Bank Hapoalim

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

as at September 30, 2020

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bank hapoalim

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

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Report on Risks

We are honored to present the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020 (hereinafter: the "Report on Risks" or the "Report").

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

This Report on Risks is published within the financial reporting of Bank Hapoalim B.M., and contains information regarding the management of risks and capital. This report should be perused in conjunction with the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019; the Annual Financial Statements for 2019; and the Condensed Financial Statements as at September 30, 2020.

Sincerely yours,

Reuven Krupik	**Dov Kotler**	**Amir Bachar**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Risk Officer

Tel Aviv, November 18, 2020

A. Introduction

A.1. Forward-looking information

Most of the information in this report that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or 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.

A.2. Disclosure declaration

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the periodic financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks. As part of the discussions of the financial statements of the Bank, the Board of Directors of the Bank approved the publication of the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks as at September 30, 2020.

B. Principal supervisory ratios, risk-management review, and weighted risk-adjusted assets

B.1. Principal supervisory ratios

Table B-1: Principal supervisory ratios

	On a consolidated basis, as at				
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
	NIS millions				
Available capital					
Common equity Tier 1 capital	**39,202**	38,300	38,152	38,795	39,528
Common equity Tier 1 capital before effect of transitional directives[1]	**38,712**	37,754	37,551	38,138	39,185
Tier 1 capital	**39,690**	38,788	38,640	39,528	40,261
Tier 1 capital before effect of transitional directives[1]	**38,712**	37,754	37,551	38,138	39,185
Total capital	**50,122**	48,518	48,192	49,235	50,458
Total capital before effect of transitional directives[1]	**47,264**	45,598	44,360	44,810	45,865
Risk-weighted assets					
Total risk-weighted assets (RWA)	**339,961**	340,944	340,232	336,387	332,922
Total risk-weighted assets (RWA) before effect of transitional directives[1]	**340,616**	341,676	341,040	337,271	333,401
Capital-adequacy ratios according to the directives of the Banking Supervision Department					
Common equity Tier 1 capital ratio	**11.53%**	11.23%	11.21%	11.53%	11.87%
Common equity Tier 1 capital ratio before effect of transitional directives[1]	**11.37%**	11.05%	11.01%	11.31%	11.75%
Tier 1 capital ratio	**11.67%**	11.38%	11.36%	11.75%	12.09%
Tier 1 capital ratio before effect of transitional directives[1]	**11.37%**	11.05%	11.01%	11.31%	11.75%
Total capital ratio	**14.74%**	14.23%	14.16%	14.64%	15.16%
Total capital ratio before effect of transitional directives[1]	**13.88%**	13.35%	13.01%	13.29%	13.76%
Common equity Tier 1 capital ratio required by the Banking Supervision Department[2]	**9.26%**	9.26%	9.27%	10.27%	10.26%
Available common equity Tier 1 capital ratio beyond the requirement of the Banking Supervision Department[2]	**2.27%**	1.97%	1.94%	1.26%	1.61%
Leverage ratios according to the directives of the Banking Supervision Department					
Total exposures	**573,323**	556,182	541,421	519,648	508,609
Total exposures before effect of transitional directives[1]	**573,585**	556,475	541,744	520,001	508,801
Leverage ratio	**6.92%**	6.97%	7.14%	7.61%	7.92%
Leverage ratio before effect of transitional directives[1]	**6.75%**	6.78%	6.93%	7.33%	7.70%

(1) Before the effect of the transitional directives, including the effect of the adoption of US GAAP on employee benefits, and before the effect of adjustments for the efficiency plans.
(2) Including a capital requirement 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.

Table B-1: Principal supervisory ratios (continued)

	Average for the three months ended				
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Liquidity coverage ratio according to the directives of the Banking Supervision Department					
Total high-quality liquid assets	**153,840**	137,105	114,646	109,137	106,503
Total net cash outflows	**116,473**	104,419	90,974	90,145	85,681
Liquidity coverage ratio (in %)	**132%**	131%	126%	121%	124%

B.2. Risk assessment and management

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

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

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

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

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

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

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

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

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

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

B.3. Severity of risk factors

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

Table B-2: 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 10D and 10E to the Condensed Financial Statements, including with regard to the Bank's obligations pursuant to the resolutions), the level of compliance risk was returned to Medium in the first quarter of 2020 (from the previous level of Medium-High). This also includes the risk to which the Bank is exposed as a result of the aforesaid resolutions.

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

B.4. 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.

Risk management at the Bank Group is described extensively in the Report on Risks for 2019.

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

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

  The crisis of the spread of the coronavirus has material macroeconomic implications, affecting the ways in which the Bank works as well as the potential for materialization of various risks, including credit risk, market risks, and operational risk. At this stage, there is uncertainty regarding the duration of the crisis and its future impacts on the activity of the global economy, the local economy, the customers of the Bank, and the Bank itself, and correspondingly on the various risks. For details, see the section "Economic and financial review" in the Report of the Board of Directors and Board of Management, 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 the mobility of bank accounts and open API, may affect the banking system in general and the Bank in particular. At this stage, it is too early to estimate all of the effects of these changes on the Bank.
- **Information security and cyber incident risk:** Increasing cyber threats to financial institutions have led to the channeling of resources in the banking industry to cope with this risk. The Bank applies frequent controls in all channels in order to prevent harmful penetration, activation of malicious software, and information leakage. The lines of defense consist of a large number of advanced information-security systems, deployed internally in the Bank's network as well as externally as a perimeter defense. Due to the spread of the coronavirus, there has been a significant process of transition of employees to remote work, as well as additional changes in modes of activity of the Bank, concurrently with an increase in threats and attempted attacks. The cyber defense units have developed a response in order to reduce the risks, as detailed in the section "Operational risk," below.
- **Competitive and strategic risk:** New competition from big tech companies (Apple, Google, Facebook, Amazon, and others) and fintech companies, alongside the entry of new technologies, changes in customer behavior, and new business models in the financial sphere, may significantly affect the banking system, in Israel and worldwide, in the medium to long term. Concurrently, regulatory and competitive changes in the domestic arena, with an emphasis on measures aimed at increasing competition in the retail credit market, such as the Credit Data Law, which took effect in April 2019, bank account switching, and open API, may affect the business results of the Bank. The Bank has formulated a strategic plan for 2020-2022, encompassing action in the areas of innovation, technology, the structure of its operations, and more, in order to respond to all such threats.

For details regarding legal proceedings, see Note 10 to the Condensed Financial Statements.

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements.

B.5. Effect of the crisis of the spread of the coronavirus

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B.6. Discontinuation of publication of the LIBOR interest rates

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

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

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

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

B.7. Review of weighted risk-adjusted assets

Table B-3: Review of weighted risk-adjusted assets

		Risk-weighted assets		Minimum capital requirements*
		September 30, 2020	June 30, 2020	**September 30, 2020**
		NIS millions		
1	Credit risk (standardized approach)**	**294,783**	294,227	**37,614**
6	Counterparty credit risk (standardized approach)	**5,353**	5,284	**683**
10	Credit valuation adjustment (CVA)	**2,510**	2,691	**320**
15	Settlement risk	**-**	-	**-**
16	Securitization exposures (standardized approach)	**16**	19	**2**
25	Amounts below deduction thresholds (subject to 250% risk weight)	**10,472**	10,526	**1,336**
	Total credit risk	**313,134**	312,747	**39,955**
20	Market risk (standardized approach)	**3,541**	4,769	**452**
24	Operational risk	**23,286**	23,428	**2,971**
27	Total	**339,961**	340,944	**43,378**

* Capital requirements according to the minimum required total capital ratio, plus a capital requirement reflecting 1% of the balance of housing loans at the reporting date, excluding housing loans granted during the period of the Temporary Order, at a rate of 12.76%.

** Credit risk does not include counterparty credit risk, adjustment in respect of credit risk, settlement risk, securitization exposures, and amounts below the deduction thresholds.

C. Capital and leverage

C.1. Composition of capital

Table C-1: Composition of supervisory capital

		September 30, 2020	September 30, 2019	December 31, 2019
		NIS millions		
	Common equity Tier 1 capital			
	Common equity Tier 1 capital – instruments and retained earnings			
1	Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier 1 capital	**8,183**	8,167	8,167
2	Retained earnings, including dividends proposed or declared after the balance sheet date	**31,767**	31,975	31,346
3	Accumulated other comprehensive income and disclosed retained earnings	**(979)**	(924)	(1,332)
5	Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	**11**	17	15
6	Common equity Tier 1 capital before supervisory adjustments and deductions	**38,982**	39,235	38,196
	Common equity Tier 1 capital – supervisory adjustments and deductions			
9	Other intangible assets, excluding mortgage service rights, net of deferred taxes payable	**-**	7	7
10	Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	**64**	42	50
11	Total accumulated other comprehensive income in respect of cash-flow hedges of items not presented in the balance sheet at fair value	**(1)**	(1)	(1)
14	Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	**35**	2	2
16	Investment in own ordinary shares held directly or indirectly (including commitments to purchase shares under contractual agreements)	**-**	-	-
21	Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	**78**	-	-
26	Additional supervisory adjustments and deductions established by the Banking Supervision Department	**(396)**	(343)	(657)
26C	Of which: additional supervisory adjustments to common equity Tier 1 capital	**(396)**	(343)	(657)
26C	Of which: in respect of the efficiency plans	**(490)**	(343)	(657)
26C	Of which: in respect of wage tax	**(78)**	-	-
26C	Of which: in respect of the business of the corporation with related persons	**172**	-	-
28	Total supervisory adjustments and deductions in common equity Tier 1 capital	**(220)**	(293)	(599)
29	Common equity Tier 1 capital	**39,202**	39,528	38,795

Table C-1: Composition of supervisory capital (continued)

		September 30, 2020	September 30, 2019	December 31, 2019
		NIS millions		
	Additional Tier 1 capital			
	Additional Tier 1 capital – instruments			
33	Additional Tier 1 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**488**	733	733
36	Additional Tier 1 capital before deductions	**488**	733	733
	Additional Tier 1 capital – deductions			
43	Total deductions from additional Tier 1 capital	**-**	-	-
44	Additional Tier 1 capital	**488**	733	733
45	Tier 1 capital	**39,690**	40,261	39,528
	Tier 2 capital			
	Tier 2 capital – instruments and provisions			
47	Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**20**	35	30
48	Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**6,498**	6,382	5,899
49	Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital	**1,868**	3,482	3,005
50	Collective allowances for credit losses before the effect of related tax	**3,914**	3,780	3,778
51	Tier 2 capital before deductions	**10,432**	10,197	9,707
	Tier 2 capital – deductions			
57	Total supervisory adjustments to Tier 2 capital	**-**	-	-
58	Tier 2 capital	**10,432**	10,197	9,707
59	Total capital	**50,122**	50,458	49,235
	Risk-weighted assets			
	Total risk-weighted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**339,463**	332,454	335,948
	Of which: credit risk assets	**312,636**	305,726	308,864
	Of which: market risk assets	**3,541**	3,044	3,528
	Of which: operational risk assets	**23,286**	23,684	23,556
60	Total risk-weighted assets	**339,961**	332,922	336,387

Table C-1: Composition of supervisory capital (continued)

		September 30, 2020	September 30, 2019	December 31, 2019
		NIS millions/percent		
	Capital ratios and capital preservation cushions			
61	Common equity Tier 1 capital	**11.53%**	11.87%	11.53%
62	Tier 1 capital	**11.67%**	12.09%	11.75%
63	Total capital	**14.74%**	15.16%	14.64%
	Minimum requirements established by the Banking Supervision Department			
69	The minimum required common equity Tier 1 capital ratio is 10%, and 9% beginning with the report for March 31, 2020. A capital requirement was added to this ratio 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.	**9.26%**	10.26%	10.27%
71	The minimum required total capital ratio is 13.5%, and 12.5% beginning with the report for March 31, 2020. A capital requirement was added to this ratio 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.	**12.76%**	13.76%	13.77%
	Amounts below the deduction threshold (before risk weighting)			
72	Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**1,650**	1,286	1,443
73	Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**453**	1,335	1,378
75	Deferred tax assets arising from timing differences, below the deduction threshold	**3,920**	3,582	3,806
	Ceiling for inclusion of provisions in Tier 2			
76	Provision qualifying for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	**5,340**	3,780	3,778
77	Ceiling for inclusion of provision in Tier 2 under the standardized approach	**3,914**	3,827	3,866
	Capital instruments not qualifying as supervisory capital, which are subject to the transitional directives			
82	Present ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives	**488**	733	733
83	Amount deducted from additional Tier 1 capital due to the ceiling	**1,046**	811	809
84	Present ceiling amount for instruments included in Tier 2 capital subject to the transitional directives	**3,051**	4,577	4,577
85	Amount deducted from Tier 2 capital due to the ceiling	**-**	-	-

C.2. Capital adequacy

C.2.a. Capital-adequacy target

On March 31, 2020, the Banking Supervision Department issued a circular on the subject, "Adjustments to the Proper Conduct of Banking Business Directives for the purpose of coping with the coronavirus crisis (temporary order)" (the "Temporary Order"), in view, according to the statement of the Banking Supervision Department, of the spread of the coronavirus, and in order to ensure the ability of the banks to continue to offer credit. Pursuant to the circular, the Bank, as a banking corporation of significant importance (a banking corporation whose total balance sheet assets on a consolidated basis constitute at least 24% of the total balance sheet assets of the banking system in Israel), is required to maintain a minimum common equity Tier 1 capital ratio of 9% (versus 10% prior to this change), and a minimum total capital ratio of 12.5% (versus 13.5% prior to this change). The Temporary Order was initially in effect for a period of six months; in September 2020, it was extended by an additional six months, until March 31, 2021. The relief in capital requirements will apply until 24 months have elapsed from the end of the period of validity of the Temporary Order (i.e., until March 31, 2023), provided that the capital ratios of the Bank do not fall below the capital ratios at the end of the validity period of the Temporary Order, or the capital ratios applicable to the Bank prior to the Temporary Order, whichever is lower.

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

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

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

C.2.b. Planning and management of capital by the Bank

Dividends

Before the date of approval of the financial statements as at June 30, 2018, the Banking Supervision Department notified the Bank that in light of the substantive uncertainty with respect to the investigation of the United States authorities, and for reasons of caution and conservatism, the Banking Supervision Department was of the opinion that, at that time, dividends from ongoing earnings should not be distributed by the Bank. Accordingly, for reasons of conservatism and in coordination with the Bank of Israel, beginning in the second quarter of 2018, the Board of Directors of the Bank has not declared the distribution of dividends from ongoing earnings, with no change to the Bank's dividend distribution policy. See also Note 24 to the Annual Financial Statements for 2019.

As a result of the sale of approximately 65% 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 is 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.

C.2.c. Implementation of regulatory directives with an effect on measurement and capital-adequacy matters

Sale of Isracard

In accordance with the requirements of the Law for Increasing Competition and Reducing Concentration in the Banking Market in Israel (Legislative Amendments), 2017 (the "Law for Increasing Competition"), and the publication of the prospectus for a public sale offering of the shares of Isracard, the Bank sold approximately 65.2% of the capital of Isracard in a public sale offering on April 8, 2019. The sale led to an increase of approximately 0.3% in the common equity Tier 1 capital ratio and in the total capital ratio. For details regarding the holdings of the Bank in the Isracard Group, see Section 2.6.1, "Principal companies," in the Report of the Board of Directors and Board of Management.
On February 2, 2020, the Board of Directors of the Bank approved distribution of the remaining holdings in the shares of Isracard as a dividend in kind to the shareholders of the Bank. The distribution was performed on March 9, 2020. The Bank thereby completed its separation from the Isracard Group, as required by the Law for Increasing Competition. The share distribution was performed according to the value of the shares on the stock exchange at the date of the distribution. The effect of the distribution of the dividend in kind is a decrease of approximately 0.2% in the common equity Tier 1 capital ratio and in the total capital ratio.

Improving operational efficiency

In January 2016, the Banking Supervision Department issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (the "Efficiency Directive"). Pursuant to the Efficiency Directive, the boards of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the directive will be granted a relief allowing them to spread the effects of the plan over a period of up to five years in a straight line, for the purposes of the calculation of capital-adequacy ratios and of the leverage ratio.
Further to the Efficiency Directive, in June 2017, the Banking Supervision Department issued a letter entitled, "Improving the operational efficiency of the banking system in Israel – efficiency in the area of real estate," which encourages banking corporations to also examine, in addition to improved efficiency in personnel expenses, the possibility of reducing real-estate and maintenance costs of headquarters and management units, including through a reexamination of the geographical location of such units ("Real-Estate Efficiency"). In order to encourage the implementation of a plan for Real-Estate Efficiency, the Banking Supervision Department will approve reliefs for the banks in the area of capital adequacy.
In a letter dated December 16, 2019, the Banking Supervision Department extended the period for implementation of the efficiency plan until December 31, 2021.

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

In October 2016, the Board of Directors of the Bank approved an efficiency plan at an estimated cost in the amount of NIS 762 million, net of tax effect, which was allocated to capital. The plan is being allocated in equal installments over five years, beginning in 2017, for the purpose of the calculation of capital-adequacy ratios and the leverage ratio.

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

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

Issuance of subordinated notes with a loss-absorption mechanism

In May 2020, the Bank issued a series of subordinated notes with a principal write-off mechanism, through Hapoalim Hanpakot, in the amount of approximately NIS 1.06 billion, which constitute part of the Tier 2 capital of the Bank. In August 2020, the Bank issued a series of subordinated notes with a mechanism for conversion into shares, in the amount of approximately NIS 0.7 billion, which constitute part of the Tier 2 capital of the Bank. For details regarding the issues, see Note 9J to the Condensed Financial Statements as at September 30, 2020.

Early redemption of capital notes in Tier 2 capital

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

The subsidiary of the Bank in Turkey

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

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

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

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

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

Leases

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

Guarantees with reduced conversion factors

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

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

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

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

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

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

C.2.d. 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.

C.3. Leverage ratio

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

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

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

Table C-2: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

	September 30, 2020	September 30, 2019	December 31, 2019
		NIS millions	
Total consolidated assets as per published financial statements	**513,686**	453,347	463,688
Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**	-	-
Adjustment for fiduciary assets recognized in the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement	**-**	-	-
Adjustments for derivative financial instruments	**(4,073)**	(3,270)	(3,474)
Adjustments for securities financing transactions	**-**	-	-
Adjustments for off-balance sheet items	**59,378**	55,470	56,545
Other adjustments	**4,332**	3,062	2,889
Exposure for the purposes of the leverage ratio	**573,323**	508,609	519,648

Table C-3: Leverage ratio disclosure

	September 30, 2020	September 30, 2019	December 31, 2019
	NIS millions/percent		
On-balance sheet exposures			
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**505,872**	443,237	455,020
Asset amounts deducted in determining Tier 1 capital	**(64)**	(49)	(57)
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**505,808**	443,188	454,963
Derivative exposures			
Replacement cost associated with all derivatives transactions	**2,828**	5,362	4,008
Add-on amounts for potential future exposure associated with all derivatives transactions	**7,016**	6,048	5,959
Gross-up for collateral provided in respect of derivatives deducted from balance sheet assets pursuant to the Public Reporting Directives	**-**	-	-
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(2,144)**	(1,988)	(2,298)
Exempted central counterparty leg of client-cleared trade exposures	**-**	-	-
Adjusted effective notional amount of written credit derivatives	**-**	-	-
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**	-	-
Total derivative exposures	**7,700**	9,422	7,669
Securities financing transaction exposures			
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**437**	529	471
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	**-**	-	-
Central counterparty credit risk exposure for securities financing transaction assets	**-**	-	-
Agent transaction exposures	**-**	-	-
Total securities financing transaction exposures	**437**	529	471
Other off-balance sheet exposures			
Off-balance sheet exposure at gross notional amount	**179,503**	168,916	170,946
Adjustments for conversion to credit equivalent amounts	**(120,125)**	(113,446)	(114,401)
Off-balance sheet items	**59,378**	55,470	56,545
Capital and total exposures			
Tier 1 capital*	**39,690**	40,261	39,528
Total exposures*	**573,323**	508,609	519,648
Leverage ratio			
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**6.92%**	7.92%	7.61%
Minimum leverage ratio required by the Banking Supervision Department**	**6.00%**	6.00%	6.00%

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

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

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

D. Credit risk

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

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

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 (market 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 counterparty risk – the risk that the counterparty to the transaction will default before the final settlement of cash flows in the derivatives transaction. Counterparty risk is addressed separately in Section E, below.

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).

In accordance with the reporting directives of the Bank of Israel, this section contains items to which the Basel credit-risk framework applies, pursuant to Proper Conduct of Banking Business Directive 203, unless explicitly noted otherwise.

Effect of the crisis of the spread of the coronavirus

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

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

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

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

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

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

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

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

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

As described above, due to the high uncertainty prevailing at this stage, it is not possible to estimate the full effects of the crisis and the extent of such effects on the Bank. It is emphasized that different assumptions could have given rise to different results, possibly materially, than those described above, and may lead to varying results among the different banking corporations. The estimates of the Bank regarding the possible ramifications of the spread of the coronavirus and its impact on the markets constitute forward-looking information, as defined in Section A.1 above. These estimates are uncertain, and may materialize in a manner materially different than described above.

D.1. Credit quality of credit exposures

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:

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

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

The deferral of payments, as noted above, for loans that were not in arrears of thirty days or more at the date of deferral of the payments, does not require the loans to be classified as debts in troubled debt restructuring. With regard to housing loans, on July 13, 2020, an additional deferral of payments was granted for housing loans that were not in arrears, due to the coronavirus event; in general, the deferral does not require the housing loans to be classified as debts in troubled debt restructuring, even if the cumulative deferral exceeds six months.

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

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

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

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

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

(1) Near the date of publication, the balance of credit in respect of which payments were deferred totaled approximately NIS 19,115 million; the balance of actual deferred payments totaled approximately NIS 1,813 million.
(2) Of which: deferrals granted other than within a lateral program in the amount of NIS 7,016 million.
(3) The payment deferral period is the cumulative period of deferrals granted to a debt, from the beginning of the efforts to cope with the coronavirus, not including deferrals to which the borrower is entitled under any law.
(4) Of which: impaired debts not accruing interest income in the amount of NIS 110 million.

Further details regarding recorded debt balance of debts in payment deferral					Further details regarding debts in payment deferral by duration of deferral[3]		Debts for which the payment deferral period has ended at the report date	
Problematic debts	Non-problematic debts						Recorded debt balance	Of which: in arrears of 30 days or more
	Debts not at credit execution rating	Debts at credit execution rating in arrears of 30 days or more	Debts at credit execution rating not in arrears	Total non-problematic debts	Debts deferred by more than 3 months, up to 6 months	Debts deferred by more than 6 months		
NIS millions								
715	141	-	2,140	2,281	1,944	18	625	-
178	1	-	1,061	1,062	732	62	948	-
139	945	-	2,730	3,675	1,167	2,201	4,967	28
113	804	1	1,994	2,799	838	1,812	2,001	32
55	677	140	6,532	7,349	4,151	2,663	13,427	372
1,200	2,568	141	14,457	17,166	8,832	6,756	21,968	432
306	123	-	2,576	2,699	1,241	1,703	-	-
[4]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 30% of the annual revenue of the customer or NIS 20 million.
    - Amplified track – the lower of 30% of the annual revenue of the customer or NIS 10 million.

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

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

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

Table D-3: Credit risk indicators

	As at	
	September 30, 2020	December 31, 2019
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.38%**	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*	**0.26%**	0.31%
Allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**2.07%**	1.58%
Collective allowance for credit losses, as a percentage of the balance of credit to the public*,**	**1.79%**	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*	**149.32%**	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*	**125.38%**	87.90%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.54%**	2.42%
Provision (income) for credit losses as a percentage of the average recorded balance of credit to the public	**0.95%**	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	**0.18%**	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	**8.79%**	7.48%

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

Portfolio quality analysis

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

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

The following indicators decreased (improved) during this period:

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

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

With regard to other indicators that refer to only to the risk in the portfolio of credit for private individuals, see Table D-12: Information regarding problematic debts in respect of private individuals in Israel, below.

Table D-4: Credit quality of credit exposures

		September 30, 2020			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	**4,945**	**436,170**	**1,518**	**439,597**
2	Bonds	**-**	**57,238**	**-**	**57,238**
3	Off-balance sheet exposures	**-**	**179,619**	**116**	**179,503**
4	Total	**4,945**	**673,027**	**1,634**	**676,338**

		September 30, 2019			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	3,588	375,205	670	378,123
2	Bonds	-	56,196	-	56,196
3	Off-balance sheet exposures	-	168,970	54	168,916
4	Total	3,588	600,371	724	603,235

		December 31, 2019			
		Gross balances		Allowances for credit losses or impairment	Net balances
		Impaired or in arrears of 90 days or more	Others		
		NIS millions			
1	Debts, excluding bonds	4,158	392,970	1,408	395,720
2	Bonds	-	50,809	-	50,809
3	Off-balance sheet exposures	-	171,011	65	170,946
4	Total	4,158	614,790	1,473	617,475

For further details, see Table 3-4: Additional information regarding changes in problematic debts in respect of credit to the public and in the individual allowance, in the Report of the Board of Directors and Board of Management.

D.2. Credit risk exposures

Table D-5: Details of exposures by economic sector

	September 30, 2020									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the period ended September 30, 2020[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	**2,801**	**2,583**	**76**	**2,790**	**2,125**	**75**	**20**	**(14)**	**(17)**	**23**
Mining and quarrying	**1,747**	**731**	**1,006**	**1,741**	**1,313**	**1,006**	**969**	**158**	**-**	**693**
Industry	**32,348**	**30,922**	**961**	**31,509**	**13,754**	**959**	**373**	**102**	**53**	**380**
Construction and real estate – construction[7]	**70,253**	**67,921**	**621**	**70,034**	**28,279**	**621**	**473**	**44**	**(2)**	**570**
Construction and real estate – real-estate activities	**27,735**	**25,089**	**1,133**	**27,365**	**22,391**	**1,103**	**242**	**104**	**(93)**	**594**
Electricity and water supply	**10,318**	**9,263**	**991**	**9,467**	**5,271**	**943**	**287**	**69**	**3**	**217**
Commerce	**36,561**	**33,645**	**1,244**	**36,375**	**23,682**	**1,237**	**422**	**277**	**126**	**957**
Hotels, hospitality, and food services	**11,258**	**9,845**	**489**	**11,207**	**9,514**	**489**	**143**	**186**	**10**	**252**
Transportation and storage	**9,396**	**8,333**	**477**	**9,128**	**6,518**	**422**	**94**	**12**	**24**	**137**
Information and communications	**6,329**	**5,889**	**309**	**6,282**	**3,718**	**309**	**258**	**(19)**	**10**	**314**
Financial services	**38,476**	**38,025**	**195**	**32,356**	**16,995**	**195**	**30**	**56**	**9**	**247**
Other business services	**14,469**	**13,352**	**121**	**14,440**	**9,132**	**121**	**101**	**88**	**49**	**186**
Public and community services	**7,765**	**7,319**	**71**	**7,725**	**5,826**	**71**	**40**	**32**	**8**	**81**
Total commercial[8]	**269,456**	**252,917**	**7,694**	**260,419**	**148,518**	**7,551**	**3,452**	**1,095**	**180**	**4,651**
Private individuals – housing loans	**103,153**	**99,915**	**695**	**103,153**	**96,565**	**695**	**1**	**296**	**6**	**733**
Private individuals – other	**56,234**	**51,538**	**849**	**56,225**	**34,683**	**849**	**777**	**487**	**194**	**1,078**
Total public – activity in Israel	**428,843**	**404,370**	**9,238**	**419,797**	**279,766**	**9,095**	**4,230**	**1,878**	**380**	**6,462**
Banks in Israel[9]	**2,710**	**2,710**	**-**	**1,192**	**195**	**-**	**-**	**-**	**-**	**-**
Israeli government	**48,385**	**48,385**	**-**	**1,388**	**1,388**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**[1]479,938**	**455,465**	**9,238**	**422,377**	**281,349**	**9,095**	**4,230**	**1,878**	**380**	**6,462**

(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 281,349, 46,999, 437, 4,471, and 146,682 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.
(7) Including balance sheet credit risk in the amount of approximately NIS 722 million and off-balance sheet credit risk in the amount of approximately NIS 476 million extended to certain purchasing groups, which are currently in the process of construction. Also includes off-balance sheet credit risk in the amount of approximately NIS 3,755 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 53 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	September 30, 2020									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the period ended September 30, 2020[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	**354**	**353**	**-**	**354**	**256**	**-**	**-**	**-**	**-**	**2**
Mining and quarrying	**1,294**	**1,272**	**22**	**543**	**458**	**22**	**22**	**3**	**-**	**3**
Industry	**4,015**	**3,175**	**780**	**2,930**	**1,823**	**780**	**94**	**37**	**21**	**30**
Construction and real estate	**7,967**	**6,610**	**763**	**7,967**	**6,436**	**763**	**224**	**134**	**(7)**	**266**
Electricity and water supply	**838**	**829**	**9**	**406**	**175**	**9**	**9**	**-**	**(1)**	**5**
Commerce	**3,295**	**2,753**	**318**	**2,831**	**2,198**	**318**	**88**	**(2)**	**7**	**29**
Hotels, hospitality, and food services	**3,857**	**3,234**	**361**	**3,857**	**2,851**	**361**	**15**	**40**	**-**	**72**
Transportation and storage	**874**	**606**	**151**	**619**	**591**	**151**	**77**	**13**	**3**	**31**
Information and communications	**1,545**	**1,439**	**24**	**1,012**	**711**	**24**	**24**	**9**	**3**	**8**
Financial services	**8,040**	**8,019**	**21**	**3,103**	**2,028**	**21**	**21**	**8**	**(2)**	**32**
Other business services	**625**	**517**	**-**	**625**	**532**	**-**	**-**	**2**	**-**	**4**
Public and community services	**945**	**850**	**35**	**762**	**657**	**35**	**35**	**4**	**-**	**13**
Total commercial[7]	**33,649**	**29,657**	**2,484**	**25,009**	**18,716**	**2,484**	**609**	**248**	**24**	**495**
Private individuals – housing loans	**505**	**480**	**19**	**505**	**485**	**19**	**-**	**2**	**-**	**5**
Private individuals – other	**226**	**221**	**2**	**226**	**54**	**2**	**2**	**1**	**3**	**3**
Total public – activity overseas	**34,380**	**30,358**	**2,505**	**25,740**	**19,255**	**2,505**	**611**	**251**	**27**	**503**
Banks overseas[8]	**31,028**	**31,023**	**-**	**17,461**	**16,709**	**-**	**-**	**-**	**-**	**2**
Governments overseas	**10,612**	**9,929**	**-**	**1,192**	**1,192**	**-**	**-**	**1**	**-**	**7**
Total activity overseas	**[1]76,020**	**71,310**	**2,505**	**44,393**	**37,156**	**2,505**	**611**	**252**	**27**	**512**
Total in Israel and overseas	**555,958**	**526,775**	**11,743**	**466,770**	**318,505**	**11,600**	**4,841**	**2,130**	**407**	**6,974**

(1) Balance sheet credit risk and off-balance sheet credit risk, 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 37,156, 18,786, 0, 7,303, and 12,775 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, 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.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 0 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	December 31, 2019									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2019[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	2,892	2,742	91	2,879	2,230	91	20	(22)	(18)	19
Mining and quarrying	2,449	1,188	1,250	2,440	1,962	1,177	987	490	1	511
Industry	31,029	29,736	915	30,514	14,237	912	405	26	33	333
Construction and real estate – construction[7]	67,577	65,812	951	67,454	27,798	951	603	(125)	(100)	523
Construction and real estate – real-estate activities	24,702	23,390	1,214	24,532	20,228	1,208	305	13	(112)	402
Electricity and water supply	10,803	9,649	1,069	9,574	5,730	1,032	359	87	2	149
Commerce	35,380	33,746	953	35,147	24,548	952	539	157	120	806
Hotels, hospitality, and food services	10,120	9,598	247	10,025	8,396	247	124	(10)	15	77
Transportation and storage	9,708	8,670	639	9,594	6,726	626	94	125	39	148
Information and communications	6,628	6,157	325	6,589	4,043	325	274	98	3	339
Financial services	38,346	38,001	138	33,318	20,005	138	30	19	(38)	200
Other business services	13,297	12,775	130	13,262	8,616	130	112	65	50	148
Public and community services	7,582	7,403	70	7,572	5,724	70	22	21	15	57
Total commercial[8]	260,513	248,867	7,992	252,900	150,243	7,859	3,874	944	10	3,712
Private individuals – housing loans	96,480	94,590	696	96,480	89,228	696	2	31	9	443
Private individuals – other	59,540	56,420	904	59,532	38,626	904	760	193	297	785
Total public – activity in Israel	416,533	399,877	9,592	408,912	278,097	9,459	4,636	1,168	316	4,940
Banks in Israel[9]	2,905	2,905	-	1,120	132	-	-	-	-	-
Israeli government	41,585	41,585	-	794	794	-	-	-	-	-
Total activity in Israel	[1]461,023	444,367	9,592	410,826	279,023	9,459	4,636	1,168	316	4,940

(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 279,023, 40,319, 471, 4,575, and 136,635 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.
(7) Including balance sheet credit risk in the amount of approximately NIS 754 million and off-balance sheet credit risk in the amount of approximately NIS 967 million extended to certain purchasing groups, which are currently in the process of construction. Also includes off-balance sheet credit risk in the amount of approximately NIS 13,797 million, in respect of which insurance was acquired from foreign insurance companies for the portfolio of Sale Law guarantees.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 74 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D-5: Details of exposures by economic sector (continued)

	December 31, 2019									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
								Credit losses for the year ended December 31, 2019[4]		
	Total	Credit execution rating[5]	Problematic[6]	Total	Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	383	383	-	383	267	-	-	-	-	2
Mining and quarrying	747	747	-	207	63	-	-	(1)	-	-
Industry	3,756	3,475	218	3,056	2,032	218	61	11	15	10
Construction and real estate	8,714	7,956	576	8,572	6,652	576	279	63	(13)	150
Electricity and water supply	903	823	10	516	210	10	10	(1)	-	6
Commerce	3,119	2,673	151	2,855	2,364	151	107	24	26	20
Hotels, hospitality, and food services	3,317	3,068	57	3,317	2,688	57	20	(1)	-	24
Transportation and storage	778	629	146	653	590	146	95	(3)	(2)	31
Information and communications	1,366	1,330	36	1,053	706	36	36	8	8	3
Financial services	7,279	7,233	44	3,411	2,262	44	39	12	-	34
Other business services	818	728	-	818	616	-	-	(1)	-	4
Public and community services	907	864	44	818	557	44	8	-	(1)	11
Total commercial[7]	32,087	29,909	1,282	25,659	19,007	1,282	655	111	33	295
Private individuals – housing loans	489	471	6	489	474	6	-	-	-	3
Private individuals – other	256	248	6	256	69	6	6	(2)	3	5
Total public – activity overseas	32,832	30,628	1,294	26,404	19,550	1,294	661	109	36	303
Banks overseas[8]	32,439	32,439	-	18,549	17,933	-	-	-	-	2
Governments overseas	9,294	9,294	-	1,183	1,183	-	-	(1)	-	6
Total activity overseas	[1]74,565	72,361	1,294	46,136	38,666	1,294	661	108	36	311
Total in Israel and overseas	535,588	516,728	10,886	456,962	317,689	10,753	5,297	1,276	352	5,251

(1) Balance sheet credit risk and off-balance sheet credit risk, 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 38,666, 17,394, 0, 6,568, and 11,937 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, 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.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 1 million, of commercial borrowers, or extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

D.2.a. Credit exposure to foreign financial institutions

Table D-6: Exposure of the Bank Group to foreign financial institutions[(1)]

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

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 64 million, of which a total of NIS 42 million rated A-, a total of NIS 16 million rated BBB+, and a total of NIS 6 million rated BBB- (total exposure at the end of 2019 was approximately NIS 163 million, rated A-).
Italy – Total exposure of approximately NIS 18 million, of which a total of NIS 16 million rated BBB- and the remaining amount of NIS 1 million rated BB (total exposure at the end of 2019 was approximately NIS 83 million, of which a total of NIS 76 million rated BBB and the remaining amount of NIS 7 million rated BBB-).
There is no exposure to financial institutions in Ireland, Greece, or Portugal.

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

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

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

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

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

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

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

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

D.3. Additional information regarding exposures to credit risks

D.3.a. Credit risk in respect of exposures to borrowers and to groups of borrowers

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

	September 30, 2020			
	Number of borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**2**	**42**	**3,980**	**4,022**
Construction and real estate – construction	**1**	**198**	**1,068**	**1,266**
Electricity and water supply	**1**	**599**	**1,590**	**2,189**
Financial services	**5**	**6,796**	**7,009**	**13,805**
Total	**9**	**7,635**	**13,647**	**21,282**

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

Credit risk in respect of exposure to borrower groups

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

Table D-8: Credit risk balances[1] for each group of borrowers whose net indebtedness on a consolidated basis exceeds 15% of the capital of the banking corporation (as defined in Directive 313) as at September 30, 2020

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

(1) The data presented below represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.

D.3.b. Risks in the housing loan portfolio

Table D-9: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign-currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate			
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Recorded debt balance in NIS millions	Rate of change during the period
Sept. 30, 2020	**20,442**	**21.1%**	**37,623**	**38.7%**	**13,684**	**14.1%**	**25,133**	**25.9%**	**221**	**0.2%**	**97,103**	**8.2%**
Dec. 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%
Dec. 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%

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 D-10: Details of characteristics of housing credit granted by the Bank – percentage of total new loans executed

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

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

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

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

The following indicators were stable:

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

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

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

D.3.c. Credit to private individuals (excluding housing)

Table D-11: Balance of credit to private individuals in Israel

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

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

Table D-12: Information regarding problematic debts in respect of private individuals in Israel

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

(1) Calculated on an annualized basis.

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

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

The following indicators increased:

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

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

For additional information regarding the risk of credit to private individuals, see the section "Review of risks" in the Report of the Board of Directors and Board of Management as at September 30, 2020.

D.3.d. Leveraged financing

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

	September 30, 2020			
	Number of borrowers	Balance sheet credit balance	Off-balance sheet credit balance	Total
		NIS millions		
Economic sector of the borrower				
Construction and real estate – construction	**3**	**508**	**1,014**	**1,522**
Construction and real estate – real-estate activities	**1**	**435**	**-**	**435**
Mining and quarrying*	**2**	**279**	**-**	**279**
Electricity and water	**-**	**-**	**-**	**-**
Information and communications	**-**	**-**	**-**	**-**
Commerce	**-**	**-**	**-**	**-**
Industry	**1**	**422**	**-**	**422**
Other business services	**1**	**90**	**176**	**266**
Total	**8**	**1,734**	**1,190**	**2,924**

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

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

D.4. Credit risk mitigation: standardized approach disclosures

Table D-14: Credit risk mitigation

	September 30, 2020								
	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	**424,518**	**15,079**	**6,760**	**12,547**	**4,632**	**2,532**	**2,128**	**-**	**-**
2 Bonds	**57,238**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3 Total	**481,756**	**15,079**	**6,760**	**12,547**	**4,632**	**2,532**	**2,128**	**-**	**-**
4 Of which: impaired or in arrears of 90 days or more	**3,347**	**12**	**4**	**12**	**4**	**-**	**-**	**-**	**-**

	September 30, 2019								
	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	364,266	13,857	8,007	11,136	5,717	2,721	2,290	-	-
2 Bonds	56,196	-	-	-	-	-	-	-	-
3 Total	420,462	13,857	8,007	11,136	5,717	2,721	2,290	-	-
4 Of which: impaired or in arrears of 90 days or more	2,917	25	4	25	4	-	-	-	-

	December 31, 2019								
	Unsecured	Secured							
				Of which: by collateral		Of which: by financial guarantees		Of which: by credit derivatives	
	Total balance sheet balance	Total balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured	Balance sheet balance	Of which: amount secured
	NIS millions								
1 Debts, excluding bonds	383,102	12,618	6,560	9,927	4,306	2,691	2,254	-	-
2 Bonds	50,809	-	-	-	-	-	-	-	-
3 Total	433,911	12,618	6,560	9,927	4,306	2,691	2,254	-	-
4 Of which: impaired or in arrears of 90 days or more	3,361	13	3	13	3	-	-	-	-

D.4.a. Standardized approach – exposures by asset type and risk weight

Table D-15: Standardized approach – exposures by asset type and risk weight(1)(2)

		September 30, 2020									
		0%	20%	35%	50%	60%	75%	100%	150%	Other(3)	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	**160,471**	**7,002**	**-**	**20**	**-**	**-**	**254**	**64**	**-**	**167,811**
2	Public-sector entities (PSE) other than the central government	**1,879**	**348**	**-**	**3,510**	**-**	**-**	**-**	**-**	**-**	**5,737**
3	Banks (including multilateral development banks (MDB))	**-**	**14,715**	**-**	**3,436**	**-**	**-**	**52**	**1**	**-**	**18,204**
4	Securities companies	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
5	Corporations	**-**	**5,614**	**-**	**2,978**	**-**	**-**	**103,183**	**82**	**-**	**111,857**
6	Retail exposures to individuals	**-**	**-**	**-**	**-**	**-**	**50,199**	**-**	**-**	**-**	**50,199**
7	Loans to small businesses	**-**	**-**	**-**	**-**	**-**	**10,313**	**-**	**-**	**-**	**10,313**
8	Secured by a residential property	**-**	**-**	**29,213**	**27,955**	**15,666**	**20,665**	**3,687**	**-**	**-**	**97,186**
9	Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**-**	**67,617**	**-**	**-**	**67,617**
10	Loans in arrears	**-**	**-**	**-**	**-**	**-**	**-**	**1,255**	**1,760**	**-**	**3,015**
11	Other assets*	**3,065**	**-**	**-**	**-**	**-**	**-**	**8,599**	**948**	**859**	**13,471**
11A	* Of which: in respect of shares	**-**	**-**	**-**	**-**	**-**	**-**	**1,392**	**656**	**-**	**2,048**
12	Total	**165,415**	**27,680**	**29,213**	**37,899**	**15,666**	**81,177**	**184,647**	**2,855**	**859**	**545,411**

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.
(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.
(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%, beginning January 1, 2020. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-15: Standardized approach – exposures by asset type and risk weight[1][2] (continued)

		September 30, 2019									
		0%	20%	35%	50%	60%	75%	100%	150%	Other[3]	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	107,218	4,661	-	-	-	-	299	36	-	112,214
2	Public-sector entities (PSE) other than the central government	2,008	254	-	4,249	-	-	-	-	-	6,511
3	Banks (including multilateral development banks (MDB))	140	15,331	-	4,101	-	-	59	-	-	19,631
4	Securities companies	-	-	-	-	-	-	-	-	-	-
5	Corporations	-	4,598	-	2,364	-	-	106,280	-	-	113,242
6	Retail exposures to individuals	-	-	-	-	-	55,056	-	-	-	55,056
7	Loans to small businesses	-	-	-	-	-	9,412	-	-	-	9,412
8	Secured by a residential property	-	-	28,349	24,606	8,576	22,295	3,661	-	-	87,487
9	Secured by commercial real estate	-	-	-	-	-	-	61,306	-	-	61,306
10	Loans in arrears	-	-	-	-	-	-	1,272	1,409	-	2,681
11	Other assets*	3,134	-	-	-	-	-	6,764	729	-	10,627
11A	* Of which: in respect of shares	-	-	-	-	-	-	1,200	480	-	1,680
12	Total	112,500	24,844	28,349	35,320	8,576	86,763	179,641	2,174	-	478,167

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.

(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.

(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%, beginning January 1, 2020. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

Table D-15: Standardized approach – exposures by asset type and risk weight[(1)(2)] (continued)

		December 31, 2019									
		0%	20%	35%	50%	60%	75%	100%	150%	Other[(3)]	Total amount of credit exposures (after CCF and after CRM)
		NIS millions									
1	Sovereigns, central banks thereof, and national monetary authority	118,436	4,662	-	-	-	-	285	38	-	123,421
2	Public-sector entities (PSE) other than the central government	1,858	212	-	4,110	-	-	-	-	-	6,180
3	Banks (including multilateral development banks (MDB))	17	15,408	-	3,810	-	-	51	-	-	19,286
4	Securities companies	-	-	-	-	-	-	-	-	-	-
5	Corporations	-	4,232	-	2,185	-	-	105,984	-	-	112,401
6	Retail exposures to individuals	-	-	-	-	-	54,223	-	-	-	54,223
7	Loans to small businesses	-	-	-	-	-	9,078	-	-	-	9,078
8	Secured by a residential property	-	-	28,469	25,264	10,202	21,868	3,800	-	-	89,603
9	Secured by commercial real estate	-	-	-	-	-	-	63,842	-	-	63,842
10	Loans in arrears	-	-	-	-	-	-	1,177	1,839	-	3,016
11	Other assets*	2,896	-	-	-	-	-	7,347	781	-	11,024
11A	* Of which: in respect of shares	-	-	-	-	-	-	1,279	492	-	1,771
12	Total	123,207	24,514	28,469	35,369	10,202	85,169	182,486	2,658	-	492,074

(1) The balances in the disclosure include balance sheet and off-balance sheet balances reflecting credit risk, excluding amounts of deferred taxes and investments in financial corporations below deduction thresholds (which are subject to a risk weight of 250%), exposures in respect of counterparty credit risk, and securitization exposures.

(2) The balances reflect the supervisory exposure amounts net of allowances and charge-offs, after credit conversion factors and after credit risk mitigation methods.

(3) In accordance with the letter of the Banking Supervision Department, the risk-adjusted assets of the subsidiary of the Bank in Turkey are weighted at a rate of 300%, beginning January 1, 2020. The balance reflects the addition in respect of the calculation of risk-adjusted assets in accordance with this letter, relative to the calculation of risk-adjusted assets pursuant to Proper Conduct of Banking Business Directive 203.

E. Counterparty credit risks

Counterparty risk is defined at the Bank, according to the definition in Proper Conduct of Banking Business Directive 203, as the credit risk arising from transactions in derivative financial instruments. The risk is that the counterparty to the transaction will default before the final settlement of cash flows in the derivative transaction. The market value of the transaction may be positive or negative for any of the parties to the transaction; the market value is not certain, and may change over time and according to movements in the underlying market-risk factors.

During the first quarter of 2020, as a result of the effects of the crisis of the spread of the coronavirus, the level of volatility of risk factors in the financial markets increased, including exchange rates, spreads, share prices, and bond prices. In addition, interest rates of central banks decreased. As a result, increases were recorded in internal risk estimates for customers with derivatives activity at the Bank. A decrease in market volatility was observed during the second and third quarters, leading to a decrease in these risk estimates.

For details, see Section B.5 above, and the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.

Table E-1: Analysis of exposure to counterparty credit risk based on the supervisory approach

		September 30, 2020				September 30, 2019*			
		Replacement cost	Potential future exposure	EAD after CRM	RWA	Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions							
1	Present exposure method	**2,795**	**6,587**	**8,029**	**5,103**	3,535	5,628	8,180	5,386
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	**-**	**-**	**-**	**-**	-	-	-	-
6	Total	**2,795**	**6,587**	**8,029**	**5,103**	3,535	5,628	8,180	5,386

		December 31, 2019*			
		Replacement cost	Potential future exposure	EAD after CRM	RWA
		NIS millions			
1	Present exposure method	3,212	5,580	7,800	5,130
3	Comprehensive approach to credit risk mitigation (for securities financing transactions (SFT))	-	-	-	-
6	Total	3,212	5,580	7,800	5,130

* Restated.

Table E-2: Capital allocation in respect of credit value adjustment

	September 30, 2020		September 30, 2019		December 31, 2019	
	EAD after CRM	RWA	EAD after CRM	RWA	EAD after CRM	RWA
	NIS millions					
3 Total portfolios in respect of which CVA is calculated according to the standardized approach	**7,789**	**2,510**	8,180	2,803	7,800	2,713

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

F. Market risk

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

- **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;
- **Spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

The main market risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.

During the first quarter of 2020, as a result of the effects of the coronavirus outbreak crisis, the level of volatility of risk factors in the financial markets increased, including exchange rates, basis spreads, share prices, and bond prices. In addition, interest rates of central banks decreased. The volatility subsided during the second and third quarters, and stock and corporate bond indices 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, and of the customers of the Bank with activity in derivatives. The reduction of short-term interest rates by the central banks – the rate cuts already performed as well as probable additional reductions – and the changes in yield curves in the market affect the reduction of the future financing income and interest income of the Bank, as well as the fair value and economic value, as detailed in the tables below. For further details, see Section B.5 above and the section "Economic and financial review" in the Report of the Board of Directors and Board of Management.

F.1. Market risk in the trading book

Market risks in the trading book arise from the Bank's activity as a market maker, trader, and manager of positions on its own behalf. The Bank's risk level is measured and controlled according to procedures that include, among other things, limits on the risk estimate in terms of VaR and on the sensitivity of economic value to changes in the primary risk factors. A risk estimate using the VaR (value at risk) method assesses the maximum potential loss to a corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors (see the risk estimate methodology in the Report on Risks for 2019).

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

	September 30, 2020	**Average in 2020**	December 31, 2019	Average in 2019
	NIS millions			
Total trading in dealing rooms	**24**	**35**	31	24

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

	September 30, 2020		December 31, 2019	
	10% increase	10% decrease	10% increase	10% decrease
	NIS millions			
USD	**(75)**	**107**	189	68
EUR	**58**	**(52)**	45	26
	3% increase	3% decrease	3% increase	3% decrease
Consumer price index*	**275**	**(391)**	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 14 to the Condensed Financial Statements, plus the effect of the CPI floor on the expected accounting profit.

Table F-3: Market risk based on the standardized approach

The Bank is required to allocate capital in respect of market risk assets, on the basis of a standardized model defined by the Bank of Israel. Regulatory capital adequacy is calculated for interest-rate and share risks, as defined above, in the trading book only, and for currency risks in the banking book and in the trading book.

		September 30, 2020	September 30, 2019	December 31, 2019
		Risk-adjusted assets in NIS millions		
	Direct products			
1	Interest-rate risk (general and specific)	**2,801**	2,185	2,081
2	Share position risk (general and specific)	**4**	10	4
3	Exchange-rate risk	**113**	600	950
4	Commodity risk	**-**	-	-
	Options			
5	Simplified approach	**-**	-	-
6	Delta-plus approach	**623**	249	493
7	Scenario approach	**-**	-	-
8	Securitization	**-**	-	-
9	Total	**3,541**	3,044	3,528

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

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

The table below presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by interest-rate curves that do not take into account the credit risk spread of the counterparty, with the use of internal models for some products. This differs from the calculation in fair-value tables, which is based on factors including the discounting of expected cash flows by a discount rate also reflecting the risk level inherent in the financial instrument. Pursuant to the Public Reporting Directives of the Bank of Israel, the Bank applies hypothetical shock and stress scenarios of changes in interest rates to the adjusted net fair value of the financial instruments used by the Bank. The stress scenarios are calculated according to formulas defined in the BOI reporting requirements. The required scenarios are steepening (a decrease in the short-term interest rate and an increase in the long-term interest rate), flattening (an increase in the short-term interest rate and a decrease in the long-term interest rate), an increase in the short-term interest rate, and a decrease in the short-term interest rate. The scenarios were applied uniformly to all of the currencies included in the report to the public.

Table F-4: Adjusted* net fair value of the financial instruments of the Bank and its consolidated companies

	September 30, 2020					December 31, 2019				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS*	CPI-linked NIS*	Foreign currency – USD	Foreign currency – other	Total
	NIS millions									
Financial assets***	**368,616**	**52,091**	**61,536**	**9,864**	**492,107**	323,633	50,697	58,409	10,977	443,716
Other amounts receivable in respect of derivative, hybrid, and off-balance sheet financial instruments	**390,294**	**17,187**	**250,024**	**65,722**	**723,227**	431,288	19,575	269,874	63,047	783,784
Financial liabilities***	**311,501**	**36,312**	**93,868**	**14,401**	**456,082**	270,294	39,823	83,705	14,532	408,354
Other amounts payable in respect of derivative, hybrid, and off-balance sheet financial instruments	**424,704**	**19,502**	**218,316**	**61,523**	**724,045**	459,513	20,318	246,843	58,070	784,744
Net fair value of financial instruments	**22,705**	**13,464**	**(624)**	**(338)**	**35,207**	25,114	10,131	(2,265)	1,422	34,402
Effect of employee benefit liabilities	**-**	**(4,711)**	**-**	**-**	**(4,711)**	-	(4,918)	-	-	(4,918)
Effect of spreading over periods of on-demand deposits	**1,801**	**-**	**729**	**127**	**2,657**	1,856	-	1,124	101	3,081
Adjusted net fair value**	**24,506**	**8,753**	**105**	**(211)**	**33,153**	26,970	5,213	(1,141)	1,523	32,565
Of which: banking book	**24,492**	**7,922**	**246**	**(312)**	**32,348**	27,207	5,100	(1,622)	1,327	32,012

* Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.

** 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 the assumptions used to calculate the fair value of financial instruments, see Note 15 to the Condensed Financial Statements.

*** Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments.

Table F-5: Effect of scenarios of changes in interest rates on the adjusted* net fair value of the Bank and its consolidated companies

	September 30, 2020					December 31, 2019				
	Unlinked NIS	CPI-linked NIS	Foreign currency – USD	Foreign currency – other	Total	Unlinked NIS**	CPI-linked NIS**	Foreign currency – USD	Foreign currency – other	Total
	NIS millions									
Parallel changes										
1% parallel increase	**(96)**	**(359)**	**(49)**	**81**	**(423)**	160	(104)	37	52	145
Of which: banking book	**(143)**	**(343)**	**(39)**	**84**	**(441)**	150	(115)	54	52	141
1% parallel decrease	**163**	**389**	**60**	**(79)**	**533**	(112)	93	(33)	(63)	(115)
Of which: banking book	**210**	**373**	**57**	**(82)**	**558**	(103)	105	(41)	(64)	(103)
Non-parallel changes										
Steepening(1)	**(456)**	**(95)**	**(183)**	**20**	**(714)**	(360)	21	(162)	24	(477)
Of which: banking book	**(427)**	**(94)**	**(202)**	**19**	**(704)**	(336)	10	(203)	25	(504)
Flattening(2)	**425**	**20**	**138**	**(3)**	**580**	416	(47)	143	(14)	498
Of which: banking book	**386**	**23**	**173**	**(2)**	**580**	385	(38)	203	(15)	535
Increase in short-term interest rate	**315**	**(132)**	**37**	**34**	**254**	391	(82)	88	(4)	393
Of which: banking book	**260**	**(123)**	**90**	**36**	**263**	355	(79)	161	(6)	431
Decrease in short-term interest rate	**(358)**	**126**	**(45)**	**(34)**	**(311)**	(416)	76	(92)	3	(429)
Of which: banking book	**(303)**	**117**	**(97)**	**(37)**	**(320)**	(387)	73	(155)	4	(465)

* 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.
** Reclassification of employee benefit liability balances from the unlinked segment to the CPI-linked segment.
(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.

Table F-6: Sensitivity of the economic value of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

	September 30, 2020			December 31, 2019		
	Unlinked NIS	CPI-linked NIS	Foreign currency	Unlinked NIS	CPI-linked NIS*	Foreign currency
	NIS millions					
Parallel changes						
1% parallel increase	**(464)**	**(691)**	**27**	(319)	(461)	106
1% parallel decrease	**592**	**795**	**(13)**	410	593	(98)

* Data regarding the CPI-linked NIS interest-rate sensitivity for 2019 were adjusted due to the addition of the employee benefit liability balance to the economic model. As a result, sensitivity to a 1% increase in this segment decreased by approximately NIS 0.4 billion.

The increase in the sensitivity of economic value in the first three quarters of 2020 in the CPI-linked NIS segment mainly resulted from mortgage granting and shorter issuance; in the unlinked shekel segment, it mainly resulted from mortgage granting and purchases of government bonds, offset by the update of the current-account model balance layout.

Beginning in the second quarter of 2020, liabilities to employees are included in value sensitivity management in the CPI-linked NIS segment. The sensitivity for December 2019 was retrospectively amended accordingly. The effect on sensitivity is approximately NIS 0.4 billion (a decrease of the sensitivity to an increase in the interest rate). The difference between economic value sensitivity and fair value sensitivity as at September 30, 2020, mainly stems from the use of different discount curves, as described above, the effect of which is estimated at approximately NIS 0.3 billion in the unlinked segment and approximately NIS 0.35 billion in the CPI-linked segment.

Table F-7: Effect of scenarios of changes in interest rates on interest income

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

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

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

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

For details regarding investments of the Bank, see Note 5 to the Condensed Financial Statements.
For details regarding the effect of the spread of the coronavirus, see Section B.5 above.

For more extensive information regarding market and investment risks and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019.

G. Liquidity risk

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

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or the risk that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk. In light of the financing sources of the Bank, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Liquidity risk is 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. Routine liquidity risk management is under the responsibility of the Asset and Liability Management Area, and is conducted in accordance with a Group-level policy, with the aim of maintaining the ability of the Bank to meet all of its present liabilities without damage to its routine operations and existing capabilities, and without incurring exceptional losses. Reports are submitted to Board of Management committees on a monthly basis, and to Board of Directors committees on a quarterly basis. The Bank continually monitors its stable financing ratio, examines the effects of the business plan on its liquidity profile, and ensures that it continues to comply with all limits in the course of the expected changes on the business level. The Market and Liquidity Risk Management Department in the Risk Management Division routinely monitors liquidity using internal and environmental parameters, independently reports the risk level to the committees of the Board of Management and the Board of Directors, and challenges the parameters in the various models related to liquidity.

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

	For the quarter ended September 30, 2020	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**153,840**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**230,118**	**18,136**
Stable deposits	**74,303**	**3,715**
Less stable deposits	**117,747**	**13,279**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**38,068**	**1,142**
Unsecured wholesale financing, of which:	**141,246**	**91,652**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**2,173**	**543**
Non-operational deposits (all counterparties)	**138,464**	**90,500**
Unsecured debts	**609**	**609**
Secured wholesale financing	**6**	**-**
Additional liquidity requirements, of which:	**102,608**	**22,422**
Outflows related to derivative exposure and other collateral requirements	**12,568**	**11,898**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**90,040**	**10,524**
Other contractual funding obligations	**2,292**	**2,292**
Other contingent funding obligations	**52,157**	**1,721**
Total cash outflows		**136,223**
Cash inflows		
Secured lending (e.g. reverse repos)	**347**	**345**
Inflows from fully performing exposures	**19,528**	**10,765**
Other cash inflows	**13,448**	**8,640**
Total cash inflows		**19,750**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**153,840**
Total net cash outflows	**116,473**
Liquidity coverage ratio (%)	**132%**

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

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 61.

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

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

	For the quarter ended September 30, 2019*	
	Total unweighted value**	Total weighted value***
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		106,503
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	200,053	15,047
Stable deposits	65,862	3,293
Less stable deposits	93,418	10,531
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	40,773	1,223
Unsecured wholesale financing, of which:	110,380	70,094
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,927	482
Non-operational deposits (all counterparties)	107,911	69,070
Unsecured debts	542	542
Secured wholesale financing	4	-
Additional liquidity requirements, of which:	94,214	21,326
Outflows related to derivative exposure and other collateral requirements	12,602	11,751
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	81,612	9,575
Other contractual funding obligations	4,365	4,365
Other contingent funding obligations	52,960	1,755
Total cash outflows		112,587
Cash inflows		
Secured lending (e.g. reverse repos)	508	508
Inflows from fully performing exposures	22,346	14,924
Other cash inflows	16,488	11,474
Total cash inflows	39,342	26,906

	Total adjusted value****
Total high-quality liquid assets (HQLA)	106,503
Total net cash outflows	85,681
Liquidity coverage ratio (%)	124%

* Includes balances attributed to a discontinued operation.

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

*** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 62.

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

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

	For the quarter ended December 31, 2019	
	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		109,137
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	199,825	15,097
Stable deposits	65,896	3,295
Less stable deposits	94,148	10,609
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	39,781	1,193
Unsecured wholesale financing, of which:	112,954	71,819
Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,996	499
Non-operational deposits (all counterparties)	110,479	70,841
Unsecured debts	479	479
Secured wholesale financing	4	-
Additional liquidity requirements, of which:	93,378	20,440
Outflows related to derivative exposure and other collateral requirements	11,341	10,740
Outflows related to loss of funding on debt products	-	-
Credit and liquidity facilities	82,037	9,700
Other contractual funding obligations	4,345	4,345
Other contingent funding obligations	53,023	1,774
Total cash outflows		113,475
Cash inflows		
Secured lending (e.g. reverse repos)	332	331
Inflows from fully performing exposures	20,734	12,578
Other cash inflows	15,538	10,421
Total cash inflows	36,604	23,330

	Total adjusted value***
Total high-quality liquid assets (HQLA)	109,137
Total net cash outflows	90,145
Liquidity coverage ratio (%)	121%

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

** Weighted values were calculated after the application of respective haircuts or inflow and outflow rates (for inflow and outflow), based on an average of daily observations. The number of observations used to calculate the averages in the reported quarter is 58.

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

The average ratio during the third quarter of 2020 (the average of the daily observations) is 132%, consolidated, and 131% for the stand-alone banking corporation, while the minimum requirement is 100%. This ratio increased slightly during the quarter, in comparison to the preceding quarter. The increase in the ratio mainly resulted from an increase in deposits from the public, beyond the increase in credit to the public. There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

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

The liquid assets of the Bank mainly consist of Israeli government bonds in NIS and in foreign currency, US government bonds in foreign currency, and deposits with central banks (the Bank of Israel and the Federal Reserve). 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. Some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company), according to need, and the Bank does not rely on these assets. The Bank manages the liquidity coverage ratio, and accordingly its liquid assets, with a separation of NIS and foreign currencies. For details of liquid assets by level, see the table below. 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.

The main source of funding of the Bank is deposits from retail customers and small businesses in Israel, which generate low liquidity risk relative to other resources. In addition, the Bank obtains financing through issues, deposits from corporate and financial companies, and more. Funding in foreign currency includes deposits from private customers and from 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. Deposits from corporate and financial entities with a maturity date of up to one month are subject to high outflow coefficients, pursuant to the directive, and therefore have a relatively large contribution to cash outflow. The Bank monitors the concentration of funding sources, in various breakdowns, in both NIS and foreign currency, and complies with the internal limits in this area. The Bank does not rely on funding from the capital market as a major financing source.

Derivatives create a large inflow and a large outflow, and lead to redirection of liquid assets and net cash outflow between NIS and foreign currency, but their net contribution in all currencies is low. In the calculation of liquid assets, the Bank does not include collateral which it is required to deposit against derivatives activity; volatility in the volume of this deposit is taken into consideration, as required in the directive.

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

	Balance as at September 30, 2020	Average in the quarter ended September 30, 2020
Level 1 assets	**156,266**	**150,634**
Level 2A assets	**2,671**	**2,676**
Level 2B assets	**531**	**530**
Total HQLA	**159,468**	**153,840**

	Balance as at September 30, 2019	Average in the quarter ended September 30, 2019
Level 1 assets	103,975	105,095
Level 2A assets	1,187	1,107
Level 2B assets	306	301
Total HQLA	105,468	106,503

	Balance as at December 31, 2019	Average in the quarter ended December 31, 2019
Level 1 assets	113,251	107,647
Level 2A assets	1,171	1,185
Level 2B assets	302	305
Total HQLA	114,724	109,137

H. Operational risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputational risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, 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.

H.1. Information security and cyber risks

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

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

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

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

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

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

H.2. Emergency preparedness

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

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

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

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

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

I. Compliance risk

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

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

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

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

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

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

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

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

J. 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.

For additional information regarding legal risk and the management thereof, see the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks as at December 31, 2019; Note 25 to the Annual Financial Statements for 2019; and Note 10 to the Condensed Financial Statements.

K. Reputational risk

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

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

L. Regulatory risk

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

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

For details regarding material regulatory initiatives with an effect on the activity of the Bank during the reported period, see Note 16 to the Condensed Financial Statements.

M. Economic risk

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

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 the spread of the coronavirus, see Section B.5 above.

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

N. Strategic risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is 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.

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

O. Environmental risk

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

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