B21	2,000.00
Meitav Dash Investments Ltd. – nostro	520043795	POALIM HAN B10	292,757.00
Meitav Dash Investments Ltd. – mutual funds	520043795	POALIM HAN B10	40,758,714.00
		POALIM HAN B11	42,733,903.00
		POALIM HAN N1	33,255,596.00
		POALIM HAN B14	57,287,392.00
		POALIM HAN B32	159,335,945.00
		POALIM HAN B15	42,159,414.00
		POALIM HAN B16	21,216,788.00
		POALIM HAN B34	70,783,393.00
		POALIM HAN B18	13.00
		POALIM HAN B35	52,927,704.00
		POALIM HAN B19	89.00
		POALIM HAN B36	261,711,086.00
		POALIM HAN B20	30.00
		POALIM HAN B21	81.00

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)

C. Holdings of interested parties and senior officers in bonds of Hapoalim Hanpakot Ltd. (continued)

	Corporation/ID number	Security	Quantity
Interested party			
Meitav Dash Investments Ltd. – provident funds	520043795	POALIM HAN B10	1,727,303.00
		POALIM HAN B11	2,678.00
		POALIM HAN N1	17,418,707.00
		POALIM HAN B14	128,160,192.00
		POALIM HAN B32	123,852,959.00
		POALIM HAN B15	2,218,540.00
		POALIM HAN B16	3,077,508.00
		POALIM HAN B34	23,837.00
		POALIM HAN B18	4.00
		POALIM HAN B35	1,181,632.00
		POALIM HAN B19	360.00
		POALIM HAN B36	56,950,591.00
		POALIM HAN B20	1,157.00
		POALIM HAN B21	2,347.00

Holdings of interested party – Bank Hapoalim B.M.: See Standard 11A.

Additional details regarding principal holders:

1. Controlling parties of Arison Holdings (1998) Ltd.

	Rate of holding of capital
Eternity Holdings One Trust[1]	30%
Eternity Four-A Trust[1]	70%
Total	100%

(1) 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 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 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 directives of the holding permit, see Section 6.6 in this chapter above, and the Immediate Report of the Bank of September 4, 2018 (reference no. 2018-01-082039).

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)

2. Clal Insurance Enterprises Holdings Ltd.

Clal Insurance Enterprises Holdings Ltd. ("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 controlling party of The Phoenix Holdings Ltd. is Belenus Lux S.a.r.l. ("Belenus"), a corporation established in Luxembourg.

Controlling parties of Belenus: Lewis (Lee) Sachs, Matthew Botein, CCP III Cayman GP Ltd.

The Phoenix Holdings Ltd. (Public Company 520017450) indirectly holds 100% of Excellence Investments Ltd. (Public Company 520041989).

4. Harel Insurance and Financial Services Investments Ltd.

The controlling parties are: Yair Hamburger, ID no. 007048671; Gideon Hamburger, ID no. 007048663; Nurit Manor, ID no. 051171312.

The controlling parties hold the holder through G.Y.N. Investment Management & Economic Consulting 2017 Limited Partnership (partnership no. 550272587), a partnership under the full control and ownership of the controlling parties, which they hold as limited partners through private companies under their full ownership; they also hold the general partner in the partnership G.Y.N.

5. Meitav Dash Investments Ltd.

The controlling parties are: (1) Mr. Eli Bareket, ID no. 058368143, through BRM Finances Ltd. The final shareholders of BRM Finances are: Mr. Eli Bareket, ID no. 058368143, who also holds shares in trust; Mr. Nir Bareket, ID no. 056092430; and Mr. Yuval Rakavy, ID no. 058142431. Mr. Avner Stepak, ID no. 027378058, who holds shares of Meitav Dash directly and through companies under his control.

6. Under a temporary order of the Israel Securities Authority, which expires in July 2021, exchange-traded funds tracking the Tel Aviv Banks-5 index are permitted to hold securities included in the index (including the shares of the Bank), despite the limit established in the Joint Trust Investments Regulations (Assets Permitted to be Purchased and Held in a Fund and the Maximum Rates Thereof), 1994, pursuant to which the maximum holding rate of a security is 25% of the assets of the exchange-traded fund. As at March 4, 2021, the shares of the Bank constitute approximately 33.5% of the Tel Aviv Banks-5 index.

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

Name of company held by interested party
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.
Chatzron Hevra Lehashkaot Ltd.
Mivnim Vetsiud Ltd.
May-Oz Ltd.
C Bilisim Teknolojileri
C Bilisim Teknolojileri
C Bilisim Teknolojileri

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.	511584781	Ordinary shares	99	1.00	NIS	99.0	99%	99%	99%
Hapoalim (Switzerland) Ltd.	1465245	Ordinary shares	1,000	1.00	0.00	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	0.00	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%
Revadim (Nechasim) Ltd.	510364508	Ordinary shares	335,670	0.10	NIS	33,567.0	33%	33%	33%
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	0.00	3,986,850.0	100%	100%	100%
Agam Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1.00	0.00	4,375.0	0%	0%	0%
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	500422084	Ordinary shares	4,375	1.00	0.00	4,375.0	0%	0%	0%

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
C Bilisim Teknolojileri
Poalim Ofakim Ltd.
Poalim IBI - Management and Underwriting Ltd.
Poalim Ventures - Fund Management Ltd.
Poalim Ventures - Fund Management Ltd.
Poalim Ventures I 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 Capital Markets - Investment House Ltd.
Poalim Capital Markets - Financial Applications & Research Ltd.
Poalim Capital Markets - Financial Applications & Research 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	Holding rate: In voting	Holding rate: In authority to appoint directors
Teuda Hevra Finansit Ltd.	500422084	Ordinary shares	4,375	1.00	0.00	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.	511819617	Ordinary shares	5,755,518	0.01	NIS	57,555.2	28%	28%	28%
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	1,061,330	0.01	NIS	10,613.3	54%	54%	0%
Poalim Ventures - Fund Management Ltd.	512882317	No share capital	1	1.00	NIS	1.0	0%	0%	100%
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	222,411,690	0.01	NIS	2,224,116.9	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%

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 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
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.	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	33%	33%	33%
Tarshish Hapoalim Holdings and Investments Ltd.	520043290	Ordinary shares	9,401,589	1.00	NIS	9,401,589.0	64%	64%	64%
Poalim Ventures Ltd.	980582800	Ordinary shares	100	1.00	NIS	100.0	100%	100%	100%
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	3,834	1.00	NIS	3,834.0	38%	38%	38%
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 1,479,008 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 1,335,898,103.
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.*	1,337,339,116
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
Tal Erez	1
Kramer Moshe	1
Livnat Raz	1
Total	1,337,377,111

* The quantity of shares at the Nominee Company includes 1,479,008 dormant shares owned by Bank Hapoalim.

Standard 26 Board of Directors of the Bank[1]

Name	Ruben 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 Credit Committee, chairperson of the Corporate Governance and Stakeholders Committee, and chairperson of the Strategy and Business Development Committee. Member of the following board committees: the Risk Management and Control Committee, the Information Technology and Technological Innovation Committee, and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities.
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?	Chairman of the Board of Directors of the Bank as of July 28, 2020.
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. Served as Acting Chairman of the Board of Directors from June 9, 2020, until his appointment as Chairman on July 28, 2020. 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). Served in the past as chairman of the board of directors of Gamida Cell Ltd. (2004 to 2016) and as a director at Recanati Winery Ltd. (2004 to 2019). In the past, external lecturer at Ben Gurion 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 Risk Management and Control 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	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 as an advisor to the board of directors of Starcom Ltd. in 2019. Served as a director at Bank Leumi (2011 to 2017).
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. Member of the following board committees: the RIsk Management and Control Committee, the Corporate Governance and Stakeholders Committee, the Remuneration Committee, and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities; member of the Independent Committee headed by Supreme Court Justice (Retired) Prof. Yoram Danziger..
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. Serves as a legal advisor in the areas of companies, securities, and banking. Member of the executive board of 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 as a director at Migdal Insurance Company Ltd., Migdal Insurance and Financial Holdings Ltd., and Migdal Capital Markets Ltd. (2009 to 2017).
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	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	Chairperson of the Information Technology and Technological Innovation Committee. Member of the following board committees: the Credit Committee, the Audit Committee, the Remuneration Committee, and the Corporate Governance and Stakeholders 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 on the board of directors of Noam Hanegbi Ltd. (a wholly-owned company). Served as Deputy CEO and Head of the Information Systems and Telecommunications Division at Maccabi Health Services (2015 to 2019), and as an external technological consultant at Clalit Health Services Ltd. in 2019.
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	**Israel Trau**
Personal details	Identification number: 053641775 Date of birth: December 16, 1955 Address: Hanasi Yitshak Ben-Tsvi 13, Herzliya Citizenship: Israeli
Membership in committees of the Board of Directors	Member of the following board committees: the Audit Committee and the Credit 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	November 24, 2020.
Education and occupation in last five years, with details of service at corporations as a director	B.A. in Humanities (Geography, expanded), Tel Aviv University. Senior management course, Lahav Executive Education; Advanced course on investments and the capital market, Lahav Executive Education, Tel Aviv University. Business consultant for several companies and ventures; external director at Aviation Links Ltd. (as of April 2019). Served as CEO of Union Bank Israel Ltd.; chairperson of the board of directors of Union Investments and Enterprise Ltd. and Union Leasing Ltd.; chairperson of the board of directors and director at Union Systems Ltd. (2014 to 2018); member of the nostro credit committee at Union Bank Israel Ltd.; and business consultant.
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	**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, 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	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). As of August 2019, serves as an external director at Strauss Group Ltd. (in 2008-2017 she served as an independent director there). Member of the board of trustees of Tel Aviv University. Member of the board of trustees of Ben Gurion University. Served in the past as a director at First International Bank of Israel Ltd. (2012 to 2018) and at Paz Oil Company Ltd. (2009 to 2016).
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	Stanley Fischer
Personal details	Identification number: 327487971 Date of birth: October 15, 1943 Address: Aloni Nissim 5, Tel Aviv Citizenship: Israeli and American
Membership in committees of the Board of Directors	Member of the following board committees: the Risk Management and Control Committee and the Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities.
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	January 1, 2021.
Education and occupation in last five years, with details of service at corporations as a director	Ph.D. in Economics, MIT; M.Sc.(Econ) and B.Sc.(Econ), London School of Economics. Member of the executive board of the National Library Ltd. Director at Taglit. Served as a macroeconomic consultant to Blackrock in 2019. In the past (2014 to 2017), vice chairman of the US Federal Reserve Board of Governors.
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 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	Chairperson of the Risk Management and Control Committee. Member of the following board committees: the Credit Committee, the Information Technology and Technological Innovation 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	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 Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities. Member of the following board committees: the Audit Committee, the Information Technology and Technological Innovation Committee, 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, QED-IT Systems Ltd. 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)

Oded Eran, deceased	
Identification number: 053378824 Date of birth: May 28, 1955	Served as Chairman of the Board of Directors of the Bank from January 1, 2017, to June 18, 2020.
Moshe Koren	
Identification number: 1228998 Date of Birth: July 8, 1938	Served as a director from August 3, 1992, to December 31, 2020.

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	Serves as CEO of the Bank and member of the Board of Management as of October 1, 2019.
Position at the corporation or at a subsidiary, related company, or interested party thereof	President and Chief Executive Officer as of October 1, 2019.
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 (2015-2019) 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). Served in 2018-2019 on the boards of directors of the following companies: Bezeq The Israel Telecommunication Corp. Ltd., Pelephone, Yes, Bezeq International, and Bezeq On Line. Served in 2015-2019 as a director at V-Finance Technologies Ltd. (of the Blender group, and at additional companies in the group). Served in 2008-2017 as a director at Amir Marketing and Investments in Agriculture Ltd. Also served in 2015-2019 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	Member of the Board of Management as of 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	M.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.

(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 at the Bank. From November 2010 to October 2016, Chief Compliance Officer of the Bank. External lecturer on banking law at the Hebrew University.
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. Chairperson of the board of directors at the subsidiary Poalit 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 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	Member of the Board of Management as of 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 subsidiaries: 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).
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	Head of Corporate Banking as of March 1, 2018. Chairperson of the boards of directors of the subsidiaries: Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., Diur B.P. Properties (1993) 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.

(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	Guy Kalif
Personal details	Identification number: 028761088 Date of birth: September 23, 1971
Date of beginning of service	Member of the Board of Management as of January 1, 2021.
Position at the corporation or at a subsidiary, related company, or interested party thereof	Member of the Board of Management, Chief Accountant.
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. M.B.A., Tel Aviv University. From March 2016 to December 2020, Head of Finance and Management Information Area at Bank Hapoalim. From January 2007 to February 2016, Head of Comptroller Area at Bank Hapoalim. From September 2013 to March 2020, served as a director and chairperson of the risk management committee at Isracard. From May 2018, director at Hapoalim Switzerland.

(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., 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., BAMI Nechasim Ltd., and Poalim Mortgages Insurance Agency (2005) 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 board of directors of Poalim Ofakim Ltd.; as vice chairperson of the board of directors at Bank Pozitif; and as a member of the boards of directors of the following companies: Dash Provident Funds Ltd. and Tachlit Exchange Traded Notes 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	Dalit Tova 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. Member of the board of directors of Poalim Ofakim 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 Economics, Ben-Gurion University. M.B.A., Tel Aviv University. From January 2013 to August 2016, Head of Platinum Banking. From August 2016 to October 2019, Head of Commercial Banking Area, 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. Served in the past as CEO and director at Poalim Financial Holdings (1993) Ltd.; as chairperson of the board of directors of the following companies: Poalim Egoz Hevra Finansit Ltd., Poalim Shaked Hevra Finansit Ltd., Tevuat Poalim Ltd., Shoresh Poalim Ltd., and Mishor Poalim Ltd.; and as a director at the following companies: Nominees Company of Bank Hapoalim Ltd. and Tel Aviv Stock Exchange Ltd.
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.

(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	**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	Chief Marketing Officer (as of February 1, 2021; previously 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 2017 to 2021, Head of Marketing and Advertising, Bank Hapoalim. From 2014 to 2017, joint CEO of BBDO IM.
Yael Dromi	Served as Member of the Board of Management and Head of Stakeholder Relations from March 1, 2018, to February 29, 2020.
Ofer Levy	Served as Member of the Board of Management and Chief Accountant from May 1, 2006, to December 31, 2020.
Niv Polani	Served as Head of Business Development from May 1, 2018, to January 31, 2020.
Avner Paz-Tzuk	Served as Core Systems Modernization Plan Manager from February 1, 2018, to 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.

(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 28 Details of changes in the Memorandum and Articles of the Bank

There were no changes in the Memorandum and Articles of the Bank in 2020. For the language of the articles approved by the general meeting of shareholders of the Bank on July 18, 2019, see the call to meeting report 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 48.
2. Change in capital – for details regarding the allocation of restricted shares and restricted stock units for executives and employees of the Bank within the remuneration plan, see the report of May 14, 2020 (reference no. 2020-01-042976).
3. Change in the Memorandum and Articles of the Bank – none.
4. Redemption of shares – none.
5. Early redemption of bonds – early redemption of notes in Tier 2 capital – on July 1, 2020, the Bank, through Hapoalim Hanpakot, performed partial early redemption of Series 1 subordinated notes, in consideration for a total of NIS 596 million. Following the decision regarding partial early redemption, as announced on June 16, 2020, the amount redeemed is not recognized in the supervisory capital of the Bank, beginning with the financial statements as at June 30, 2020. The early redemption was approved by the boards of directors of the Bank and of Hapoalim Hanpakot, and by the Supervisor of Banks. For additional details, see the Immediate Report of the Bank of June 16, 2020 (reference no. 2020-01-051031).
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.

B. Resolutions of the general meeting passed in contradiction of the recommendations of the Board of Directors – none.

C. Resolutions of the general meeting –

On October 22, 2020, the general meeting of shareholders of the Bank resolved to approve the following matters:

To approve the remuneration policy for officers of the Bank, effective January 1, 2021, for a period of three years;

To approve the terms of service of Ruben Krupik as Chairman of the Board of Directors of the Bank, with effect from June 28, 2020, until December 31, 2023, subject to the provisions of the law and the directives of the supervisory bodies not preventing the granting of such remuneration and terms of service, as resolved by the Board of Directors of the Bank;

To approve the terms of service and employment of Mr. Dov Kotler as CEO of the Bank, with effect from January 1, 2021, until December 31, 2023.

For details regarding additional resolutions passed at this annual general meeting held on October 22, 2020, see the section "Other matters" 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 omission 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 omission 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).

Officers' insurance

Within the officer remuneration policy of the Bank, which was approved by the meeting of shareholders of the Bank on October 22, 2020, a framework of liability limits of up to USD 500 million was established for the acquisition of an officer liability insurance policy, and in addition, an option to acquire a POSI (public offering of securities insurance) policy, and a run-off officer liability insurance policy (providing coverage for past activity) under circumstances of structural changes. In the previous remuneration policy (which was in effect until the end of 2020), 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 USD 10 million; and the maximum deductible amount would be USD 1,000,000.

Standard 29A (continued)

In June 2020, the Remuneration Committee (pursuant to Regulation 1B(1) of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (the "Relief Regulations")) and the Board of Directors approved the acquisition of insurance coverage for liability of directors and officers at the Bank Group and monetary indebtedness imposed upon them due to their function as officers. The insurance coverage acquired also includes coverage for the company in respect of amounts for which it indemnifies officers, and in respect of securities claims, within liability limits of approximately USD 178 million, as well as additional coverage for directors and officers (Side A) with liability limits of USD 30 million (approximately USD 208 million in total), beginning July 1, 2020, for a period of twelve months. The total premium for the aforesaid insurance coverage is approximately USD 6.9 million. 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.

Guy Kalif
Member of the Board of Management,
Chief Accountant

Gilad Bloch
Corporate Secretary

Tel-Aviv, March 10, 2021

Corporate Governance Questionnaire[1]

<table>
<tr><th colspan="4">Independence of the board of directors</th></tr>
<tr><td colspan="2"></td><td>True</td><td>False</td></tr>
<tr><td>1.</td><td>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: <u>Ronit Abramson-Rokach</u>
Director B: <u>Dalia Lev</u>
Director C: <u>David Avner</u>
Number of external directors serving at the corporation as at the date of publication of this questionnaire: <u>3</u> (and 2 additional external directors as defined in Directive 301 of the Supervisor of Banks).</td><td>✓</td><td></td></tr>
<tr><td>2.</td><td>Rate[2] of independent directors[3] serving at the corporation as at the date of publication of this questionnaire: <u>5/9</u>.
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 the provisions of the Banking Ordinance, because the Bank is a banking corporation without a controlling core, all of the directors are required to have no affinity to the Bank, or, effectively, to be independent of the Bank. In addition, 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.</td><td>_____</td><td>_____</td></tr>
<tr><td>3.</td><td>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.</td><td>✓</td><td></td></tr>
</table>

(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.

Corporate Governance Questionnaire (continued)

Independence of the board of directors (continued)			
		True	False
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: _______	✓	
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): **<u>0%.</u>**		✓
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? 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).		

(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.

(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 change 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]:**8** 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 above.

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 (2020): **23** Second quarter: **14** Third quarter: **13** Fourth quarter: **15**		
	b.	Beside each of the names of the directors who served at the corporation during the reported year, note the rate 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[11]	Rate of participation in meetings of the committee for the examination of the financial statements[12]	Rate of participation in meetings of the remuneration committee	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, deceased[13]	97%				Credit Committee – 85% Risk Management and Control Committee – 89% Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 75%

(11) 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.
(12) See footnote 11 above.
(13) The service of the late Mr. Oded Eran ended on June 18, 2020.

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)								True	False
		Ruben Krupik	100%	100%(14)	100%(14)		Strategy and Business Development Committee – 100% Corporate Governance and Stakeholders Committee – 100% Credit Committee – 100% Information Technology and Technological Innovation Committee – 100% Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100% Risk Management and Control Committee – 100%		
		David Avner	100%	100%	100%	100%	Strategy and Business Development Committee – 100% Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100%		
		Ronit Abramson-Rokach	98%	100%	100%	100%	Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100%		
		Noam Hanegbi	94%	100%	100%		Credit Committee – 100% Risk Management and Control Committee – 100% Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100%		

(14) Mr. Ruben Krupik was a member of the Audit Committee until June 14, 2020.

Corporate Governance Questionnaire (continued)

Meetings of the board of directors (and convening of the general meeting) (continued)								True	False
		Israel Trau	100%				Credit Committee – 100%		
		Dalia Lev	100%	100%	100%	100%	Credit Committee – 96% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 100%		
		David Zvilichovsky	100%				Risk Management and Control Committee – 100% Credit Committee – 100% Strategy and Business Development Committee – 100%		
		Richard Kaplan	98%	100%	100%		Committee for Monitoring the Implementation of the Resolutions of the Bank with the United States Authorities – 100% Corporate Governance and Stakeholders Committee – 100% Information Technology and Technological Innovation Committee – 100% Strategy and Business Development Committee – 100%		
		Moshe Koren	100%	100%	100%	100%	Risk Management and Control Committee – 100% Credit 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.							✓	

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: From June 18, 2020 (the date of resignation of the previous Chairman of the Board of Directors) to July 28, 2020 (the date on which the approval of the Banking Supervision Department was received for the appointment of the present Chairman), a period of 40 days, an Acting Chairman of the Board of Directors served at the corporation.	✓	
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[15]. ☒ Not applicable (as no such double service exists at the corporation).		
16.	The general manager <u>is not</u> 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[16]: ☐ Yes ☐ No (mark an X in the appropriate box)	____	____
17.	A controlling party or a relative thereof <u>does not</u> 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).		

(15) At a bond company, approval pursuant to Section 121(D) of the Companies Law.
(16) 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 <u>did not serve</u> 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.(17)	✓	
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.		✓	
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.		✓	

(17) 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 2020 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[18]				
			True	False
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 (2020): **3** Report for the second quarter: **2** Report for the third quarter: **2** Annual report: **3**	____	____
	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 (2020): **8** Report for the second quarter: **6** Report for the third quarter: **7** Annual report: **7**		
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: ______	✓	

(18) 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[18] (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.[19]	✓	
	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: ______		____	____

(19) See footnote 18 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)[20]	✓	
35.	Volume of employment of the internal auditor at the corporation in the reported year (in hours[21]): **<u>100% position</u>** **For details regarding number of employee positions in Internal Audit at the Bank, see Section 6.2, "Internal Audit," in the section of the report concerning corporate governance and additional information.**	_____	_____
	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.	✓	

(20) For details regarding internal audit at the Bank, see Section 6.2, "Internal Audit," in the section of the report concerning corporate governance and additional information.
(21) 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).		

Ruben Krupik
Chairman of the Board

Ronit Abramson Rokach
Chairperson of the Audit Committee[22]

Tel Aviv, March 10, 2021

(22) See footnote 15 above.

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

A

Accounting policies 3, 11, 58, 141, 157, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 430

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Capitalization of software costs 191

Capital target 51, 77, 472

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