Mizrahi-Tefahot Bank

Annual Report

2019

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The Bank has received approval from the Supervisor of Banks to publish its annual financial statement on a consolidated basis only.
Note 36 to the financial statements provides a summary of the Bank's solo financial statements.
A brochure providing Bank information is available on demand and on the Bank's website:
www.mizrahi-tefahot.co.il > about the bank > investor relations > financial statements

Message from the Chairman of the Board of Directors

In the name of the Bank's Board of Directors, I am honored to present you with Mizrahi Tefahot's 2019 financial statements.

These are record results, reflecting continued growth compared to Bank achievements in 2018, as well as from a multi-year perspective. Revenues grew to over NIS 7.3 billion and net profit reached a record level of NIS 1,842 million – an increase by 52.7% compared to 2018 reported profit. Over the past five years, the average annual growth of loans to the public was 6.8%, of deposits from the public – 6.7% and of Bank shareholder equity – 8.2%.

Data on the 2019 financial statements shows that the Bank has achieved the targets of the 2017-2021 strategic plan – two years ahead of time. Thus, inter alia, return on equity in 2019 was at 11.9%, compared to the 11.5% target for end of 2021; the cost income ratio in 2019 reached 54.6%, compared to the 55% strategic-target; Mizrahi-Tefahot Group reached a market share of loans to the public in Israel (as of end of September 2019) at 20.1%, compared to the 20.0% strategic target; and the Group's share of deposits from the public reached 17.6%, compared to the 17.5% target for end of 2021. All this was achieved against the backdrop of a challenging macro-economic environment, with interest and inflation rates lower than the assumptions underlying the strategic plan when launched. Therefore, the Bank Board of Directors has directed management to put in place a new strategic plan to outline Bank development through 2025, to be brought for discussion and approval in the third quarter of 2020.

In 2019, the mortgage market saw increased activity and a record level of housing loans – in excess of NIS 67 billion. The Bank continues to maintain its leadership position in the mortgage market, both in terms of market share – with about one third of performance, and in terms of reputation, thanks to the expertise and rich experience of its mortgage bankers. All this was achieved while maintaining low risk in the portfolio, both in terms of LTV ratio and in terms of repayment ratio out of borrower income.

Adhering to its unique service concept, whereby the personal banker in the branch is at the center of the client relationship, the Bank continued to expand its branch network in order to achieve a tighter connection between clients and their personal bankers. This is opposed to the common trend in the banking system in recent years, with branch closures and reduction of service-oriented staffing. In 2019, five new branches were opened and currently, Mizrahi-Tefahot Group, including Bank Yahav, operates 198 branches nation-wide.

The hybrid operation model, combining a personal banker and a range of advanced digital channels, has proven itself for both new and existing clients. In 2019, too, the Bank was joined by thousands of new clients, both individuals and businesses, who wish to benefit from our unique services. Concurrently, the Bank of Israel published results of two surveys conducted during the year among household and small business clients, indicating that Mizrahi-Tefahot has the highest satisfaction rating in the banking system.

Along with emphasizing the human aspect of banking service, the Bank continues to invest in technology solutions that provide real value to Bank clients. Mizrahi-Tefahot is the first major bank in Israel to launch a project to replace its core systems, and is currently deploying two new systems: The core capital market system and the CRM system. When this process is concluded, we would have advanced, state-of-the-art banking systems, allowing us to offer the most innovative services to our clientèle.

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement in the community and to support populations with special needs. Bank branches and headquarters units conduct, throughout the year, volunteer activities with various social organizations acting on behalf of children and youth in need. The Bank also conducts various endeavors to benefit populations in need. These activities are carried out with involvement of Bank employees, their families and even Bank clients.

The Bank has also been operating for several years the "Let us meet at Mizrahi-Tefahot" project. This project invites the public to attend Bank branches during the evening hours and to benefit from diverse enrichment activities and meetings with advisors and experts on various topics. These activities are offered free of charge and are also available for those who are not Bank clients.

The Bank continued to strictly maintain fair, transparent conduct vis-à-vis its clients and all stake holders, based on the Bank's values and Code of Ethics adopted as an integral part of our organizational culture.

I would like to take this opportunity, personally and on behalf of all members of the Board of Directors, to thank Bank President & CEO, Eldad Fresher, who announced his intended retirement from office in the coming months, after seven years as Bank President & CEO. Eldad Fresher has led Mizrahi-Tefahot, together with our thousands of outstanding managers and employees, to a string of extraordinary achievements, while implementing a distinct service strategy and creating the Bank's distinct identity. Special thanks are also due to our dedicated employees and managers, for their continued effort and dilligence, and to all stake holders for the great trust they place in us.

Sincerely yours,

Moshe Vidman

Chairman of the Board of Directors

Mizrahi Tefahot

Mizrahi-Tefahot Bank

Report of the Board of Directors and management

2019

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List of tables included on the Report of the Board of Directors and Management

INTRODUCTION

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on February 24, 2020, it was resolved to approve and publish the Report of the Board of Directors and Management, the Risk Management Report and Other Supervisory Disclosures and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of December 31, 2019. Report of the Board of Directors to the General Meeting of Shareholders.

The Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures of the Bank are prepared in conformity with directives of the Supervisor of Banks.

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting principles for US banks (see also Note 1 to these financial statements).

The Report of the Board of Directors and Management and the 2019 Financial Statements are prepared in conformity with the format stipulated by the Supervisor of Banks. After the Notes to the financial statements is a chapter on corporate governance, audit, other information about the Bank and its management and addendums to the annual financial statements.

Additional information to the financial statements is provided on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

This additional information includes:

- Detailed Risks Report in conformity with disclosure requirements of Basel Pillar 3 and in conformity with additional recommendations by the Financial Stability Board (FSB).
- Notes to the financial statements for the Bank solo, on demand.

The Bank website also includes additional supervisory information with details of capital instruments issued by the Bank, as well as the financial statements in XBRL format.
In conformity with the Equal Rights to Handicapped Persons Regulations (Service Accessibility Adaptations), 2013, the website also provides accessible reports.

Forward-Looking Information

Some of the information in the Report of the Board of Directors and Management, which does not relate to historical facts, constitutes “forward-looking information”, as defined in the Securities Law, 1968 (hereinafter: “the Law”).

Actual Bank results may materially differ from those provided in the forward-looking information due to multiple factors including, inter alia, changes in local and global capital markets, macro-economic changes, geo-political changes, changes in legislation and regulation and other changes outside the Bank's control, which may result in non-materialization of estimates and/or in changes to business plans.

Forward-looking information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking information and expressions involve risks and lack of certainty, because they are based on current assessments by the Bank of future events which includes, inter alia: Forecasts of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risks, changes in the financial strength of borrowers, the public’s preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank’s image, technological developments and human resources issues.

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on data from the Bank of Israel data, the Ministry of Housing and others who issue data and assessments with regard to the capital market in Israel and overseas as well as forecasts and future assessments on various topics, so that there is a possibility that events or developments predicted to be anticipated would not materialize, in whole or in part.

Overview, Targets And Strategy

This Chapter describes the Bank, its lines of business, performance, risks to which it is exposed as well as its targets and strategy.

Condensed financial information and key performance indicators for the Bank Group

	For the year ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
					NIS in millions
Statement of profit and loss – highlights					
Interest revenues, net	5,340	4,922	4,347	3,778	3,534
Non-interest financing revenues	357	445	136	295	358
Commissions and other revenues	1,609	1,522	1,517	1,567	1,500
Total revenues	**7,306**	**6,889**	**6,000**	**5,640**	**5,392**
Expenses with respect to credit losses	364	310	192	200	211
Operating and other expenses	3,988	(1)4,384	3,611	3,299	3,226
Of which: Payroll and associated expenses	2,562	2,407	2,271	2,035	1,912
Pre-tax profit	2,954	2,195	2,197	2,141	1,955
Provision for taxes on profit	1,029	922	806	833	761
Net profit(2)	**1,842**	**(1)1,206**	**1,347**	**1,266**	**1,134**

	2019				2018			
	Fourth quarter	**Third quarter**	**Second quarter**	**First quarter**	**Fourth quarter**	**Third quarter**	**Second quarter**	**First quarter**
								NIS in millions
Statement of profit and loss – highlights								
Interest revenues, net	1,352	1,214	1,543	1,231	1,260	1,236	1,345	1,081
Non-interest financing revenues	64	147	89	57	121	105	129	90
Commissions and other revenues	405	400	395	409	396	378	375	373
Total revenues	**1,821**	**1,761**	**2,027**	**1,697**	**1,777**	**1,719**	**1,849**	**1,544**
Expenses with respect to credit losses	119	70	99	76	77	61	90	82
Operating and other expenses	993	998	1,011	986	(1)1,211	936	(1)1,325	912
Of which: Payroll and associated expenses	628	650	648	636	683	598	557	569
Pre-tax profit	709	693	917	635	489	722	434	550
Provision for taxes on profit	247	251	318	213	268	250	212	192
Net profit(2)	**440**	**422**	**576**	**404**	**202(1)**	**454**	**(1)207**	**343**

Net profit for the Group in 2019 amounted to NIS 1,842 million, compared to net profit of NIS 1,206 million in the corresponding period last year – an increase by 52.7%. Compared to net profit excluding extraordinary items[(1)] in the corresponding period last year, that amounted to NIS 1,647 million, an increase by 11.8%.

Net profit in 2019 reflects return on equity of 11.9%, compared to reported return on equity at 8.5% in 2018 (excluding extraordinary items[(1)]: 11.6%).

Net profit for the Group in the fourth quarter of 2019 amounted to NIS 440 million, compared to net profit of NIS 202 million in the corresponding period last year – an increase by 117.8%. Compared to net profit excluding extraordinary items[(1)] in the corresponding period last year, that amounted to NIS 378 million, an increase by 16.4%.

Net profit in the fourth quarter of 2019 reflects annualized return on equity of 11.5%, compared to reported return on equity at 5.7% in the corresponding period last year (excluding extraordinary items[(1)]: 10.7%).

(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's net operating profit, excluding extraordinary items, i.e. excluding provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:

(2) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

The following key factors affected Group profit in 2019, compared to 2018:

- Financing revenues increased in 2019 by 6.1% compared to 2018.
  The increase in financing revenues is due to further growth in operations, resulting in an increase by 10.7% in net financing revenues from current operations, and by 5.7% in commission and other revenues, despite a difference of 0.9% in the known CPI between 2018 and 2019 which reduced tge growth if Bank financing revenues by NIS 106 million.
  For more information see under "Analysis of Development in financing revenues from current operations" below.
- In2019, expanses with respect to credit losses as percentage of loans to the public reached 0.18%, compared to 0.16% in 2018. Expenses with respect to credit losses in 2019 were affected by a specific provision for several borrowers. For more information about development of expenses with respect to credit losses, see below.
- Increase in operating and other expenses exceptional extraordinary items[1]:
  Operating expenses from current operations in 2019 increased by 3.9%.
  See below for additional influences on each operating expense component.

Multi-period profit data shows:

- Achievement of targets for return on equity (11.9% in 2019, compared to a target of 11.5% for 2021, according to the strategic plan) and for cost-income ratio (54.6% in 2019, compared to a target of 55% for 2021, according to the strategic plan), as stipulated in the **Bank's strategic plan.**
- Average annual growth rate of revenues, since 2018, at 9.0%, compared to an average annual growth rate of 8% in the Bank's strategic plan.
- Double-digit growth in financing revenues from current operations.
- Strong revenue growth, compared to moderate increase in expenses (excluding extraordinary expenses in 2018).

(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's net operating profit, excluding extraordinary items, i.e. excluding provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:

Condensed financial information and key performance indicators for the Bank Group - Continued

	As of December 31,				
	2019	2018	2017	2016	2015
	NIS in millions				
Balance sheet – key items					
Balance sheet total	273,244	257,873	239,572	230,455	209,158
Loans to the public, net	204,708	194,381	181,118	171,341	159,204
Cash and deposits with banks	51,672	45,162	41,130	41,725	30,489
Securities	10,113	11,081	10,133	10,262	11,845
Buildings and equipment	1,457	1,424	1,403	1,585	1,583
Deposits from the public	210,984	199,492	183,573	178,252	162,380
Debentures and subordinated notes	33,460	30,616	29,923	27,034	23,719
Deposits from banks	714	625	1,125	1,537	1,166
Shareholders' equity(1)	16,033	14,681	13,685	12,714	11,847

Data from the multi-period balance sheet show continued growth in Bank operations.

Average annual growth between 2015-2019:

Total assets	6.6%
Loans to the public, net	6.8%
Deposits from the public	6.7%
Shareholder equity	8.2%

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.

Key financial ratios (in percent)

	For the year ended December 31,				
	2019	2018	2017	2016	2015
Key performance benchmarks					
Net profit return on equity(1)	11.9	(8)8.5	10.2	10.2	10.0
Net profit return on risk assets(2)	1.17	(9)0.83	0.99	0.97	0.89
Return on average assets	0.70	(9)0.49	0.57	0.58	0.56
Deposits from the public to loans to the public, net	103.1	102.6	101.4	104.0	102.0
Ratio of Tier I capital to risk components	10.14	10.01	10.20	10.10	9.50
Leverage ratio(3)	5.55	5.42	5.48	5.27	5.32
(Quarterly) liquidity coverage ratio(4)	121	116	118	117	91
Ratio of revenues(5) to average assets	2.76	2.79	2.55	2.56	2.66
Operating expenses to total revenues (Cost-income ratio)(6)	54.6	(8)63.6	60.2	58.5	59.8
Basic earnings per share (in NIS)	7.86	5.17	5.80	5.46	4.90
Key credit quality benchmarks					
Ratio of balance of provision for credit losses to total loans to the public	0.82	0.80	0.81	0.83	0.87
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	(10)1.36	1.23	1.02	0.98	1.14
Expenses with respect to credit losses to loans to the public, net for the period	0.18	0.16	0.11	0.12	0.13
Ratio of net accounting write-offs to average loans to the public	0.11	0.11	0.09	0.11	0.10
Additional information					
Share price (in NIS) as of December 31	92.00	63.14	64.19	56.35	46.50
Dividends per share (in Agorot)(7)	(12)178	(11)106	144	80	37
Average number of employees for the Group	6,373	6,285	6,215	6,103	5,961
Ratio of net interest revenues(6) to average assets	2.02	1.99	1.84	1.72	1.74
Ratio of commissions to average assets	0.58	0.60	0.60	0.65	0.70

Financial ratios indicate:

- Net profit return excluding extraordinary items(8), over the past 5 years, is in double digits and growing.
- Maintaining stable current operating expenses, along with higher revenues, resulted in improvement in the Bank's cost-income ratio in 2019, which reached 54.6%, compared to the target of 55% specified for 2021 in the strategic plan.
- The Bank efficiently manages its compliance with regulatory targets required for capital adequacy, liquidity coverage and leverage.
- The number of Bank employees grew in line with the Bank's growth strategy with emphasis on the human factor in banking service.

Items of profit and loss, balance sheet items and various financial ratios are analyzed in detail in the Report of the Board of Directors and Management, in chapter "Explanation and analysis of results and business standing" and in chapter "Risks overview", as the case may be.

(1) Any mention of "net profit" or "equity" in this Board of Directors' Report refers to net profit and equity attributable to shareholders of the Bank.
(2) Net profit to average risk assets.
(3) Leverage Ratio – ratio of Tier I capital (according to Basel rules) to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218
(4) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the most recent reported quarter.
(5) Net interest revenues and non-interest revenues
(6) Total operating and other expenses to total operating and financing revenues before expenses with respect to credit losses.
(7) The rate of dividends is calculated based on the amount of the dividends actually distributed in the reported year.
(8) Net profit return on equity and cost-income ratio in 2018 were affected by a provision amounting to NIS 546 million with respect to the investigation by the US DOJ.

The Bank's net profit return on equity and cost-income ratio in 2018, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations and related tax expenses in 2018 amounted to:
Return on equity – 11.6%.
Cost-income ratio – 57.2%.

(9) Return on risk assets and average return on assets in 2018 were affected by the provision with respect to the investigation by the US Department of Justice, as stated above, decrease by 0.30 and 0.18 percentage points, respectively.
(10) Including increase due to a specific provision for a small number of borrowers.
(11) No dividends were declared from the second quarter of 2018 through the first quarter of 2019. For more information see chapter "Dividends" below.
(12) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019. For more information see chapter "Dividends" below.

Bank Group and its lines of business

Mizrahi-Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. In 1983, within the framework of the arrangement formulated between the Israeli Government and the Banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and “Tefahot” Israel Mortgage Bank Ltd. (“Tefahot”), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi-Tefahot Bank Ltd.

For more information about the controlling shareholders of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Controlling shareholders) on these financial statements.

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 198 branches, business centers and affiliates. Furthermore, business customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via 3 bank affiliates (two branches and a subsidiary).

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, distribution of mutual funds, management of securities portfolios for clients, pension advisory service, trust services, provision of registration services for securities listed on the stock exchange in Israel, operation of provident funds and insurance incidental to mortgages. The Bank Group also engages in credit operations and participates in syndication deals.

The Bank is one of the five largest bank groups in Israel. Below is the Bank Group share out of the 5 groups (based on financial statements as of September 30, 2019):

Loans to the public	19.6%
Deposits from the public(1)	17.0%
Total assets	17.1%
Shareholders’ equity	13.5%

(1) The Bank Group's share of deposits from the public, among the five top bank groups, excluding deposits from institutional investors, as of September 30, 2019 was 15.9%, compared to 15.5% as of December 31, 2018.

Major risks

Below are definitions of the major risks to which the Bank is exposed in conjunction with its operations:

Credit risk – the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. Credit concentration risk is due to over-exposure to a borrower / borrower group and to economic sectors.

Market risk – This is the risk of loss in On- and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest risk – The risk to Bank profit or to Bank economic capital, primarily due to fluctuations in interest rates, fluctuations of various curves used by the Bank in its business operations or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Liquidity risk – The risk to profit and stability of the banking corporation, due to its inability to satisfy its liquidity requirements, i.e. risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Operational risk – The risk of loss due to inappropriateness or failure of internal processes, people and systems or due to external events. This risk is inherent in all products, activities, processes and systems. The framework for addressing operational risk includes information security and cyber risk, IT risk and legal risk, as stated below:

Information security and cyber risk – Information security risk is risk arising from faults in protection of the Bank's computer systems and information stored there. Cyber risk arises from an event including an attack on computer systems by or on behalf of internal or external adversaries of the Bank.

IT risk – the risk of failure in the Bank's information and/or IT and operating systems, as well as support that is not appropriate and sufficient for business services and processes required by the Bank to realize its business targets.

Legal risk – Risk of loss due to exposure to fines, lawsuits and/or punitive action due to breach of contract or disagreements. Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).

Compliance and regulatory risk – The risk of imposition of legal or regulatory sanctions, material financial loss or damage to reputation, which the Bank may incur due to its failure to comply with compliance provisions (such as: statutory provisions, regulation, standards and conduct commonly expected from a corporation). The Bank is also exposed to business implications of changes to regulatory provisions. Compliance risk includes conduct risk, which is the risk of impact to Bank trustworthiness in the eyes of its clients, investors, suppliers and all other stake holders, which may also impact public trust in the banking system as a whole. This risk is across the Bank and is based on application of basic values, such as fairness, trustworthiness and transparency.

Cross-border risk – The risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of damage to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions are binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

AML and terror financing risk – the risk of financial loss (including due to litigation processes, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Reputation risk – the risk of negative perception by existing clients, potential clients, suppliers, shareholders, investors or regulators which may negatively affect the Bank's capacity to retain or create business relationships and may impact access to financing sources. Thus, the risk to corporate profit, stability or capacity to achieve its objectives, due to impact to reputation which may arise from practices applied by the corporation, its financial standing or negative publicity (whether true or false).

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned.

For more information about major and emerging risks, see chapter "Risk Events" below.

For more information see chapter "Risks overview" and the detailed Risk Management Report on the Bank website.

Business goals and strategy

The strategic plan

On November 21, 2016 the Bank's Board of Directors approved a new strategic plan for 2017-2021 (hereinafter: "the strategic plan"). The strategic plan is designed to achieve the following targets:

- Achieve in 2021, net return on profit attributable to equity holders of 11.5% on average and double-digit return over the term of the strategic plan; these rates are based on the ratio of Tier I capital to risk components for the Bank at the minimum set by the Supervisor of Banks plus appropriate margin;
- Further organic growth of core Bank operations, at a higher rate than for the Israeli banking system, so as to increase the Bank's market share in the Israeli banking system;
- The Bank's growth engines are aimed to grow Bank profitability due, inter alia, to average annual revenue growth rate of 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 6% (also not in linear fashion).
- Maintain high operating efficiency – achieve a cost-income ratio (total expenses to total revenues) lower than 60% over the plan term and even attempt to improve it to below 55% in 2021.

According to operating results presented in these financial statements, already now, after 3 years, the Bank has achieved the targets specified by the Board of Directors for the fifth year of the strategic plan for 2017-2021 (made public on November 22, 2016). This is despite challenging macro-economic conditions, with interest and inflation rates lower than assumed when the strategic plan was created. Net return on equity in 2019 reached 11.9%, compared to the strategic target of 11.5% for 2021; the cost-income ratio in 2019 reached 54.6%, compared to the strategic target of 55% for 2021; the Bank's market share(1) in Israel, according to data in the financial statements as of September 30, 2019, for loans to the public was 20.1%, compared to the 20% target, and for deposits from the public was 17.6%, compared to the 17.5% target. The strategic plan also includes enhanced focus on and expanded operations in the business segments. For small to medium businesses, the average annual growth rate of loans in 2017-2019 was at 11.9%.

Due to achievement of the strategic plan targets, the Bank Board of Directors has instructed management to prepare for presenting a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are not under the Bank's control.

On February 26, 2018, the Bank's Board of Directors resolved to update the Bank's dividends policy for the years 2018 through 2021, after monitoring the execution of the aforementioned strategic plan.

The Bank's revised dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. This policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety buffers.

Plan to relocate Bank headquarters units

On June 19, 2017, the Bank's Board of Directors resolved to take action in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod. For information about this contract and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.I to the financial statements.

Significant developments in business activities

Business in the mortgage market grew in 2019, with housing loan origination in the banking system reached a record NIS 68 billion, increase by 14% over 2018. The Bank is acting to reinforce its leadership position in the mortgage market in terms of market share and in perception and further reinforce the expertise of mortgage bankers. Over the past year, the Bank successfully retained its leadership position in the mortgage sector, while maintaining low risk attributes for LTV and repayment ratio out of borrower income.

The household segment is in the midst of growing competition, both from the banking system and from insurance companies and credit card companies – along with increased regulatory effects. The Bank's target is to increase its market share in the household segment, by expanding the client base with a focus on high-quality target audiences. Regulatory steps to increase competition in the household segment and to remove barriers to account transfer between banks – are an opportunity for increased client recruitment, based on the unique, high-quality personal service provided by the Bank. In this context, the Bank used hybrid banking platform and the LIVE branches to recruit new clients and improve service to current clients, while expanding the value proposition.

(1) Bank share out of top 5 banking groups and credit card companies.

The mortgage client base at the Bank offers potential for increase of the client base for commercial activities. The Bank also strives to expand in specific client segments, including the Arab, Jewish Orthodox and retiree segments. Bank Yahav bolsters the Group's retail segment operations, by expanding and intensifying its operations with salaried employees, while leveraging the capabilities of its new core banking system.

The Bank focuses its efforts on raising stable, diversified financing sources for different time frames, from individual and business clients, so as to further maintain appropriate liquidity ratios, in order to reduce the cost of sources required for its operations and to improve profitability. These efforts resulted in the Bank continuing to significantly increase the scope of retail deposits in 2019, while maintaining high liquidity ratios.

The Bank's business strategy emphasizes significant expansion of the client base and increase of the Bank's market share among small to medium business clients, with regular risk assessment at client level, at sector level and for the economy as a whole. The Bank addresses growing competition in these operating segments by increased marketing activities with clients, with client segmentation by type of occupation and needs and an overall view of their activities, as well as by expanding Bank activity in the State fund for small and medium businesses. In order to expand business in the commercial banking segment, the number of branches focused on providing banking services to business segments was increased, with reinforcing of professional training of the staff and maintaining appropriate underwriting levels. This infrastructure would support further expansion of operations in this segment in coming years.

The competition in providing banking and financial services to the business banking segment was affected, in 2019, by strong growth in loans to large businesses, similar to the previous year. Moreover, competition in this segment have been affected in recent years by expanded operations of non-banking entities, which are focused on providing large-scale credit for long terms. The Bank is dealing with competition in this segment by relying on the advantages of its human resources and on their knowledge and experience in providing professional service and in adapting banking solutions for client needs. The Bank's business strategy in this segment is directed toward maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, Concurrently, the Bank is acting to leverage its professional advantage by increased cooperation in consortiums with other entities.

In order to maximize the economic potential of capital, in 2019 the Bank sold loan portfolios to various institutional investors. For more information see chapter "Significant developments in management of Bank business" below.

The Bank continues to maintain high operating efficiency through, *inter alia*, reorganization of assets and optimization of the branch network, including opening new branches in locations with potential for business growth – along with streamlining the existing branch network. In order to maintain optimal operating efficiency, while further improving work processes, the Bank decided on a re-structuring as from the start of 2020, placing human and physical resources along with its operations arm under a single division - the Human Capital, Resources and Operations Division. This was done concurrently with placing all capital market operations under the Finance Division, with responsibility for all branch operations now lying with the Retail Division. For more information see chapter "Significant developments in human resources and administration" below.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Developments in capital structure

Investments in Bank Capital and Transactions in Bank Shares

- For more information about share issuance in conjunction with an employee' stock option plan, see statement of changes in shareholders equity in the financial statements.
- On April 11, 2019, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option offering to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.
- For more information about changes to the control structure at the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" (Controlling shareholders) on these financial statements.

Raising of capital sources

In conjunction with the Bank's work plan, which is set by the Board of Directors and includes growth objectives for different lines of business, an assessment is made of the impact of achieving these objectives on total risk assets for the Bank, and accordingly on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors concerning capital adequacy.

The plan includes issue of contingent subordinated notes (Contingent Convertibles – CoCo) as needed and should ensure that the overall capital ratio would be at least 13.33%.

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For more information on issuance of CoCo contingent subordinated notes amounting to NIS 1.1 million in 2019, see "Developments in financing sources" below.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of debentures as well as shareholder equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity, liquidity, capital adequacy and leverage – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by term and by client type. The Bank reviews depositor concentration; management and the Board of Directors have specified restrictions and guidelines with regard to concentration risk which apply to individual depositors, liquid means with regard to major / institutional depositors and resource composition. Quantitative and qualitative indicators to be regularly monitored, which estimate change in concentration risk –have been specified as part of liquidity risk management.

Total deposits from the public for the Group as of December 31, 2019 amounted to NIS 211.0 billion, compared to NIS 199.5 billion at end of 2018: an increase by 5.8%. Deposits from the public in the NIS-denominated, non-CPI linked segment decreased in 2019 by 9.1%; deposits in the CPI-linked segment decreased by 0.7%; and deposits denominated in or linked to foreign currency decreased by 4.3%. For more information see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorption of money for the entire banking system, and for the Bank in particular. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity.

Another source for raising short-term funds is the inter-bank money market. Excess liquidity in the banking system in Israel remained high in 2019 as well. The Bank of Israel absorbs excess liquidity through monetary deposit tenders for terms of one day, one week and other liquidity periods.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policies of the Bank of Israel.

Obligatory notes and debentures issued to the public

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issuance Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued subordinated notes to the public under published prospectuses.

On August 4, 2019, Tefahot Issuance published a shelf prospectus, dated August 5, 2019, for issuance of obligatory notes.

On June 23, 2019, Tefahot Issuance issued a new series of NIS-denominated debentures (Series 49), linked to the CPI, with total par value of NIS 3.0 billion, for consideration amounting to NIS 3.0 billion. Tefahot Issuance also issued a new series of contingent convertible (CoCo) subordinated notes (Series 50), with loss-absorption provisions through principal write-off, linked to the CPI, with par value of NIS 0.7 billion, for consideration amounting to NIS 0.7 billion.

On October 29, 2019, Tefahot Issuance issued a new series of NIS-denominated CPI-linked debentures (Series 51), with total par value of NIS 2.5 billion, for consideration amounting to NIS 2.6 billion. Tefahot Issuance also issued a new series of CPI-linked contingent convertible (CoCo) subordinated notes (Series 50) by way of series expansion, with loss-absorption provisions through principal write-off, with par value of NIS 0.4 billion, for consideration amounting to NIS 0.4 billion.

In addition to Tefahot Issuance operations, the Bank itself has a shelf prospectus issued on December 3, 2019 (dated December 4, 2019).

In 2019, the Bank conducted no issuances.

As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 33.5 billion, compared to NIS 30.6 billion as of December 31, 2018.

Complex capital instruments

Contingent convertible (CoCo) subordinated notes

Contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), as of December 31, 2019, amounted to NIS 3.2 billion, compared to NIS 2.2 billion as of December 31, 2018.

For more information about issue of CoCo contingent subordinated notes by Tefahot Issuance, see above.

Other complex capital instruments

Capital note which does not qualify as supervisory capital pursuant to Basel III directives and is gradually written down, as of December 31, 2019 amounted to NIS 2.0 billion, similar to December 31, 2018.

Other notes

Subordinated notes, which are not considered complex capital instruments (included in Tier II capital for the purpose of maintaining minimum capital ratio and gradually reduced subject to transition provisions), as of December 31, 2019, amounted to NIS 1.2 billion, compared to NIS 1.6 billion as of December 31, 2018.

For more information about the credit rating of the Bank, its notes and those of Tefahot Issuance, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof".

Significant developments in management of business operations

Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to clients of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day client activities and offer to clients and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory services.

As of December 31, 2019, Group branches are located nationwide, consisting of 198 business centers, branches and affiliates, including 53 Bank Yahav branches (of which 6 branches providing partial service).

The Bank continues to expand its branch network in accordance with its strategic plan, with location selection based on considerations such as providing optimal service to clients, economic viability considerations etc.

In 2019, the Bank Group opened 5 new points of sale. In 2020, the Bank is expected to open 3 more points of service and sale.

The Bank operates 6 LIVE branches – which are branches providing full personalized service during extended business hours using a range of communication channels between clients and bankers (via telephone, fax, internet, email, SMS, video conferencing).

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Direct channels

The policy applied by the Direct Banking sector concerning direct channels is as follows:

- Apply a multi-channel strategy, at the center of which stands the personal banker, and direct banking services constitute an integral part of it
- Develop the hybrid banking service as a primary channel for communication with the banker.
- Expand the range and diversity of services offered through direct banking channels.

Direct channels offered to Bank clients include:

Hybrid Banking services

Hybrid Banking is about integrating personal service accessible to clients with technology.

Hybrid Banking services are provided by Bank branches and banking centers, as follows:

- Bank branches – phone calls, emails and SMS messages from identified clients are directly routed to that client's banker and are answered by the banker or by the backup staff at the branch.
- The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. Service is provided from 8am to 8pm.

On line, cell phone, notification box, IVR and fax services

On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost.

in 2019, the Bank launched a new account management application, including support for fingerprint authentication, to reduce barriers to entry for digital and to expand the service offering for business clients.

Self-service at branches

- The Bank constantly expands its services to clients through self-service stations.
- Service stations – The Bank provides clients with service stations, allowing them to conduct transactions such as: Taking out a loan, depositing checks and obtaining information about their commercial and mortgage accounts independently, 24 hours a day - even when the branch is closed. Some of the service stations also offer immediate checkbook printing.
- In 2019, the Bank continued a multi-annual campaign to deploy the cash deposit service using self-service stations at the branch – a process which is to continue in 2020.
- ATMs – The Bank owns 207 cash withdrawal machines, some in Bank branches and some are "remote ATMs".

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Expansion of business operations

For more information about the Bank's strategic plan, see chapter "Business goals and strategy (Strategic plan)" above.

Addendum to the agreement with Bank Union shareholders

In conformity with the resolution by the Bank's Board of Directors dated November 27, 2017, the Bank signed an agreement with controlling shareholders of Bank Union Le-Israel Ltd. (hereinafter: "**Union**"), who jointly hold 47.63% of Union's issued and paid-up share capital, to acquire the shares of Bank Union and to merge it with the Bank by way of exchange of shares (hereinafter: "the **agreement**"). Moreover, prior to signing this agreement, notice was received from another Union shareholder who holds (through Trustees) 27.12% of Union's issued and paid-in share capital (hereinafter: "the **other shareholder**"). According to this agreement, as noted in the 2017 Report of the Board of Directors and Management, subject to fulfillment of suspensive conditions highlighted in the agreement, the Bank would issue a full exchange tender offer (hereinafter: "tender offer") to purchase Bank Union shares and, conversely, the controlling shareholders and the other shareholder committed to accept the tender offer, to be completed subject to suspensive conditions stated in the agreement.

On May 30, 2018, the Acting Director General of the Antitrust Authority decided to object to the merger (hereinafter: "the **Supervisor**" and "the **decision**", respectively). On August 5, 2018, the Bank and the Shareholders signed an addendum to the Agreement (hereinafter: "**Addendum no. 1**"), whereby the parties and Union would appeal the Decision. Such appeal was filed on September 6, 2018. It was further agreed that the extended effective date would be 12 months after the signing date of the Addendum (hereinafter: "the **Extended Effective Date**") and if, by the Extended Effective Date, a verdict would be issued denying the appeal, or should no verdict be given with regard to the appeal, then the Agreement would be null and void. On July 8, 2019, the parties to the agreement signed Addendum no. 2 to the agreement (hereinafter: "**Addendum no. 2**").

On November 25, 2019, this date was extended to December 31, 2019 (hereinafter: "the Postponed Effective Date"). The parties further agreed that the Bank may terminate the agreement should the Bank Board of Directors resolve, by the Extended Effective Date or by the Postponed Effective Date, that Union conducted or was party to an extraordinary transaction (as this term is defined in Section 1 of the Corporate Law, 1999), as well as for the causes listed in section 5.1 of the immediate report dated August 5, 2018. Furthermore, pursuant to Addendum no. 2, should the Bank of Israel not consent to extend the Trust Period with regard to holdings of the other shareholder through the Postponed Effective Date, either party may terminate the agreement such that neither of the parties, employees, officers, managers, shareholders or affiliated companies thereof shall bear any obligation due to the agreement and/or claims made against the other parties to the agreement, employees, advisors, officers, managers, shareholders of affiliated companies thereof.

On November 28, 2019, the verdict in this appeal was received; the appeals were accepted, such that the decision by the Acting Supervisor to object to the merger was canceled, and the matter was referred back to the Supervisor for a complete decision on setting potential conditions to eliminate concern of impacting competition with regard to credit to the diamond sector and with regard to expected Bank operations, should total assets on the Bank balance sheet be close to 20% of total assets on the balance sheet for the entire banking system, by December 31, 2019; this deadline was extended, with Court approval, to January 8, 2020.

On December 30, 2019, the parties to the original agreement signed Addendum no. 3 to the original agreement, which stipulated that deadline for fulfillment of conditions for publication of the purchase offer for Union shares by the Bank is January 26, 2020. Furthermore, the Bank received notice from the Trustee holding Union shares on behalf of the other shareholder, whereby the joining notice would expire on one of the dates listed in the notice (hereinafter: "**Addendum no. 3**").

On January 8, 2020, the Bank received tto he Supervisor's decision with regard to setting potential conditions to eliminate concern of impacting competition, whereby the Bank and Union would not take any action constituting a merger prior to final and irrevocable sale of operations of Union or of the Bank providing credit to the diamond sector ("the sold operations"). This decision includes provisions and conditions with regard to the buyer of the sold operations, and stipulates that the buyer's identity and the scope of the sold operations are subject to prior written approval by the Supervisor. The decision also includes provisions with regard to the period through the transfer of the sold operations to the buyer. As for the condition regarding the percentage of the Bank's on-balance sheet assets out of those of the entire banking system, according to the Supervisor's decision, the Bank and Union would not take any action constituting a merger, unless the requirement of additional capital for large banks set forth in this directive would only apply to banking corporations whose total on-balance sheet assets account for 24% or more of total on-balance sheet assets for the entire banking system. Moreover, the Supervisor's decision lists certain actions that would not count as starting a merger, with regard to the aforementioned merger provisions.

On January 27, 2020 the parties to the original agreement signed Addendum no. 4 to the original agreement, whereby *inter alia* they would appeal the Supervisor's decision of January 8, 2020 with regard to conditions for approval of the merger. It further stipulates that the deadline for fulfilling the conditions for publication of the tender offer is delayed to May 31, 2020, and the "appeal acceptance date" (as defined in report dated August 5, 2018, reference no. 2018-01-072859, would be the date to be agreed by the parties, based on which the "deadline for issuing the Tender Offer" and the "date of the Effective Financial Statements" would be determined (hereinafter: "**Addendum no. 4**"). For more information about the agreement with Bank Union shareholders, see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management for 2017, Immediate Report dated May 30, 2018, reference 2018-01-053347, Immediate Report dated June 25, 2018 reference 2018-01-060643, Immediate Report dated August 5, 2018, reference 2018-01-072859, Immediate Report dated July 8, 2019, reference 2019-01-070000, Immediate Report dated November 25, 2019 reference 2019-01-101892, Immediate Report dated November 28, 2019 reference 2019-01-103980, Immediate Report dated December 30, 2019 reference 2019-01-115755, report dated January 1, 2020 (reference no. 2020-01-000351, report dated January 8, 2020, reference 2020-01-003750, and report dated January 27, 2020, reference 2020-01-010362.

This information constitutes forward-looking information, as defined in the Securities Act, 1968 and based on assumptions, facts and data underlying the strategic plan and listed therein, which may fail to materialize due to factors not solely under Bank control.

Sale of assets and liabilities in mortgage portfolio

In the first quarter of 2019, the Bank and an institutional investor signed an agreement for sale of 80% of assets and liabilities in a housing loan portfolio valued in total at NIS 0.7 billion. The loan portfolio sold includes loans with LTV ratios not exceeding 60%.

The remainder of this loan portfolio is retained by the Bank, so that rights of the buyer and those of the Bank shall have equal precedence (*pari passu*).

In conformity with the management agreement signed by the parties, the Bank will manage and operate, on behalf of the buyer, the portion of the loan portfolios acquired – in the same manner and based on the same rules used by the Bank to manage and operate its own housing loans, including the portion of the loan portfolio retained by the Bank.

Strategic cooperations

In 2019, the Bank continued to conduct transactions to sell off and share credit risk with institutional investors and financial institutions in Israel and overseas. Further cooperation with institutional investors is part of the Bank's strategic plan for 2017-2021.

As part of this activity, the Bank has expanded the providing of service for operating financial assets, including management and operation of housing loans purchased from the Bank.

For more information about sale of assets and liabilities in the mortgage portfolio (80% of a housing loan portfolio valued at NIS 0.7 billion), see above.

Obtaining a guarantee insurance policy

On December 28, 2016, the Bank acquired an insurance policy for credit exposure due to guarantees provided by the Bank pursuant to the Sale Act (Apartments) (Securing Investments of Home Buyers), 1974 and obligations to issue such guarantees.

The aforementioned transaction was made through an insurance company which is a wholly-owned subsidiary of the Bank which, concurrently, has contracted with international reinsurers with a high international rating.

The insurance policy provides the Bank with coverage should the Bank be required to pay due to forfeiture of the guarantees; it is primarily intended to reduce risk assets with respect to credit exposure due to these guarantees.

As from this date, on each anniversary thereof, the Bank renewed the insurance policy in the fourth quarter of each year between 2017-2019.

Award of tender for custodian services

In the fourth quarter of 2018, the Bank prevailed in a tender proceeding for provision of custodian services to a large institutional investor and consequently, accepted a significant volume of client assets.

For more information about development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services, see chapter "Material developments in revenues, expenses and other comprehensive income (Other off-balance sheet activity)" below.

Significant developments in human resources and administration

Developments in labor relations

Labor and payroll agreements at the Technology Division

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Developments in logistics

In 2019, the Bank continued the trend of streamlining and utilizing existing resources as follows:

- Streamlining of space and energy usage.
- Better deployment of the branch network.
- Further leveraging of infrastructure through temporary leasing of third parties space used by the Bank as reserve for future growth to third parties.
- Complete making Bank branches accessible, in conformity with the new accessibility regulations. For a specific property, a temporary extension was authorized by the Supervisor of Equal Rights to Disabled Persons.
- On April 30, 2017, the Bank Board of Directors approved a strategic move to relocate operations of Bank headquarters units to one central site in Lod. Thus, in 2017 the Bank acquired land in Lod, with an area of 6,000 m^2, for consideration amounting to NIS 25.8 million, adjacent to the property currently housing the Technology-Logistics Center ("Mizrahi Tefahot Lod"). The plan is to construct another building and to gradually relocate all Bank headquarters units to this building. In 2019, planning of the building continued, the project budget was approved by the Bank Board of Directors, and at the end of the year a construction permit was received for excavation and shoring work and construction of underground floors for the project. Project completion and relocation of the units are expected by 2024-2025.

The activities and trends described above are expected to continue in 2020.

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For more information about human resources at the Bank, organizational structure and senior officers of the Bank, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of these financial statements.

Significant developments in IT

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank concluded the review of transition of the Bank's core capital market system to the capital market module of the new platform and launched this project in the first quarter of 2019. The project is making progress and is in the detailed design stage.

Another significant project has been recently launched, to replace the CRM system in order to empower personalized service for each client. The project was launched in the fourth quarter of 2019.

For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about fixed assets and installations see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management of these annual financial statements.

Developments in international geographic deployment

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking and on providing financial services to foreign residents and new immigrants, foreign trade finance, local credit and participation in syndicated loans. In addition, provision of banking services to Israeli clients who have activities outside of Israel. The Bank has affiliates in several countries, as listed in the chapter "Corporate governance, audit, other information about the Bank business and its management".

In 2019, the Bank discontinued operation of its mobile representatives overseas, and closed its representative offices in Mexico and in Germany.

International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Division.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate.

International operations also involve cross-border risk, for more information see chapter "Risks overview" below.

For more information about the various affiliates and their business, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management (Operating results of overseas operations)" in this annual report.

Other matters

Significant Agreements

For more information about material agreements, see chapter "Corporate Governance, Audit, Other Information about the Bank and its Management " of these annual financial statements.

Corporate social responsibility

On August 1, 2019, the Bank issued its 2018 Corporate Social Responsibility Report.

For more information see the Bank's Corporate Social Responsibility Report on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Amendment of Bylaws

On April 2, 2019, the General Meeting of Bank shareholders approved an amendment of Bank Bylaws, with regard to appointment of Board members (other than external Board members) by the General Meeting and their term in office. For more information see report dated April 2, 2019 (reference: 2019-01-031993.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 26.C.10-12 to the financial statements.

Changes in legal structure and incorporation of the Bank

In 2019 there was no change to the legal structure and manner of incorporation of the Bank

Explanation and analysis of results and business standing

This chapter includes a description of trends, phenomena, developments and material changes with regard to results and business condition, including analysis of revenues, expenses and profit as well as analysis of developments in assets, liabilities, capital and capital adequacy. It also describes the results of the Bank's supervisory operating segments and operating results for holdings in major investees.

Trends, phenomena and material changes

Significant Events in the Bank Group's Business

Addendum to the agreement with Bank Union shareholders

For more information about an addendum to the agreement with Bank Union shareholders, see chapter "Business goals and strategy" above.

Stock options to officers and other managers at the Bank and its subsidiaries t

On April 11, 2019, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option allotment to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 23 to the financial statements for additional information.

The General Environment and Effect of External Factors on the Bank Group

Major developments in the banking industry in Israel and overseas

The banking system has been facing several key challenges in recent years:

- Moderate economic activity, with a low interest rate and inflation environment over time, which impairs bank profitability.
- In 2018, a trend of monetary cut-back became apparent in some developed markets, reflected in higher interest rates and reduced quantitative expansion. As from mid-2019, this trend was reversed with a renewal of expansive monetary policy, given the more moderate economic activity and higher risk in the global economy. In the USA, the FED lowered its interest rate three times this year, from 2.25%-2.5% to 1.5%-1.75%. In Europe, the ECB left interest rates unchanged and lowered the deposit interest rate by 0.1%, to -0.5%, concurrently with renewed debenture buying at EUR 20 billion per month.
- More moderate global growth results in a trend of transition from global multi-national banking to local banking.
- Rapid development of digital banking based on Internet platforms and increased use of mobile devices, accompanied by regulatory relief from the Bank of Israel, designed to promote digital banking activities. Along with these developments, use of digital channels by households and businesses is constantly growing. Furthermore, the growing digital trends allows technology companies to enter the financial brokerage market, in cooperation with the banking system.
- Competition in the household segment and in the small and medium business segments has increased in recent years, given the focus of the banking system on these segments, along with increased new entries from non-banking financial institutions. Separation of credit card companies Isracard and Max (formerly: Leumi Card) from the top two banks was completed in 2019. The credit card companies make increased efforts to grow in retail credit and to expand their non-banking loyalty club client based. These effects are accompanied by increased regulation in the following areas: Supervision of prices of banking services; elimination of barriers to account transfer between banks; promotion of the Credit Information Act and creation of a banking ID for increased transparency for consumers and for reducing information gaps; increased competition in the banking sector by encouraging entry of new competitors.
- Technological developments in the world of finance help improve the operating model – streamlining processes, deploying advanced technologies for operation and client interfaces and upgrading computer systems. Concurrently, the banking system applies streamlining measures, reflected in lower headcount and reduced real estate area for branches and for headquarters.
- The Credit Information Act is designed to promote the creation and management of a central credit information database for calculating every citizen's credit rating . This rating will be provided to credit providers, subject to client consent. The Act became effective in April 2019 and the credit information database was launched on April 12, 2019. Implementation of the Act may result in improved underwriting and pricing capacity of banks and non-bank entities.
- In August 2018, the Supervisor of Banks launched a project concerning the Open Banking API standard. Open Banking would allow sharing of financial information of clients, subject to client consent. Such information sharing may result in improved financial services provided to clients and in increased competition for such services. The project is expected to be implemented as from the end of 2020.

- Stricter requirements with regard to maintaining liquidity coverage ratio and leverage ratio, in order to improve stability of the banking system. On the other hand, the Supervisor of Banks allowed Israeli banks to issue debentures with a loss-absorption provision, as is common around the world (contingent conversion debentures – CoCo). Such debentures contribute to stability of the issuing bank and to reduced support required from the Government should the bank be in trouble. For more information about issue of contingent subordinated notes (Contingent Convertibles – CoCo), see chapter "Developments in financing sources" above.
- Stricter international regulation is characterized by increased, cross-border enforcement as well as by local taxation issues.
- Increased consumer awareness due, inter alia, to increased use of social networks and to technology which allows for easier access to information and to comparison of financial alternatives. Consequently, the banking world is becoming focused on identifying client needs, while applying privacy protection laws.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors not all of which are under the Bank's control.

Developments in Israel's Economy and in the global economy in 2019

Israeli economy

Real Developments

According to early national account estimates by the Central Bureau of Statistics for 2019, GDP growth in 2019 was at 3.3%, compared to 3.4% in the previous year and compared to 3.6% in 2017. The GDP growth rate in 2019 was favorably affected by the following: Growth of private consumption, export of services and public consumption. Conversely, the growth rate was negatively impacted by stagnation in investments in economic sectors and by export of goods.

According to estimates by the Bank of Israel, the labor market continues to indicate a high level of activity with near-full employment. The average unemployment rate in 2019 was 3.8%, compared to 4.0% in 2018. The average participation rate decreased moderately to 63.6%.

Inflation and exchange rates

In 2019, the Consumer Price Index increased by 0.6%, following an increase by 0.8% in the previous year. In 2019, the CPI was primarily affected by higher prices for housing (rental), home maintenance, food and education, culture and entertainment – which contributed 1.0% to the overall CPI. Conversely, prices of clothing and footwear, furniture and home furnishings, fruits and vegetables declined, which mitigated the overall CPI by 0.4% on aggregate.

Below is information about official exchange rates and changes there to:

	December 31, 2019	December 31, 2018	Change in %
Exchange rate of:			
USD (in NIS)	3.456	3.748	(7.8)
EUR (in NIS)	3.878	4.292	(9.6)

On February 18, 2020, the USD/NIS exchange rate was 3.416 – a 1.2% revaluation compared to December 31, 2018. The EUR/NIS exchange rate on this date was 3.700 – a revaluation of 4.6% compared to December 31, 2018.

Monetary policy

The Bank of Israel interest rate in 2019 remained unchanged at 0.25%. Year to date, the monetary policy of the Bank of Israel was impacted, *inter alia*, by inflation that was lower than the target, although inflationary expectations are around the lower limit of the price stability target, proper growth of the Israeli economy, slow-down in the global economy against the backdrop of global industry and trade, and monetary expansion across most of the developed nations.

Fiscal policy

In 2019, the government budget recorded a NIS 52.2 billion cumulative budget deficit, compared to a NIS 38.7 billion cumulative deficit last year. Deficit as percentage of GDP in 2019 was 3.7% (over the target of 2.9%), compared to 2.9% in the previous year. In 2019, expenditure by Government ministries increased by 6.3% year-over-year, higher than the target of 5.1%. Expenditure by civilian ministries increased by 7.1%, while expenditure by the defense system increased by 2.9%, compared to planned growth by 6.0% and 1.7%, respectively. Tax collection was higher in the past year by a nominal 3.5% year-over-year, but was NIS 9.2 billion below target.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in 2019 demand for new apartments (apartments sold and apartments constructed not for sale) in the 12 months ended November 2019 was 48.7 apartments, an increase by 19% over 2018 and by 16% over 2017. This increase is due, *inter alia*, to completion of many Resident Pricing projects and, apparently, to potential

buyers returning to the market. In 2019, housing loans given to the public amounted to NIS 68.5 billion, compared to NIS 60.3 billion last year and NIS 53.4 billion in 2017 – an increase by 14% and 12%, respectively.
According to data from the Central Bureau of Statistics, owned housing prices, in terms of twelve months ended November 2019, increased by 3.4%, compared to a decrease by 1.6% in 2018 and an increase by 2.3% in 2017.

Capital market

Trading on global equity markets in 2019 was highly positive, led by stock exchanges in the USA and by major equity benchmarks in the Israeli market.

The following are changes in key equity indices in Israel (in %):

CPI	2019	2018	2017
Tel-Aviv 35	15.0	(3.0)	2.7
Tel-Aviv 125	21.3	(2.3)	6.4
Tel-Aviv 90	40.3	(3.0)	21.2

The average daily trading volume in shares and convertible securities in 2019 was NIS 1.3 billion, compared to NIS 1.6 billion in 2018.

The following are changes in key debenture indices in Israel (in %):

CPI	2019	2018	2017
General debentures	8.7	(1.5)	4.7
CPI-indexed Government debentures	10.3	(1.4)	3.4
Non-linked Government debentures	8.3	(1.2)	3.7
Tel Bond 20	8.2	(1.1)	7.1
Tel Bond 40	6.5	(0.5)	4.4

Global economy

In 2019, the US economy grew by 2.3%, compared to 2.9% growth in 2017 and to 2.4% in 2017. In 2019, the retail commerce index improved, as did the purchasing manager index in service sectors. Conversely, industrial output declined in 2019. In December, the USA and China signed Phase I of their trade agreement, whereby the USA agreed to suspend imposing new tariffs and to reduce previously imposed tariffs on goods from China, and China committed to purchase US goods and to implement measures to protect intellectual property rights of US companies doing business in China. The labor market showed positive trends: The number of new jobs created in the US economy was mostly higher than expected, and inflation was stable at 3.5%. The core inflation rate (PCE) was higher by 1.6% in 2019. The Federal Reserve Bank lowered interest rates three times in the second half of this year, down to 1.5%-1.75%, due to concerns about a slow-down in the US economy. The Fed announced that it would continue the debenture purchase program, at least through the second quarter of 2020. Capital markets are pricing, with high probability, at least one interest rate reduction in 2020.
In 2019, GDP in the Euro Zone increased by 1.2%, compared to 1.8% growth last year and to 2.4% in 2017. In 2019, industrial output continued to decline, and the purchasing manager index in industrial sectors also indicated further contraction in activity. Retail commerce continued to expand at a slow rate. Most expectation benchmarks deteriorated during the year. Unemployment continued to improve, to 7.4% in December 2019. Core inflation was slightly higher this year, at 1.3% for the 12 months ended December 2019, although it has slightly declined since then. Due to slower economic activity in Europe, the ECB lowered the deposit interest rate in September to -0.5% and launched a monetary expansion by buying debentures valued at EUR 20 billion monthly. In January 2020, the UK left the EU after 47 years. This resulted in the UK starting an interim period, during which it would remain a member of the Trade Union, while negotiating new trade agreements.
In 2019, China's economy grew by 6.1%, after growing by 6.6% last year and by 6.8% in 2017. Growth rate of the purchasing manager index in industrial sectors was slightly higher, and the purchasing manager index in industrial sectors indicated expansion in the second half of the year. The retail commerce benchmark was stable during the year, but lower than in previous years.
The Bank is monitoring the impact of the Corona Virus outbreak in China on business activity. For more information see chapter "Risks overview" below.
For more information abut inclusion of Bank Mizrahi Tefahot, similar to most Israeli banks, on the Black List issued by the UN Human Rights Council on February 12, 2020, see chapter Management Overview below.

The following are changes in key equity indices world-wide (in %):

CPI	2019	2018	2017
Dow Jones	22.3	(6.7)	25.1
S&P 500	28.9	(7.0)	19.4
NASDAQ 100	38.0	(1.7)	31.5
DAX	23.0	(18.3)	12.5
FTSE 100	19.0	(12.3)	7.6
CAC	19.1	(11.9)	9.3
Nikkei 225	22.3	(12.1)	19.1

Risk events

In 2019, there were no material loss events nor any events with a potential for material loss.

Key and emerging risks

In its operations, the Bank is exposed to a succession of risks which may potentially impact its financial results and its image.

As part of the risks mapping, the Bank reviews the top risks, existing (or new) risks which may materialize over the coming 12 months which potentially may materially impact the Bank's financial results and stability, such as: credit, interest and liquidity risks. The Bank also identifies emerging and evolving risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Among these risks, notable is the growing information and cyber security risk vis-a-vis financial institutions, IT risk, strategic-business risk with regard to growing competition based on advances in technology and due to changes in client behavior, as well as reputational risk. As noted, the mapping of risk and its impact on the Bank is regularly reviewed and discussed to ensure that it encompasses all business operations at the Bank. The Bank reviews the state of the economy, the macro-economic environment and market conditions in Israel and overseas, as well as new regulatory requirements that may impact the Bank.

For more information, including analysis of major risks to which the Bank is exposed and an overview of their management and evolution in the reported period, see chapter "Risks Overview" as well as the Detailed Risks Report on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements

Independent Auditors' reports

The Bank's Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.

The Independent Auditor, in their review, has drawn attention to Note 26.C.11 with regard to claims filed against the Bank and a subsidiary thereof, including motions for class action status.

Events after the date of the financial statements

- On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, informed the Bank Board of Directors of his intention to conclude his term in office in the coming months. The end date of his term in office has yet to be determined, and would be agreed after the Bank Board of Directors would complete the process of appointment of the next Bank President & CEO.
- On February 24, 2020, the Board of Directors resolved to create a committee, headed by the Chairman of the Board of Directors, to nominate a new Bank CEO.
- For more information about distribution of dividends with respect to earnings of the fourth quarter of 2019, see chapter "Analysis of developments in assets, liabilities, equity and capital adequacy" below and the statement of changes to shareholder equity and the Note "Events after the balance sheet date" of these condensed financial statements.

Changes to critical accounting policies and to critical accounting estimates

The financial statements are prepared in accordance with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with directives and guidance from the Supervisor of Banks. The significant accounting policies are detailed in Note 1 to the financial statements.

Below are changes to critical accounting policies and to critical accounting estimates which impact the operating results in the reported periods:

Provision for credit losses

As stated in Note 1.B to these financial statements, the group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 9 years ended on the report date.

Derivative instruments and hedge accounting

As set forth in Note 1.C.2 to these financial statement, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-12, an update to Section 815 of the Codification with regard to derivatives and hedge accounting. The amendment includes changes to provisions concerning measurement and designation of qualified hedging ratios and presentation requirements for the hedging results.

Material developments in revenues, expenses and other comprehensive income

Net profit for the Group in 2019 amounted to NIS 1,842 million, compared to net profit of NIS 1,206 million in the corresponding period last year – an increase by 52.7%. Compared to net profit excluding extraordinary items(1) in the corresponding period last year, that amounted to NIS 1,647 million, an increase by 11.8%.

Net profit in 2019 reflects return on equity of 11.9%, compared to reported return on equity at 8.5% in 2018 (excluding extraordinary items(1): 11.6%).

Net profit for the Group in the fourth quarter of 2019 amounted to NIS 440 million, compared to net profit of NIS 202 million in the corresponding period last year – an increase by 117.8%. Compared to net profit excluding extraordinary items(1) in the corresponding period last year, that amounted to NIS 378 million, an increase by 16.4%.

Net profit in the fourth quarter of 2019 reflects annualized return on equity of 11.5%, compared to reported return on equity at 5.7% in the corresponding period last year (excluding extraordinary items(1): 10.7%).

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(2) in 2019 amounted to NIS 5,697 million, as described on these financial statements, compared to NIS 5,367 million in 2018, an increase by 6.1%.

Net interest revenues and non-interest financing revenues(2) in the fourth quarter of 2019 amounted to NIS 1,416 million, as described on these financial statements, compared to NIS 1,381 million in the corresponding period last year, an increase by 2.5%, primarily due to the CPI impact, which accounted for a NIS 39 million difference in financing revenues the corresponding period last year.

Net interest revenues and non-interest financing revenues(2) from current operations in 2019 amounted to NIS 5,466 million, as described below, compared to NIS 4,939 million in 2018, an increase by 10.7%.

Below is analysis of development in financing revenues from current operations (NIS in millions):

	2019	2018	Change in %
Interest revenues, net	5,340	4,922	
Non-interest financing revenues(2)	357	445	
Total financing revenues	**5,697**	**5,367**	**6.1**
Less:			
Effect of CPI	76	182	
Revenues from collection of interest on problematic debts	44	41	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	46	15	
Effect of accounting treatment of derivatives at fair value and others(3)	65	190	
Total effects from other than current operations	**231**	**428**	
Total financing revenues from current operations	**5,466**	**4,939**	**10.7**

The increase by NIS 527 million (or 10.7%) in financing revenues from current operations primarily reflects growth in net interest revenues. This increase is due to an increase by 6% in lending operations, and by 7.4% in deposit operations, as well as to improved lending margins, in line with the Bank's strategic plan, focusing on medium businesses and on retail.

(1) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's net operating profit, excluding extraordinary items, i.e. excluding provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:

(2) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(3) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

	2019				2018			
	Fourth Quarter	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest revenues, net	1,352	1,214	1,543	1,231	1,260	1,236	1,345	1,081
Non-interest financing revenues (expenses) (1)	64	147	89	57	121	105	129	90
Total financing revenues	**1,416**	**1,361**	**1,632**	**1,288**	**1,381**	**1,341**	**1,474**	**1,171**
Less:								
Effect of CPI	(36)	(81)	235	(42)	17	32	172	(39)
Revenues from collection of interest on problematic debts	17	6	9	12	12	9	8	12
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	3	30	1	12	2	11	–	2
Effect of accounting treatment of derivatives at fair value and others(2)	44	34	30	(43)	26	36	73	55
Total effects from other than current operations	**28**	**(11)**	**275**	**(61)**	**57**	**88**	**253**	**30**
Total financing revenues from current operations	**1,388**	**1,372**	**1,357**	**1,349**	**1,324**	**1,253**	**1,221**	**1,141**

(1) Non-interest financing revenues include effect of fair value and others and expense with respect to linkage differentials on CPI derivatives, where the corresponding revenue is recognized as interest revenues, in conformity with accounting rules.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on an accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value. Other impacts include the effect of Bank coverage against tax exposure with respect to overseas investments, by allocating excess financing sources against such investments.

The ratio of deposits to loans at the Bank, currently at 103%, contributes to Bank profitability in that most sources are raised for lending, yielding higher returns than other uses. The major impact on financing profit is due, as noted below, to increase in volume of operations and improved financial spread, primarily with respect to assets. For more information about the impact of interest rate changes on financing profit, see below "Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues". Note that the aforementioned disclosure refers to the calculation effect of change in risk-free interest, and does not account for action the Bank may take in response to market change.

Below are total financing revenues by supervisory operating segment (NIS in millions):

	For the year ended December 31,			
Operating segment	**2019**	**2018**	**Change amount**	**Change in %**
Individuals:				
Households – housing loans	1,695	1,517	178	11.7
Households – other	1,349	1,234	115	9.3
Private banking	86	76	10	13.2
Total – individuals	**3,130**	**2,827**	**303**	**10.7**
Business operations:				
Small and micro businesses	1,150	1,008	142	14.1
Medium businesses	295	244	51	20.9
Large businesses	526	534	(8)	(1.5)
Institutional investors	118	118	–	–
Total – business operations	**2,089**	**1,904**	**185**	**9.7**
Financial management	256	423	(167)	(39.5)
Total activity in Israel	**5,475**	**5,154**	**321**	**6.2**
Overseas operations	222	213	9	4.2
Total	**5,697**	**5,367**	**330**	**6.1**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and its Management " on the Financial Statements.

Below are average balances of interest-bearing assets attributable to operations in Israel in the various linkage segments (NIS in millions):

	For the year ended December 31,		
Linkage segment	**2019**	**2018**	**Change in %**
Israeli currency – non-linked	171,451	161,959	5.9
Israeli currency – linked to the CPI	56,522	52,560	7.5
Foreign currency (including Israeli currency linked to foreign currency)	13,383	13,894	(3.7)
Total	**241,356**	**228,413**	**5.7**

The changes in average balances of interest-bearing assets in the different segments is due to growth in loans to the public (housing loans, individual non-housing loans and business loans), in line with principles of the strategic plan.

The decrease in average foreign currency balances is due to diversion of uses to the NIS segment, as part of the Bank's asset and liability management.

Below are interest rate spreads (difference between interest income on assets and interest expenses on liabilities)(1) based on average balances(2), attributable to operations in Israel in the various linkage segments, in percent:

	For the year ended December 31,		For the quarter ended December 31,	
Linkage segment	**2019**	**2018**	**2019**	**2018**
Israeli currency – non-linked	2.07	1.90	2.15	1.95
Israeli currency – linked to the CPI	1.30	1.24	1.43	1.68
Foreign currency	0.77	1.12	1.00	0.88
Total	**1.75**	**1.69**	**1.83**	**1.76**

(1) Revenue and expense rates were calculated relative to interest-bearing assets and liabilities.
(2) Average balances before deduction of provision with respect to credit losses.

Changes to interest rate spreads:

In the non-linked NIS-denominated segment – higher financing margins compared to the corresponding period last year.

In the foreign currency segment – higher FED interest rates in the reported period compared to 2018, from 1.5% in early 2018 to 1.75%-2.5% in 2019 resulted in higher cost of sources, with revenues from derivative operations, against such uses, are not included in the interest rate differences mentioned above. Including such revenues, there was no significant change in interest rate spread in foreign currency.

For composition of interest spreads by different criteria (activity type, linkage segment and quantity and price analysis), more information about non-interest bearing assets and liabilities and information about overseas activities, see appendix "Interest Revenue and Expense Rates" to the annual financial statements.

Expenses with respect to credit losses for the Group in 2019 amounted to NIS 364 million, or 0.18% of total loans to the public, net compared to NIS 310 million in 2018, or 0.16% of total loans to the public, net), for a total increase of NIS 54 million.

Expenses with respect to credit losses for the Group amounted to NIS 119 million in the fourth quarter of 2019, or an annualized rate of 0.23% of total loans to the public, net, compared with NIS 77 million in the corresponding period last year – an annualized rate of 0.16% of total loans to the public, net in the corresponding period last year – an increase by NIS 42 million in total.

Expenses with respect to credit losses in 2019 were affected by a specific provision for several borrowers.

Development of expenses with respect to credit losses (NIS in millions) is as follows:

	For the year ended December 31,		For the quarter ended December 31,	
	2019	**2018**	**2019**	**2018**
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	477	374	161	110
Reduced expenses	(200)	(171)	(50)	(51)
Total individual provision	**277**	**203**	**111**	**59**
Provision for credit losses on Group basis:				
By extent of arrears	14	10	4	(5)
Other	73	97	4	23
Total expenses with respect to credit losses	**364**	**310**	**119**	**77**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized)	**0.18%**	**0.16%**	**0.23%**	**0.16%**
Of which: With respect to commercial loans other than housing loans	**0.46%**	**0.40%**	**0.61%**	**0.44%**
Of which: With respect to housing loans	**0.03%**	**0.03%**	**0.04%**	**0.01%**

Below are details of expenses with respect to credit losses by supervisory operating segments of the Group (NIS in millions):

	For the year ended December 31,		For the quarter ended December 31,	
Operating segments	**2019**	**2018**	**2019**	**2018**
Individuals:				
Households – housing loans	44	36	12	2
Households – other	99	108	27	27
Private banking	2	1	1	–
Total – individuals	**145**	**145**	**40**	**29**
Business operations:				
Small and micro businesses	166	137	56	34
Medium businesses	42	11	23	12
Large businesses	24	8	4	(5)
Institutional investors	(6)	2	–	2
Total – business operations	**226**	**158**	**83**	**43**
Financial management	(3)	3	(1)	2
Total activity in Israel	**368**	**306**	**122**	**74**
Overseas activity	(4)	4	(3)	3
Total	**364**	**310**	**119**	**77**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on the management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and its Management " on the Financial Statements.

For more information about analysis of development of loans to the public, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" below.

For more information about analysis of credit risk, see chapter "Credit risk" below and the detailed Risks Management Report on the Bank website.

Non-interest revenues amounted to NIS 1,966 million in 2019, compared with NIS 1,967 million in 2018, a decrease by NIS 1 million.

Non-interest revenues in the fourth quarter of 2019 amounted to NIS 469 million, compared to NIS 517 million in the corresponding period last year, a decrease by NIS 48 million – see explanation below.

Non-interest financing revenues in 2019 amounted to NIS 357 million, compared to NIS 445 million in the corresponding period last year. Such revenues in 2019 include gain from shares not held for trading amounting to NIS 58 million.

Non-interest financing expenses in the fourth quarter of 2019 amounted to NIS 64 million, compared to NIS 121 million in the corresponding period last year.

This item includes, inter alia, the effect of fair value, gains (losses) from transactions in debentures and securities, as well as linkage differentials on CPI derivatives and the effect of interest accrual (time value) inherent in derivative assets, where the corresponding revenues (expenses) are recognized as interest revenues, in conformity with accounting rules. See analysis of financing revenues from current operations above.

Commission revenues amounted to NIS 1,535 million in 2019, compared with NIS 1,475 million in 2018, an increase by 4.1%, due to continued business expansion.

Commission revenues in the fourth quarter of 2019 amounted to NIS 392 million, compared to NIS 384 million in the corresponding period last year – an increase by 2.1%.

For more information about commission revenues by commission type, see Note 4 to the financial statements.

Other revenues in 2019 amounted to NIS 72 million, compared with NIS 47 million in 2018, an increase by NIS 25 million, an increase by NIS 27 million, primarily due to capital gain amounting to NIS 26 million before tax, from realization of assets in conjunction with reorganization of real estate and improvements to the Bank's branch network.

Other revenues in the fourth quarter of 2019, amounted to NIS 13 million compared with NIS 12 million in the corresponding period last year – an increase by NIS 1 million.

Operating and other expenses amounted to NIS 3,988 million in 2019, compared with NIS 4,384 million in 2018.

Operating and other expenses in the fourth quarter of 2019 amounted to NIS 993 million, compared to NIS 1,211 million in the corresponding period last year.

Operating and other expenses in 2018 and in the fourth quarter of 2018 include a provision amounting to NIS 546 million and NIS 121 million, respectively, with respect to the investigation by the US DOJ. Operating and other expenses in 2019, excluding the provision with respect to the investigation, increased by 3.9% compared to the corresponding period last year.

Moreover, operating and other expenses in the fourth quarter of 2018 included a provision amounting to NIS 94 million, following a verdict with regard to economic arbitration between the Bank and the Employee Union, as well as a provision with respect to a lawsuit filed against the Bank, amounting to NIS 38 million. Excluding provisions with respect to the investigation and with respect to lawsuits, operating and other expenses increased in the fourth quarter of 2019 by 3.7% over the corresponding period last year.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 2,562 million in 2019, compared with NIS 2,407 million in 2018, an increase by 6.4%.

Beyond the current growth in payroll expenses, the provision for remuneration components (bonuses and options for employees) increased, in line with higher profitability compared to the corresponding period last year.

Payroll and associated expenses amounted to NIS 628 million in the fourth quarter of 2019, compared with NIS 683 million in the corresponding period last year – a decrease by NIS 55 million.

In the fourth quarter of 2018, a provision was recorded, amounting to NIS 94 million, following a verdict with regard to economic arbitration between the Bank and the Employee Union. For more information see Note 22.A.7 to the financial statements.

Maintenance and depreciation expenses for buildings and equipment in 2019 amounted to NIS 770 million, compared to NIS 747 million in 2018, a year-over-year increase of 3.1%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 192 million in the fourth quarter of 2019, compared with NIS 186 million in the corresponding period last year – an increase by 3.2%.

For more information about expenses with respect to IT, see chapter "Composition and development of assets, liabilities, capital and capital adequacy" below.

Other expenses amounted to NIS 656 million in 2019, compared with NIS 1,230 million in 2018.

Other expenses in the fourth quarter of 2019 amounted to NIS 173 million, compared to NIS 342 million in the corresponding period last year.

Other expenses in 2018 include a provision amounting to NIS 546 million with respect to the investigation by the US DOJ and a provision for a lawsuit brought against the Bank, amounting to NIS 38 million. Excluding these provisions, other expenses in 2019 increased by 1.5%.

Cost-Income ratio information is as follows(1) (in percent):

	2019				2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-income ratio	54.5	56.7	49.9	58.1	(2)68.1	54.5	(2)71.7	59.1

	For the year ended December 31,	
	2019	2018
Cost-income ratio	54.6	(2)63.6

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.

(2) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's cost-income ratios, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:
In the second quarter of 2018 – 53.2%.
In the fourth quarter of 2018 – 61.3%.
In 2018 – 57.2%.

Group profit before taxes amounted to NIS 2,954 million in 2019, compared with NIS 2,195 million in 2018, an increase by 34.6%.

Pre-tax profit for the Group in the fourth quarter of 2019 amounted to NIS 709 million, compared to NIS 489 million in the corresponding period last year – an increase by 45.0%. See detailed explanation above.

The rate of provision for taxes on profit in 2019 was 34.8%.

The rate of provision for taxes on profit in the fourth quarter of 2019 was 34.8%.

The provision rate for taxes on profit in 2018 and in the fourth quarter of 2018 was 42.0% and 54.8%, respectively.

The provision rate for taxes in 2018 was affected by an increase in expenses in the second and fourth quarters, by NIS 55 and NIS 97 million, respectively, due to potential tax implications with regard to a provision with respect to the investigation by the US Department of Justice.

See Note 8 to the financial statements for additional information.

Bank share of after-tax profit of associates – in 2019 there was no profit with respect to associates, compared to a profit of NIS 1 million in 2018.

In the fourth quarter of 2019 there were no profits with respect to associates, similar to the corresponding period last year.

The share of non-controlling interest in net results of subsidiaries attributable to Bank Yahav in 2019 amounted to NIS 83 million, compared to NIS 68 million in 2018, an increase by 22%.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the fourth quarter of 2019 amounted to NIS 22 million, compared to NIS 19 million in the corresponding period last year.

The increase in Bank Yahav earnings is due to an increase in business, improved financing margins and stable expenses.

Net profit attributable to shareholders of the Bank amounted to NIS 1,842 million in 2019, compared with NIS 1,206 million in 2018, an increase by 52.7%.

Net profit attributable to shareholders of the Bank amounted to NIS 440 million in the fourth quarter of 2019, compared with NIS 202 million in the corresponding period last year – an increase by 117.8%.

Other comprehensive income (loss) attributable to shareholders of the Bank in 2019 amounted to income of NIS 14 million, compared to NIS 37 million in 2018.

Other comprehensive income (loss) attributable to shareholders of the Bank in the fourth quarter of 2019 amounted to loss of NIS 14 million, compared to other comprehensive income of NIS 38 million in the corresponding period last year. The change is primarily due to adjustments with respect to employees' benefits and to adjustments with respect to presentation of debentures available for sale at fair value. For more information see Note 10 to the financial statements.

For more information about results of the Bank Group for the interim period, see multi-quarter information for the past two years in Addendums to the financial statements.

Below is the development of Group return(1) on equity(2) and ratio of Tier I capital to risk components liquidity coverage ratio(3) and leverage ratio at the end of the quarter(4) (in %):

	2019				2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net return on equity	11.5	11.1	15.8	11.3	(5)5.7	13.4	(5)6.1	10.3
Ratio of Tier I capital to risk components at end of quarter	10.14	10.13	10.23	10.12	10.01	10.11	9.95	10.16
(Quarterly) liquidity coverage ratio	121	122	118	120	116	121	120	(6)125
Leverage ratio at end of quarter	5.55	5.62	5.67	5.54	5.42	5.47	5.38	5.43

	For the year ended December 31,	
	2019	2018
Net return on equity	11.9	(5)8.5

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of revenue and expense rates, less average balance of minority interests and less/plus the average balance of unrealized gains/losses from adjustment to fair value of debentures held for trading as well as gains/losses from debentures available for sale.

(3) Liquidity Coverage Ratio – ratio of total High-Quality Liquid Assets to net cash outflow. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 221, in terms of simple averages of daily observations during the reported quarter.

(4) Leverage Ratio – ratio of Tier I capital, according to Basel rules, to total exposure. This ratio is calculated in conformity with Proper Conduct of Banking Business Directive 218

(5) Operating and other expenses for 2018 include a provision, amounting to NIS 546 million, with respect to the investigation by the US Department of Justice (NIS 425 million in the second quarter of 2018 and NIS 121 million in the fourth quarter of 2018). The Bank's net profit return on equity, excluding extraordinary items, i.e. excluding the provisions with respect to the investigation and taking into account the provisions for bonus payments in line with profitability from business operations in that period and related tax expenses, amounted to:
In the second quarter of 2018 – 14.1%.
In the fourth quarter of 2018 – 10.7%.
In 2018 – 11.6%.

(6) Includes the effect of implementation of Bank of Israel guidelines to apply a reduced withdrawal rate with respect to operational deposits, as from the first quarter of 2018.

Earnings and dividends per ordinary, NIS 0.1 par value share are as follows (in NIS):

	2019				2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Basic earnings per share	1.88	1.80	2.46	1.73	0.87	1.95	0.89	1.47
Diluted earnings per share	1.87	1.79	2.45	1.72	0.86	1.94	0.88	1.46
Dividends per share (in Agorot)	72	(2)167	(2) -	(1) -	(1) -	(1) -	59	47

	For the year ended December 31,		
	2019	2018	2017
Basic earnings per share	7.86	5.17	5.80
Diluted earnings per share	7.83	5.15	5.76
Dividends per share (in Agorot)	(1)178	(1)106	144

(1) No dividends were declared with respect to earnings in the second, third and fourth quarters of 2018. For more information see chapter "Dividends" below.

(2) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019. For more information see chapter "Dividends" below.

Analysis of composition of assets, liabilities, capital and capital adequacy

Assets and liabilities

Development of key balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31, 2019	December 31, 2018	Change in %
Balance sheet total	273,244	257,873	6.0
Cash and deposits with banks	51,672	45,162	14.4
Loans to the public, net	204,708	194,381	5.3
Securities	10,113	11,081	(8.7)
Buildings and equipment	1,457	1,424	2.3
Deposits from the public	210,984	199,492	5.8
Deposits from banks	714	625	14.2
Debentures and subordinated notes	33,460	30,616	9.3
Shareholders' equity	16,033	14,681	9.2

Cash and deposits with banks – the balance of cash and deposits with banks increased in 2019 by NIS 6.5 billion. The increase in the cash balance is part of on-going management of Bank liquidity.

Loans to the public, net – loans to the public, net on the consolidated balance sheet as of December 31, 2019 accounted for 75% of total assets, similar to the end of 2018. Loans to the public, net for the Group increased in 2019 by NIS 10.3 billion, an increase by 5.3%.

For more information about on-balance sheet and off-balance sheet credit risk, development of problematic debts and various risk benchmarks with regard to housing loans, see chapter "Risks" below and the Detailed Risks Report on the Bank website.

Loans to the public, net by linkage basis (NIS in millions) are as follows:

Linkage segment	Balance as of December 31 2019	Balance as of December 31 2018	Change in %	Percentage of total loans to the public, net as of December 31 2019	Percentage of total loans to the public, net as of December 31 2018
Israeli currency					
Non-linked	137,223	129,042	6.3	67.0	66.4
CPI-linked	57,272	53,384	7.3	28.0	27.5
Foreign currency and foreign currency linked	10,213	11,955	(14.6)	5.0	6.2
Total	**204,708**	**194,381**	**5.3**	**100.0**	**100.0**

Loans to the public, net by supervisory operating segment (NIS in millions) are:

	2019	2018	Change in %
Individuals:			
Households – housing loans	134,637	126,105	6.8
Households – other	21,632	20,932	3.3
Private banking	224	98	–
Total – individuals	**156,493**	**147,135**	**6.4**
Business operations:			
Small and micro businesses	20,857	18,977	9.9
Medium businesses	7,063	6,585	7.3
Large businesses	15,152	16,236	(6.7)
Institutional investors	1,563	1,331	17.4
Total – business operations	**44,635**	**43,129**	**3.5**
Overseas operations	3,580	4,117	(13.0)
Total	**204,708**	**194,381**	**5.3**

For definition of supervisory operating segments and differences between supervisory operating segments and operating segments based on management approach – see chapter "Supervisory operating segments" below and chapter "Other Information about the Bank and Management thereof" on the Financial Statements.

Below are details of problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses:

Reported amounts (NIS in millions)	**As of December 31, 2019 Credit risk[1]**				**As of December 31, 2018 Credit risk[1]**			
	Commercial	**Housing**	**Individual**	**Total**	**Commercial**	**Housing**	**Individual**	**Total**
1. Credit risk at performing credit rating[2]								
Balance sheet credit risk	48,714	134,044	19,993	202,751	48,329	125,363	19,638	193,330
Off balance sheet credit risk[3]	38,058	13,348	11,301	62,707	35,249	9,287	10,714	55,250
Total credit risk at performing credit rating	**86,772**	**147,392**	**31,294**	**265,458**	**83,578**	**134,650**	**30,352**	**248,580**
2. Credit risk other than at performing credit rating								
A. Non-problematic	1,365	–	403	1,768	1,949	–	292	2,241
B. Total – problematic	2,113	1,532	234	3,879	1,545	1,310	234	3,089
Special supervision[4]	716	1,476	117	2,309	396	1,250	126	1,772
Inferior	212	–	30	242	121	–	31	152
Impaired	1,185	56	87	1,328	1,028	60	77	1,165
Total credit risk other than at performing credit rating	3,478	1,532	637	5,647	3,494	1,310	526	5,330
Of which: Balance sheet credit risk	2,713	1,532	633	4,878	2,959	1,310	522	4,791
Of which: Off balance sheet credit risk[3]	765	–	4	769	535	–	4	539
Of which: Non-impaired debts in arrears 90 days or longer[4]	36	1,476	24	1,537	42	1,250	24	1,316
Total credit risk, including risk to the public[5]	**90,250**	**148,924**	**31,931**	**271,105**	**87,072**	**135,960**	**30,878**	**253,910**
Non-performing assets[6]	**1,119**	**56**	**55**	**1,230**	**946**	**60**	**52**	**1,058**

(1) On- and off-balance sheet credit is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) Low-rated credit in good standing, which Bank policy stipulates specific restrictions on extending such credit.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) including with respect to housing loans for which a provision was made by extent of arrears, and with respect to housing loans for which no provision was made by extent of arrears and which are in arrears 90 days or longer.
(5) On- and off-balance sheet credit risk, including with respect to derivative instruments. Includes: Debts, debentures, securities loaned or purchased in resale agreements.
(6) Assets not accruing interest.

For more information about credit risk with respect to individuals (excluding housing loans), credit risk in the construction and real estate economic sector in Israel and housing loan risk, see chapter "Credit risk" below and chapter "Credit risk" in the detailed Risks Report available on the Bank website.

For more information see also Notes 13 and 30 to the financial statements.

Development of Group credit risk distribution by size of borrower (in %) is as follows:

Credit risk per borrower (NIS in thousands)	**2019 Share of total Group credit risk**	**2019 Share of total Group number of borrowers**	**2018 Share of total Group credit risk**	**2018 Share of total Group number of borrowers**
Up to 150	9.2	70.7	9.6	70.9
150-600	19.9	17.1	20.7	17.5
600-2,000	39.4	11.3	37.7	10.7
Above 2,000	31.5	0.9	32.0	0.9

Credit risk by major industrial sectors with respect to borrower operations in Israel[1] (NIS in millions):

Sector	2019		2018	
	On-balance sheet credit risk[1]	Percentage of total balance-sheet credit risk	On-balance sheet credit risk[1]	Percentage of total balance-sheet credit risk
Private individuals (includes mortgages)	155,765	76.5	146,201	75.7
Construction and real estate	17,705	8.7	17,014	8.8
Financial services	4,668	2.3	5,777	3.0
Industry	5,700	2.8	5,903	3.1
Commerce	8,272	4.1	8,159	4.2
Other	11,390	5.6	10,031	5.2
Total	**203,500**	**100.0**	**193,085**	**100.0**

(1) Includes credit and investments in debentures by the public, and other assets with respect to derivative instruments of the public.

Credit risk is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel directives. On-balance-sheet risk includes balances of loans to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities. Total credit risk to the public for the Bank Group as of December 31, 2019 amounted to NIS 271 billion, compared to NIS 254 billion as of December 31, 2018 – an increase by 6.8%.

Development of key off balance sheet items for the Bank Group (NIS in millions) is as follows:

	December 31, 2019	December 31, 2018	Change in % over December 31, 2018
Off balance sheet financial instruments other than derivatives[1]:			
Unutilized debitory account and other credit facilities in accounts available on demand	14,734	15,586	(5.5)
Guarantees to home buyers	10,672	10,544	1.2
Irrevocable commitments for loans approved but not yet granted	22,466	16,730	34.3
Unutilized revolving credit card facilities	8,160	7,574	7.7
Commitments to issue guarantees	9,993	7,482	33.6
Guarantees and other commitments	8,613	7,945	8.4
Loan guarantees	2,898	2,388	21.4
Documentary credit	206	292	(29.5)
Financial derivatives[2]:			
Total par value of derivative financial instruments	265,277	246,375	7.7
(On-balance sheet) assets with respect to derivative instruments	2,578	3,240	(20.4)
(On-balance sheet) liabilities with respect to derivative instruments	2,686	3,661	(26.6)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 30 to the financial statements for additional information.
(2) Includes forward transactions, swaps, options and credit derivatives.

Securities - investment in securities decreased in 2019 by NIS 1.0 billion. The decrease in total investment in securities is within asset and liability management of the Bank.

Composition of Group securities by portfolio (NIS in millions) is as follows:

	Carrying amount	Amortized cost (for shares – cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
	December 31, 2019				
Debentures held to maturity	4,032	4,032	61	–	4,093
Debentures available for sale	5,164	5,109	[2]59	[2](4)	5,164
Investment in shares not held for trading[4]	149	104	[3]45	–	149
Debentures held for trading	768	770	–	[3](2)	768
Total securities	**10,113**	**10,015**	**165**	**(6)**	**10,174**
	December 31, 2018				
Securities held to maturity	3,917	3,917	29	(6)	3,940
Securities available for sale	6,876	6,965	[2]6	[2](95)	6,876
Securities held for trading	288	288	–	–	288
Total securities	**11,081**	**11,170**	**35**	**(101)**	**11,104**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(3) Charged to statement of profit and loss but not yet realized.
(4) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

	Balance as of December 31		
	2019	**2018**	**Change in %**
Israeli currency			
Non-linked	5,038	4,661	8.1
CPI-linked	607	418	45.2
Foreign currency and foreign currency linked	4,319	5,910	(26.9)
Non-monetary items	149	92	62.0
Total	**10,113**	**11,081**	**(8.7)**

Distribution of Group security portfolio by issuer type (NIS in millions) is as follows:

	Carrying amount as of	
	December 31, 2019	**December 31, 2018**
Government debentures:		
Government of Israel	7,821	8,625
Government of USA	1,781	1,862
Total government debentures	**9,602**	**10,487**
Debentures of banks in developed nations[1]:		
USA	70	74
Germany	44	186
South Korea	108	–
Other	140	224
Total debentures of banks in developed nations	**362**	**484**
Corporate debentures (composition by sector):		
Public and community services	–	10
Financial services	–	8
Total corporate debentures	**–**	**18**
Investment in shares not held for trading	**149**	**92**
Of which: Shares for which no fair value is available	[2]49	[3]91
Total securities	**10,113**	**11,081**

(1) Includes exposure to Multi-party Development Banks (MDB).
(2) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.
(3) Shown at cost.

For more information about investments in securities and impairment of a temporary nature of securities available for sale, listing the duration of impairment and its rate out of the amortized cost, see Note 12 to the financial statements.

Buildings and equipment – The balance of buildings and equipment increased in 2019 by NIS 33 million. The increase in buildings and equipment is due to new investments, primarily as part of technological investments, and offset by current change with respect to depreciation.

Investments and expenses with respect to IT

Below is information about investments and expenses for the Bank with respect to IT.

IT-related expenses, as listed on the statement of profit and loss (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2019				2018			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses[1]	249	45	31	325	214	39	32	286
Usage license expenses not capitalized to assets[2]	129	9	–	138	110	13	1	124
Outsourcing expenses[3]	[6]135	5	8	148	[6]131	6	9	146
Depreciation expenses[4]	168	34	0	203	160	33	–	193
Other expenses[5]	12	2	31	44	12	2	34	48
Total expenses	**693**	**95**	**70**	**858**	**627**	**93**	**77**	**797**

Total cost with respect to IT recognized as assets on the financial statements in the reported period

Additional IT-related assets not expensed (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2019				2018			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Payroll and associated expenses[1]	13	–	–	13	16	–	–	16
Cost of acquisition of usage licenses[2]	111	44	1	156	62	59	1	122
Outsourcing expenses[3]	94	–	–	94	67	–	–	67
Total	**218**	**44**	**1**	**263**	**145**	**59**	**1**	**205**

Balance of IT-related assets at the end of the reported period

Balance of IT-related assets (NIS in millions):

	For the year ended December 31 (reported amounts)							
	2019				2018			
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
Total depreciated balance	544	99	3	647	488	86	3	577
Of which: Payroll and associated expenses	38	–	–	38	39	–	–	39

(1) Includes payroll of hardware and software professionals as well as payroll of other IT staff, such as: administrative staff, maintenance staff and operations staff. Payroll costs added to assets include labor costs for development of software for the Bank's own use, capitalized to assets in accordance with generally accepted accounting principles.
(2) These expenses primarily consist of current software maintenance. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets are with respect to usage licenses and software purchases.
(3) These expenses are with respect to hardware and software maintenance by external employees. These expenses are included on the financial statements under "Maintenance and depreciation expenses for buildings and equipment". Additions to assets with respect to outsourcing include cost of external employees employed by the Bank to develop software for the Bank's own use.
(4) For more information about accounting policies with regard to depreciation expenses, see Notes 1.D.8 and 16 to the financial statements.
(5) Includes expenses with respect to rent and taxes, communication and general & administrative expenses.
(6) As from January 1, 2017, Bank Yahav receives IT and operating services from an international Tata Group company. The company specializes, inter alia, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. The cost of service in 2019 amounted to NIS 96 million (in 2018: NIS 97 million).

Deposits from the public – these account for 77% of total consolidated balance sheet as of December 31, 2019, similar to their weight as of December 31, 2018. In 2019, deposits from the public for the Bank Group increased by NIS 11.5 billion, an increase by 5.8%. Deposits from the public include deposits from retail clients, corporations, financial entities and others.

Composition of deposits from the public by linkage segments (NIS in millions) is as follows:

Linkage segment	Balance as of December 31 2019	2018	Change in %	Percentage of total loans to the public, net as of December 31 2019	2018
Israeli currency					
Non-linked	158,980	145,705	9.1	75.4	73.0
CPI-linked	14,345	14,443	(0.7)	6.8	7.2
Foreign currency and foreign currency linked	37,659	39,344	(4.3)	17.8	19.7
Total	**210,984**	**199,492**	**5.8**	**100.0**	**100.0**

Composition of deposits from the public by supervisory operating segments (NIS in millions) is as follows:

	As of December 31, 2019	2018	Change rate (In %)
Individuals:			
Households – other	86,076	82,119	4.8
Private banking	14,839	13,777	7.7
Total – individuals	**100,915**	**95,896**	**5.2**
Business operations:			
Small and micro businesses	26,725	22,664	17.9
Medium businesses	8,935	8,332	7.2
Large businesses	25,155	29,460	(14.6)
Institutional investors	45,330	37,712	20.2
Total – business operations	**106,145**	**98,168**	**8.1**
Overseas operations	3,924	5,428	(27.7)
Total	**210,984**	**199,492**	**5.8**

Evolution of deposits from the public for the Group by depositor size (NIS in millions) is as follows:

	2019	2018
Maximum deposit (NIS in millions)		
Up to 1	72,152	69,559
Over 1 to 10	50,875	47,240
Over 10 to 100	29,582	26,703
Over 100 to 500	22,193	18,658
Above 500	36,182	37,332
Total	**210,984**	**199,492**

Deposits from banks – The balance of deposits from banks increased in 2019 by NIS 0.1 billion.

For more information on the evolution of the composition of deposits from the public and the evolution of the composition of deposits from banks, see Notes 18 and 19 to the financial statements.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of December 31, 2019 amounted to NIS 33.5 billion, an increase by NIS 2.8 billion compared to the balance as of December 31, 2018. See also chapter "Developments in financing sources" above.

For more information about balances of assets and liabilities for the Bank Group for interim periods, see multi-quarter information for the past two years in Addendums to the annual financial statements.

Capital, capital adequacy and leverage

Shareholders' equity attributable to shareholders of the Bank – Shareholders' equity attributable to equity holders of the Bank as of December 31, 2019 amounted to NIS 16.0 billion, compared to NIS 14.7 billion as of December 31, 2018, an increase by 9.2%.

Below is the composition of shareholders' equity (NIS in millions):

	As of December 31,		Rate of change
	2019	**2018**	**(In %)**
Share capital and premium(1)	2,232	2,197	1.6
Capital reserve from benefit from share-based payment transactions	70	48	45.8
Total cumulative other loss(2)(3)	(332)	(346)	(4.0)
Retained earnings(4)	14,063	12,782	10.0
Total	**16,033**	**14,681**	9.2

(1) For more information about share issuance, see statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 10 to the financial statements.
(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the financial statements.
(4) For more information about developments in revenues and expenses accumulated to retained earnings in the reported period, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

The ratio of shareholders' equity to total assets for the Group as of December 31, 2019 was 5.87%, compared to 5.69% as of the end of 2018.

Capital adequacy

Supervisory capital

The Bank assesses its capital adequacy in accordance with Basel rules, as prescribed by Proper Conduct of Banking Business Directives 201-211. The Bank applies the standard approach in assessing exposure to credit risk, operational risk and market risk.

Capital is composed of two tiers: Tier I capital (including Tier I equity and Tier I additional capital) and Tier II capital.

Tier I capital primarily consists of equity attributable to shareholders of the Bank (accounting equity on the books) and non-controlling interests, which is the primary component for loss absorption.

Additional Tier I capital consists of equity instruments which fulfill the requirements specified in the directives. As of December 31, 2019, the Bank had no equity instruments included in additional Tier I capital.

Tier II capital consists of the group-based provision for credit losses and CoCo (Contingent Convertible) capital instruments, which include a provision for absorbing loss of principal when the Tier I Capital ratio drops below the specified quantitative trigger level, or upon receiving notice from the Supervisor of Banks, whereby activating the provision for absorbing loss of principal is required to ensure stability of the banking corporation (a Bank "non existence" event). For more information about issue of debentures and contingent subordinated notes (Contingent Convertibles – CoCo) in 2019, see chapter "Developments in financing sources" above.

Subordinated notes, recognized as Tier II capital instruments under the previous directives, no longer qualify as supervisory capital under the current directives (primarily due to lacking loss absorption provisions) and are amortized over the term of the transitional provisions through 2021.

Capital planning at the Bank

Capital planning in the normal course of business – The Bank prepares a detailed, multi-annual capital planning forecast, taking the following into consideration: Expected growth rates of risk assets and profitability, the strategic plan, dividends distribution policy, capital targets and leverage, appropriate safety margins and other factors.

The Bank regularly monitors the actual results vs. the forecast, revises the forecast as required and reviews any necessary actions in order to achieve the specified capital targets.

The sensitivity of the Bank's capital adequacy ratio to changes in Tier I capital and risk assets is:

Change in Tier I capital by NIS 100 million would result in a change in Tier I capital adequacy ratio of 0.06%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.06%.

Internal capital adequacy assessment process – The Bank uses this process to verify the existence of a sufficient capital absorption buffer to address various risks associated with Bank operations, including stress scenarios.

The planning horizon is three years, in which the Bank challenges the strategic plan by a range of stress scenarios involving significant impact to Bank profitability and erosion of Bank capital. The outcome of the Bank's most recent capital planning indicates that the capital absorption buffer is sufficient.

For more information see the Detailed Risks Report on the Bank website.

Ratio of capital to risk components

The Bank applies provisions for capital measurement and adequacy, based on Basel III provisions, as published by the Supervisor of Banks and as incorporated in Proper Conduct of Banking Business Directives 201-211. As per instructions of the Supervisor of Banks, the Bank is required to maintain a minimum Tier I equity ratio of no less than 9% and a minimum total equity ratio of no less than 12.5% of weighted total of risk components of its balance sheet assets and off-balance-sheet items. The Supervisor of Banks' instructions specifies the manner of calculation of total capital and total risk components

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date. Accordingly, the minimum Tier I capital ratio and the minimum total equity ratio required by the Supervisor of Banks, on a consolidated basis, in conformity with data as of the reporting date, are 9.83% and 13.33%, respectively. See Note 25 to the financial statements for additional information.

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividends distribution policy, see Note 25 to the financial statements and chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below.

Below is calculation of the capital adequacy ratio (NIS in millions):

	As of December 31,	
	2019	**2018**
Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	16,520	15,172
Tier I capital	16,520	15,172
Tier II capital	6,090	5,515
Total capital	**22,610**	**20,687**
Weighted risk asset balances		
Credit risk	150,878	140,572
Market risks	1,791	1,494
Operational risk	10,189	9,561
Total weighted risk asset balances	**162,858**	**151,627**

Development of Group ratio of capital to risk components is as follows (in %):

	December 31,	
	2019	**2018**
Ratio of capital to risk components		
Ratio of Tier I capital to risk components	10.14	(1)10.01
Ratio of Tier I capital to risk components	10.14	(1)10.01
Ratio of total capital to risk components	13.88	13.64
Minimum Tier I capital ratio required by Supervisor of Banks	9.83	9.84
Total minimum capital ratio required by the directives of the Supervisor of Banks	13.33	13.34

(1) Due to provisions with respect to the investigation by the US Department of Justice, safety margins maintained by the Bank for its capital adequacy were somewhat eroded. The reported Tier I equity ratio is 10.01% (or 0.17% above the minimum ratio required by the Supervisor of Banks).

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows (NIS in millions):

Exposure group	As of December 31, 2019 Weighted risk asset balances	Capital requirement(1)	As of December 31, 2018 Weighted risk asset balances	Capital requirement(2)
Sovereign debts	90	12	223	30
Public sector entity debts	208	28	197	26
Banking corporation debts	517	69	712	95
Corporate debts	44,210	5,893	42,166	5,625
Debts secured by commercial real estate	4,101	547	2,523	337
Retail exposure to individuals	15,372	2,049	14,489	1,933
Loans to small businesses	8,309	1,108	8,133	1,085
Residential mortgages	72,671	9,687	66,663	8,893
Other assets	5,016	669	4,890	652
Total	**150,494**	**20,062**	**139,996**	**18,676**

(1) The capital requirement was calculated at 13.33% of risk asset balances.
(2) The capital requirement was calculated at 13.34% of risk asset balances.

Risk assets and capital requirements with respect to market risk, CVA risk and operational risk are as follows (NIS in millions):

Exposure group	December 31, 2019 Weighted risk asset balances	Capital requirement(1)	December 31, 2018 Weighted risk asset balances	Capital requirement(2)
Market risk	1,791	239	1,494	198
CVA risk(3)	384	51	576	77
Operational Risk(4)	10,189	1,358	9,561	1,275
Total	**12,364**	**1,648**	**11,631**	**1,550**
Total risk assets	**162,858**	**21,710**	**151,627**	**20,226**

(1) The capital requirement was calculated at 13.33% of risk asset balances.
(2) The capital requirement was calculated at 13.34% of risk asset balances.
(3) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(4) Capital allocation with respect to operational risk was calculated using the standard approach.

Leverage ratio

The Bank applies Proper Banking Conduct Regulation 218 with regard to leverage ratio, which adopts the Basel Committee recommendations with regard to leverage.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis.

Below is the Bank's leverage ratio (in %):

	As of December 31, 2019	2018
1. Consolidated data		
Tier I capital	16,520	15,172
Total exposure	297,779	279,827
	In %	
Leverage ratio	5.55	5.42
Minimum leverage ratio required by the Supervisor of Banks	5.00	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.56	5.38
Minimum leverage ratio required by the Supervisor of Banks	4.70	4.70

For more information see Note 25 to the financial statements and the Detailed Risk Management Report on the Bank website.

Dividends

Dividend distribution policies

On February 26, 2018, the Bank's Board of Directors resolved to update the Bank's dividends policy for 2018 through 2021, after monitoring the execution of the aforementioned strategic plan.

The Bank's revised dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. This policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.

On March 12, 2019, the Bank's Board of Directors approved the signing of a DPA agreement with the US Department of Justice to conclude the investigation into the Bank Group's business with its US clients. For more information see chapter "Business goals and strategy" and chapter "Explanation and analysis of results and business standing (Significant Events in the Bank Group's Business)", as well as Note 26.C.12 to the financial statements.

On August 12, 2019, the Bank Board of Directors approved a dividend distribution amounting to NIS 392 million with respect to earnings in the first half of 2019.

On November 18, 2019, the Bank Board of Directors approved a dividend distribution amounting to NIS 168.8 million with respect to earnings in the third quarter of 2019.

For more information see report dated August 12, 2019, (reference no. 2019-01-083407), report dated August 18, 2019, (reference no.2019-01-085546), report dated January 1, 2020 (reference no. 2019-01-098940), and report dated November 24, 2019, (reference no. 2019-01-101235).

This information constitutes forward-looking information, as defined in the Securities Act, 1968 and based on assumptions, facts and data underlying the strategic plan and listed therein, which may fail to materialize due to factors not solely under Bank control, causing the strategic plan, including with regard to the policy of distribution of dividends, to fail to materialize.

For more information about the summary of previous resolutions by the Board of Directors with regard to the dividend distribution policy, see Note 24 to the financial statements.

Dividend distribution

Dividends declaration

On February 24, 2020, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 176 million, or 40% of earnings in the fourth quarter of 2019, in conformity with the Bank's dividend policy.

The dividends are 748.94% of issued share capital, i.e. NIS 0.7489 per NIS 0.1 par value share. The effective date for dividends payment is March 3, 2020 and the payment date is March 11, 2020. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Below are details of dividends distributed by the Bank since 2018 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 7, 2018	June 5, 2018	58.91	0.40	137.2
Total dividends distributed in 2018(1)				**246.7**
August 12, 2019	August 27, 2019	167.21	0.40(3)	392.0
November 18, 2019	December 3, 2019	71.89	0.40	168.8
Total dividends distributed in 2019(2)				**560.8**

(1) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.
(2) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.
(3) Dividend rate as percentage of net profit in the first half of 2019.

Other Off Balance Sheet Activity

Below is the development of off balance sheet monetary assets held on behalf of Bank Group clients, for which the Bank Group provides management, operating and/or custodial services (NIS in millions):

	As of December 31,		Change rate
	2019	**2018**	**(In %)**
Securities[(1)(2)]	452,549	233,600	93.7
Assets of provident funds for which the Group provides operating services	93,336	79,865	16.9
Assets held in trust by the Bank Group	68,308	70,153	(2.6)
Assets of mutual funds for which the Bank provides operating services	13,546	14,514	(6.7)
Other assets under management[(3)]	15,519	14,260	8.8

(1) Value of securities portfolios in Bank custody, held by clients, including balance of securities of provident funds and mutual funds to which the Bank provides operating services. Note that the balance of client operations presented includes, in addition to the balance of securities for mutual funds as noted above, also the value of participation units in such funds held by Bank clients.

(2) The increase in securities is due to the Bank prevailing in a tender for provision of custodian services, see chapter "Significant developments in management of business operations" above.

(3) Including:
Loan balances secured by deposits whose repayment to the depositor is contingent upon collection of the loan balance. With respect to these balances, the Bank receives margin or commissions Revenues.
Other loans managed by the Bank, including housing loans managed and operated by the Bank on behalf of others.

Description of Businesses of the Bank Group by Supervisory Operating Segment

Supervisory operating segments

According to the Public Reporting Regulation with regard to supervisory operating segments, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period.

However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as set forth in Note 29 to the financial statements.

There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.

However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division.

Given the Supervisor of Banks' requirement to discuss and analyze the supervisory operating segments in the Report of the Board of Directors and Management and given the correlation between supervisory operating segments and the "management approach", the segment information (both quantitative and qualitative) is briefly presented below for each segment, as follows:

- Supervisory definition of the segment
- Brief qualitative description of the segment (using "management approach").
- Explanation of differences between the "supervisory" definition and how business is actually managed (using the "management approach")
- Financial results of the segment (using the "supervisory approach")

For more information and detailed description of the segments, see chapter "Corporate Governance" of these annual financial statements.

Financial results using "management approach" are presented in Note 29 to the financial statements.

Below is a summary of financial results by supervisory operating segment (NIS in millions):

	Net profit		Share of total net profit (in %)	
	For the year ended December 31,		For the year ended December 31,	
	2019	2018	2019	2018
Individuals:				
Households – housing loans	756	666	41.0	40.8
Households – other	52	38	2.8	2.3
Private banking	2	(425)	0.1	–
Total – individuals	**810**	**279**	**43.9**	**43.1**
Business operations:				
Small and micro businesses	410	349	22.3	21.4
Medium businesses	144	125	7.8	7.7
Large businesses	297	300	16.1	18.4
Institutional investors	27	23	1.5	1.4
Total – business operations	**878**	**797**	**47.7**	**48.9**
Financial management	39	121	2.1	7.4
Total activity in Israel	**1,727**	**1,197**	**93.7**	**99.4**
Overseas operations	115	9	6.3	0.6
Total	**1,842**	**1,206**	**100.0**	**100.0**

(1) The percentage of total net profit in 2018 was calculated excluding the effect of private banking.

For more information about operating results in conformity with the management approach, see Note 29 to the financial statements.

Household segment

The supervisory definition

In conformity with the supervisory definition, the household segment includes individuals, other than those clients included in the private banking segment. Thus, this segment excludes individuals with financial assets in excess of NIS 3 million. Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans" and "other", in conformity with definitions of credit risk classification by economic sector.

Brief description of segment attributes (using the "management approach")

The household segment mainly consists of individual clients, with low levels of indebtedness and relatively small-scale financial activity. Segment clients include those with individual accounts, joint accounts for spouses etc. as well as mortgage borrowers. The segment is highly diversified, and is handled by the Bank's Retail Division.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- As a rule, individual clients are attributed to the household segment. According to the supervisory approach, individual clients with high indebtedness or with business attributes are classified to the business operating segments, rather than to the household segment.

Developments in the household segment during the reported period

- In 2019, public moves continued, designed to encourage non-bank entities to enter the competition in the household segment and to increase competition in consumer credit, including a license awarded in this year for setting up a new digital bank. Along with the Increased Competition and Reduced Concentration in Israeli Banking Act, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks and a project for arranging a system for sharing banking information by definition of a standard Open Banking API.
- In 2019, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions. Consequently and in conformity with legislation dated August 2016 of the Banking Act (Licensing) (Amendment no. 22), 2016, any banking corporation seeking to close a permanent branch is required to obtain permission from the Supervisor of Banks after filing a written justification and application to do so.
- In the credit card market, regulatory changes continued due, *inter alia*, to implementation of the Increased Competition and Reduced Concentration in Israeli Banking Act. In 2019, the process of separating credit card companies from banks started. Furthermore, several significant agreements have been signed by credit card companies and retail clubs, for joint issuing of non-bank cards. In 2010, significant change is expected in the credit card market, due to the schedule set by the Bank of Israel for conducting transactions by merchants using terminals supporting EMV technology (for reading a chip located on the credit card) and preparation for entry of international payment applications into the Israeli market.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the household segment

	For the year ended December 31,					
			2019			2018
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	1,349	1,695	3,044	1,234	1,517	2,751
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	526	160	686	520	156	676
Total revenues	**1,875**	**1,855**	**3,730**	**1,754**	**1,673**	**3,427**
Expenses with respect to credit losses	99	44	143	108	36	144
Operating and other expenses	1,628	651	2,279	1,530	611	2,141
Profit before provision for taxes	148	1,160	1,308	116	1,026	1,142
Provision for taxes	52	404	456	41	360	401
After-tax profit	96	756	852	75	666	741
Net profit:						
Attributable to non-controlling interests	(44)	–	(44)	(37)	–	(37)
Attributable to shareholders of the banking corporation	52	756	808	38	666	704
Balance sheet – key items:						
Loans to the public (end balance)	21,893	135,311	157,204	21,184	126,749	147,933
Loans to the public, net (end balance)	21,632	134,637	156,269	20,932	126,105	147,037
Deposits from the public (end balance)	86,076	–	86,076	82,119	–	82,119
Average balance of loans to the public	20,708	130,749	151,457	19,607	123,590	143,197
Average balance of deposits from the public	84,672	–	84,672	77,970	–	77,970
Average balance of risk assets	19,016	74,823	93,839	17,987	68,903	86,890
Credit margins and deposit margins:						
Margin from credit granting operations	831	1,622	2,453	808	1,449	2,257
Margin from activities of receiving deposits	516	–	516	423	–	423
Other	2	73	75	3	68	71
Total interest revenues, net	**1,349**	**1,695**	**3,044**	**1,234**	**1,517**	**2,751**

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in 2019 amounted to NIS 808 million, compared to NIS 704 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Contribution of housing loans (including general-purpose loans secured by a lien on a residential apartment) in 2019 amounted to NIS 756 million, compared to NIS 666 million in the corresponding period last year. Total interest revenues, net amounted to NIS 1,695 million, compared to NIS 1,517 million in the corresponding period last year, an increase by 11.7% – primarily due to an increase of NIS 7.2 billion in the average loan balance and to increase in lending margins.

In 2019, the Bank recognized expenses with respect to credit losses amounting to NIS 44 million, compared to NIS 36 million in the corresponding period last year.

Operating expenses amounted to NIS 651 million, compared to NIS 611 million in the corresponding period last year. Beyond the current growth in payroll expenses, the provision for remuneration components (bonuses and options for employees) increased, in line with higher profitability compared to the corresponding period last year. For more information see chapter "Explanation and analysis of results and business standing" above.

Contribution of other household operations (other than housing loans) in 2019 amounted to a profit of NIS 52 million, compared to NIS 38 million in the corresponding period last year. Interest revenues, net increased by 9.3%, primarily due to increase in credit and deposit volumes. Commissions and other revenues amounted to NIS 526 million, compared to NIS 520 million in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 99 million, compared to NIS 108 million in the corresponding period last year.

Operating expenses amounted to NIS 1,628 million, compared to NIS 1,530 million in the corresponding period last year. Beyond the current growth in payroll expenses, the provision for remuneration components (bonuses and options for employees) increased, in line with higher profitability compared to the corresponding period last year. For more information see chapter "Explanation and analysis of results and business standing" above.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Private Banking Segment

The supervisory definition

According to the supervisory definition, the private banking segment consists of individuals whose financial assets with the bank (including deposits, securities portfolios and other financial assets) exceed NIS 3 million.

Brief description of segment attributes (using the "management approach")

The private banking segment provides banking services in Israel to both Israeli clients and foreign resident clients. Private banking is the concept of banking services geared to clients with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking segment clients are individual clients with liquid deposits and investments in securities in excess of NIS 3 million.
Financial consulting, which is part of the service offered to this operating segment, is provided to the clients of the segments who have signed consulting agreements. A response is also provided for other financial needs of these clients, while providing high-quality personal service and offering a range of advanced products.
This segment has potential for expanding business relationships with clients from a high socio-economic standing, who demand personal, professional service which is highly available.

Differences between the management approach and the supervisory definition

- Some individual clients attributed to the private banking segment using the "management approach" are classified to the household segment using supervisory segments. The difference is primarily due to clients' financial assets used for client classification – the Bank threshold for client classification according to the "management approach" is NIS 1 million, lower than the supervisory definition.
- The private banking segment according to the management approach also includes businesses with liquid assets in excess of NIS 8 million. These clients are classified to the business operating segments under the supervisory approach.

Developments in the private banking segment during the reported period

Over the past year there were no material market developments nor material changes in client attributes in the private banking segment.
For more information and detailed description of products and services, key markets and distribution channels and layout of competition in this segment and changes there to, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of the private banking segment

	For the year ended December 31,	
	2019	**2018**
		NIS in millions
Profit and profitability		
Total interest revenues, net	86	76
Non-interest financing revenues	–	–
Commissions and other revenues	11	10
Total revenues	**97**	**86**
Expenses with respect to credit losses	2	1
Operating and other expenses	92	547
Profit (loss) before provision for taxes	3	(462)
Provision for taxes	1	(37)
Net profit (loss)	**2**	**(425)**
Balance sheet – key items:		
Loans to the public (end balance)	227	99
Loans to the public, net (end balance)	224	98
Deposits from the public (end balance)	14,839	13,777
Average balance of loans to the public	112	93
Average balance of deposits from the public	13,938	12,511
Average balance of risk assets	26	30
Credit margins and deposit margins:		
Margin from credit granting operations	–	1
Margin from activities of receiving deposits	86	75
Other	–	–
Total interest revenues, net	**86**	**76**

Results of the private banking segment (in conformity with supervisory definitions) in 2019 amounted to a profit of NIS 2 million, compared to a loss of NIS 425 million in the corresponding period last year.

Total interest revenues, net increased by NIS 10 million, due to increase in deposits from the public and to improved deposit margins.

Operating expenses amounted to NIS 92 million, compared to NIS 547 million in the corresponding period last year. Operating and other expenses in 2019 include legal expenses. Moreover, operating and other expenses in 2018 include a provision amounting to NIS 441 million with respect to the investigation by the US DOJ. For more information see Note 26.B.12 to the financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Micro and Small Business Segment

The supervisory definition

The micro and small business segment includes businesses with annual turnover below NIS 50 million.

Brief description of segment attributes (using the "management approach")

The micro and small business segment operates in the Retail Division, primarily consisting of small companies and small business clients, with annual turnover below NIS 10 million (micro business), as well as annual turnover between NIS 10 million and NIS 50 million (small business). In conformity with the management approach, in some cases clients may cross the turnover threshold and still be served by the Retail Division.

This segment is characterized by large client diversification. In view of the fact that the availability of data and their quality regarding the clients of this segment is relatively lower than for major business clients, there is a need for professional service and appropriate means of control, in order to assess the quality of the client for the purpose of issuing credit. Additionally, this segment is characterized by a high percentage of collateral required from the clients to ensure credit repayment.

Differences between the management approach and the supervisory definition

- Business clients with liquid assets in excess of NIS 8 million are attributed to the private banking segment according to the management approach. According to the supervisory segment approach, these clients are classified to the micro and small business segment, based on their annual turnover.
- Business clients currently attributed to commercial banking using the management approach and whose annual turnover is lower than NIS 50 million, are classified to the micro and small business segment using the supervisory approach.

Developments in the micro and small business segment during the reported period

Growing competition among banks in the small business segment continued to accelerate over the past year. In addition, a number of public actions were taken to encourage entry of non-bank entities into the market for credit to small business.

Changes to client attributes in this segment

During the year, there were no significant changes in attributes of segment clients – this segment is highly diversified as for clients, with strong collateral requirements from clients to secure repayment of credit.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of micro and small business segment

	For the year ended December 31,	
	2019	2018
	NIS in millions	
Profit and profitability		
Total interest revenues, net	1,150	1,008
Non-interest financing revenues	–	–
Commissions and other revenues	387	367
Total revenues	**1,537**	**1,375**
Expenses with respect to credit losses	166	137
Operating and other expenses	734	696
Profit before provision for taxes	637	542
Provision for taxes	222	190
After-tax profit	**415**	**352**
Net profit attributed to non-controlling interests	(5)	(3)
Net profit attributable to shareholders of the banking corporation	**410**	**349**
Balance sheet – key items:		
Loans to the public (end balance)	21,241	19,324
Loans to the public, net (end balance)	20,857	18,977
Deposits from the public (end balance)	26,725	22,664
Average balance of loans to the public	20,412	18,267
Average balance of deposits from the public	25,283	20,458
Average balance of risk assets	19,517	17,381
Credit margins and deposit margins:		
Margin from credit granting operations	984	874
Margin from activities of receiving deposits	142	108
Other	24	26
Total interest revenues, net	**1,150**	**1,008**

Contribution of the micro and small business segment (in conformity with supervisory definitions) to Group profit in 2019 amounted to NIS 410 million, compared to NIS 349 million in the corresponding period last year, an increase by 17.5%.
Below are key factors affecting the change in segment contribution:
Interest revenues, net amounted to NIS 1,150 million, compared to NIS 1,008 million in the corresponding period last year – an increase by 14.1%, primarily due to increase in lending and deposit business.
Commissions and other revenues amounted to NIS 387 million, compared to NIS 367 million in the corresponding period last year.
Expenses with respect to credit losses amounted to NIS 166 million, compared to NIS 137 million in the corresponding period last year.
Operating expenses amounted to NIS 734 million, compared to NIS 696 million in the corresponding period last year – an increase by NIS 38 million. Expenses in 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability. For more information see chapter "Explanation and analysis of results and business standing" above.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Medium business segment

The supervisory definition

The medium business segment includes businesses with annual turnover higher than NIS 50 million and lower than NIS 250 million.

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

Clients in this segment are primarily served by the Bank's Business Division, primarily by the Business Sector, operating three business centers nation-wide.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Segment clients primarily operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Clients in this segment, operating across all economic sectors, use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.

Differences between the management approach and the supervisory definition

- The commercial banking segment, according to management approach, includes businesses with turnover between NIS 30 million and NIS 120 million. This means that some commercial banking clients (under management approach) whose turnover is below NIS 50 million are classified to the micro and small business segment using the supervisory operating segments.
- On the other hand, business clients attributed to the business banking segment using the management approach and whose annual turnover is lower than NIS 250 million, are attributed to the medium business segment using the supervisory approach.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, resulting in better alignment of the management approach with the supervisory approach, as noted above.

Developments in the medium business segment during the reported period

In 2019 there was no material change to markets and to segment attributes.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the medium business segment

	For the year ended December 31,	
	2019	**2018**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	295	244
Non-interest financing revenues	–	–
Commissions and other revenues	90	78
Total revenues	**385**	**322**
Expenses with respect to credit losses	42	11
Operating and other expenses	122	119
Profit before provision for taxes	221	192
Provision for taxes	77	67
Net profit	**144**	**125**
Balance sheet – key items:		
Loans to the public (end balance)	7,196	6,669
Loans to the public, net (end balance)	7,063	6,585
Deposits from the public (end balance)	8,935	8,332
Average balance of loans to the public	7,104	6,205
Average balance of deposits from the public	8,388	7,680
Average balance of risk assets	8,157	7,150
Credit margins and deposit margins:		
Margin from credit granting operations	240	198
Margin from activities of receiving deposits	46	40
Other	9	6
Total interest revenues, net	**295**	**244**

Contribution of the medium business segment (in conformity with the supervisory definitions) to Group profit in 2019 amounted to NIS 144 million, compared to NIS 125 million in the corresponding period last year.
Interest revenues, net increased by 20.9%, primarily due to a 11.6% increase in credit and deposit volumes in this segment and to increase in financing margins.
Commission and other revenues increased by NIS 12 million compared to the corresponding period last year.
Expenses with respect to credit losses amounted to expenses of NIS 42 million, compared to NIS 11 million in the corresponding period last year. Expenses with respect to credit losses in 2019 were affected by a specific provision for several borrowers.
Operating expenses amounted to NIS 122 million, compared to NIS 119 million in the corresponding period last year.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Large business segment

The supervisory definition

The large business segment includes businesses with annual turnover higher than NIS 250 million.

Brief description of segment attributes (using the "management approach")

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

Segment clients are served under responsibility of the Bank's Business Division, primarily by the Large Corporation Sector.

Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Differences between the management approach and the supervisory definition

- The business banking segment, according to management approach, includes businesses with turnover in excess of NIS 120 million. This means that some business banking clients (under the management approach) whose turnover is below NIS 250 million are classified to the medium business segment using the supervisory approach.
- Institutional investors served, under the management approach, by business banking are presented as a separate segment under supervisory operating segments.
- In general, as from 2019 new clients are classified in conformity with the supervisory definition, except for institutional investors, as noted above, resulting in better alignment of the management approach with the supervisory approach, as noted above.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results in the large business segment

	For the year ended December 31, 2019	For the year ended December 31, 2018
	NIS in millions	NIS in millions
Profit and profitability		
Total interest revenues, net	526	534
Non-interest financing revenues	–	–
Commissions and other revenues	143	113
Total revenues	**669**	**647**
Expenses with respect to credit losses	24	8
Operating and other expenses	190	177
Profit before provision for taxes	455	462
Provision for taxes	158	162
Net profit	**297**	**300**
Balance sheet – key items:		
Loans to the public (end balance)	15,357	16,440
Loans to the public, net (end balance)	15,152	16,236
Deposits from the public (end balance)	25,155	29,460
Average balance of loans to the public	16,881	16,528
Average balance of deposits from the public	25,985	26,172
Average balance of risk assets	23,107	21,239
Credit margins and deposit margins:		
Margin from credit granting operations	434	448
Margin from activities of receiving deposits	70	70
Other	22	16
Total interest revenues, net	**526**	**534**

Contribution of the large business segment (in conformity with the supervisory definitions) to Group profit in 2019 amounted to NIS 297 million, compared to NIS 300 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 526 million, compared to NIS 534 million in the corresponding period last year.

Commissions and other revenues increased by NIS 30 million, primarily due to the effect of commissions on financing transactions.

Expenses with respect to credit losses amounted to expenses of NIS 24 million, compared to expenses of NIS 8 million in the corresponding period last year.

Operating expenses amounted to NIS 190 million, compared to NIS 177 million in the corresponding period last year – an increase by NIS 13 million. Expenses in 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability compared to the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Institutional investor segment

The supervisory definition

This segment includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios.

Brief description of segment attributes (using the "management approach")

This segment provides service to financial asset managers, incorporating activities involving providing services to financial asset managers:

insurance companies, managers of provident funds, study funds and pension funds, managers of mutual funds and ETFs, stock exchange members and investment portfolio managers.

Segment operations includes operating these financial assets and providing banking services to their managers.

Services include: asset valuation, generating control reports, reporting to authorities, accounting, administration of accounts and rights of provident fund members and calculation of returns. Banking services also include credit of various types and transactions involving derivative instruments.

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.

The segment also provides comprehensive service to management companies of provident funds and mutual funds.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the business banking and by the financial management segment, but are presented as a separate segment under supervisory operating segments.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of institutional investor segment

	For the year ended December 31,	
	2019	2018
	NIS in millions	
Profit and profitability		
Total interest revenues, net	118	118
Non-interest financing revenues	–	–
Commissions and other revenues	39	42
Total revenues	**157**	**160**
Expenses (reduction of expenses) with respect to credit losses	(6)	2
Operating and other expenses	121	123
Profit before provision for taxes	42	35
Provision for taxes	15	12
Net profit	**27**	**23**
Balance sheet – key items:		
Loans to the public (end balance)	1,569	1,341
Loans to the public, net (end balance)	1,563	1,331
Deposits from the public (end balance)	45,330	37,712
Average balance of loans to the public	1,051	1,434
Average balance of deposits from the public	39,992	39,260
Average balance of risk assets	2,029	2,624
Credit margins and deposit margins:		
Margin from credit granting operations	19	30
Margin from activities of receiving deposits	93	85
Other	6	3
Total interest revenues, net	**118**	**118**

Contribution of the institutional Investor segment (in conformity with the supervisory definitions) to Group profit in 2019 amounted to NIS 27 million, compared to NIS 23 million in the corresponding period last year.

Interest revenues, net amounted to NIS 118 million, similar to the corresponding period last year.

Commissions and other revenues decreased by NIS 3 million compared to the corresponding period last year. In 2018, significant transactions were carried out in foreign securities, which were not repeated in the current period.

Expenses with respect to credit losses amounted to a decrease in expenses of NIS 6 million, compared to expenses of NIS 2 million in the corresponding period last year.

Operating expenses amounted to NIS 121 million, compared to NIS 123 million in the corresponding period last year.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Financial Management Segment

The supervisory definition

The financial management segment includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, currency hedging of investments overseas.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

Brief description of segment attributes (using the "management approach")

Financial management at the Bank is conducted by the Finance Division. The financial management segment operates in Israel and overseas in several key areas: Management of Bank assets and liabilities, management of the debenture portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets, in conformity with management's viewpoint as to management of these activities.

Asset and liability management operations are managed by the Financial Management Sector, including management of sources and uses, exposures to market risk – including management of liquidity, basis and interest risk, management of transfer prices ("shadow prices"), pricing of special financial transactions and management of the debenture portfolio.
Trading operations are carried out by the Trading Room, including the Bank's activity in foreign currency, options, interest derivatives, securities in Israel and overseas and financial assets, with local and overseas entities as counter-parties.
The Division also includes a unit dedicated to managing relations with financial institutions and investors. This unit is in charge of all activities with overseas banks, including management of correspondent accounts, obtaining and providing service and developing activities in support of Bank client needs.
Business in this segment is subject to the relevant risk management policy and to restrictions imposed by the Board of Directors and by management on various exposure levels.

Differences between the management approach and the supervisory definition

Under the management approach, institutional investors are administered by the financial management segment, but are presented as a separate segment under supervisory operating segments.

Developments in the financial management segment during the reported period

In 2019, operations in this segment were affected by:

- Growing competition in the banking sector, along with a downward trend in commissions and spreads.
- Regulatory changes in the global and local markets.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of the financial management segment

	For the year ended December 31,	
	2019	**2018**
	NIS in millions	
Profit and profitability		
Total interest expenses, net	(93)	(12)
Non-interest financing revenues	349	435
Commissions and other revenues	223	208
Total revenues	**479**	**631**
Expenses (reduction of expenses) with respect to credit losses	(3)	3
Operating and other expenses	371	400
Profit before provision for taxes	111	228
Provision for taxes	38	80
After-tax profit	73	148
Share of banking corporation in earnings of associated companies	–	1
Net profit before attribution to non-controlling interests	73	149
Net profit attributed to non-controlling interests	(34)	(28)
Net profit attributable to shareholders of the banking corporation	**39**	**121**
Balance sheet – key items:		
Average balance of risk assets	6,694	6,323
Credit margins and deposit margins:		
Margin from credit granting operations	–	–
Margin from activities of receiving deposits	–	–
Other	(93)	(12)
Total interest expenses, net	**(93)**	**(12)**

Contribution of the financial management segment (in conformity with supervisory definitions) to Group profit in 2019 amounted to a profit of NIS 39 million, compared to NIS 121 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest expenses, net amounted to expenses of NIS 93 million, compared to expenses of NIS 12 million in the corresponding period last year – a decrease by NIS 81 million, primarily due to decrease in the CPI.

Non-interest financing revenues decreased by NIS 86 million compared to the corresponding period last year, primarily due to effect of the accounting treatment of derivatives at fair value and other effects. Furthermore, non-interest financing revenues in 2019 include gain from shares not held for trading. See also analysis of evolution of financing revenues in chapter "Material developments in revenues, expenses and other comprehensive income".

Total commissions and other revenues amounted to NIS 223 million, compared to NIS 208 million in the corresponding period last year, an increase by NIS 15 million primarily due to capital gain in the first nine months of 2019 amounting to NIS 26 million before tax from realized assets in conjunction with asset reorganization and improvements to the branch network.

Operating and other expenses amounted to NIS 371 million, compared to NIS 400 million in the corresponding period last year. Operating expenses in 2019 include an increase in provision for remuneration components (bonuses and options for employees), in line with higher profitability. Other expenses in 2018 included a provision with respect to a lawsuit brought against the Bank, amounting to NIS 38 million. For more information see chapter "Explanation and analysis of results and business standing".

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Operating results of overseas operations

The supervisory definition

The Bank's overseas operations are presented separately, divided into operations involving individuals and business operations.

Brief description of segment attributes (using the "management approach")

The Bank Group's international operations include providing banking services to businesses and private banking services to individuals, through subsidiaries and branches overseas. The Group's international operations include: private banking services, foreign trade financing; local credit for purchase of real estate; commercial financing and participation in syndicated lending. International operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division.

Differences between the management approach and the supervisory definition

Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Business and individual clients at overseas branches are presented as a separate segment under supervisory operating segments and under the management approach are managed by the various operating segments – mostly private and business banking.

Developments in the overseas operations segment during the reported period

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.

For more information and detailed description of products and services, key markets and distribution channels, business strategy and layout of competition in this segment and changes to them, see chapter "Corporate Governance" of these annual financial statements.

Analysis of operating results of overseas operations

	For the year ended December 31,	
	2019	**2018**
	NIS in millions	
Profit and profitability		
Total interest revenues, net	214	203
Non-interest financing revenues	8	10
Commissions and other revenues	30	28
Total revenues	**252**	**241**
Expenses (reduction of expenses) with respect to credit losses	(4)	4
Operating and other expenses	79	181
Profit before provision for taxes	177	56
Provision for taxes	62	47
Net profit	**115**	**9**
Balance sheet – key items:		
Loans to the public (end balance)	3,607	4,150
Loans to the public, net (end balance)	3,580	4,117
Deposits from the public (end balance)	3,924	5,428
Average balance of loans to the public	3,228	3,391
Average balance of deposits from the public	5,273	5,432
Average balance of risk assets	4,179	3,953
Credit margins and deposit margins:		
Margin from credit granting operations	108	112
Margin from activities of receiving deposits	11	14
Other	95	77
Total interest revenues, net	**214**	**203**

Contribution of overseas operations to Group profit in 2019 amounted to NIS 115 million, compared to NIS 9 million in the corresponding period last year.

Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 214 million, compared to NIS 203 million in the corresponding period last year, primarily due to increase in the Others segment.

Non-interest financing revenues amounted to NIS 30 million, compared to NIS 28 million in the corresponding period last year.

In the current period, expenses with respect to credit losses decreased by NIS 4 million, compared to an expense of NIS 4 million in the corresponding period last year.

Operating expenses amounted to NIS 79 million, compared to NIS 181 million in the corresponding period last year. Operating and other expenses in 2018 include a provision amounting to NIS 105 million with respect to the investigation by the US DOJ. For more information see Note 26.B.12 to the financial statements.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 29 to the financial statements.

Major Investee companies

The contribution of investees to net operating profit in 2019 amounted to NIS 175 million, compared with NIS 81 million last year. These data include impact of changes in exchange rates on the balance of investment in overseas investee companies, covered by the Bank's own sources.

Excluding the effect of the aforementioned exchange rates, contribution of investees amounted to NIS 193 million, compared to NIS 59 million in the corresponding period last year. Contribution of investees in 2018 was affected by expenses attributed to Bank Mizrahi Switzerland with respect to the investigation by the US Department of Justice and potential tax implications. Excluding this effect, contribution of investees amounted to NIS 155 million.

See below for details of the effect of investees. For more information see Note 29 to the financial statements (Operating Segments and Geographic Regions).

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav").

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the replacement license, Bank Yahav may engage in new operations and may expand its client base, subject to advance permission by the Supervisor of Banks.

Concurrently with receiving the replacement license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav operates in accordance with the replacement license, subject to policies of the Bank Yahav Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in 2019 amounted to NIS 83 million, compared with NIS 68 million in 2018. Net profit return on equity for Bank Yahav amounted in 2019 to 11.3%, compared to 10.2% in 2018. Bank Yahav's balance sheet total as of December 31, 2019 amounted to NIS 27,299 million, compared to NIS 25,928 million as of December 31, 2018, an increase by 5.3%. The balance of loans to the public, net as of December 31, 2019 amounted to NIS 10,880 million, compared to NIS 10,162 million as of December 31, 2018, an increase by 7.1%. The balance of deposits from the public as of December 31, 2019 amounted to NIS 23,345 million, compared to NIS 22,289 million as of December 31, 2018, an increase by 4.7%.

Tefahot Insurance Agency (1989) Ltd. "Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which sells life insurance policies and property insurance policies of clients obtaining mortgages from the Bank. Tefahot Insurance's contribution to Group net profit in 2019 amounted to NIS 68 million, compared with NIS 60 million in 2018.

Net return on equity amounted to 7.4% in 2019, compared to 7.9% in 2018.

Other investee companies operating in Israel

Other investee companies operating in Israel, wholly controlled by the Bank and supported by Bank infrastructure, contributed to the Bank's net profit in 2019 NIS 16 million, net – compared to loss of NIS 5 million in the corresponding period last year. Of this, profit amounting to NIS 9 million (compared to loss of NIS 16 million in the corresponding period last year) from trustee operations of the subsidiary, Mizrahi Tefahot Trust Company Ltd.

Financial results of the Trust Company in 2018 Include a provision for claim amounting to NIS 38 million, in conformity with a verdict given against the Company.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.
Net profit of Mizrahi Bank Switzerland in 2019 amounted to CHF 1.9 million, compared to CHF 24.1 million loss in the corresponding period last year.
Operating results of Bank Mizrahi Switzerland in 2018 include provisions with respect to the US Department of Justice investigation, as well as potential tax implications thereof. For more information see Note 26.C.12 to the financial statements.
Mizrahi Bank Switzerland's balance sheet total as of December 31, 2019 amounted to CHF 121 million, compared to CHF 140 million as of December 31, 2018.
Interest revenues and net interest revenues in 2019 amounted to CHF 1.5 million, compared to CHF 2.0 million in 2018. Income before tax in 2019 amounted to CHF 1.7 million, compared to pre-tax loss of CHF 26.5 million in 2018. Income before tax net of exchange rate effects in 2019 amounted to NIS 5.8 million, compared to loss of NIS 99 million in 2018.
The balance of loans to the public as of December 31, 2019 amounted to CHF 52 million, compared to CHF 80 million as of December 31, 2018. Deposits with banks as of December 31, 2019 amounted to CHF 65 million, compared to CHF 56 million as of December 31, 2018. Deposits from the public as of December 31, 2019 amounted to CHF 80 million, compared to CHF 65 million as of December 31, 2018.
These data exclude off-balance-sheet items, such as fiduciary deposits and client security portfolios which are major components of the Bank's business operations in Switzerland.

Investments in shares

The Bank manages nostro investments in shares. As from January 1, 2019, shares in which the Bank invested are presented as shares not held for trading in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Most of the investments (which are not negotiable and have no fair value available) are generally presented at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. Other investments (negotiable and with fair value available) are presented at market value thereof, and unrealized changes to fair value are recognized on the statement of profit and loss.

Bank investments in shares as of December 31, 2019 amounted to NIS 181 million, compared to NIS 91 million as of December 31, 2018, as follows:

	For the year ended December 31,	
	2019	**2018**
		NIS in millions
Under "securities not held for trading":		
Participation units in equity funds	66	57
Negotiable investments	82	1
Investments in corporations presented on cost basis	1	1
Total under "securities not held for trading"	**149**	**(4)59**
Under "investment in associates":		
Investment in Psagot Jerusalem(1)	19	19
Investments in mezzanine funds(2)	11	11
Investment in Rosario Capital(3)	2	2
Total investment in associates	**32**	**32**
Total investment in shares	**181**	**91**

(1) Psagot Jerusalem is a private company which acquired land in the Jerusalem area to be developed for residential construction. The carrying amount includes investment in capital notes which, as of December 31, 2019 and as of December 31, 2018 amounted to NIS 35 million. For more information about investment in Psagot Jerusalem, see Note 15 to the financial statements.
(2) A mezzanine fund is a fund for interim financing, providing companies in various sectors with financing complementary to bank credit. This financing is typically extended in return for interest, stock options and other equity instruments.
(3) Rosario Capital is a private company engaged in underwriting, assistance and advisory services for private and public issuances, mergers and acquisitions, investment in securities and distribution of securities.
(4) In 2018, presented under "Securities available for sale".

Net gain from investments in shares, after provision for impairment, amounted in 2019 to NIS 58 million for the Bank, compared to NIS 18 million in the corresponding period last year.

For details of investments in shares not held for trade in the Bank's portfolio, see Note 12 to the financial statements.

For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2 to the financial statements.

Risks overview

Overview of risks and manner of managing them

The Bank is engaged in commercial banking operations (business and retail) and in mortgage operations, where the Bank is a leader in the Israeli banking system. Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to different risks, mainly – market, interest in the Bank portfolio, liquidity, credit, operational, compliance, business-strategic and reputation risks. Risks management at the Bank is conducted from a comprehensive viewpoint and in conformity with regulatory requirements, so as to support achievement of the Group's strategic objectives, while assuming risks in an informed manner and maintaining a risk level in line with the overall risk appetite specified by the Bank's Board of Directors.

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. Risk appetite is defined in qualitative and quantitative terms in the normal course of business and under stress scenarios, and is based on the outcome of various stress scenarios applied by the Bank, on its risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives.

Risk tolerance is a specific determination of risk levels for all risks to which the Bank is exposed. Risk levels are determined by a range of qualitative and quantitative benchmarks, in support of achieving the business goals, while keeping the Bank within the overall limits of the specified risk appetite and subject to strict regulatory restrictions. These risk restrictions, on aggregate, reflect the overall risk level which the Bank is willing and able to assume.

In 2019, There were no deviations from the risk appetite specified by the Bank's Board of Directors for various risks. Risk benchmarks are within a reasonable distance from restrictions specified and in line with the strategic plan outline and with current work plans. Key financial ratios and profitability benchmarks show stable profit and capital for the Bank. The Bank has sufficient capital buffers to achieve its capital objectives under normal business conditions as well as under stress scenarios.

For more information about assessment of the impact of all risk factors, see table "Risk factor assessment" below. In 2019, the Bank's risks profile is relatively low. Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles.

Risks description

The Bank has in place an extensive framework for management and control of the risks to which the Bank is exposed, including an organizational structure to support management and control of such risks. Risks are managed at the Group in conformity with Bank of Israel's Proper Business Conduct Directive 310 "Risks management" and in conformity with the framework specified in Basel II, Pillar 2 – including required changes upon Basel III coming into effect.

The Bank's Board of Directors and the Board's Risks Management Committee are responsible for setting the required principles for management and control of the various risks to which the Bank is exposed in its operations, including setting risk strategy and setting the risk appetite in conformity with the Bank's overall strategy, as well as supervision of Bank compliance with the specified guidelines and risk appetite.

Bank management is committed to regular management of material risks to which the Bank is exposed and to implementation of principles stipulated by the Bank's Board of Directors for addressing such risks.

The organizational culture for risks management and corporate governance at the Bank is the main means for risks mitigation existing at the Bank. Proper corporate governance supports the risks management culture and processes for risks management and control at the Bank are efficient, comprehensive and ensure its stability over time. A strong risk culture and good communications between the three lines of defense are key features of appropriate risk management governance. All risks to which the Bank is exposed are regularly and effectively managed and monitored by the relevant units.

The Bank has in place a structured process for mapping and identification of specific risk associated with Bank operations, determined based on a materiality threshold, in accordance with the potential damage which the Bank may incur under scenarios of varying intensity. Materiality is considered before putting into use the risk mitigation measures, including: Management and control. Guidelines for handling the various material risks, as identified and mapped, including: risk appetite, measurement method, on-going monitoring of the Bank's risk profile, given the risk appetite specified by the Board of Directors, management and mitigation of any risk are included in specific policy documents.

The Bank has a framework policy on risk management and control, which includes corporate governance for risk management, the Bank's overall risk appetite, mapping of material risks, principles of risk measurement and management, and the reporting required under normal conditions and in emergency. All custom policy documents are discussed and approved annually by the Board of Directors.

The Bank's business model is based on the business strategy and overall risk appetite principles of the Bank.

The Bank is acting in conformity with the outline of the five-year strategic plan. The current strategic plan was approved in November 2016 and its principles have been made public. The strategic plan is based on three key principles: Growth, differentiation and efficiency, and forms the basis for specific work plans for the various units.

Business-strategic risk is the risk, in real time or in future, to Bank profits, capital, reputation or status, due to erroneous business decisions, improper deployment of decisions by the Bank or inappropriate alignment of the Bank to changes in the business environment in which it operates.

Business-strategic risk is inherent in all Bank operations and is impacted both by internal factors (such as: corporate governance failures, credit failures and exposures, technological risk and other factors) and by external factors (such as: regulatory changes, competition risk, changes to consumer behavior, macro-economic factors and other factors).

Bank management regular monitors the achievement of work plan targets. The Risk Control Division maintains regular processes to challenge the work plans and achievement of strategic plan targets.

Credit risk is the primary risk faced by banking corporations in the course of their business. At the Bank, credit risk is primarily due to retail credit operations, mainly housing loans, which are typically associated with relatively low risk. In conformity with principles of the five-year strategic plan, the Bank strives to maintain and establish its leadership position in the retail sector and to increase focus on and expand operations of the business segments. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of advanced models. For more details see chapter "Credit risk" below.

In the business sector, the Bank operates while regularly assessing risk at client level, at sector level and for the economy as a whole (sector concentration). Operations in this area have been affected in recent years by expanded operations of institutional investors and insurance companies, which are focused on providing large-scale credit for long terms.

In conformity with the Supervisor of Banks' directives, the minimum regulatory required liquidity coverage ratio is 100%. The Bank maintains high liquidity ratios with appropriate safety margins and a stable source structure.

The Bank has low exposure to overseas operations, as are its operations in nostro investments, primarily designed for investment of excess liquidity in high-quality assets with minimal credit risk.

Developments in technology and ever increasing sophistication of those involved in cyber attacks result in higher risk, as well as more intense management and monitoring of operational risks, IT risks and information and cyber security risks.

The Bank Group is exposed to the effect of regulatory changes and macro-economic changes in Israel and world-wide on its business, in conformity with the strategic plan outline. The Bank reviews, monitors and prepares for these effects as part of its regular operations and estimates risk under stress scenarios, as well.

Compliance and regulatory risk reflect the risk of imposition of financial sanctions and enforcement procedures, which may be applied by competent authorities, as well as of claims against the Bank and implications for reputational risk.

Conduct risk is included under compliance risk – the Bank acts in this area to maintain a fair relationship with Bank clients and other stake holders and to reduce exposure to materialization of risk and failure events in this area. Fairness is a basic value in the Bank's Code of Ethics.

The Bank has the business, legal and operating infrastructure to manage these exposures and to take proactive action to mitigate and/or hedge risk, in order to limit its exposure. The Bank has flexibility in management of physical assets as well as financial assets and liabilities, and in making changes to risk assets and capital, in the course of normal operations, so as to achieve the strategic targets.

Risk appetite and risks management

The risk appetite defines, at the highest level, the overall risk level which the Bank wishes to and can assume. The risk appetite defines where the Bank would like to be in terms of reward (proceeds/benefit) vs. risk (cost) from a forward-looking viewpoint. The Bank's risk appetite is specified for all material risks using quantitative and qualitative restrictions; the quantitative restrictions are mostly specified as percentage of Tier I shareholder equity at the Bank. Risk appetite is defined for most risks in the normal course of business and under stress scenarios, based on the outcome of various stress scenarios applied by the Bank, and in line with the Bank's risk strategy and on basic principles of the Bank's business and strategic plan and on the required liquidity and capital for achieving the strategic objectives. Each year, the risk appetite is challenged by the Chief Risks Officer, management and the Board of Directors, in view of the business targets specified in work plans, in conformity with the strategic plan, the risk profile and outcome of the qualitative risk management assessment process conducted by Bank managers. This process is designed to review the level of various risks and their expected development over the coming year. Consequently, the Bank's business strategy is supported by an appropriate risk appetite framework with constant monitoring of the risk profile and with alerts issued if the risk profile reaches the specified limits for risk appetite.

Stress scenarios

Stress scenarios are risk management techniques used to assess Bank exposure to risks, both currently and from a forward-looking viewpoint. Stress scenarios allow the Bank to understand the impact of various stress events on Bank stability. Moreover, stress scenarios provide another important tool, in addition to these approaches, benchmarks and models, as part of risk management and control at the Bank. The outcome of stress scenarios are used by the Bank to challenge the risk appetite and capital planning, to identify significant risk concentrations and weaknesses in the portfolio, provide a tool to support business decision making and provide an additional tool for risks measurement in quantitative models for identification of risks not identified by the model due to inherent limitations in such models. The Bank has a diverse range of calculation methodologies for conducting stress scenarios, calculated to assess the potential impact of various risks to the Bank's business and financial targets.

The primary uses of stress scenarios and guidelines for setting them are specified in the policy document "General framework policy for risk management and control". The Bank extensively uses the results of stress scenarios to estimate the potential impact of various risks to the Bank's business and financial targets, as part of the capital planning process and the ICAAP document. The ICAAP process reviews whether the Bank has sufficient capital to fulfill the strategic plan, which is challenged by a range of stress scenarios at various severity levels. These stress scenarios impact Bank profitability by causing potential loss due to material risks for Bank operations: credit risk, credit concentration risk, market risk and interest risk in the bank portfolio, operational risk including information and cyber security risk, technology risk as well as other risks. The stress scenarios strongly emphasize the Bank's mortgage portfolio and business lending operations. Results of the Bank's most recent capital planning, submitted to the Bank of Israel in December 2019, based on data for the second half of 2019, based on the Bank's work plans and strategic plan and for a three-year planning horizon, indicates that the Bank has a sufficient capital absorption cushion to face the range of risks associated with Bank operations, even in case of stress events.

Moreover, in 2019 the system-wide scenario is a uniform stress scenario delivered by the Supervisor of Banks to the banking system was applied. In this year, the scenario is based on materialization of a cyber-related stress scenario, with reference to macro-economic scenarios applied in previous years, which were based on changes in macro-economic variables under hypothetical scenarios. The objective of the cyber stress scenario is to test bank resilience, conduct and addressing the technology component in an event combining both operational and business aspects. The scenario describes a cyber attack that corrupts data for checking and deposit accounts of retail clients, both in the bank's backup system and in the production system (including historical data). The outcome of the Bank's uniform scenario (submitted to the Bank of Israel in December 2019) shows that the damage of this scenario to the Bank is low in relation to Bank profit, capital and liquidity.

Risks Document

The quarterly risks document is the primary tool available to the Board of Directors to aid in discharging their role in risk management and control. The document presents, clearly and concisely, the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework specified by the Board of Directors.

For more information see the Detailed Risks Report on the Bank website.

Risk factor assessment

Below is a mapping of risk factors, their potential impact on the Bank Group and executives appointed Risk Owners for each risk factor:

Risk factor	Risk factor impact	Risk Owner
Overall effect of credit risks	Low-medium	Manager, Business Division
Risk from quality of borrowers and collateral	Low-medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low	
Overall effect of market risk	Low-medium	Manager, Financial Division
Interest risk	Low-medium	
Inflation risk	Low-medium	
Exchange rate risk	Low	
Liquidity risk	Low-medium	Manager, Financial Division
Overall effect of operational risk	Medium	Manager, Risks Control Division
Cyber and information security	Medium	Manager, Risks Control Division
Information technology risk	Medium	Manager, Mizrahi-Tefahot Technology Division Ltd.
Legal risk	Low-medium	Chief Legal Counsel
Compliance and regulatory risk	Low-medium	Manager, Risks Control Division
AML and terror financing risk	Low-medium	Manager, Risks Control Division
Cross-border risk	Low-medium	Manager, Risks Control Division
Reputation risk(1)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(2)	Low-medium	President & CEO

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.
(2) The definition of business-strategic risk includes the capital planning and management process.

The impact of the various risks factors in the table above have been determined based on management assessment, as provided from time to time. These assessments are based on monitoring of various quantitative risk benchmarks specified by the Bank, includes the expected direction of their development and are based on qualitative assessment of risks management and the effectiveness of control circles, in line with the Bank's ICAAP process and its results , led by the Bank's Risk Managers.

In 2019, the Bank's risk profile is low, similar to the risk profile at the end of 2018. Risks with a risk level other than Low typically arise from inherent risk in Bank operations, and are in line with the specified risk appetite principles. The potential loss due to unexpected events, relative to the Bank's capital and profit, is low. Bank profitability is stable, i.e. profit volatility is low and the capital cushion available to the Bank is adequate even under stress scenarios.

The Bank conducts processes for risk identification and measurement, based on a range of methodologies to assess risk levels and exposure to various risks, in the normal course of business and under stress scenarios. The Bank applies quantitative measurement methods (models, benchmarks / indicators, scenarios and sensitivity analysis, *inter alia*) and qualitative measurement methods (expert assessments and surveys).

The Bank is monitoring the impact of the Corona Virus outbreak in China on business activity and, in particular, on risk concentrations in Bank operations.

The key risk concentration is the impact of reduced activity in China on clients with credit, doing business with suppliers in that region. At this stage, no impact on the Bank has been identified.

Bank Mizrahi Tefahot, as most banks in Israel, was included in the Black List issued by the UN Human Rights Council on February 12, 2020, listing companies that operate in territories beyond the Green Line.

This publication may impact discussion in the media and activities of various organizations, including analysts and shareholders overseas, which would impact all of the business sector, including the banking system.

The Bank is acting on this matter in co-operation with the Banking Association and with the Bank of Israel; at this stage, the Bank is unable to assess the impact on Bank operations.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank's Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

For more information see the Detailed Risks Report on the Bank website.

Credit risk

Risk description

Credit risk is the risk that a borrower or counter-party of the Bank would not fulfill its obligations towards the Bank. This risk is affected by multiple factors: Business risk due to client activities, concentration risks due to over-exposure to a borrower / borrower group and to economic sectors, geographic concentration risk, risk due to exogenous changes, overseas credit risks and operational risks which, should they materialize, would have implications for credit risks. Moreover, such risk is interrelated to multiple other risks, such as market and interest risk, liquidity risk, compliance risks and other risks.

Description of risk appetite and management guidelines

Credit risk management at the Bank is carried out in conformity with Directive 311 "Credit risk management" of the Bank of Israel.

The Bank's Board of Directors has set credit policy, based upon the Bank's objectives and business strategy, emphasizing macro-economic changes in Israel and overseas and their implications on credit risk. The credit policies includes other policy documents which discuss the relevant risks to the Bank's credit operations, including: Credit concentration policy, which ensures that the credit concentration level at the Bank is regularly managed and monitored; derivatives policy, which stipulates the principles for management and monitoring of Bank clients with activity involving derivatives and securities; collateral policy, which stipulates the principles required for management of client collateral, safety factors required by transaction type and risk factors; and the environmental risks policy.

Risk appetite consists of a long list of benchmarks and risk factors relevant to the Bank's credit operations, including: Economic sectors, borrower groups, risk factors in the mortgage portfolio, unique activity types, overseas operations etc. and other risk factors relevant for the Bank's credit risk profile and its business operations. Credit risk is also monitored using a range of stress scenarios, which estimate the potential impact of stress events on the Bank's credit portfolio. This is done, *inter alia*, in order to review the resilience of Bank capital to various stress events and as part of the ICAAP process.

Monitoring of the risk profile, in view of the specified risk appetite, is made at the frequency specified under the credit policies, and compliance with these limitations is reported to Bank's Board of Directors and management. The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. The credit policies are reviewed during the year, in view of developments in the business environment in which the Bank and Bank clients operate and the policy is revised as needed.

The three lines of defense in the credit area:

First line of defense – credit-related business lines at the Bank

The structure of lines of business with regard to credit is based on three divisions, reporting to the President & CEO, as follows:

Retail Division

This division consolidates most of the bank credit activity of individual clients, including mortgages and the activity of small business clients. Bank branches and business centers operate under this division in eight geographic regions.

Business Banking Division

This division handles most banking activity of business clients (including from the real estate and construction sector) of medium to large business operations.

Finance Division

With regard to credit, the Finance Division serves private banking and international operations through private banking units in Israel and through overseas subsidiaries and affiliates.

For more information about client attributes in each segment, see chapter "Explanation and analysis of results and business standing" (Description of Bank Group business by operating segment) above.

The professional units in each of these client segments are responsible for regularly verification, monitoring and control of exposure to clients and operating segments for which they are responsible. This line of defense includes specific control units, such as division controllers and other control functions. These operations are incorporated in specific procedures, which ensure implementation of the specified principles for risk management.

Second line of defense – Risks Control – The Risks Control Division acts as the Bank's independent risks management function, thus serving as the second line of defense within corporate governance for risk management. Its activities include *post-factum* assessment, independent of Bank entities which approve credit, of borrower quality and quality of the Bank's credit portfolio, as well as producing an independent opinion for credit to material clients, as part of the credit approval process.

Second line of defense – Chief Accountant – The Chief Accountant is responsible for credit classification, for determination of provisions for credit losses, as well as for challenging the discovery and dissemination processes of problematic debt.

Second line of defense – Legal Division – Responsible for statutory provisions and legislative changes that impact Bank operations and for providing current legal counsel to Bank units, as well as handling lawsuits brought against the Bank.

Third line of defense – Internal Audit – Internal Audit serves as the third line of defense within corporate governance for risks management, operating in line with the work plan for auditing the Bank's credit operations.
The Bank operates on multiple levels to monitor and mitigate credit risk in as much as possible, from the credit approval stage, emphasizing the required collateral and financial covenants specified in accordance with procedures, authorization and diversification policies specified by the Bank, through to regular control by business units and dedicated control units operating within the lines of business. This is done with constant effort invested in improving the professional expertise of those involved with credit, by means of banking courses and training, as well as professional seminars at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.
In 2019, the overall effect of credit risk remained Low-Medium, with risk in the housing loan portfolio categorized as Low.
Most of the Retail Division clients (both small businesses and households) are rated using advanced custom models. In 2019, the Bank continued to deploy, implement and use advanced models under development for optimal analysis and management of retail credit, including an update and re definition of some risk benchmarks. Actual current management at the Retail Division is primarily based on the MADHOM system (advanced rating, underwriting and management system). As part of this effort, the Bank's Training Center conducts customized activity for deployment of diverse uses of the model outcomes at branches.
For more information about key processes involved in management and control of credit risk at the Bank, see the Detailed Risks Report on the Bank website.

Handling of non-performing loans and collection of debts – The handling of problem loans requires special focus and professionalism, other than the level that approved or processed the credit extended and collateral received. Initial identification is typically computer-based by designated departments for identification and control. Identified clients are handled by the Special Client Sector of the Business Division.
In order to identify credit risk materializing, or which may materialize, at the Bank, the Bank regularly conducts a process to review and identify debts, based on specified criteria. Some of these criteria require debt to be classified as problematic debt, while others provide a warning and allow the professional entity to exercise discretion. Debts are reviewed by a ranking of authorizations specified in Bank procedures. This authorization ranking includes individual authorizations, from branch and headquarters staff, to authorizations at higher levels with regard to classifications and provisions. A built-in, independent control process is conducted by regional management and by designated units at headquarters. The Chief Accountant forms a second line in the classification and provision setting process; he is responsible, in conformity with Proper Conduct of Banking Business Directive 311, for being the independent factor in charge of classification and setting the provision for credit losses.
A computer system which supports application of measurement and disclosure provisions for impaired debts, credit risk and provision for credit losses, including in identification and control processes, carries out logical, criteria-based testing and determines defaults for debts classification as debts under special supervision, inferior debt, impaired debt or debt in restructuring, as required.
Identification of housing loans (mortgages) with risk attributes is automated by identifying criteria for arrears and other qualitative criteria. In early stages of arrears, the Bank mostly applies automated collection processes. Later on, the Bank applies proactive processes, both internal and external, including legal proceedings, if needed.
For more information about impaired debts, credit risk and provision for credit losses, see Note 1.D.6) to the financial statements and the chapter "Credit risk" of the detailed Risks Report on the Bank website.
Analysis of credit quality and problematic credit risk

Significant exposure to groups of borrowers

Disclosure of credit risk with respect to significant exposure to borrower groups is provided with regard to each group of borrowers whose net indebtedness, on a consolidated basis, after allowed deductions pursuant to Proper Conduct of Banking Business Directive 313, exceeds 15% of the banking corporation's capital (as defined in Regulation 313).
As of December 31, 2019, the Bank had no borrower group which meets the aforementioned criteria.
Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such activity:

- Activity with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, in as much as possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:
- Set financial covenants as needed.
- Provide credit against collateral, in as much as possible, and closely monitor exposure not secured by collateral.
- Closely monitor company operations and financial results.
- Closely monitor compliance of borrower group companies with financial covenants, if and when specified.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of December 31, 2019 (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Construction	248	655	903
2.	Construction	249	636	885
3.	Institutional investors	12	697	709
4.	Construction	88	589	677
5.	Construction	82	562	644
6.	Other industrial	3	641	644

(1) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Leveraged financing

Leveraged financing is credit financing provided to customers which fulfills one of the following criteria:

1. **Credit for an equity transaction would be classified according to one of the following rules:**
   - Credit for an equity transaction (as defined below), provided that the balance of such credit exceeds 0.5% of Bank capital or NIS 35 million, whichever is higher.
   - For credit financing acquisition of equity interests in another banking corporation, or in a banking holding corporation, provided that the balance of such credit exceeds NIS 35 million.
   - Additional credit extended to the borrower after the financing for the equity transaction, with repayment primarily based on the cash flows derived from the equity interest whose purchase was financed by the banking corporation.

   "Equity transaction": A transaction with one of the following goals:
   - Buyout – purchase or buyback, by the borrower, of the borrower's issued capital (including an employees' stock purchase plan).
   - Acquisition of another corporation – the purchase of any capital rights in another corporation, or the purchase of all, or a significant share, of the assets of another corporation.
   - Capital distribution – the payment of dividends or another transaction whose goal is to increase shareholder value.

   An equity transaction, with regard to leveraged financing, is one where the loan balance exceeds 0.5% of Bank capital and where the LTV ratio exceeds 50%.

2. **Financing for leveraged companies**, which is credit extended to companies with attributes which indicate that an adverse change in the global economic environment or in the specific environment of the sector in which they do business, may significantly impact their capacity to repay the bank. The Bank has specified criteria for defining credit included in this category, based on the business client's credit risk rating, as reflected by the Bank's rating model; it also specified benchmarks for leveraging (i.e. for significantly high deviation from typical norms for the sector), determined based on generally accepted financial ratios among Bank clients with material credit in major economic sectors in which the Bank operates. Leverage benchmarks and economic sectors are reviewed based on changes to the business environment and are modified as necessary. Borrowers flagged for one or more of the criteria specified are individually reviewed by a forum which includes representatives from the Business Division, the Risks Control Division and the Accounting and Financial Reporting Division, which reviews changes to financial parameters of the company and the economic environment in which it operates.

Details of Bank exposure to credit constituting leveraged financing are as follows:
Credit for equity transactions (NIS in millions):

	December 31, 2019				December 31, 2018			
Economic sector of acquired company	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Information and communications	–	–	–	–	55	28	83	–
Commerce	153	–	153	–	–	–	–	–
Total	**153**	**–**	**153**	**–**	**55**	**28**	**83**	**–**

Credit to leveraged companies (NIS in millions):

	December 31, 2019				December 31, 2018			
Economic sector of borrower	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Industry and production	–	–	–	–	61	–	61	1
Water	36	40	76	16	–	–	–	–
Construction and real estate	355	–	355	–	420	–	420	–
Commerce	269	85	354	22	236	46	282	–
Information and communications	45	86	131	–	40	90	130	–
Financial services	124	–	124	3	156	–	156	6
Public and community services	134	8	142	–	71	5	76	–
Total	**963**	**219**	**1,182**	**41**	**984**	**141**	**1,125**	**7**

Developments in problematic credit risk

Below is a summary of overall problematic credit risk and non-performing assets before provision for credit losses, in accordance with provisions for measurement and disclosure of impaired debts, credit risk and provision for credit losses (NIS in millions):

	Total credit risk	
	December 31, 2019	**December 31, 2018**
Problematic credit risk:		
Impaired credit risk	1,328	1,165
Inferior credit risk	242	152
Credit risk under special supervision – housing	1,476	1,251
Credit risk under special supervision – other	833	521
Total problematic credit risk	**3,879**	**3,089**

Changes to inferior and impaired credit risk are primarily due to classification of inferior clients as impaired.

The increase in housing credit under special supervision risk is due to increase in the total mortgage portfolio.

The increase in credit under special supervision risk is due to classification of several individual clients.

Major risk benchmarks related to credit quality (in percent):

	December 31, 2019	December 31, 2018
Ratio of impaired loans to the public to total loans to the public	0.6	0.6
Ratio of impaired loans to the public to total non-housing loans	1.7	1.5
Ratio of problematic loans to the public to total non-housing loans	3.0	2.4
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.7	0.7
Ratio of problematic credit risk to total credit risk with respect to the public	1.4	1.2

(1) This non-housing rate is negligible.

For more information see chapter "Explanation and analysis of results and business standing" above.

Below is a summary of impaired debt under restructuring made or in default (NIS in millions):

	December 31, 2019		December 31, 2018	
	Recorded debt balance	Recorded debt balance	Recorded debt balance	Recorded debt balance
	Before restructuring	After restructuring	Before restructuring	After restructuring
Restructurings made	123	122	291	288

	December 31, 2019	December 31, 2018
	Recorded debt balance	Recorded debt balance
Restructurings made which are in default	11	10

For more information see Note 30.B.2.C to the financial statements.

Analysis of change to impaired debts

Movement in impaired debts and impaired debt under restructuring (NIS in millions):

	For the year ended December 31, 2019			For the year ended December 31, 2018		
Movement in impaired debt with respect to loans to the public[(1)]	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of impaired debts at start of the year	964	137	1,101	620	103	723
Debts classified as impaired during the year	597	101	698	553	98	651
Debts re-classified as non-impaired during the year	(96)	(20)	(116)	(14)	(17)	(31)
Impaired debts written off	(114)	(24)	(138)	(80)	(20)	(100)
Impaired debts repaid	(243)	(54)	(297)	(136)	(30)	(166)
Other changes	24	2	26	21	3	24
Balance of impaired debts at end of the year	**1,132**	**142**	**1,274**	**964**	**137**	**1,101**

	For the year ended December 31, 2019			For the year ended December 31, 2018		
Includes: Movement in problematic debts under restructuring	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of problematic debts under restructuring at start of year	290	58	348	105	50	155
Re-structuring made during the year	54	41	95	221	17	238
Debt reclassified as non-impaired due to subsequent restructuring	(5)	(1)	(6)	(1)	(2)	(3)
Debts under restructuring written off	(17)	(17)	(34)	(13)	(5)	(18)
Debts under restructuring repaid	(71)	(15)	(86)	(23)	(5)	(28)
Other changes	15	(1)	14	1	3	4
Balance of problematic debts under restructuring at end of year	**266**	**65**	**331**	**290**	**58**	**348**

For more information about problematic credit risk, see Notes 13 and 30 to the financial statements.

Analysis of provision for credit losses

Analysis of movement in balance of provision for credit losses (NIS in millions):

	For the year ended December 31, 2019					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs	(237)	(15)	(155)	(407)	–	(407)
Recovery of debts written off for accounting purposes in previous years	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	865	674	273	1,812	1	1,813

	For the year ended December 31, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	164	36	107	307	3	310
Accounting write-offs	(199)	(24)	(153)	(376)	–	(376)
Recovery of debts written off for accounting purposes in previous years	102	2	64	168	–	168
Net accounting write-offs	(97)	(22)	(89)	(208)	–	(208)
Balance of provision for credit losses at end of period	**766**	**644**	**263**	**1,673**	**4**	**1,677**

For more information about provision for credit losses see Notes 13 and 30 to the financial statements.

Major risk benchmarks related to provision for credit losses (in percent):

	December 31, 2019	December 31, 2018
Ratio of provision for credit losses to total loans to the public	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.7	0.7

		Year ended
	December 31, 2019	December 31, 2018
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.2	0.2
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.2	0.2
Of which: With respect to commercial loans other than housing loans[(1)]	0.5	0.4
Ratio of net write-offs to average balance of loans to the public, net	0.1	0.1

(1) The rate with respect to housing loans with respect to credit is negligible.

For more information about changes to components of the provision for credit losses, see chapter "Material developments in revenues, expenses and other comprehensive income" above.

Credit risk to individuals (excluding housing loans)[(1)]

The household segment is a key growth engine and a significant component of the Bank's strategic plan for 2017-2021.

The individual client segment is highly diversified – by number of clients and by geographic location. Most clients in this segment are salaried employees with an individual account or joint household account. A recession in non-banking operations is a major risk factor for household activity and higher unemployment may increase the number of clients who face difficulties.

Credit policies and work procedures with regard to extending credit, including to individual clients, include directives and guidelines with regard to credit underwriting and adapting credit to client needs and repayment capacity: Review of credit objective, requested LTV, loan term, analysis of client's repayment capacity and repayment sources, for all of their indebtedness. This includes review of various economic parameters of the client based, *inter alia*, on the client's regular income[(2)], pledged or unencumbered savings, knowledge of the client and past experience working with the client.

The Bank regularly monitors the risk level in the loan portfolio to individuals, including by using an internal model for credit rating of individual clients, monitoring and analysis of expenses with respect to credit losses and by conducting various stress tests, including stress tests in conformity with Bank of Israel directives, which include scenarios such as: economic recession, significant increase in unemployment and higher interest rates.

Below is information about credit risk to individuals – balances and various risk attributes as of December 31 (NIS in millions):

	December 31,	
	2019	**2018**
Debts		
Checking balances	2,133	2,158
Utilized credit card balances	3,973	3,768
Auto loans – adjustable interest	671	1,038
Auto loans – fixed interest	926	734
Other loans and credit – variable interest	12,515	11,557
Other loans and credit – fixed interest	258	218
Total debt (on-balance sheet credit)	**20,476**	**19,473**
Unutilized facilities, guarantees and other commitments		
Checking accounts – unutilized facilities	4,172	3,998
Credit cards – unutilized facilities	6,627	6,238
Guarantees	187	228
Other liabilities	33	32
Total unutilized facilities, guarantees and other commitments (off-balance sheet credit)	**11,019**	**10,496**
Total credit risk to individuals	**31,495**	**29,969**
Of which:		
Bullet / balloon loans[(3)]	469	492
Financial asset portfolio and other collateral against credit risk[(4)]		
Financial assets portfolio:		
Deposits	3,723	3,392
Securities	219	205
Other monetary assets	328	388
Other collateral[(5)]	515	697
Total financial assets portfolio and other collateral against credit risk	**4,785**	**4,682**

(1) As defined in Proper Conduct of Banking Business Directive 451.
(2) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including inter alia salaries and regular pensions.
(3) Loans with a grace period for principal longer than one year.
(4) Amounts presented are the financial assets portfolio and other collateral, only up to client debt amount.
(5) Collateral is after applying the safety factor, in conformity with Bank factors accounted for when extending credit. The decrease is primarily due to downward revision of safety factors for vehicles and the maximum vehicle age accounted for in calculating the collateral value.

Below is composition by size of borrower indebtedness[(1)]:

Loan ceiling and credit risk (NIS in thousands)		As of December 31, 2019 Number of Borrowers	On-balance sheet credit risk	Off-balance sheet credit risk	Total credit risk	As of December 31, 2018 Number of Borrowers	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	Up to 10	288,830	279	353	632	285,838	120	379	499
Above 10	Up to 20	89,176	522	758	1,280	86,685	512	733	1,245
Above 20	Up to 40	118,756	1,456	1,953	3,409	116,155	1,439	1,901	3,340
Above 40	Up to 80	124,993	3,788	3,312	7,100	119,492	3,605	3,183	6,788
Above 80	Up to 150	82,664	6,074	2,786	8,860	77,773	5,772	2,581	8,353
Above 150	Up to 300	41,128	6,754	1,570	8,324	38,606	6,354	1,422	7,777
Above 300		3,999	1,603	287	1,890	3,827	1,672	298	1,969
Total		**749,546**	**20,476**	**11,019**	**31,495**	**728,376**	**19,473**	**10,496**	**29,969**

(1) Number of borrowers is for total on- and off-balance sheet credit risk.

Composition of on-balance sheet credit by fixed income[(1)] in account:

Income	As of December 31, 2019 NIS in millions	In %	As of December 31, 2018 NIS in millions	In %
Accounts with no fixed income for the account	1,601	7.8	1,316	6.8
Less than NIS 10 thousand.	5,402	26.4	5,654	29.0
Between NIS 10 thousand and NIS 20 thousand	7,768	37.9	7,307	37.5
Over NIS 20 thousand	5,705	27.9	5,196	26.7
Total	**20,476**	**100.0**	**19,473**	**100.0**

(1) For measuring regular income in client accounts, the Bank uses "credit turnover" data for the account, including *inter alia* salaries and regular pensions.

Below is composition of on-balance sheet credit by remaining term to maturity[(1)]:

Term to maturity	As of December 31, 2019 NIS in millions	In %	As of December 31, 2018 NIS in millions	In %
Up to 1 year	3,669	25.5	3,584	26.5
Over 1 year to 3 years	4,805	33.4	4,642	34.3
Over 3 years to 5 years	2,640	18.4	2,395	17.7
Over 5 years to 7 years	1,513	10.5	1,399	10.3
Over 7 years[(2)]	1,743	12.2	1,526	11.3
Total	**14,370**	**100.0**	**13,547**	**100.0**

(1) Excluding checking account and credit cards.
(2) Primarily loans to salaried Government employees, where loan repayment is directly deducted from the client's pay check and which bear significantly lower risk than similar loans for the same term.

Problematic credit risk before provision for credit losses (NIS in millions):

	As of December 31, 2019 Credit risk[(1)] On balance sheet	Off balance sheet	Total	As of December 31, 2018 Credit risk[(1)] On balance sheet	Off balance sheet	Total
Balance of problematic credit risk	231	3	234	229	4	233
Problematic credit risk rate[(2)]	1.13%	0.03%	0.74%	1.18%	0.04%	0.78%

(1) On- and off-balance sheet credit before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(2) The ratio of problematic credit risk to total credit risk before provision for credit losses.

Below is the expense rate with respect to credit losses to individuals (annualized)

	For the year ended December 31,	
	2019	**2018**
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.49%	0.56%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 5.2% compared to December 31, 2018, primarily due to increase in loans and other credit.
- There was no significant change to composition of debts by individuals in 2019.

  Composition of debts as of December 31, 2019:

Checking accounts	10.4%
Credit cards	19.4%
Auto loans	7.8%
Other loans and credit	62.4%

- Of all debts (on-balance sheet credit) as of December 31, 2019, 23.3% is secured by financial assets and other collateral in the client's account (compared to 24% as of December 31, 2018).

Given the risk attributes of this segment, the rate of group-based qualitative provision for individuals is higher than in other segments, in conformity with guidelines from the Supervisor of Banks.

Credit risk in construction and real estate economic sector in Israel

Credit operations in this sector account for a significant component of credit operations of the Business Division. In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand in central Israel at mid-level prices. In addition, the financing is allocated between geographic regions, based inter alia on relevant demand. In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risks in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risks inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by business centers and branches with professional knowledge of the subject, and under the supervision of the construction and real estate sector. The Bank also sets policies and rules for financing other real estate transactions, such as financing for rental properties, Construction, purchase groups, urban renewal, National Zoning Plan 38 etc.

Below is information about credit risk in the construction and real estate economic sector in Israel, by real estate collateral type (NIS in millions):

	December 31, 2019						
	Credit risk to the public[1]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]	Total	Impaired	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,518	16,332	25,850	30	51	74	34
Commercial and industrial	6,083	1,171	7,254	80	362	47	2
Total secured by real estate in Israel:	**15,601**	**17,503**	**33,104**	**110**	**413**	**121**	**36**
Not secured by real estate in Israel	2,104	2,998	5,102	117	55	38	18
Total for construction and real estate economic sector in Israel	**17,705**	**20,501**	**38,206**	**227**	**468**	**159**	**54**
Of which: Designated for project assistance	8,606	14,224	22,830	13	61	73	35

	December 31, 2018						
	Credit risk to the public[1]						
	Credit risk			Total problematic credit risk		Balance of provision for credit losses	
	On balance sheet[2]	Off balance sheet[3]	Total	Impaired	Other problematic[4]	On-balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	9,904	13,167	23,071	31	33	71	24
Commercial and industrial	4,849	1,013	5,862	52	6	68	2
Total secured by real estate in Israel:	**14,753**	**14,180**	**28,933**	**83**	**39**	**139**	**26**
Not secured by real estate in Israel	2,261	2,908	5,169	146	69	42	13
Total for construction and real estate economic sector in Israel	**17,014**	**17,088**	**34,102**	**229**	**108**	**181**	**39**
Of which: Designated for project assistance	9,211	11,470	20,681	1	26	70	26

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.
(2) Loans to the public, investment in debentures by the public, other debt by the public and other assets with respect to derivative instruments against the public.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) On- and off-balance sheet credit risk with respect to the public, which is inferior or under special supervision.

Below is information about credit risk in the construction and real estate economic sector in Israel, by asset status (NIS in millions):

	December 31,					
			2019			2018
			Credit risk(1)			Credit risk(1)
	On balance sheet	Off balance sheet	Total	On balance sheet	Off balance sheet	Total
Real estate collateral in Israel						
Real estate yet to be completely constructed:						
Raw land	3,858	539	4,397	5,035	430	5,465
Real estate under construction	6,966	15,557	22,523	5,867	12,752	18,619
Real estate completely constructed	4,777	1,407	6,184	3,851	998	4,849
Total credit secured by real estate in Israel	**15,601**	**17,503**	**33,104**	**14,753**	**14,180**	**28,933**
Not secured by real estate in Israel	2,104	2,998	5,102	2,261	2,908	5,169
Total credit risk for construction and real estate	**17,705**	**20,501**	**38,206**	**17,014**	**17,088**	**34,102**

(1) On- and off-balance sheet credit risk, problematic credit risk and impaired loans to the public are stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower.

Credit risk data for the construction and real estate clients sector as of December 31, 2019 show that 49% of the on-balance sheet credit risk and 69% of the off-balance sheet credit risk is associated with closed assistance to real estate projects, mostly for residential construction in areas of strong demand in Central Israel, Haifa, Be'er Sheva and Jerusalem. Most of the off-balance sheet credit is due to guarantees provided to home buyers pursuant to the Sale Act.

Most of the credit risk in the construction and real estate sector is backed by real estate fully pledged to secure loan repayment. Note that for credit not secured by real estate collateral, there is other collateral in place, such as: deposits, securities etc.

The share of the construction and real estate sector in Israel out of total credit risk to the public at the Bank as of December 31, 2019, as presented in chapter "Risks" below (Credit Risk by Economic Sector) and in chapter "Credit risk" of the detailed Risks Report on the Bank website, is 14.4%.

Note that according to Proper Conduct of Banking Business Directive 315, the rate of indebtedness of the construction and real estate sector (for calculation of sector concentration) is 10.64% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sale Act guarantees for which the Bank has obtained an insurance policy).

Credit Risk[2] by Economic Sector – Consolidated

As of December 31, 2019

Reported amounts (NIS in millions)

						Credit losses[3]		
		Of which:						
	Total credit risk[1]	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic credit risk[6]	Of which: Impaired credit risk	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Industry and production	9,931	9,299	234	398	280	58	25	155
Construction and real estate – construction[6]	33,320	32,612	468	240	135	9	(9)	183
Construction and real estate – real estate operations	4,886	4,351	80	455	92	(24)	1	30
Commerce	10,715	10,052	206	457	331	87	63	204
Financial services	9,845	9,661	–	184	135	15	2	82
Other sectors	16,302	15,638	372	292	175	69	41	162
Total commercial	**84,999**	**81,613**	**1,360**	**2,026**	**1,148**	**214**	**123**	**816**
Private individuals – housing loans	148,604	147,072	–	1,532	56	44	14	673
Private individuals – other	31,802	31,165	403	234	87	101	91	273
Total public – activity in Israel	**265,405**	**259,850**	**1,763**	**3,792**	**1,291**	**359**	**228**	**1,762**
Banks in Israel and Government of Israel	8,598	8,598	–	–	–	–	–	–
Total activity in Israel	**274,003**	**268,448**	**1,763**	**3,792**	**1,291**	**359**	**228**	**1,762**
Total public – activity overseas	5,700	5,608	5	87	37	8	–	50
Banks and governments overseas	11,318	11,318	–	–	–	(3)	–	1
Total activity overseas	**17,018**	**16,926**	**5**	**87**	**37**	**5**	**–**	**51**
Total	**291,021**	**285,374**	**1,768**	**3,879**	**1,328**	**364**	**228**	**1,813**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts[2] – 214,317; debentures – 9,964; securities borrowed or acquired in conjunction with resale agreements – 120; Assets with respect to derivative instruments – 2,578; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 64,042.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 1,759 million and off-balance sheet credit risk amounting to NIS 2,501 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,571 million for which insurance has been acquired to cover the portfolio of Sale Law guarantees and performance guarantees pursuant to the Sale Law from international re-insurers.

Credit Risk(2) by Economic Sector – Consolidated – continued

As of December 31, 2018

Reported amounts (NIS in millions)

	Total credit risk(1)	Credit perfor-mance rating(4)	Of which: Credit in good standing other than at perfor-ming credit rating(5)	Proble-matic credit risk(6)	Of which: Impaired credit risk	Credit losses(3: Expenses with respect to credit losses	Net account-ting write-offs	Balance of provision for credit losses
Industry and production	9,977	9,281	274	422	279	33	18	122
Construction and real estate – construction(6)	30,901	29,735	869	297	203	(1)	(8)	165
Construction and real estate – real estate operations	3,201	3,104	57	40	26	(1)	(4)	55
Commerce	11,010	10,368	295	347	234	74	44	180
Financial services	11,954	11,771	3	180	168	6	5	69
Other sectors	14,338	13,647	451	240	113	49	42	134
Total commercial(7)	**81,381**	**77,906**	**1,949**	**1,526**	**1,023**	**160**	**97**	**725**
Private individuals – housing loans	135,960	134,650	–	1,310	60	36	22	643
Private individuals – other	30,245	29,720	292	233	77	109	91	263
Total public – activity in Israel	**247,586**	**242,276**	**2,241**	**3,069**	**1,160**	**305**	**210**	**1,631**
Banks in Israel and Government of Israel	9,850	9,850	–	–	–	–	–	–
Total activity in Israel	**257,436**	**252,126**	**2,241**	**3,069**	**1,160**	**305**	**210**	**1,631**
Total public – activity overseas	6,324	6,304	–	20	5	2	(2)	42
Banks and governments overseas	9,097	9,097	–	–	–	3	–	4
Total activity overseas	**15,421**	**15,401**	**–**	**20**	**5**	**5**	**(2)**	**46**
Total	**272,857**	**267,527**	**2,241**	**3,089**	**1,165**	**310**	**208**	**1,677**

(1) On- and off-balance sheet credit risk, including with respect to derivative instruments (NIS in millions): Debts(2) – 202,053; debentures – 10,988; securities borrowed or acquired in conjunction with resale agreements – 26; Assets with respect to derivative instruments – 3,240; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 56,550.

(2) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements.

(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).

(4) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(5) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.

(6) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

(7) Includes on-balance sheet credit risk amounting to NIS 2,023 million and off-balance sheet credit risk amounting to NIS 2,241 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 4,794 million for which insurance has been acquired to cover the portfolio of Sale Law guarantees and performance guarantees pursuant to the Sale Law from international re-insurers.

(8) Reclassified.

Key exposure to Foreign Countries – Consolidated[1]

Reported amounts (NIS in millions)

Country	December 31, 2019			December 31, 2018		
						Exposure
	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	On balance sheet[2]	Off-balance sheet[2][3][4]	Total
USA	10,030	556	10,586	6,639	519	7,158
France	1,418	2,226	3,644	1,384	2,092	3,476
UK	2,041	1,115	3,156	2,133	1,182	3,315
Germany	132	2,922	3,054	321	2,651	2,972
Other	2,415	1,000	3,415	2,518	1,105	3,623
Total exposure to foreign countries	**16,036**	**7,819**	**23,855**	**12,995**	**7,549**	**20,544**
Of which: To Greece, Portugal, Spain, Italy	42	33	75	35	66	101
Of which: Total exposure to LDC countries	409	83	492	433	130	563
Of which: Total exposure to foreign countries facing liquidity issues	–	–	–	–	–	–

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits, in conformity with Proper Conduct of Banking Business Directive 313.
(4) The balance of off-balance sheet exposure includes NIS 5,571 million with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel. (As of December 31, 2018: NIS 4,794 million).For more information about revision of the Credit Conversion Factor (CCF) applied to guarantees to secure investments by apartment buyers pursuant to the Sale Act. See Note 25 to the financial statements.
(5) As of December 31, 2019 and December 31, 2018, the Bank has no exposure to foreign countries facing liquidity issues.

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the Bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

The row "Total exposure to LDC countries" includes total exposure to countries classified as "Less Developed Countries" (LDC) in Proper Conduct of Bank Businesses Directive 315 "Supplementary provision for doubtful debts".

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of affiliates of the banking corporation in foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of Israeli offices of the banking corporation to residents of the foreign country and balance sheet exposure of overseas affiliates of the banking corporation to non-residents of the country where the affiliate is located.

Credit exposure to foreign financial institutions

Below is information on the Bank's exposure to foreign financial institutions[(1)(2)] (NIS in millions):

External credit rating	On-balance sheet credit risk[(3)] Before offset of deposits with respect to master netting agreements[(5)]	On-balance sheet credit risk[(3)] After offset of deposits with respect to master netting agreements[(6)]	Off balance sheet credit risk[(4)]	Current credit exposure Before offset of deposits with respect to master netting agreements	Current credit exposure After offset of deposits with respect to master netting agreements[(5)]
	As of December 31, 2019				
AAA to AA-	756	711	5,616	6,372	6,327
A+ to A-	183	112	229	412	341
BBB+ to BBB-	11	9	10	21	19
BB+ to B-	–	–	26	26	26
Lower than B-	–	–	–	–	–
Unrated	10	–	–	10	–
Total credit exposure to foreign financial institutions	**960**	**832**	**5,881**	**6,841**	**6,713**
	As of December 31, 2018				
AAA to AA-	927	820	5,040	5,967	5,860
A+ to A-	26	10	271	297	281
BBB+ to BBB-	3	3	57	60	60
BB+ to B-	–	–	20	20	20
Lower than B-	–	–	–	–	–
Unrated	1	1	–	1	1
Total credit exposure to foreign financial institutions	**957**	**834**	**5,388**	**6,345**	**6,222**

As of December 31, 2019 and December 31, 2018 there was no problematic commercial credit risk, net.

Problematic credit risk – credit risk for impaired, inferior credit or credit under special supervision.

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Switzerland and France.
(2) After deduction of provision for credit losses.
(3) Bank deposits, loans to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) The balance of off-balance sheet exposure to financial institutions includes NIS 5,571 million as of December 31, 2019 (as of December 31, 2018: NIS 4,794 million) with respect to acquiring insurance from international reinsurers for the portfolio of Sales Act guarantees for borrowers in the real estate sector in Israel as well as guarantees and additional commitments to extend credit, including guarantees to secure indebtedness of third parties.
(5) Presented net of fair value of liabilities with respect to derivative instruments for counter-parties which have signed master netting agreements.
(6) With respect to offset of cash deposits used as collateral for transactions with regard to financial derivatives.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For more information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 28.C. to the financial statements.

Some of the exposures listed in the above table are included under "Credit Risk by Economic Sector", under "Financial services". This includes deposits with banks, loans to the public, public investment in debentures and other assets with respect to derivative instruments. Futures transactions, weighted in accordance with rules stated in Proper Business Conduct Directive 313, are included as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policies regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, inter alia, the risk appetite – i.e. the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various nations and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with these financial institution is also taken into consideration. The policies also specify a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to these institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Ratings – Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set policies with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as stated above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's. These ratings are accounted for as part of the considerations in setting limits on the Bank's exposure to nations and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and various investments. External ratings form a basis for in-house analysis of a country or counter-party, conducted by the Bank. Other data from various sources used for this analysis are also taken into account. The Bank's assessment of the counter-party may differ from that of the rating agency.

As noted above, the Bank acquires the ratings, and analysis underlying such ratings, from Fitch, Standard & Poor's and Moody's. Ratings and analysis are periodically updated by the rating agencies and the Bank uses the most current information available when setting facilities or when reviewing a counter-party.

Housing credit risk

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. The Bank estimates the risk profile associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, which recently has decreased even further due to Bank of Israel directives, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral.

The Bank acts regularly to control and manage the risk associated with housing loans, for which the Retail Division, the Risks Control Division and other Bank entities are responsible. This activity includes portfolio analysis by inherent risk factors (LTV, repayment ratio, geographic location, loan age, income decile etc.) and carrying out a variety of stress scenarios to review the impact of macro-economic factors on portfolio risk – primarily the impact of the unemployment rate and interest rates. The Bank has an advanced model for rating housing loans, which includes a rating for each loan and calculation of potential loss in case of failure. This model is part of the Bank's existing monitoring tools.

Risk appetite and risk profile in mortgage segment

As part of its credit risk policies, the Bank has set various restrictions on housing loan operations, to account for major risk factors. These factors are reviewed from time to time and additional restrictions are imposed as needed, i.e. based on the actual risk profile of the mortgage portfolio and its trend, as well as on regulatory directives from the Bank of Israel.

The risk appetite for mortgages is defined using multiple risk benchmarks, which apply to credit risk and concentration risk aspects at regular performance level. These benchmarks include: differential risk premium (reflecting the risk of the mortgagee), the LTV ratio, property location (geographic risk), credit quality benchmark (see below under Credit Control), loan repayment to income ratio, loan purpose, loan term, loan track mix, property type, document quality, normative interest rate, financial wealth and cross restrictions on combinations of multiple parameters.

The Bank constantly monitors the risk profile of the mortgage portfolio and its development over time, in view of the specified risk appetite. In particular, this monitoring is conducted through the Bank's quarterly risks document which is presented to and approved by Bank manage, the Board of Directors and its Risks Management Committee. Such monitoring reveals that leading risk benchmarks continue to remain relatively low. These benchmarks include: LTV ratios, repayment ratio, rate of obligo in default and, in particular, the rate of arrears for new loans (one year since origination), which is testimony to the high quality of underwriting at the Bank. Note that the average LTV ratio for the Bank's mortgage portfolio (at end of December 2019) was 52.7% (reflecting the LTV ratio upon loan origination – see more details below). The Bank also estimates the "actual" LTV ratio for the portfolio, based on changes to property values, based on estimates by the Central Bureau of Statistics against the outstanding portfolio balances. This ratio is lower than the original LTV ratio due to the constantly higher housing prices, reflected by the mortgage inventory in the portfolio. These data support the Bank's estimate that the potential for loss due to the Bank's mortgage portfolio, even in scenarios involving material decline in housing prices, is low. In addition, the Bank regularly reviews its mortgage portfolio under stress conditions, including under significant change in macro-economic conditions, using multiple methodologies. The outcome of stress testing indicates that portfolio risk has decreased and that the potential impact of a severe stress event in the market is low.

In a scenario of deterioration in conditions of borrowers in the Bank's housing loan portfolio, the Bank has exposure to the risk of impact to borrower ability to make current repayments, with concurrent material impairment of collateral and other expenses and costs which the Bank may incur, including legal expenses, alternative housing expenses and other expenses.

In order to minimize the risk of overall impact to borrower ability to make repayments, the Bank maintains a conservative policy on loan repayment ratio. Even in case of impact to borrower ability to make repayments, the Bank has wide safety margins, due to its conservative policy on loan repayment ratio, in order to ensure full coverage of outstanding debt and additional costs, even in case of significant impairment of real estate collateral. For more information see risk attributes in the housing loan portfolio below.

Stress scenarios tested by the Bank, which assume impact to borrower income and impairment of real estate collateral, show that even under scenarios of highly significant price impairment, the potential damage to the Bank is within the boundaries of its risk appetite.

Volume of mortgages granted by the Household segment is as follows:

	Loans granted (NIS in millions)			Change in %	
	2019	2018	2017	2018-2019	2017-2019
Mortgages issued (for housing and any purpose) out of Bank funds	23,702	21,406	19,897	10.7	19.1
From funds of the Finance Ministry					
Directed loans	357	294	228	21.4	56.6
Standing loans and grants	90	73	73	23.3	23.3
Total new loans	**24,149**	**21,773**	**20,198**	**10.9**	**19.6**
Refinanced loans	3,862	2,251	1,556	71.6	148.2
Total loans originated	**28,011**	**24,024**	**21,754**	**16.6**	**28.8**
Number of borrowers (includes refinanced loans)	46,883	43,801	41,605	7.0	12.7

Below are details of various risk attributes of the housing loan portfolio[1] as of December 31, 2019 (NIS in millions):

LTV ratio	Repayment ratio out of regular income	Loan age[2] (time elapsed since loan grant) Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	2,986	9,392	11,753	26,981	19,469	6,993	77,574
	35%-50%	189	758	1,189	3,894	5,223	1,508	12,761
	50%-80%	–	1	1	12	1,219	530	1,763
	Over 80%	–	–	–	–	99	87	186
60%-75%	Up to 35%	1,675	5,064	5,281	14,228	8,896	1,638	36,782
	35%-50%	108	338	434	1,659	1,759	428	4,726
	50%-80%	–	–	–	2	309	145	456
	Over 80%	–	–	–	–	11	21	32
Over 75%	Up to 35%	22	89	104	174	703	995	2,087
	35%-50%	4	5	5	12	155	321	502
	50%-80%	–	–	–	–	16	105	121
	Over 80%	–	–	–	–	–	19	19
Total		**4,984**	**15,647**	**18,767**	**46,962**	**37,859**	**12,790**	**137,009**
Of which:								
Loans granted with original amount over NIS 2 million		334	1,012	1,201	2,683	1,767	304	7,301
Percentage of total housing loans		6.7%	6.5%	6.4%	5.7%	4.7%	2.4%	5.3%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,425	4,653	5,399	12,849	11,717	5,225	41,268
CPI-linked[3]		3	32	27	65	1,924	2,460	4,511
In foreign currency[3]		106	361	654	1,168	1,340	369	3,998
Total		**1,534**	**5,046**	**6,080**	**14,082**	**14,981**	**8,054**	**49,777**
Non-linked loans at prime lending rate, as percentage of total housing loans		28.6%	29.7%	28.8%	27.4%	30.9%	40.9%	30.1%
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.2%	0.1%	0.1%	5.1%	19.2%	3.3%
Loans with LTV over 75% as percentage of total housing loans		0.5%	0.6%	0.6%	0.4%	2.3%	11.3%	2.0%

(1) Balance of housing loans after provision by extent of arrears.
(2) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date. Furthermore, loan refinancing does not modify the loan age, i.e. the loan balance is attributed to the original loan origination date. This treatment also applies to refinancing of "directed" loans originally guaranteed by the State and refinanced to loans for which the Bank is responsible.
(3) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted more frequently than once every 5 years.

Attributes of the Bank's housing loan portfolio

The Bank's policies with regard to mortgages are based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular borrower income, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as guarantors for the loan, proven repayment capacity not based on regular borrower income etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to monitor and mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of December 31, 2019).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral).

The average loan-to-value ratio for the Bank's mortgage portfolio as of December 31, 2019 was 52.7%, compared to 52.6% on December 31, 2018 and to 54.1% on December 31, 2017. Out of the total loan portfolio of the Bank, amounting to NIS 137 million, some 98% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices, as from late 2008 and, conversely, reduced loan balances due to current repayments result in a decrease in the current "actual" LTV ratio and, as noted above, based on changes to property values as estimated by the Central Bureau of Statistics, against current portfolio balances. This ratio is significantly lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.2 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of December 31, 2019, based on current outstanding balances (with no change to property value due to changes in housing prices) would have decreased as follows: For loans originated up to one year ago – by 4.2%; for loans originated one to 5 years ago – by 6.9%; and for loans originated over 5 years ago – by 19.7%; for all loans in total – by 11.2%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.6% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.5% for loans granted in the fourth quarter of 2019.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. Therefore, in addition, when a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular borrower income.

The average repayment ratio for the Bank's housing loan portfolio is 26%. Some 85% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.1%). Some 13.1% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.3%). Some 1.7% of mortgages was granted to borrowers with a repayment ratio of 50% to 80% (the average repayment ratio for these borrowers is 59.4%), and only 0.2% were granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.1%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.

Loans bearing variable interest

The Bank offers clients housing loans which in part bear adjustable interest and in part are linked (to CPI, foreign currency) or non-linked (NIS-denominated loans).

The Supervisor of Banks has limited the share of the loan bearing variable interest within 5 years, to 33% of the total loan at most, and further stipulated that a banking corporation may not approve housing loans where the percentage of the loan bearing variable interest exceeds 67% of the total loan, regardless of the frequency of interest rate changes.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing adjustable interest and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 11.5 billion, or only 8.4% of the housing loan portfolio.

Note however that before approving a loan linked to the prime lending rate, similar to loan approvals for other variable interest tracks, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase to the "normative interest rate".

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 7.3 billion on December 31, 2019, or only 5.3% of the Bank's housing loan portfolio.

Provision by extent of arrears

Below are details of the provision for credit losses with respect to housing loans for which a minimum provision for credit losses was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Directive 314, as of December 31, 2019 (NIS in millions):

	Extent of arrears							
		In arrears 90 days or longer					Balance with respect to refinanced loans in arrears(2)	Total
	In arrears 30 to 89 days(1)	90 days to 6 months	6-15 months	15-33 months	Over 33 months	Total over 90 days		
Amount in arrears	9	28	16	14	213	271	36	316
Of which: Balance of provision for interest(3)	–	–	–	1	118	119	6	125
Recorded debt balance	637	931	256	94	126	1,407	73	2,117
Balance of provision for credit losses(4)	–	–	35	46	85	166	37	203
Debt balance, net	**637**	**931**	**221**	**48**	**41**	**1,241**	**36**	**1,914**

(1) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(2) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.
(3) With respect to interest on amounts in arrears.
(4) Excludes balance of provision for interest.

Means for risk management in housing loans

Means for risk management in housing loans include:

- Underwriting process – Housing loans are reviewed and approved based on the following criteria:
- Loan approval criteria include: Accumulated experience at the Bank with regard to housing loans; Results of current credit reviews; Review of loan portfolios carried out by a special-purpose nation-wide review center; Assessment of credit risks in different areas of the country; Borrower quality and repayment capacity; Proposed property collateral and guarantors; Nature of the transaction.
- Credit authorization – Specification of the party authorized to approve a loan is based on data in the credit application and the risk associated there with.
- Model for determination of differential risk premium – This model was developed by the Bank, based on past empirical data, for rating transaction risk.
- Built-in controls in loan origination system – These controls include: Ensure information completeness; Control over transactions based on authorizations; Work flow process.
- Mortgage-related training – The Bank's Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans.
- Professional conferences – In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risks associated with such developments.
- Regular monitoring of borrower condition and of the housing loan portfolio – At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank applies multiple control types, including regular internal controls at branches, regions and headquarters.

Entities participating in risk management and control for housing loans

- Mortgage Management Department of the Retail Division – This department handles different events which occur during the loan term.
- The National Review Center of the Retail Division – Loan files are sent to this Center prior to origination. These files are reviewed by the Center, in order to verify that the branch did carry out the actions required according to Bank procedures, regulations and instructions of the loan approver.
- Collection Department – Handles debts collection from borrowers in arrears and realization of properties.
- Arrears Forum – The Forum specifies targets for debts processing and for reducing arrears.
- Legal Division – As part of the underwriting process, collateral for non-standard loans and for high-value loans are reviewed.

- Risks Control Division – The Risks Control Division monitors the quality of the Bank's loan portfolio and the evolution of the Bank portfolio's risk profile, in view of the specified risk appetite. The division is responsible for regularly applying stress scenarios to the Bank's mortgage portfolio.
- Credit risks and credit concentration monitoring forum – The Bank operates a forum for monitoring credit risks, headed by the Manager, Risks Control Division, which promotes issues such as: review of credit policy and, in particular, changes to the risk appetite specified there, analysis of credit portfolio risk level, application of advanced modeling approaches, supervision of design and application process of stress scenarios, and monitoring of the risk profile of the Bank's loan portfolio.
- Internal Audit – The work plan for Internal Audit with regard to loans includes, inter alia, reference to review of entities involved in loan approval, origination, administration and control.

Tools for risk mitigation in housing loans

- Collateral – In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.
- Insurance – According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.
- Loan To Value (LTV) Ratio – The maximum LTV ratio approved by the Bank is determined by the credit policies and is periodically reviewed. Generally, the Bank requires borrowers to contribute part of the financing for the acquisition. This self-equity payment forms a safety cushion in case the property is realized during a down-turn in the real estate market. Furthermore,the rate of the borrower’s participation is a further indication of the borrower's financial robustness.

For more information about operations of these entities, see the Detailed Risks Report on the Bank website.

Sale of housing loan portfolios

Transactions involving sale of housing loan portfolios transfer the entire credit risk from the Bank to the buyer, and are backed by legal and accounting opinions that establish a True Sale. The Bank only retains the operational risk, with respect to the Bank's commitment to the buyer to operate these loans, to collect and transfer funds and to provide regular reports. In order to minimize this operational risk, the Bank has created a computer-based operational mechanism to manage these loans and to generate regular reports to the buyers. Moreover, an annual external review (ISAE3402) is conducted of the integrity and effectiveness of processes and controls for management of the loan portfolios sold.

For more information about housing credit risk, see the Detailed Risks Report on the Bank website.

Environmental risks

For more information about environmental risks, see Other Risks below and the detailed Risks Management Report on the Bank website.

Market risk and interest risk

Risk description

Market risk – This is the risk of loss from on– and off-balance sheet positions, arising from change in fair value of financial instruments, due to change in market risk factors (interest rates, exchange rates, inflation, prices of equities and commodities).

Interest risk in the banking portfolio is the risk to Bank profit (change in revenues) or to the Bank's economic value, primarily due to changes in the structure of interest rate curves relevant for Bank operations, non-identical fluctuations of various curves used by the Bank for pricing and management of its exposures, or from the fact that a change in interest rates may result in a change in composition of the Bank's assets and liabilities due to exercise of options for early repayment due to change in market interest rates.

Overview of market and interest risk and guidelines for management thereof

The Bank has no exposure to commodities and its exposure to equities is not material; thus, the Bank's major exposure to market risk is due to basis risk – which is due to Bank assets and liabilities being denominated in different currencies or linkage segments – and to interest risk in the banking book. Changes in interest rates impact Bank profits (change in revenues) and the value of Bank assets (change in fair value).

Market risk and interest risk form an integral part of banking business and of management of Bank assets and liabilities. However, excessive market risk and/or interest risk may expose the Bank to loss and may pose a threat to Bank capital. Therefore, the Bank’s Board of Directors and management have specified, in the Bank's structured process for risks mapping and identification, that market risk and interest risk are material risks and that management of these risks is critical for stability of the Bank, especially in view of the low interest rate environment and the potential for change in market interest trend. Management of these risks is designed to maintain a reasonable risk level, in conformity with the exposure caps, i.e. the risk appetite specified for these risks, while taking advantage of opportunities and constant monitoring of the risk profile, so that the Bank would not be exposed to significant losses.

Management of market risk and interest risk at the Bank consists of two main risk focus points: the bank portfolio and the negotiable portfolio. The negotiable portfolio is small relative to activity in the bank portfolio and is associated with low risk. The bank portfolio, which accounts for most of the Bank's operations, is primarily exposed to interest risk.

Market risk and interest risk are managed at Group level, including the Bank's overseas affiliates and subsidiaries. Operations vis-à-vis Bank Yahav are regularly coordinated, in particular for setting the Group risk appetite, which requires monitoring of the Group-level risk profile. Policy principles were specified in line with Bank strategy and with regulatory requirements, i.e. Proper Conduct of Banking Business Directives of the Bank of Israel, relevant Basel Committee directives and in line with globally accepted best practice.

As part of risk management, the Bank is required to allocate capital, as part of Basel II, Pillar 1, against risk in the negotiable portfolio, in conformity with Proper Conduct of Banking Business Directive 208 "Capital measurement and adequacy – market risk" which includes the Basel II directives with regard to definition, management and revaluation of the negotiable portfolio.

Overall market risk is categorized as Low-Medium. The market risk in the negotiable portfolio is minimal, in line with Bank policy. The bank portfolio includes the positions not classified as negotiable positions in the negotiable portfolio. The Bank handles interest risk in the bank portfolio and overall additional capital allocation with respect there to, in conformity with Basel Pillar 2. Capital allocation in conformity with Basel Pillar 2 is reviewed both under scenarios which reflect the normal life state and under stress scenarios, including systemic scenarios and threat scenarios. This is done as part of the ICAAP process, as described in chapter "Capital adequacy".

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Due to incomplete alignment of the average duration of uses and the average duration of sources, the Bank's economic value is exposed to changes in interest rate curves.

This risk is monitored on a regular basis, both in managing interest risk for the overall portfolio in VAR terms, and in EVE (Economic Value of Equity) terms, as well as another range of scenarios which mostly reflect stress conditions. Assessment of Bank exposure to interest risks in the fourth quarter of 2019 remained at Low-Medium, see explanation below. It is Bank policy to raise medium-term sources for custom deposits, which both provide a solution for client needs and constitute a medium-term source for hedging interest rate exposures.

For more information about these models, their use and their limitations, see the Detailed Risks Report on the Bank website.

Means of supervision over and implementation of the policy

The Bank has put in place an organizational structure for management of market risks and interest risks in the bank portfolio, which includes the Board of Directors, management and the three lines of defense. This structure is supported by special committees and forums, created for such risks management and in order to create an internal controls system, designed to prevent deviation from Bank policy in its activity in the negotiable portfolio and in the bank portfolio.

For more information about market and interest risk, see the Detailed Risks Management Report on the Bank website.

Hedging and risks mitigation policy

A major tool for management and mitigation of interest risk is setting shadow prices at the Bank (transfer pricing). Shadow prices at the Bank are determined daily by the Asset and Liability Management Department (hereinafter: "ALM") of the Financial Management Sector and reflect the needs for management of various exposures under the policy on risk / reward management.

Another tool is buying / selling government debentures. The Asset and Liability Management Department o the Financial Management Sector also manages the interest and/or basis position through forward contracts, swap transactions and options. The advantages of using these tools stem from the ability of rapid execution at large amounts, which allows for dynamic, effective management of market and interest exposures for asset and liability management by the Bank, within a reasonable time frame. In addition, these transactions are unfunded, are highly liquid and are conducted through the Bank's trading room.

Derivatives transactions, which are identified as hedging balance sheet positions in accordance with accounting rules, are to be specified as hedge accounting transactions, in accordance with the Bank's hedging procedure. Hedge effectiveness is the degree of correlation between changes in fair value or between cash flows of the hedged item and of the hedging derivative. The hedge is considered highly effective if the changes in fair value or cash flows of the hedged item, are nearly fully set off by changes in fair value or cash flows of the hedged instrument. Hedge effectiveness is tested quarterly.

At least once a year, the Bank reviews the underlying assumptions of models used to manage market and interest risks, including behavioral assumptions made in order to determine forecasting of certain instruments.

The Bank reviews the concentration of interest risk by linkage segment and by major instrument type. The concentration map is discussed annually by the risks management committee.

The Bank constantly acts to increase awareness of market and interest risks in the bank portfolio at Group level, including at overseas units of the Bank, through operating procedures, training and seminars on this topic. Furthermore, constant contact is maintained with all relevant units for management of market and interest risk. Coordination between units is designed to achieve a uniform methodology for management of market and interest risks in the bank portfolio.

Measurement of market and credit risks exposure and their management using models for risks management

Measurement of market and interest risks is supported by a wide range of information systems, models, processes, risk benchmarks and stress tests, which are regularly reviewed, through internal controls processes at the Bank, including continuous validation processes.

The Bank has two major models for managing its market and interest risks: The VaR model and the EVE model. The Bank calculates these benchmarks, as well as other benchmarks used for management of such risks, at least once per day.

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a predetermined statistical level of assurance. This model measures risk level in terms of money, where the Bank aligns the investment horizon for the portfolios reviewed using this benchmark. The Bank uses a combination of multiple methods for VaR calculation, commonly used around the world. The VaR calculation is in addition to a back testing calculation, designed to review the quality of its calculation estimates, i.e. review the model forecast, compared to actual results.

EVE (Economic Value of Equity) is a model which reflects the economic value approach. This is the Bank's main model for estimating interest risk in the bank portfolio, which reviews changes in economic value of the portfolio under various assumptions of changes to interest rate curves, under normal conditions and under stress conditions, including a concurrent increase / decrease in the interest rate curve. In addition, the Bank has various stress tests at different severity levels, designed to review its risk profile under stress conditions, in view of the risk appetite determined by the Board of Directors. The Bank also applies innovative methods to review interest risk in the bank portfolio under emergency conditions, including under stress scenarios of an economic outline. This scenario is based on the Bank's understanding as to development under stress conditions of macro-economic conditions relevant for these risks. The Bank also performs a scenario where the interest rate curve shifts in non-parallel fashion. Such scenario complements the EVE approach, which is based on parallel move of interest rate curves.

Bank methods for measuring risk values are conservative in many aspects, in line with common practice for implementation of the Basel principles. This reliably reflects the interest exposure, including effects of behavioral options inherent in the mortgage portfolio and in the deposit portfolio, which are dependent on interest.

The market risk in the negotiable portfolio is minimal, in line with Bank policy. Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

The structure of the Bank's assets and liabilities portfolio, which is weighted towards the mortgage portfolio, produces medium-term uses for which the Bank requires sources. Assessment of Bank exposure to interest risks in the fourth quarter of 2019 remained at Low-Medium, see explanation below.

Below is the VaR for the Bank Group (NIS in millions):

	2019	**2018**
At end of period	484	537
Maximum value during period	(JUN)626	(FEB)640
Minimum value during period	(MAR)431	(DEC)537

Market risk is primarily due to interest risk in the bank portfolio, as presented below.

Back-testing of the historical-analytic VaR model shows one case in which the daily loss exceeded the forecast VaR value. This number of cases is within the criteria specified by the Basel Committee for review of the VaR model quality.

Analysis of interest risk in bank portfolio

Below is the effect[1] of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

	December 31, 2019					
	Change in fair value					
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
2% increase	55	(1,304)	372	67	12	(798)
Decrease of 2%	(1,211)	799	(401)	(40)	(12)	(865)
	December 31, 2018					
2% increase	(289)	(2,076)	46	(43)	(1)	(2,363)
Decrease of 2%	757	2,522	(30)	48	–	3,297

(1) Calculated based on current data used for actual interest risk management.

In preparing the mortgage repayment cash flows forecast for the Bank, assumptions with regard to the prepayment rate and manner are taken into account.

Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.

In 2018, the Bank conducted an extensive review of the risk estimation methodology, in line with common practice for application of Basel guidelines. Consequently, Bank policy, including measurement methods and the resulting risk limits, was revised in the first quarter of 2019, so as to more reliably reflect the interest exposure, including cross-effects between interest change scenarios and behavioral scenarios in the mortgage portfolio and in the deposit portfolio, and capitalization curves have been revised from risk-free interest rate curves to transfer price curves. The limitations in the risk management policy were revised accordingly. This revision resulted in more correct measurement of exposure to interest risk; its application as of March 31, 2019 (the revision date) reduced by NIS 1.5 billion the exposure under a scenario of a 2% concurrent increase in interest rate, and by NIS 4.1 billion the exposure under a decrease scenario (EVE-PV02).

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[1] of financial instruments of the Bank and its subsidiaries thereof**:**

	As of December 31, 2019			As of December 31, 2018		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Net adjusted fair value(1)	13,202	295	13,497	11,568	(476)	11,092
Of which: Banking portfolio	(2,411)	14,562	12,151	10,926	(1,081)	9,845

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value[1] of financial instruments of the Bank and its subsidiaries thereof**:**

	As of December 31, 2019			As of December 31, 2018		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Net adjusted fair value[1]	13,202	295	13,497	11,568	(476)	11,092
Of which: Banking portfolio	(2,411)	14,562	12,151	10,926	(1,081)	9,845

Impact of change scenarios in interest rates on net adjusted fair value[1] of the Bank and its subsidiaries :

	As of December 31, 2019			As of December 31, 2018		
	NIS	Foreign currency[2]	Total	NIS	Foreign currency[2]	Total
Concurrent changes						
Concurrent 1% increase	148	211	359	262	(87)	175
Of which: Banking portfolio	141	233	374	201	(21)	180
Concurrent 1% decrease	(715)	(200)	(915)	(212)	93	(119)
Of which: Banking portfolio	(709)	(242)	(951)	(156)	26	(130)
Non-concurrent changes						
Steeper[3]	(304)	(60)	(364)	(186)	(82)	(268)
Shallower[4]	35	111	146	309	73	382
Short-term interest increase	347	180	527	351	52	403
Short-term interest decrease	(545)	(183)	(728)	(349)	(52)	(401)

(1) Net fair value of financial instruments, except for non-monetary items, after effect of liability with respect to employee rights and attribution of on-call deposits to terms.
(2) Includes Israeli currency linked to foreign currency.
(3) Short-term interest decrease and long-term interest increase.
(4) Short-term interest increase and long-term interest decrease.

In the fourth quarter of 2019, the cross-impact of interest rate change scenarios and behavioral scenarios in the mortgage portfolio and in the deposit portfolio were revised, including with regard to sensitivity of net adjusted fair value to changes in interest rates, as of December 31, 2019.

The difference between Bank exposure to changes in interest according to net adjusted fair value and sensitivity of economic value (EVE) presented above, under a 1% concurrent shift of the curve, amounts to NIS 556 million.

Most of this difference is due to use of different capitalization curves. The capitalization curves used to analyze sensitivity of economic value (EVE) are transfer pricing curves, while discount rates used to present net adjusted fair value are possible discount rates for similar transactions on the balance sheet date, reflecting the inherent risk for a similar client.

See Note 33 to the financial statements for additional information.

Note that the internal rate of return and the average effective duration, as presented under Bank exposure to changes in interest rates on the Risks Report, are average data and therefore it is not possible to make deductions based on a linear change there to with regard to sensitivity of net adjusted fair value to changes in interest rates.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues[1]:

	As of December 31, 2019			As of December 31, 2018		
	Interest revenues	Non-interest financing revenues[3]	Total	Interest revenues	Non-interest financing revenues[3]	Total
Concurrent changes[2]						
Concurrent 1% increase	667	246	913	478	228	706
Of which: Banking portfolio	668	168	836	478	226	704
Concurrent 1% decrease	(346)	(243)	(589)	(308)	(232)	(540)
Of which: Banking portfolio	(347)	(177)	(524)	(308)	(231)	(539)

(1) For a one-year term.
(2) Changes to risk-free interest.
(3) Includes the effect of fair value, gain (loss) from transactions in debentures and the effect of interest accrual for transactions in derivatives.

Below are the key assumptions underlying the above data:

- Credit balances in checking accounts are attributed in line with common practice in conformity with the Basel directives, i.e. over an average term of 3-4 years for different client types.
- When calculating sensitivity of interest revenues in the non-linked segment, the risk-free interest rate is capped at 0%. No such cap is applied to other linkage segments.
- No cap is applied when calculating non-interest financing revenues.

For more information about interest risk, see the Detailed Risk Management Report on the Bank website.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements.

CPI and exchange rate

Overview of inflation and currency risks and guidelines for management thereof

Inflation exposure – The risk appetite varies with expected profit from holding a position and the Bank's capacity to reduce the exposure within a reasonable time frame. This exposure is included among the risk appetite benchmarks and models applied by the Bank to all market risks.

Currency exposures – It is Bank policy to maintain minimal (operating) currency positions, except for specific strategic positions approved by the different committees and/or Trading Room positions, in conformity with approved risk restrictions. Foreign currency strategic positions are capped by a Stop Loss mechanism to restrict and reduce risk.

Derivatives in the bank portfolio used for economic hedging of balance sheet activity, or which cannot be defined as an accounting hedge, impact accounting profit and loss. The gap derives from difference in accounting treatment between balance sheet items and derivatives other than accounting hedges. This effect is regularly monitored and managed subject to guidelines specified by management, by the Financial Management Sector and is reported and discussed by various risks management committees.

Presented below are major data reflecting CPI and exchange rate exposures, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Financial capital – As of December 31, 2019, the Group capital exceeded its non-monetary items by NIS 15,329 million. Group free capital, which includes financial capital, was used in 2019 to finance uses in the NIS segment, in line with current policies on resource and use management in the bank portfolio.

Linkage status – Details on the assets and liabilities in the various linkage segments at December 31, 2019 and 2018 are presented in Note 31 to the financial statements. However, the extent of the Bank’s economic exposure is not fully reflected in the positions included in this note because of differences between the accounting approach and the economic approach with regard to capital items, non-monetary items and investments in investee companies, as explained below.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2019 as presented in Note 31 to the financial statements, amounts to NIS 13.4 billion, representing the economic exposure. In December 2018, excess assets in this segment amounted to NIS 12.9 billion.

Excess assets in foreign currency for the Group as of December 31, 2019 amounted to NIS 175 million. After adjustment of the economic reference to deposits used to cover investments in overseas subsidiaries, which are presented as non-monetary items, and to temporary impairment of investments in securities, the position in this segment amounts to surplus uses of NIS 168 million. As of December 31, 2018, the foreign currency position for the Group, after the aforementioned adjustments and after attribution of the general and supplementary provision for doubtful debts to free capital, amounted to surplus resources amounting to NIS 175 million. The position in the non-linked NIS segment balances the open economic positions in the CPI-linked and foreign currency segments.

The Bank has CPI-linked uses due to current operations in the mortgage portfolio linked to the CPI, for which the Bank raises CPI-linked sources, including debenture issues and deposits from the public. The Bank uses financial derivatives to actively manage this exposure, in line with the specified exposure policy.

The Report of the Board of Directors and Management presents the Group's exposure to interest on a consolidated basis,s presented in terms of average effective duration and in terms of fair value. Cash flows used in calculating exposure are based on assumptions with regard to withdrawal rates at exit points for deposits and early mortgage repayment rates. The percentage of withdrawals is based on empirical data.

For further details of assumptions used in calculation of cash flows and fair value of financial instruments, see Note 33 to the financial statements.

Below is analysis of the sensitivity of Bank Group capital to changes in major exchange rates and in the CPI (before tax effect) as of December 31, 2019, capital increase (erosion) (NIS in millions):

	Scenarios				Historical stress scenario[1]	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI[2]	1,440.0	720.0	(761.1)	(1,522.2)	150.7	(136.6)
Dollar	48.9	22.1	(11.3)	(35.2)	10.1	(7.0)
Pound Sterling	0.4	0.2	0.2	1.3	0.1	0.5
Yen	0.3	0.1	0.7	1.8	0.1	0.4
EUR	10.4	4.9	2.7	(3.8)	1.3	1.1
Swiss Franc	(0.2)	(0.1)	0.1	0.2	(0.3)	0.1

(1) Stress scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.
(2) Capital sensitivity to a 3% increase / decrease in the CPI is NIS 432 million and NIS (457) million, respectively.

Share price risk

For more information about share price risk, see the Detailed Risks Report on the Bank website.

For more information about equity investments in the bank portfolio, see chapter "Major investee companies" above, the Detailed Risks Report on the Bank website and Notes 12 and 15.A to the financial statements.

Liquidity and financing risk

Risk description

Liquidity risk – risk resulting from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price.

Financing risk – risk resulting from shortage of financing sources or too high costs to raise such sources.

Overview of liquidity risk and guidelines for management

Liquidity risk is managed in conjunction with Proper Conduct of Banking Business Directive 310 "Risks management", Directive 342 "Liquidity risk management" and Directive 221 "Liquidity coverage ratio". The risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

Liquidity risk management is governed by a policies document submitted annually or more frequently for approval by the Board of Directors. The policies document covers how risk is managed, including roles and responsibilities of the various organs, the regular management of liquidity risk, all parameters used for risk measurement in the normal course of business and under various stress scenarios, restrictions specified by the Board of Directors and by management, including restrictions on source concentration and composition, as well as a detailed emergency plan for handling a liquidity crisis, including various states of alert for liquidity risk management and potential means under each scenario type and the estimated time for execution.

The Bank’s Board of Directors sets strategy for liquidity risk management and the risk appetite in conformity with regulatory requirements, using a range of restrictions on three risk dimensions: Normal course of business, scenarios (liquidity coverage ratio and minimum liquidity ratio – internal model) and concentration. Bank management has specified a further set of restrictions to serve as management guidelines – beyond those specified by the Board of Directors. In 2019 there were no recorded deviations from the Board of Directors’ restrictions.

The Bank applies tools for monitoring liquidity risk using endogenous and exogenous indicators, which may point to an increase in risk up to crisis status. The Bank developed an integrated benchmark for monitoring financial markets in Israel, in order to identify any instability in the financial system in Israel – this benchmark is a decision-support tool for declaring a state of alert due to systemic failure.

There were no material unusual events observed in 2019. In March 2019, May 2019 and November 2019 the Bank raised its alert level to "High Alert". The decision to raise the alert level was due to geo-political tension. In practice, no events and/or indications were observed which would indicate realization of a liquidity event. Several days later, after return to normal conditions, the Bank decided to return to the normal course of business.

For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

Overview of financing risk and guidelines for its management

Financing risk is managed, as part of the liquidity risk, using Board and management restrictions on concentration of financing sources and through reduced dependence on material counter-parties.

Concentration of financing sources is monitored through a wide range of restrictions set by the Board of Directors, management as well as by key risk indicators, classified into several sub-categories: Size, client type, individual depositor, number of clients, product, currency and average deposit term. A "super-benchmark" was defined, which averages all indicators related to concentration of financing sources. Current management of source composition includes setting policies on source diversification and financing terms as well as setting specific targets for risk benchmarks. Concentration is monitored daily and is regularly managed and reported.

The Bank's main financing sources are stable and diverse sources for different time horizons – retail and business deposits, long-term deposits from financial institutions and issues of debentures and notes. The Bank sees the great importance of diversification of its financing sources and acts proactively to identify sources for longer terms, including through a wide range of deposits offered by the Bank to its clients, deposits with unique attributes, which allow clients to benefit from relatively high interest over the long term with optional liquidity during the deposit term. In 2019, concentration risk for financing sources remained low.

Furthermore, exposure to derivatives is regularly managed, in line with the exposure to each counter-party, counter-party collateral is immediately increased or collateral is immediately demanded from the counter-party.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the Detailed Risks Report on the Bank website.

Liquidity coverage ratio

In conformity with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio", the minimum regulatory requirement is 100%. This Directive stipulates minimum liquidity ratios for a one-month term (regulatory LCR), calculated based on uniform multipliers for the banking system, specified by the Bank of Israel based on Basel III directives. As part of its risks management policy, the Bank’s Board of Directors specified that additional safety cushions are to be maintained, beyond the regulatory minimum ratio; so that the target liquidity coverage ratio for the Bank and the Group would by 5% higher than the minimum required. This ratio is managed and reported for all currencies in aggregate and for NIS separately, both at Bank level and on Group basis. The ratio for the Bank solo and the consolidated ratio are calculated daily and reported as the average of daily observations over 90 days prior to the report date. This directive is in addition to liquidity risk management using internal models, as stipulated by Directive 342, as described above.

The average (consolidated) liquidity coverage ratio for the fourth quarter of 2019 was 121%. As noted above, in 2019 there were no recorded deviations from these restrictions.

For more information about liquidity risk, see also the Detailed Risks Report on the Bank website.

For more information about the Bank's cash flows by maturity, see Note 32 to the financial statements.

As of December 31, 2019, the balance of the three largest depositor groups at the Bank Group amounted to NIS 11.2 billion.

The Bank consistently acts, as part of its strategy on resource and use management, to raise long-term sources.

The Bank's NIS-denominated balance sheet sources for terms longer than 1 month, as percentage of total NIS-denominated sources as of December 31, 2019, was 53% (as of December 31, 2018: 52%), of which balance sheet sources for terms longer than 1 year – 43% (similar to December 31, 2018).

Most of the Bank's balance sheet sources in foreign currency as of December 31, 2019 are for terms of up to 1 year, constituting 97% of total foreign currency-denominated sources (as of December 31, 2018: 98%), of which 34% are sources for terms longer than 3 months (as of December 31, 2018: 27%).

The NIS-denominated sources have longer terms than foreign currency-denominated sources, in line with the longer term use of NIS-denominated funds, primarily for mortgages denominated in NIS.

The Bank also conducts a significant volume of futures transactions to divert excess liquidity between NIS and foreign currency and by conforming the terms, as part of dynamic management of sources and uses.

Soliciting sources and Bank liquidity status – During 2019, there was an increase in the Bank’s balance of deposits from the public. The balance of deposits from the public rose from NIS 199.5 billion on December 31, 2018 to NIS 211.0 billion on December 31, 2019, an increase by 5.8%.

In the non-linked segment, total deposits from the public amounted to NIS 159.0 billion, an increase by 9.1% compared to end of 2018. In the CPI-linked sector, deposits from the public amounted to NIS 14.3 billion, a decrease by 0.7%, and in the foreign currency sector – to NIS 37.7 billion, a decrease by 4.3% compared to end of 2018.

Operational risk

Risk description

Operational risk is defined by the Bank of Israel as the risk of loss due to inappropriateness or failure of internal procedures, people, systems or due to external events.

The Bank has defined a framework for management of operational risks, which includes a definition of corporate governance that specifies the roles and responsibilities of the lines of defense and the importance of deploying an appropriate operational risk management culture at the Bank.

The Bank actively handles operational risk in order to support operations of the business units, to improve major business processes associated with their operations and thus, to increase business value, rather than only reduce expected loss due to operational risk.

Operational risk includes information security and cyber risk, IT risk and legal risk.

Overview of operational risk and guidelines for management thereof

With the developments in global markets and the higher complexity of financial activity and supporting technological infrastructure, an understanding has emerged, that Bank exposure to potential loss due to failures in regular operating activity may impact the business activity. Operating failure events which occurred at financial institutions have increased legislator awareness and financial institutions' awareness of materiality of operating failure events, to the large potential for damage which may be caused by such operational risk event and to their main attributes, as follows:

Operating events may occur throughout the organization and are inherent to financial institution operations.

Operational risk may potentially impact earnings, revenues, value and reputation of the Bank.

Operational risk has inter-relationships with other risks, such as market risk, credit risk, liquidity risk, reputation risk and other risks. Thus, for example, materialization of an operational risk event may cause reputation risk to materialize, after which the Bank may face a liquidity event.

Some operating failures have very low probability of materialization, but relatively large damage potential.

Operational risk has diverse instances, from human error, malfunction in technological systems, fraud, embezzlement, war, fire, robbery etc.

Operating events sometimes occur which are not under control of the financial institution, and may develop as a result of external events, some of which are unforeseen, with chances of occurring which cannot be estimated in advance, such as: natural disaster (earthquake, flooding) or security event.

Bank management and the Board of Directors attach great importance to managing this risk, due to its materiality, as part of the Bank's overall framework for risks management and control. The Board of Directors and management have determined that management of operational risk requires creation of an appropriate culture within the organization, by means of training, dissemination of related content and application of elevated standards of internal control at all levels.

The Bank has a framework policy on operational risk management that specifies the principles whereby the Bank manages operational risk, risk materiality, how it is managed, measurement and monitoring processes and actions taken by the Bank to mitigate such risk. The Operational Risk Owner at the Bank is the Manager, Risks Control Division – who is also the Bank's Chief Risks Officer. The framework stipulated also includes the framework required for handling fraud and embezzlement risks, which are part of the operational risk categories according to Bank of Israel directives. The Bank is acting to deploy a framework for addressing operational risk which is not only defensive, i.e. acting only to minimize potential loss due to operational risk events, but also actively strives to regulate aspects of operational risk in systems, processes and controls applied by the Bank, in order to support achievement of its business targets.

Bank policy specifies the Bank's operational risk appetite from several aspects: qualitative and quantitative in the normal course of business and under stress scenarios. The Bank's quantitative risk appetite, in terms of actual annual damage, is 1% of the Bank's Tier I shareholder equity. This risk appetite is constantly monitored by follow up on any default events which caused a loss, managed by category of operational risk, in conformity with Bank of Israel directives and also includes loss due to legal risk, information security and cyber risk, including fraud and embezzlement risk. The policy also specifies a qualitative risk appetite for potential loss in the normal course of business and under stress events, by the different risk categories.

Revision of the policy document in 2019 included revision and expansion of the qualitative and quantitative risk appetite and additional risk indicators for measuring potential risk.

The Bank allocates capital with respect to operational risk using the standard approach. According to this approach, the Bank was segmented into eight lines of business, as stipulated by the Bank of Israel, with a standard risk weighting assigned to each line of business, reflecting its sensitivity to loss with respect to operational risk. This segmentation and treatment of the required capital allocation are incorporated in a specific policies document which governs the aspects required for capital allocation using the standard approach and, in particular, specified the lines of business in Bank operations.

The Bank framework for handling operational risk is reviewed quarterly, as part of the Bank's Risks Document. The quantitative and qualitative risk profile is presented in this context in view of the risk appetite, the operational risk map and the most material events which occurred during the quarter are also presented and analyzed.

The Bank is prepared to put in place comprehensive infrastructure for addressing fraud and embezzlement risk. As part of this effort, the Bank operates computer-based measures based on business rules designed to identify suspect activity. The framework for handling fraud and embezzlement risk includes a combination of Bank entities: Risks Controls, information security and cyber, human resources and the Technology Division.

Operational risk mitigation

Due to the significance of operational risk, the Bank takes different steps to mitigate this risk. One of the key tools is conducting operational risk surveys for all Bank operations, to create and manage the risks map on a regular basis. The surveys are conducted as risk self-assessment (RSA), where the business unit (the first line of defense) assesses the risks associated with its operations. The Risks Control Division provides guidance to the business unit with regard to the methodology for conducting the survey and for effective assessment of the existing risks, and challenges the survey outcome. Note that in 2019, the Bank completed the three-year process of conducting operational risk surveys across all Bank operations, and revised the Bank's overall risk map. The methodology for conducting surveys consists of four stages: Assessment of inherent risk, assessment of the effectiveness of controls, assessment of residual risk, and managing the findings and risk mitigation processes.

Another key process is to instill a corporate culture which promotes strong awareness of operational risk, and of deployment of risk-mitigating processes. Operational risk trustees were appointed at headquarters and in branches, serving as the long arm of the Operational Risks Owner in this process. The Bank initiates delivery of in-person and technology-based training about operational risk to new employees and to units and populations within such units which were identified as being associated with high operational risk, as well as conducting seminars to provide regular guidance to operational risk trustees at headquarters and in branches.

One of the risk mitigation tools used by the Bank is debriefing and lesson learning flowing internal and/or external events. Conclusions formulated by this process are incorporated into work processes, systems, training content and procedures – and are also disseminated to operational risk trustees for deployment at their units.

The Bank has established policies and operating plans for a time of emergency, for backup, recovery and business continuity in case of physical damage to Bank infrastructure. This plan, supported by emergency procedures and pre-appointed officers, is exercised annually and the conclusions from such exercises is incorporated into the action plan.

Mitigating operational risk through insurance – the Bank is insured under a banking insurance policies, against damage which may be incurred in the course of normal operations, as a result of human error, fraud, embezzlement etc. The Bank acquires an officers' insurance policies, which applies to all officers at the Bank and at the different Bank Group companies, which provides insurance coverage for personal claims which may be filed against officers with respect to their actions in the course of their position with Group companies. Obtaining such an officer liability insurance policy is subject to approval by the General Meeting of Bank shareholders.

The Bank has obtained specific insurance policies for property damage and liability, which provide insurance coverage of Bank property and liability. The Bank has a specific policies document which governs insurance aspects related to Bank operations.

In the fourth quarter of 2018, the Bank obtained an insurance policy to cover cyber damage for the Bank Group. The insurance coverage acquired in this insurance policy is another layer, over and above the existing banking insurance policy, which also provides insurance coverage for items not covered by the existing banking insurance policy including: consequential damage due to disruption of operations due to a cyber event, cyber extortion, operating failure due to a cyber event and reimbursement of special expenses with respect to a cyber attack.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".

In the fourth quarter of 2019, the Bank continued to operate in conformity with the multi-annual work plan and exercise plan. Multiple drills took place, including a technology drill at the DRP IT site, drills in core branches and iat the cash center, and a drill was conducted, with lessons learned, for the process of assisting and analyzing the Bank of Israel Uniform Scenario with regard to a cyber event.

Information security and cyber security

Directive 361 with regard to Cyber Defense Management provides guidelines for proper management of cyber risks, which require expansion and adjustment of the IT risks management framework with regard to the threat space perception and the required defensive capabilities. Accordingly, the Bank has approved strategy and comprehensive cyber defense policies and has specified the defense lines for their implementation , has appointed an Information Security and Cyber Defense Manager, reporting to the Manager, Risks Control Division – responsible, inter alia, for setting policies on information security and cyber defense at the Bank, development of a cyber defense work plan, monitoring the implementation of this work plan and review of the effectiveness of systems and processes for information security and cyber defense.

Direct banking systems at the Bank include information security processes in conformity with Proper Conduct of Banking Business Directive 367, including authentication mechanisms, transmission of information to clients and identification of exceptional transactions.

In the fourth quarter of 2019, risk remained Medium. In this quarter, a small number of fraud attempts against clients were identified (through fishing attacks), which resulted in stealing their account credentials in order to conduct unauthorized transactions in their accounts. Thanks to defensive measures applied by the Bank, despite these fraud attempts, there were no unauthorized transactions in client accounts.

The Bank continues to reinforce the defense mechanisms applied in Bank systems, in order to further limit the ability to defraud clients and to conduct un-authorized transactions in client accounts. These actions were taken as part of debriefing processes and lessons learned by the Bank with regard to this emerging threat.

Information technology risk

In recent years, the risks associated with IT management have increased, due to development and deployment of new technologies and evolution of new risk and threats. Other than under routine conditions, the IT management framework addresses system failures, such as: system faults and preparation for emergency situations. This is also intended to ensure that the Bank maintain business continuity during an alert or emergency. This may mitigate reputation risks and business risks which could arise under such conditions.

The Technology Division Manager is responsible for management of IT assets and the management framework is specified in a special policies document, in line with principles specified in policy documents on risks management and control at the Bank. The IT asset management policy is in line with requirements of the Supervisor of Banks and, in particular, with the principles stipulated in Proper Conduct of Banking Business Directive 357 "IT management"; Proper Conduct of Banking Business Directive 350 "Operational risk management"; Proper Conduct of Banking Business Directive 355 "Business continuity management" and Proper Conduct of Banking Business Directive 361 "Cyber security management". Risk appetite is defined in quantitative and qualitative terms under normal and emergency scenarios, with the Bank's risk appetite in operational aspects for IT risk included under management of operational risk appetite. Risk appetite for technology aspects is defined by multiple benchmarks, including risk levels on the map of technology risk and specific risk appetite for diverse risk factors.

The Bank operates multiple measures to mitigate risk, including use of indicators (KRI) and support systems. Note that the SOC (Security Operation Center) operates 24/7 and is responsible for monitoring Bank infrastructure and systems, analyzing logs and identifying anomalies in real time, unusual behavior of users and systems in the network from information and cyber security aspects. The Bank also established this year the NOC (Network Operations Center), operating 24/7 as an operational unit for presenting the unified picture of enterprise infrastructure, capability for monitoring and forecasting faults, analyzing logs and identifying anomalies from technology risk aspects.

Given current developments in the financial market, the age of current Bank systems and transition of Bank Yahav to a new platform, the Bank concluded the review of transition of the Bank's core capital market system to the capital market module of the new platform and launched this project in the first quarter of 2019.

Another significant project has been recently approved, to replace the CRM (Customer Relations Management) system in order to empower personalized service for each client. The project was launched in the fourth quarter of 2019.

Legal risk

Proper Conduct of Banking Business Directive 350 concerning "Operational risks" defines legal risk as including absence of potential for legal enforcement of an agreement and "including, but not being limited to exposure to fines or penalties arising from supervisory action, as well as from individual arrangements". Legal risk also includes risks arising from legal exposure due to Bank conduct with its various stakeholders (such as: clients, suppliers and other third parties).

The Bank's Legal Division regularly analyzes the legal risk components, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes while reviewing its risk level and exposure with attention to the different lines of business at the Bank.

In 2019, legal risk remained Low-Medium, similar to the estimate in the 2018 annual report.

For more information about operational risk, see also the Detailed Risks Report on the Bank website.

Other risks

Compliance and regulatory risk

Risk description

Compliance risk is the risk of imposition of legal or regulatory sanctions, material financial loss or impact to reputation, which the Bank may incur due to its failure to comply with compliance provisions.

Compliance risk includes conduct risk, cross-border risk and AML and terror financing risk, presented separately below.

Overview of compliance and regulatory risk and guidelines for management thereof

The compliance and regulatory Risk Manager for the Bank is the Manager, Risks Control Division. The Compliance Officer is responsible for continuous management of this risk.

The Bank has specified a multi-annual work plan for the Compliance Function, which includes qualitative targets for reducing compliance risk across the Bank.

The Bank operates in conformity with policies on compliance and regulation risk management, approved by the Bank's Board of Directors. The Compliance Officer acts to deploy a compliance culture at the Bank, its subsidiaries and overseas affiliates by implementing a Group policy and supervising the implementation of appropriate compliance processes at subsidiaries and affiliates. Compliance risk is managed by identification, documentation and assessment of compliance risk associated with business operations of the Bank, including developments related to new products, business conduct, lines of business or new clients, or to material changes to any of the above. The Bank has revised its policy on protection of privacy and has completed a gap survey on this topic.

The Bank deals fairly with all stake holders. The value of fairness is enterprise-wide and is based on application of basic values: integrity, fairness and transparency. The Bank strives to maintain a fair relationship with its clients and with other stake holders, places the client at the center of its business operations and strictly adheres to business fairness in all its operations. Fairness is a basic value in the Bank's Code of Ethics and the Bank takes action to deploy and implement the value of Fairness among employees.

The Bank has an internal enforcement program for securities and for anti-trust law,

The Bank has minimal risk appetite for compliance and regulatory risk, with regard to compliance with statutory provisions applicable to the Bank.

Compliance risk remained unchanged in 2019, at Low-Medium.

This risk assessment is due, inter alia, to further addressing the risks classified as High and further increase in control and improved training delivery, further increased efficiency of work processes in this area, incorporating technology improvements and focused management, including improvement of client accounts where documents and data were found to be missing.

For more information about compliance and regulatory risk, see the Detailed Risks Management Report on the Bank website.

Cross-border risk

Risk description

Cross-border risk is the risk of financial loss (including due to legal proceedings, fines or sanctions imposed by statutory authorities or others in Israel and in other countries) and of impact to reputation, arising from the Bank's failure to comply with statutory provisions originating in other countries – whether provisions binding on the Bank or provisions which are not binding, but failure to comply with them may cause the Bank to incur damage, or from overseas activities of Bank clients in contravention of any statutory provisions.

Cross-border risk includes, *inter alia*, risk of damage, including impact to reputation, due to lawsuits or other enforcement proceedings brought by authorities in other countries, with regard to foreign tax laws applicable to certain Bank clients, AML and terror financing laws, sanctions imposed by international bodies and foreign authorities or other laws. Cross-border risk also applies at the Bank's overseas affiliates; in transactions with clients who are foreign residents; in business operations conducted by Bank representatives in foreign countries; and with regard to funds of individual Israeli clients invested overseas.

Cross-border risk includes the risk arising from obligations arising from US tax laws applicable to Bank Group operations outside of the USA (the Foreign Account Tax Compliance Act – "FATCA" and Qualified Intermediary – "QI"). This risk is also due to obligations stipulated by the Common Reporting Standard (CRS) issued by the OECD.

Overview of cross-border risk and guidelines for management thereof

The Bank applies the statutory provisions for implementation of FATCA and CRS, and provides timely reports to the Israeli Tax Authority. The Bank is compliant with terms and conditions of the QI agreement.

The Bank has zero appetite for cross-border risk. Therefore, the Bank has specified that any faults discovered with regard to cross-border risk would be addressed by Bank units as a top priority. The Bank has specified a multi-annual work plan for the Compliance Function, which includes required action for reducing compliance risk across the Bank.

Cross-border risk remained unchanged in 2019 and is defined as Low-Medium. The Bank continues its processes for improvement of risk management quality by, inter alia, computer-based work processes and delivery of training with regard to cross-border risks and disabling activity of non-cooperative clients.

For information about approval by the Bank's Board of Directors of signing a DPA agreement with the US Department of Justice to conclude the investigation into the Bank Group's business with its US clients, see Note 26.C.12 to the financial statements.

For more information about cross-border risk, see the detailed Risks Management Report on the Bank website.

AML and terror financing risk

Risk description

AML and terror financing risk – the risk of financial loss (including due to litigation proceedings, penalties or sanctions imposed by authorities in Israel and in other countries) and impact to reputation, which the Bank may incur due to breach of various statutory provisions regarding the Bank's obligations with regard to AML and terror financing.

Overview of AML and terror financing risk and guidelines for management thereof

The Bank regards itself as a partner in the international AML and terror financing effort and takes part in the international effort against bribery and corruption, acting to identify, monitor and follow up on activities and clients that may be exposed to bribery and corruption. The Bank also avoids any activities opposed to the international sanctions regime of OFAC (of the US Department of Treasury) and of the European Union.

In 2019, the Bank conducted an annual risk assessment in conformity with Directive 411.

The Bank applies on a Group basis, with required changes, its policies in this area as well as statutory provisions, at its subsidiaries and branches in Israel and overseas.

The Bank applies a risk-based approach to account opening and management, allocating resources in conformity with the risk level of the account and activity, reflected inter alia by enhanced controls and appropriate custom training.

AML and terror financing risk remained unchanged in 2019 at Low-Medium, due to continued intensive training and deployment activity, along with risk-focused controls, document and classification improvement and taking effective action to avoid recurrence of extraordinary events and compliance failures. The new AML system – MEA – in order to identify unusual activity and for reporting, is operating in branches on regular basis and enables close control over the banking activity. This is along with the increase in business activity and in view of further increased regulatory activity reflected, inter alia, in new directives being issued frequently, which the Bank is preparing for.

For more information about AML, see also the detailed Risks Report available on the Bank website.

Reputation risk

Risk description

The Bank has mapped reputation risk as a material risk, because past events indicate that impact to the reputation of a financial institution may result in significant loss of value. Reputation risk is a stand-alone risk, but may also arise from materialization of other risks at the Bank, such as materialization of an operational risk event. Furthermore, impact to Bank reputation may bring about the materialization of other risks, in particular liquidity risk – with growing demand by clients to withdraw deposits.

Overview of reputational risk and guidelines for management thereof

The Bank has defined its risk appetite for reputation risk as minimal. In recent years, the Bank took action to put in place a framework for handling reputation risk. The Bank considers that this risk should be addressed based on similar principles to those used to address other risks, such as credit risk or market risk – even though this risk is considered harder to quantify.

The Reputational Risk Manager is the Manager, Marketing, Promotion and Business Development Division at the Bank.

Reputation risk is managed in conformity with the policy on three levels: In advance (under normal conditions), in real time (alert condition) and in retrospect.

In 2019, there were no events which negatively impacted the Bank's reputation.

For more information about assessment of the current impact of reputation risk, see table "Risk factor assessment" above.

For more information about reputation risk, see also the Detailed Risks Report on the Bank website.

Business-strategic risk

Risk description

Business-strategic risk is the risk, in real time or potentially in future, of impact to Bank profits, capital or reputation, due to erroneous business decisions, improper deployment of decisions or insufficient preparation for changes in the business environment. This means the risk that the Bank chose the wrong strategy or that the Bank would not be able to implement the business and strategic plan as planned. The materiality of business-strategic risk requires the Bank to take measures which would allow it to manage this risk and take steps for assessment and early identification of events which may preclude implementation of the strategy.

Overview of business-strategic risk and guidelines for its management

The Bank operates in conformity with the outline of a five-year strategic plan, most recently approved by the Bank's Board of Directors in November 2016, whose principles have been made public. Material deviation from Bank strategy is subject to approval by the Bank's Board of Directors. Risk is monitored by the Financial Information and Reporting Division, and is challenged by the Risks Control Division.

The Strategic Risk Owner is the President & CEO; based on their guidance, management periodically reviews the implementation of the strategy, monitoring of regulatory, economic or technology developments which affect the strategy and initiating annual work plans derived from and in conformity with the strategic plan.

For more information about assessment of the current impact of business-strategic risk, see table "Risk factor assessment" above.

For more information about strategic – business risk, see also the Detailed Risks Report on the Bank website.

Environmental risks

Environmental risk to the Bank is the risk of loss which may be incurred due to deterioration in the borrower's financial position due to high costs incurred as a result of environmental hazard and regulation concerning environmental protection, or due to impairment of collateral exposed to environmental risk or to the Bank being indirectly liable for an environmental hazard caused by a project funded by the Bank. Environmental risk also includes other risks derived from this risk (goodwill, third party liability etc.) In recent years, global awareness of the potential financial exposure arising from regulations related to environmental protection has grown.

The Bank has a structured methodology for identification, assessment and handling of environmental risk and acts to incorporate management of exposure to environmental risk within all risks at the Bank, including specification of work processes for identification of significant risk when granting credit and inclusion of risk assessment, if any, within periodic assessment of quality of credit extended.

For more information see the Bank's Corporate Social Responsibility Report on the Bank website:

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Policies and critical accounting estimates

The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.

For most topics, these directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP). When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The following were used in assumptions, assessments and estimates:

Provision for credit losses

- Individual provision – The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast.
- Group provision – based on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the period from January 1, 2011 through the report date. The Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration. Furthermore, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is not less than 0.75% of the non-impaired consumer credit balance (excluding credit due to receivables for bank credit cards without interest charge).
- Housing loans – A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. The group-based provision for credit losses with respect to housing loans shall be at least 0.35% of the balance of such loans as of the report date.
- Off-balance sheet credit – The provision is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk.

For more information, see Note 1.D. 6 to the financial statements.

Derivative instruments

Instruments measured at fair value are divided into 3 levels:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.

Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 – fair value measured by using non-observed data.

The Bank estimates credit risk for derivative instruments using a model based on indications of credit quality of the counter-party, derived from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivative instruments based on the counter-party's credit quality. In the absence of such indications, the Bank calculates the adjustments based on internal ratings. The Bank reviews the materiality of the credit risk component compared to fair value as a whole, in conjunction with review of instrument classification under fair value ranking levels.

Fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

For more information, see Note 1.D. 16 to the financial statements. For details of derivatives measured at fair value by different fair value levels – see Note 33 to the financial statements.

Securities

Securities in the portfolio held for trading and in the portfolio available for sale are presented at fair value. Securities classified in the portfolio held to maturity are measured at amortized cost. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. The Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms.

For more information, see Note 1.D. 5 to the financial statements. For details of securities measured at fair value by different fair value levels – see Note 33 to the financial statements.

Liabilities with respect to employees' rights

are calculated using actuarial models, based on a discount rate determined based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by term to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same term to maturity, for US government debentures, all as of the report date. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employees' rights.

Group liabilities for employees' rights calculated based on an actuarial model amount to NIS 1,568 million. (Including provision for employees' retirement at beneficial terms).

The following is a sensitivity analysis of total provision for employees' rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	1% increase	1% change in annual payroll increase		1% change in departure rate before retirement age	
	in discount rate	Increase	Decrease	Increase	Decrease
Severance pay provision	(107)	105	(88)	160	(160)
Budgetary pension	(6)	–	–	–	–
Other	(39)	5	(5)	(6)	5

For more information, see Note 1.D. 12 to the financial statements.

Share-based payment transactions

The financial statements include the benefit value of the stock option plan for the Bank President & CEO and for Bank managers, estimated based on the opinion of an expert external consultant, using generally accepted models, including the Black & Scholes model, the binomial model and the Monte Carlo model, based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's shares and other factors which could affect the economic value of the benefit.

Some of the Bank's stock option plans include multiple lots which vest on specified dates. The number of options which the offerees may actually exercise, will be primarily based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 13%, as well as on other parameters (for more information see Note 23 to the financial statements), based on the exercise eligibility formula, as stated in the option plan. As of December 31, 2019, the number of options which each offeree may exercise have been adjusted based on actual parameters for each year of the plan.

For more information, see Note 1.D. 13 and Note 23 to the financial statements.

Provisions with respect to contingent liabilities and lawsuits

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
3) Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

Note 26.C. provides disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible, on the date of preparing these financial statements, to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Note that the provision for legal claims and contingent liabilities depends on multiple factors and involves a high degree of uncertainty. New information to be received by the Bank in the future with regard to existing exposures as of the approval date of the financial statements may materially impact the exposure amount or the provision required with respect to such exposure.

Provision for impairment of non-financial assets

Provision for impairment, if needed, is based on assessor valuations updated by the assessor or valuator as required.

For more information, see Note 1.D. 8) and 9) to the financial statements.

Deferred taxes

Deferred taxes are recognized with respect to temporary difference between the carrying amount of asset and liabilities for the purpose of financial reporting, and their value for tax purposes.

Deferred taxes are measured so as to reflect the tax implications expected to arise from the manner in which the Bank, at the end of the reported period, anticipates recovering or discharging the carrying amount of assets and liabilities.

Deferred taxes are measured using tax rates expected to apply to temporary differences when realized, based on statutes enacted, or essentially enacted, as of the balance sheet date.

Deferred tax assets are recognized with respect to carry-forward loss, tax credits and deductible temporary differences, when taxable revenue is more likely than not in future, which may enable utilization of these deferred tax assets.

For more information, see Note 1.D. 17 to the financial statements.

Uncertain tax positions

The Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

The consolidated balance sheet as of December 31, 2019 includes deferred taxes, net amounting to NIS 1,089 million (excludes deferred taxes with respect to securities, which do not affect the provision for taxes). an increase by 1% in tax rates would cause a decrease by NIS 32 million in the provision for taxes.

For more information, see Note 1.D. 17 to the financial statements.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, based on requirements stipulated in Sections 302 and 404 of the American Sarbanes Oxley Act, the Bank President & CEO and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures (hereinafter: "Disclosure Certification").

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the Public Reporting Regulations of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal controls over financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

Controls and procedures with regard to disclosure

At the end of the period covered by this Report, the Bank's management, together with the Bank President & CEO and the Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the Bank President & CEO and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these Directives.

Developments in internal controls

In the quarter ended December 31, 2019, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have an effect on the Bank's internal controls over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal controls over financial reporting and management's assessment of the effectiveness of internal controls over financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal controls over financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

M. Vidman

Moshe Vidman
Chairman of the
Board of Directors

Eldad

Eldad Fresher
President & CEO

Approval date:
Ramat Gan, February 24, 2020

Certification by the President & CEO – Disclosure and internal control

As of December 31, 2019

Certification

I, ELDAD FRESHER, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2019 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of the dates and for the periods presented in this Report.

4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;

   B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;

   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Eldad Fresher

Eldad Fresher
President & CEO

Ramat Gan, February 24, 2020

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(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification by the Chief Accountant – Disclosure and internal control

As of December 31, 2019

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the annual report of Bank Mizrahi Tefahot Ltd. ("the Bank") for 2019 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact nor omit to state any material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, would not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal controls over financial reporting(1) as well as:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

Menahem Aviv

Vice-president, Chief Accountant

Ramat Gan, February 24, 2020

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Report of the Board of Directors and Management as to Internal Controls over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal controls over financial reporting (as defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management"). The Bank's internal controls system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper preparation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal controls systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to preparation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal controls system over financial reporting as of December 31, 2019 based on criteria stipulated in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2019, the Bank's internal controls over financial reporting are effective.

The effectiveness of the Bank's internal controls over financial reporting as of December 31, 2019 was audited by the Bank's independent auditors, Brightman Almagor Zohar & Coas noted in their report on page 100, which includes their unqualified , . opinion as to the effectiveness of the Bank's internal controls over financial reporting as of December 31, 2019.

Moshe Vidman Chairman of the Board of Directors	**Eldad Fresher** President & CEO	**Menahem Aviv** Vice-president, Chief Accountant

Approval date:
Ramat Gan, February 24, 2020

Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying consolidated balance sheets of Mizrahi Tefahot Limited and its subsidiaries ("the Bank") as of December 31, 2019 and 2018, and the statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidated statements of cash flows – for each of the three years in the period ended December 31, 2019. The Bank's Board of Directors and management are responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We have not audited the financial statements of subsidiaries whose assets included in consolidation account for 6.06% and 5.80% of total consolidated assets as of December 31, 2019 and 2018, respectively and whose net interest revenues before expenses with respect to credit losses, included in the consolidated statements of profit and loss, account for 9.29%, 8.54% and 9.20%, respectively of total consolidated net interest revenues before expenses with respect to credit losses for the years ended December 31, 2019, 2018 and 2017, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Mode of Performance), 1973 and certain auditing standards, the application of which was prescribed by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above consolidated financial statements present fairly, in all material respects, the financial position – of the Bank – as of December 31, 2019 and 2018, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years in the period ended December 31, 2019, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Also, in our opinion, the financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our aforementioned opinion, we draw your attention to Note 26.C. section 11 with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

We have also audited in accordance with PCAOB standards in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal controls over financial reporting at the Bank as of December 31, 2019, based on criteria specified in the integrated framework for internal controls published by COSO, and our report dated February 24, 2020 included an unqualified opinion on the effectiveness of internal controls over financial reporting at the Bank.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Ramat Gan, February 24, 2020

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Deloitte.

Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited Pursuant to Public Reporting Directives of the Supervisor of Banks Concerning Internal Controls over financial Reporting

We have audited the internal controls over financial reporting at Bank Mizrahi Tefahot Ltd. and subsidiaries (hereinafter jointly: "the Bank") as of December 31, 2019, based on criteria stipulated by the integrated framework for internal controls published by the Committee of Sponsoring Organizations of the Tread way Commission (hereinafter: "COSO"). The Bank's Board of Directors and management are responsible for maintaining effective internal controls over financial reporting, and for evaluating the effectiveness of said internal controls over financial reporting which is included in the attached enclosed report of the Board of Directors and management with regard to internal controls over financial reporting. We are responsible for our opinion on the Bank's internal controls over financial reporting, based on our audit.

We have not audited the effectiveness of internal controls over financial reporting at subsidiaries whose assets and net interest revenue before expenses with respect to credit losses, included in consolidation, account for 6.06% and 9.29%, respectively of the referring amounts on the consolidated financial statements as of December 31, 2019 and for the year then ended. The effectiveness of internal controls over financial reporting at these companies was audited by other independent auditors whose reports have been provided to us and our opinion, in as much as it refers to effectiveness of internal controls over financial reporting at these companies, Is based on the reports of these other independent auditors.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) in the USA with regard to audit of internal controls over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. In accordance with these standards, we are required to plan and perform the audit and obtain a reasonable degree of assurance as to the maintenance of effective internal controls over financial reporting, in all material aspects. Our audit included: obtaining an understanding of the internal controls over financial reporting, assessing the risk of existence of a material weakness, and also testing and evaluating of the design and operating effectiveness of internal controls based on the assessed risk. Our audit also included performing such other procedures which we considered necessary under the circumstances. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

A bank's internal controls over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and preparation of financial statements for external use in accordance with Israeli GAAP, and directives and guidelines of the Supervisor of Banks. A bank's internal controls over financial reporting include policies and procedures which: (1) refer to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of Bank assets (including their removal from Bank ownership); (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for preparation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are made exclusively in line with authorizations of the Bank's management and Board members; and (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of Bank assets (including removal from Bank ownership) which may materially impact the financial statements.

Due to structural limitations, internal controls over financial reporting may not prevent or disclose misleading presentation. Also, reaching conclusions about the future on the basis of any current assessment of effectiveness is exposed to the risk that controls will become unsuitable due to changes in circumstances or that the extent of observance of the policies or procedures will change adversely

In our opinion, the Bank maintained, in all material aspects, effective internal controls over financial reporting as of December 31, 2019 based on criteria stipulated in the integrated framework for internal controls published by COSO.

We have also audited, in accordance with generally accepted auditing standards in Israel and certain audit standards whose application to audits of banking corporations was stipulated in directives of and guidance from the Supervisor of Banks, the Bank's consolidated balance sheet as of December 31, 2019 and 2018 and the consolidated statements of profit and loss, consolidated statements of comprehensive income, consolidated statements of changes to equity and consolidates statements of cash flows for each of the three years ended December 31, 2019, and our report dated February 24, 2020 includes an unqualified opinion on the aforementioned financial statements, based upon our audit and on the reports of other independent auditors, as well as drawing of attention to claims filed against the Bank and its subsidiary and motions to approve them as class actions.

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants

Ramat Gan, February 24, 2020

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Mizrahi-Tefahot Bank

Financial Statements

2019

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Consolidated statement of profit and loss

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2019	2018	2017
Interest revenues	2	7,711	7,359	6,222
Interest expenses	2	2,371	2,437	1,875
Interest revenues, net	2	5,340	4,922	4,347
Expenses with respect to credit losses	13,30	364	310	192
Interest revenues, net after expenses with respect to credit losses		**4,976**	**4,612**	**4,155**
Non-interest revenues				
Non-interest financing revenues	3	357	445	136
Commissions	4	1,535	1,475	1,423
Other revenues	5	74	47	94
Total non-interest revenues		**1,966**	**1,967**	**1,653**
Operating and other expenses				
Payroll and associated expenses	6	2,562	2,407	2,271
Maintenance and depreciation of buildings and equipment	16	770	747	742
Other expenses	7	656	1,230	598
Total operating and other expenses		**3,988**	**4,384**	**3,611**
Pre-tax profit		2,954	2,195	2,197
Provision for taxes on profit	8	1,029	922	806
After-tax profit		**1,925**	**1,273**	**1,391**
Share of profits of associated companies, after tax effect	15	–	1	–
Net profit:				
Before attribution to non-controlling interests		1,925	1,274	1,391
Attributable to non-controlling interests		(83)	(68)	(44)
Attributable to shareholders of the Bank		**1,842**	**1,206**	**1,347**
[(1)]Diluted earnings per share (in NIS)	9			
Basic earnings				
Net profit attributable to shareholders of the Bank		**7.86**	**5.17**	**5.80**
Diluted earnings				
Net profit attributable to shareholders of the Bank		**7.83**	**5.15**	**5.76**

(1) Share of NIS 0.1 par value.

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

Moshe Vidman	**Eldad Fresher**	**Menahem Aviv**
Chairman of the Board of Directors	President & CEO	Vice-president, Chief Accountant

Approval date:

Ramat Gan, February 24, 2020

Consolidated statement of comprehensive income

For the year ended December 31,

Reported amounts (NIS in millions)

	Note	2019	2018	2017
Net profit:				
Before attribution to non-controlling interests		1,925	1,274	1,391
Attributable to non-controlling interests		(83)	(68)	(44)
Net profit attributable to shareholders of the Bank		**1,842**	**1,206**	**1,347**
Other comprehensive income (loss) before taxes	10			
(1)Adjustments for presentation of available-for-sale securities at fair value, net		144	(68)	22
Adjustments from translation of financial statements of investments in associated (2)companies		–	1	(4)
Net gains (losses) with respect to cash flows hedging		6	–	(8)
(3)Adjustments of liabilities with respect to employees' benefits		(152)	121	(132)
Total other comprehensive income (loss), before tax		**(2)**	**54**	**(122)**
Related tax effect		1	(18)	44
(4)Other comprehensive income (loss) after taxes				
Other comprehensive income (loss), before attribution to non-controlling interests		(1)	36	(78)
Less other comprehensive income (loss) attributed to non-controlling interests		(15)	(1)	(12)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes		**14**	**37**	**(66)**
Comprehensive income:				
Before attribution to non-controlling interests		1,924	1,310	1,313
Attributable to non-controlling interests		(68)	(67)	(32)
Comprehensive income attributable to shareholders of the Bank		**1,856**	**1,243**	**1,281**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(3) Includes adjustments with respect to actuarial estimates included in the reported period for defined-benefit pension plans and current amortization of adjustments with respect to liabilities to profit and loss.
(4) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

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

Consolidated balance sheet

As of December 31,

Reported amounts (NIS in millions)

	Note	2019	2018
Assets			
Cash and deposits with banks	11	51,672	45,162
(1)(2)Securities	12	10,113	11,081
Securities loaned or purchased in resale agreements	27	120	26
Loans to the public	13,30	206,401	195,956
Provision for credit losses	13,30	(1,693)	(1,575)
Loans to the public, net	13,30	204,708	194,381
Loans to Governments	14	656	630
Investments in associated companies	15	32	32
Buildings and equipment	16	1,457	1,424
Intangible assets and goodwill	15.D	87	87
Assets with respect to derivative instruments	28	2,578	3,240
Other assets	17	1,821	1,810
Total assets		**273,244**	**257,873**
Liabilities and Equity			
Deposits from the public	18	210,984	199,492
Deposits from banks	19	714	625
Deposits from the Government		29	42
Debentures and subordinated notes	20	33,460	30,616
Liabilities with respect to derivative instruments	28	2,686	3,661
(3)Other liabilities	30.E, 21	8,566	8,047
Total liabilities		**256,439**	**242,483**
Shareholders' equity attributable to shareholders of the Bank		16,033	14,681
Non-controlling interests		772	709
Total equity	**24**	**16,805**	**15,390**
Total liabilities and equity		**273,244**	**257,873**

(1) Of which: NIS 6,032 million recognized on the financial statements at fair value (on December 31, 2018: NIS 7,073 million).
(2) For more information with regard to securities pledged to lenders, see Note 27.
(3) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 119 million (on December 31, 2018: NIS 98 million).

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

Statement of Changes in Shareholders' Equity

For the year ended December 31,

Reported amounts (NIS in millions)

	[1]Share capital and premium	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	[2]Cumulative other comprehensive income (loss)	[3]Retained earnings	Total shareholder equity	Non-controlling interests	Total equity
Balance as of December 31, 2016	**2,239**	**58**	**(76)**	**2,221**	**(317)**	**10,810**	**12,714**	**610**	**13,324**
Net profit for the period	–	–	–	–	–	1,347	1,347	44	1,391
Dividends paid	–	–	–	–	–	(334)	(334)	–	(334)
Benefit from share-based payment transactions	–	24	–	24	–	–	24	–	24
[4]Realization of share-based payment transactions	17	(17)	–	–	–	–	–	–	–
[5]Cancellation of treasury shares	(76)	–	76	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–	(66)	–	(66)	(12)	(78)
Balance as of December 31, 2017	**2,180**	**65**	**–**	**2,245**	**(383)**	**11,823**	**13,685**	**642**	**14,327**
Net profit for the period	–	–	–	–	–	1,206	1,206	68	1,274
Dividends paid	–	–	–	–	–	(247)	(247)	–	(247)
Realization of share-based payment transactions	17	(17)	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	–	37	–	37	(1)	36
Balance as of December 31, 2018	**2,197**	**48**	**–**	**2,245**	**(346)**	**12,782**	**14,681**	**709**	**15,390**
Net profit for the period	–	–	–	–	–	1,842	1,842	83	1,925
Dividends paid	–	–	–	–	–	(561)	(561)	–	(561)
Benefit from share-based payment transactions	–	57	–	57	–	–	57	–	57
[4]Realization of share-based payment transactions	35	(35)	–	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	–	14	–	14	(15)	(1)
Balance as of December 31, 2019	**2,232**	**70**	**–**	**2,302**	**(332)**	**14,063**	**16,033**	**772**	**16,805**

(1) Share premium generated prior to March 31, 1986.

(2) For more information see Note 10 – Cumulative Other Comprehensive Income (Loss).

(3) For details on various limitations on dividend distributions, see Note 24.

(4) In 2019, the Bank issued 1,472,307 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 85,880 ordinary shares of NIS 0.1 par value each. In 2018, the Bank issued 699,128 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 30,580 ordinary shares of NIS 0.1 par value each. In 2017, the Bank issued 553,719 ordinary shares of NIS 0.1 par value each, for exercise of options pursuant to the Employees' Stock Option Plan, and issued to the President 9,137 ordinary shares of NIS 0.1 par value each.

(5) On September 18, 2017, the Board of Directors of the Bank decided to cancel 2.5 million shares of NIS 0.1 par value each of the Bank's issued share capital acquired by the Bank which constitute dormant shares that do not confer any rights in the Bank. Accordingly, on September 25, 2017, the dormant shares were canceled in the Bank's records.

(6) On February 24, 2020, after the balance sheet date, the Bank Board of Directors resolved to distribute a dividend amounting to NIS 175 million, or 40% of earnings in the fourth quarter of 2019. In conformity with accounting practices, this amount would be deducted from Retained Earnings in the first quarter of 2020.

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

Statement of cash flows – consolidated[1]

For the year ended December 31,

Reported amounts (NIS in millions)

	2019	2018	2017
Cash flows provided by current operations			
Net profit	1,925	1,274	1,391
Adjustments			
Share of the Bank in undistributed earnings of associated companies	–	(1)	–
Depreciation of buildings and equipment (including impairment)	245	238	245
Expenses with respect to credit losses	364	310	192
Gain from sale of securities available for sale	(35)	(18)	(52)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(11)	1	1
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(2)	–	–
Gain from sale of buildings and equipment	(26)	–	(47)
Impairment of shares not held for trading	6	–	–
Expenses arising from share-based payment transactions	57	–	24
Deferred taxes, net	79	(111)	22
Change in employees' provisions and liabilities	57	63	98
Adjustments with respect to exchange rate differentials	232	(129)	82
Proceeds from sale of loan portfolios	–	–	(4)
Accrual differences included with investment and financing operations	521	67	32
Net change in current assets			
Assets with respect to derivative instruments	668	181	155
Securities held for trading	(469)	(80)	138
Other assets, net	(67)	49	(87)
Net change in current liabilities			
Liabilities with respect to derivative instruments	(975)	579	(484)
Other liabilities	275	551	380
Net cash provided by current operations	**2,843**	**2,974**	**2,086**

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

Statement of cash flows – consolidated – continued[1]

For the year ended December 31,

Reported amounts (NIS in millions)

	2019	2018	2017
Cash flows provided by investment activities			
Net change in deposits with banks	(1,643)	52	(403)
Net change in loans to the public	(10,480)	(15,522)	(11,865)
Net change in loans to Governments	12	(56)	(126)
Net change in securities loaned or acquired in resale agreements	(94)	50	(67)
Acquisition of debentures held to maturity	(1,662)	(1,396)	(111)
Proceeds from redemption of securities held to maturity	1,452	723	–
Acquisition of securities available for sale	(5,517)	(2,459)	(4,501)
Proceeds from sale of securities available for sale	3,517	838	4,671
Proceeds from redemption of securities available for sale	3,265	1,695	–
Proceeds from sale of loan portfolios	577	2,350	2,586
Purchase of loan portfolios – public	(782)	(377)	(702)
Purchase of loan portfolios – Government	(38)	(118)	–
Acquisition of buildings and equipment	(300)	(259)	(247)
Proceeds from sale of buildings and equipment	57	–	328
Proceeds from realized investment in associated companies	–	1	1
Net cash used in investment activities	**(11,636)**	**(14,478)**	**(10,436)**
Cash flows provided by financing operations			
Net change in deposits from the public	11,492	15,919	5,321
Net change in deposits from banks	89	(500)	(412)
Net change in deposits from Government	(13)	(9)	1
Issuance of debentures and subordinated notes	6,634	711	6,909
Redemption of debentures and subordinated notes	(3,744)	(415)	(4,051)
Dividends paid to shareholders	(561)	(247)	(334)
Dividends paid to external shareholders in subsidiaries	(5)	–	–
Net cash provided by financing operations	**13,892**	**15,459**	**7,434**
Increase (decrease) in cash	5,099	3,955	(916)
Cash balance at beginning of the period	44,581	40,497	41,495
Effect of changes in exchange rate on cash balances	(232)	129	(82)
Cash balance at end of the period	**49,448**	**44,581**	**40,497**
Interest and taxes paid / received			
Interest received	6,872	6,837	6,521
Interest paid	2,369	2,219	1,717
Dividends received	17	7	4
Income taxes received	178	97	81
Income taxes paid	1,135	1,145	844
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	–	14	25
Sales of buildings and equipment	5	–	–

Note 1 – Reporting Principles and Accounting Policies

A. Overview

1) On February 24, 2020, the Bank's Board of Directors authorized publication of these consolidated financial statements as of December 31, 2019.

2) The financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks.
For most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices by US banks. For other, less material topics, these directives are based on International Financial Reporting Standards (IFRS) and on generally accepted accounting principles in Israel (Israeli GAAP).
When International Financial Reporting Standards (IFRS) allow multiple alternatives, or do not specifically refer to a certain situation, these directives prescribe specific implementation guidelines, mostly based on generally acceptable accounting practices by US banks.

3) In conformity with the Supervisor of Banks' Public Reporting Directives, the Bank may – under certain circumstances listed in the regulations – present annual financial statements on consolidated basis only.
In conformity with approval from the Supervisor of Banks, the Bank presents its annual financial statements on consolidated basis only.
For more information about the condensed financial statements of the Bank solo, including balance sheet, statement of profit and loss and statement of cash flows, see Note 36 to the financial statements. Data for the Bank solo is available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

4) Definitions
"International Financial Reporting Standards" – Standards and interpretations adopted by the International Accounting Standards Board (hereinafter: "IASB"), which include International Financial Reporting Standards (hereinafter: "IFRS") and International Accounting Standards (hereinafter: "IAS"), including interpretations of these standards by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations by the Standing Interpretations Committee (SIC), respectively.
"Generally accepted accounting principles for US banks" Accounting rules which US banks traded in the USA are required to apply. These principles are specified by banking supervisory authorities in the USA, the US SEC, the US Financial Accounting Standards Board and other US entities; they are applied in conformity with the hierarchy specified in FAS 168 (ASC 105-10) – Codification of accounting standards of the US Financial Accounting Standards Board and GAAP hierarchy. In addition, as stipulated by the Supervisor of Banks, notwithstanding the hierarchy specified in FAS 168, it has been clarified that any position made public by US banking supervision authorities or by the team thereof, with regard to application of generally accepted accounting principles in the USA, is a Generally Accepted Accounting Principle for Banks in the USA.
"FASB" – Financial Accounting Standards Board in the USA.
"The Bank" – Bank Mizrahi-Tefahot Ltd.
"Subsidiaries" – entities whose financial statements are fully consolidated with those of the Bank, directly or indirectly.
"Bank Group" – The Bank and its subsidiaries.
"Associates" – Entities in which the Group has material influence over financial and operational policies, but over which it has no control. Investment in associates is included in the financial statements using the equity method.
"Investees" – Subsidiaries and associates.
"Overseas affiliates" – Representatives, branches or subsidiaries of the Bank outside Israel.
"Functional currency" – The currency in the primary economic environment in which the Bank operates. This is typically the currency of the environment in which the corporation generates and expends most of its cash.
"Presentation currency" – The currency in which the financial statements are presented.
"Adjusted amount" – Historical nominal amount, adjusted for changes in the economic purchase power of Israeli currency.
"Reported amount" – An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal values that were added after the transition date, minus amounts deducted after the transition date.
"Cost" – Cost in reported amount.
"Related parties" and "Interested parties" – As defined in Section 80 of the Public Reporting Regulations.

Note 1 – Reporting Principles and Accounting Policies – continued

B. Preparation basis of the financial statements

1) Principles of financial reporting
The Bank's financial statements are prepared in conformity with generally accepted accounting policies in Israel (Israeli GAAP) and in accordance with Public Reporting Directives of the Supervisor of Banks. See above in section A.2).

2) Functional currency and reporting currency
The consolidated financial statements are presented in NIS, which is the Bank's functional currency, rounded to the nearest one million, unless otherwise indicated. NIS is the currency which reflects the primary economic environment in which the Bank does business. For information about the functional currency of overseas banking affiliates, see section 1.D. below.

3) Measurement basis

The financial statements were prepared based on historical cost, except for the following items:
- Financial derivatives and other financial instruments measured at fair value on the statement of profit and loss (such as: investments in securities in the held-for-trade portfolio or instruments for which the fair value option was selected);
- Financial instruments classified as available for sale;
- Liability with respect to share-based payment;
- Non-current assets held for sale and asset group held for sale;
- Deferred tax assets and liabilities
- Various provisions, such as provisions for credit losses and provision for legal claims;
- Assets and liabilities with respect to employee benefits;
- Investments in associates.

The value of non-monetary assets and capital items measured based on historical cost was adjusted for changes in the Consumer Price Index through December 31, 2003. Through this date, the Israeli economy was considered a hyper-inflationary economy. As from January 1, 2004, the Bank prepares its financial statements in reported amounts.

4) Use of estimates

In preparing the consolidated financial statements in accordance with Israeli GAAP and with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policies implementation and amounts of assets and liabilities, revenues and expenses. Note that actual results may differ from these estimates.
When making accounting estimates during preparation of the financial statements, Bank management is required to make assumptions with regard to circumstances and events involving significant uncertainty. In exercising its judgment when making these estimates, Bank management relies on past experience, various facts, external factors and reasonable assumptions in accordance with the appropriate circumstances for each estimate.
These estimates and assumptions are regularly reviewed, and changes to accounting estimates are recognized in the period in which these estimates were revised and in any affected future period.
As stated in section 1.D.6)D. below, the group-based provision for credit losses for 2019 was based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt, for the 9 years ended on December 31, 2019, in conformity with directives of the Supervisor of Banks.

C. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 01, 2019 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. ASU 2017-08 "Receivables"
2. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments, statement of cash flows and other topics.

Note 1 – Reporting Principles and Accounting Policies – continued

Below is a description of the substance of changes made to accounting policies and reporting regulations in the condensed consolidated financial statements and description of the effect of their initial application, if any.

1. ASU 2017-08 "Receivables"

In March 2017, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-08 with regard to amortization of premium for debt instruments purchased at cost of an early repayment option, an update to Topic 310-20 of the Codification with regard to Receivables – non-reimbursable commissions and other costs (hereinafter: "the Amendment").
Pursuant to the Amendment, the amortization period of premium on debt instruments with optional early redemption by the issuer is to be calculated based on the earliest redemption date.
The Bank applies these changes.
Application of this update has no material impact on the Bank's financial statements.

2. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments.

On August 30, 2018, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to derivatives and hedging, classification and measurement of financial instruments, cash flow statement and other topics.

Derivative instruments and hedging

In August 2017, the US Financial Accounting Standards Board ("FASB") issued ASU 2017-12, an update to Section 815 of the Codification with regard to derivatives and hedge accounting. The amendment includes changes to provisions concerning measurement and designation of qualified hedging ratios and presentation requirements for the hedging results. The amendment expands the ability of banking corporations to hedge risk components and creates a parallel between recognition and presentation of hedging instruments and hedged items on the financial statements. The amendment eliminates the need to refer separately to the "non-effective portion" of hedging relations. If amounts are excluded from the assessment of hedging effectiveness, the amendment allows such amounts to be postponed on Other Comprehensive Income, but when recognized, these amounts are to be presented on the same line of the profit and loss statement to which effects of the hedged instrument are charged. Furthermore, the amendment simplifies the application of accounting directives with regard to hedging, by providing for easier assessment of hedge effectiveness and documentation requirements. The updates to the provisions adopt, in Public Reporting Directives, the generally accepted accounting principles for banks in the USA as specified in the update. Furthermore, the disclosure format was aligned with the one commonly used on financial statements of banks in the USA.
The new directives are applied as from January 1, 2019. Application of these directives has no material impact on the Bank's financial statements. Changes to classification of revenues or expenses in the statement of profit and loss and changes to required disclosure in the financial statements were applied prospectively.

Classification and measurement of financial instruments

The circular includes updates to provisions of the Public Reporting Directives, adopting the generally accepted accounting principles for banks in the USA as specified in ASU 2016-01. Key changes to Public Reporting Directives with regard to classification and measurement of financial instruments are as follows:

- Changes to fair value of shares available for sale, with available fair value , which have yet to be realized, are to be recognized in the statement of profit and loss, rather than in Other Comprehensive Income.
- investments in shares with no fair value available, which are currently presented at cost (net of impairment), shall generally be presented at cost (net of impairment) adjusted for changes in observed prices of shares of the same issuer.
- Methods to determine fair value for the Note on fair value of financial instruments were revised.

The new directives have been applied as from January 1, 2019 and consequently, in 2019, the Bank recognized revenues amounting to NIS 45 million in total with respect to the effect of recording gain from shares not held for trading. Provisions with regard to investment in equity instruments with no fair value available and changes to required disclosures on the financial statements were applied prospectively.

Note 1 – Reporting Principles and Accounting Policies – continued

D. Accounting policies applied in preparing the financial statements

1) Foreign currency and linkage:

A. Foreign currency transactions

Upon recognition of a foreign currency transaction, any asset, liability, revenue, expense, gain or loss from the transaction are translated, upon initial recognition, to the functional currency of the Bank and its affiliates (NIS), using the exchange rate as of the transaction date.

Upon each reporting date, monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Any gain or loss from translation of foreign currency transactions due to currency fluctuations between the transaction date and the settlement date / the balance sheet date, including with respect to exchange rate differences with respect to available-for-sale debt instruments which, according to the Public Reporting Regulations, would continue to be recognized on the statement of profit and loss through December 31, 2022 (as stipulated in transition provisions for 2019. For more information see section E. below), are recognized on profit & loss. as gain or loss from translation differences (non-interest financing revenues), except for:

- The effective portion of gain or loss with respect to hedging instrument in cash flow hedge.
- Exchange rate differentials with respect to items that are part of a net investment.
- Exchange rate differentials with respect to equity financial instruments classified as available for sale (except in case of impairment, in which case translation differences recognized under Other Comprehensive Income are reclassified to profit and loss).

B. Overseas banking affiliates

The Bank treats its overseas banking affiliates as operations whose functional currency is the same as the Bank's (NIS).

Assets and Liabilities linked to the CPI which are not measured at fair value, are included based on the linkage terms specified for each balance.

Note 1 – Reporting Principles and Accounting Policies – continued

Below is information about major official exchange rates, the Consumer Price Index and changes there to:

	As of December 31,			Change in %		
	2019	2018	2017	2019	2018	2017
Consumer Price Index:						
CPI for December (points)	108.0	107.4	106.5	0.6	0.8	0.4
Known CPI for November (points)	108.0	107.7	106.4	0.3	1.2	0.3
Exchange rate of:						
USD (in NIS)	3.456	3.748	3.467	(7.8)	8.1	(9.8)
EUR (in NIS)	3.878	4.292	4.153	(9.6)	3.3	2.7

2) Consolidation basis

A. Subsidiaries in which the Bank holds less than 50%

The Bank holds 50% of the issued and paid-in share capital of Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav"). The balance of the issued and paid-in share capital is held by a single shareholder and the Bank has no excess legal rights. The Supervisor of Banks has allowed the Bank to consolidate the financial statements of Bank Yahav under the circumstances concerning the Bank's influence over management of Bank Yahav business and in conformity with Section 9G of the Public Reporting Regulations.

For more information about the balance of investment in investees and contribution to net profit attributable to equity holders of the Bank, see Note 15 to the financial statements.

B. Subsidiaries

Financial statements of subsidiaries are included on the consolidated financial statements from the date control is achieved and through the date control is terminated. Accounting policies of subsidiaries were modified as needed, to align it with the accounting policies of the Bank.

C. Non-controlling interests

Non-controlling interests are any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company.

Attribution of Comprehensive Income to shareholders

Profit or loss and any Other Comprehensive Income item are attributed to the controlling shareholder of the Bank and to non-controlling interests. Total profit, loss and Other Comprehensive Income are attributed to the controlling shareholder of the Bank and to non-controlling interest, even if this results in a negative balance of non-controlling interest.

D. Investments in associates

In reviewing the existence of material influence, the assumption is that a holding stake of 20%-50% in an investee confers material influence.

Investment in associates is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs.

Investment in an associate is reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such investment is not recoverable. Impairment is recognized when impairment is other-than-temporary in nature.

The consolidated financial statements include the Group's share of revenues and expenses, profit or loss and other comprehensive income of equity-accounted investees. After required adjustments to align accounting policy with Group policy, from the date when material influence is achieved through the date when material influence is discontinued.

E. Transactions canceled upon consolidation

Mutual balances within the Group and unrealized revenues and expenses arising from inter-company transactions have been canceled in the course of preparing the consolidated financial statements.

Note 1 – Reporting Principles and Accounting Policies – continued

3) Offset of assets and liabilities

The Bank offsets assets and liabilities arising from the same counter-party and present their net balance on the balance sheet, when all of the following conditions are met:

- The banking corporation has an enforceable legal right to offset assets against liabilities with regard to said liabilities
- The banking corporation intends to repay the liabilities and realize the assets on net basis or concurrently;
- Both the banking corporation and the counter-party owe each other amounts which may be determined.

It was further stipulated that a banking corporation should offset deposits whose repayment to the depositor is contingent on the extent of collection of borrowing against those deposits, when the banking corporation has no risk of credit losses.

However, the banking corporation may not offset amounts on the balance sheet without prior approval of the Supervisor of Banks.

Currently, it is Bank policy to present exposures with transactions on gross basis, except for deposits whose repayment to the depositor is contingent on the extent of collection of borrowing, as described above. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss under “commissions”.

4) Basis of recognition of revenues and expenses

A. Interest revenues and expenses are included on an accrual basis, except as follows:

1) Interest accrued on problematic debt classified as non-performing debt is recognized as revenue on a cash basis when there is no doubt about collection of the outstanding recorded balance of the non-performing debt. In such cases, the amount collected on account of interest to be recognized as interest revenues, is limited to the amount which would have accrued in the reported period for the outstanding recorded debt balance at the contractual interest rate. Interest revenues on cash basis are classified as interest revenues under the relevant item on the statement of profit and loss.

   When collection of the outstanding recorded balance is doubtful, all payments collected serve to decrease the loan principal, until such doubt has been eliminated. Moreover, interest on amounts in arrears with respect to housing loans are recognized in the statement of profit and loss based on actual collection.

   For more information about interest accrual for impaired debt under restructuring, see section 6)C. below.
2) Securities – see section 5 below.
3) Financial derivatives – see section 15 below.

B. Commissions revenues with respect to services rendered (such as: activities in securities and derivative instruments, credit cards, account management, handling of credit, conversion differences and foreign trade activities) are recognized in the statement of profit and loss when the Bank becomes eligible to receive them. Certain commissions, such as commissions with respect to guarantees and certain commissions with respect to project assistance, are recognized gradually over the transaction term.

C. Other revenues and expenses – are recognized on accrual basis.

D. Measuring interest revenues

   As from January 1, 2014, the Bank applies the Supervisor of Banks' directives with regard to adoption of adoption of generally accepted accounting principles for banks in the USA with regard to measuring interest revenues (ASC 310-20 in the codification). These principles stipulate that commissions from loan origination would not be recognized on the statement of profit and loss, but rather would be accounted for in calculating the effective interest for the loan.

Note 1 – Reporting Principles and Accounting Policies – continued

Changes to terms and conditions of debt

In case of refinancing or restructuring of non-problematic debt, the Bank reviews whether a material change was made to terms and conditions of the loan. Accordingly, the Bank reviews whether the present value of cash flows under the new terms and conditions of the loan differs by at least 10% from the present value of remaining cash flows under the current terms and conditions (plus early repayment fee), or whether this involves a change in loan currency. In such cases, all unamortized commissions and early repayment commissions collected from the client with respect to changes to the terms and conditions of the loan are recognized in profit & loss. Otherwise, these commissions are included as part of net investment in the new loan and are recognized as adjustments to returns, as described above.

Early repayment commissions

Early repayment commissions are immediately recognized under Interest Revenues, except for such commissions included as part of net investment in the new loan, which are recognized as a return adjustment.

5) Securities

A. Securities in which the Bank invests are classified as follows:

1) Debentures held to maturity – debentures which the Bank intends and is able to hold to maturity, except for debentures subject to early redemption or other disposal, such that the Bank would not recoup substantially all of its recognized investment. Debentures held to maturity are carried on the balance sheet at par value plus interest and linkage differentials and accrued exchange rate differentials, considering the share of premium or discount and net of loss with respect to other-than-temporary impairment.

2) Debentures available for sale – debentures not classified as debentures held to maturity or as securities held for trading. Debentures available for sale are carried on the balance sheet at fair value as of the reporting date. Any unrealized gain or loss from adjustment to fair value is not included in the statement of profit and loss and is reported net of the appropriate tax reserve, under a separate equity item under Cumulative Other Comprehensive Income, except for loss with respect to other-than-temporary impairment. For securities which include embedded derivatives – see section 15.C below.

3) Securities held for trading – securities acquired and held in order to be sold in the near term, or securities which the Bank has elected to measure at fair value through profit & loss using the fair value option, except for shares for which no fair value is available. Securities held for trading are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.

4) Shares not held for trading

Shares that have an available fair value are carried on the balance sheet at fair value as of the report date. Unrealized gains or losses from the adjustments to fair value are charged to the statement of profit and loss.

Shares for which no fair value is available are carried on the balance sheet at cost net of impairment, plus or minus observed price changes in ordinary transactions for similar or identical investments of the same issuer. Unrealized gains or losses from the adjustments to such observed price changes are charged to the statement of profit and loss.

B. Bank investments in other funds not accounted for using the equity method, are stated at cost net of any other-than-temporary impairment loss. Gain from these investments are recognized in the Statement of Profit and Loss upon realization of the investment. Dividends received from Bank investments in these funds are charged to profit & loss when the Bank has the right to receive them, up to the amount of retained earnings since this investment was acquired.

C. The cost of realized securities is calculated on FIFO basis, except for securities acquired as part of a hedge, or in conjunction with creating a strategic position or for any other specific purpose, which is separately identified.

D. With regard to calculation of fair value, see section 16 below.

Note 1 – Reporting Principles and Accounting Policies – continued

E. Impairment:

Pursuant to directives and guidelines of the Supervisor of Banks, the Bank periodically reviews whether impairment of the fair value of securities classified under the available-for-sale portfolio or the held-to-maturity portfolio, below their cost (or the amortized cost for debentures held to maturity), is of an other-than-temporary nature.

To this end, the following indicators, inter alia, are reviewed:

- Intent and capacity of the Bank to hold the securities for a sufficient period which would allow the security to recover its original cost.
- The time period during which the value of the security was lower than its cost.
- The ratio of impairment to total cost.
- Adverse change in conditions of the issuer or of the economy as a whole.
- Review of conditions reflecting the financial standing of the issuer, including whether or not the impairment is due to individual reasons related to the issuer, or to any macro-economic conditions.

Furthermore, in any of the following situations, the Bank recognizes other-than-temporary impairment:

- Debenture sold prior to publication of the issue date of the report for that period.
- Debenture which, soon prior to the issue date of the report for that period, the Bank intends to sell within a short time.
- Debenture is significantly impaired between its rating upon acquisition by the Bank and its rating upon publication of the report to the public for that period.
- Debenture classified by the Bank as problematical after its acquisition.
- Debenture which is in payment default after its acquisition.
- Debenture whose fair value as of the end of the reported period and soon prior to the issue date of the financial statements, was significantly lower than its amortized cost. Unless the Bank has solid objective evidence and careful analysis of all relevant factors, which prove with high certainty that impairment is of other than a temporary nature.

For this matter, significant change is change by more than 20%. However, should the Bank have objective evidence that impairment is of a temporary nature, an exception may be made with regard to this rate.

If the impairment of fair value is deemed to be other-than-temporary in nature, the cost of the security is written down to its fair value, so that any loss amounts referring to securities classified as available for sale, accrued in equity under Other Comprehensive Income, would be classified upon impairment to the statement of profit and loss. This value would serve as the new cost basis. Appreciation in subsequent reported periods (for securities classified in the available-for-sale portfolio) are charged to a separate item under shareholders' equity under Cumulative Other Comprehensive Income, and are not recognized in the Statement of Profit and Loss.

Securities – shares for which no fair value is available

In each reported period, the Bank conducts a qualitative assessment, taking into account impairment indications, in order to assess whether shares for which no fair value is available have been impaired. If this assessment shows impairment of the investment in shares, the Bank estimates the fair value of the investment in shares, to determine the amount of impairment loss.

Note 1 – Reporting Principles and Accounting Policies – continued

6) Impaired debt, credit risk and provision for credit losses

A. Pursuant to the Supervisor of Banks' directive on measurement and disclosure of impaired debt, credit risk and provision for credit losses, the Bank applies as from January 1, 2011 the rules stipulated by codification of US accounting standards ASC 310 and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Directives, in position statements and directives of the Supervisor of Banks. Moreover, as from the aforementioned date, the Bank applies the Supervisor of Banks' directive with regard to treatment of problematic debt. Moreover, as from January 1, 2013, the Bank applies the Supervisor of Banks' directive with regard to updated disclosure of credit quality of debt and of provision for credit losses.

Furthermore, the Supervisor of Banks revises from time to time the Public Reporting Regulations and the Q&A File with regard to implementation of the regulations with regard to impaired debt and provision for credit losses, in order to incorporate directives on this matter applicable to banks in the USA, including directives of US supervisory entities. As from 2016, the regulations were revised, inter alia, with regard to treatment of restructuring of problematic debt, regulations with regard to how debt is reviewed based on primary repayment source, as well as certain regulations with regard to how debt is reviewed.

B. Loans to the public and other debt balances

The regulation is applied for all debt balances, such as: deposits with banks, debentures, securities borrowed or purchased in resale agreements, loans to the public and loans to the government. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit losses were specified in the Public Reporting Regulations (such as: loans to the government, deposits with banks and other assets) are reported in the Bank's accounts at their recorded debt balance.

The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit losses for that debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed.

As for other debt balances, for which there are specific rules in place with regard to measurement and recognition of a provision for impairment (such as debentures), the Bank continues to apply the measurement rules as specified in section 5 above.

C. Identification and classification of problematic debt

The Bank classifies all problematic debt and problematic off-balance sheet credit items under: special supervision, inferior or impaired. Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate. Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected.

In conformity with Bank policy, debt in excess of NIS 700 thousand is classified as impaired when, based on current information and events, it is expected that the Bank will be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt in excess of NIS 700 thousand is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risk and proper measurement of debt".
Debt under NIS 700 thousand in arrears 90 days is assessed on a Group basis and in such case, is classified as inferior debt.
Decisions with regard to debt classification are made based, *inter alia*, on assessment of the borrower's financial standing and repayment capacity, assessment of the primary debt repayment source, any collateral and its status, the financial standing of guarantors, if any and their commitment to support the debt and the borrower's capacity to obtain financing from third parties.

As from July 1, 2017, the Bank applies the update to Q&A file issued by the Supervisor of Banks, concerning "Implementation of Public Reporting Regulations with regard to impaired debts, credit risk and provision for credit losses".

Note 1 – Reporting Principles and Accounting Policies – continued

The update primarily concerns debt classification, definition of impaired debt and measurement of specific provision for credit losses. Appropriate debt classification, through default or when default is highly probable, is based in general on the debtor's repayment capacity, i.e. expected robustness of the primary repayment source, despite support from secondary and tertiary repayment sources (such as: collateral, guarantor support, re-financing by a third party).

The file included, *inter alia*, a question with regard to definition of primary repayment source.

Primary repayment source is defined as a sustainable cash source over time, which must be controlled by the debtor and must be separated, explicitly or by nature, for debt service. The Q&A file clarified that for a repayment source to be considered a primary repayment source, the Bank must show that the debtor is highly likely to generate, within a reasonable time, suitable cash flows from continued business operations, to be used to repay all of the payments in full and when due, as stated in the agreement.

The Bank has revised its policy on identification and classification of problematic debt, so that debt has been assigned repayment sources from business cash flows, except for certain cases where, in the normal course of business, debt should be repaid out of the cash flows generated by the financed property.

Debt restructuring and treatment of problematic debt in restructuring – In general, when it is possible to reach agreement on debt repayment with no impact to collateral available to the Bank and without any legal action, the Bank gives preference to reaching a debt repayment arrangement.

In order to improve collection and to avoid, in as much as possible, debt collection default – the Bank makes attempts to reach agreements on debt repayment prior to taking legal action or even during and after taking such action, which may include: Deferral of repayment, restructuring of debt repayment, reduced interest rates, changes to repayment schedule, changes to terms and conditions of the debt in order to align it with the borrower's financing structure, debt consolidation for the borrower, transfer of debt to other borrowers in a borrower group under joint control, review of financial covenants imposed on the borrower etc.

Debt which has been formally restructured as problematic debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).

In order to determine whether a debt arrangement executed by the Bank constitutes problematic debt restructuring, the Bank conducts a qualitative review of all terms of the arrangement and the circumstances under which it was made in order to determine whether: (1) the creditor is in financial duress; and (2) the Bank made a concession to the debtor in conjunction with the arrangement.

In order to determine whether the creditor is in financial duress, the Bank evaluates for indications of the creditor being in financial duress at the time of the arrangement, or for reasonable likelihood that the borrower would be in financial duress if not for the restructuring. *Inter alia*, the Bank reviews the existence of one or more of the following circumstances:

- The debtor is currently in payment default for any of their debts. Moreover, the Bank estimates whether it is expected that the debtor would be in payment default for any of their debts in the foreseeable future, if the change is not made. This means that the Bank may conclude that the debtor is in financial difficulties, even if the debtor is not currently in payment default.
- The debtor has declared bankruptcy or is in Receivership or any in any other bankruptcy or Receivership proceedings.
- There is significant doubt about the debtor continuing as a going concern.
- The debtor has securities delisted, in the process of being delisted or being threatened with delisting from the stock exchange.
- According to estimates and projections which only include the debtor's current capabilities, the Bank expects specific cash flows for the debtor entity would be insufficient to service any of its debt (principal and interest) in conformity with contractual terms and conditions of the existing agreement in the foreseeable future.
- Without the existing change, the debtor would be unable to obtain cash from sources other than the current lenders, at effective interest rates equal to the prevailing market interest rates for similar debt of a non-problematic debtor.

Note 1 – Reporting Principles and Accounting Policies – continued

- The Bank concludes that a concession was made to the creditor in conjunction with the restructuring, even if the contractual interest rate was increased in the restructuring – if one or more of the following exists: Due to the restructuring, the Bank does not expect to collect all debt amounts (including accrued interest pursuant to contractual terms); the current fair value of collateral, for debt contingent on collateral, does not cover the contractual debt balance and indicates inability to collect all debt amounts; the creditor is unable to raise funds at market rates for debt with similar terms and conditions to those of the debt arrangement. If a the Bank does not perform such additional underwriting upon renewal of inferior debt, or if there is no change in debt pricing or if pricing has not been adjusted to align with the risk prior to renewal, or the debtor does not provide additional means to offset the increase in risk due to the borrower's financial difficulties, it is presumed that such renewal is restructuring of problematic debt.

  The Bank does not classify debt as restructured problematic debt, if in conjunction with the arrangement, it granted to the creditor a delay in payments which is not material considering the payment frequency, the contractual term to maturity and the expected effective maturity of the original debt. For this matter, if multiple arrangements took place involving changes to debt terms, the Bank accounts for the accumulated effect of previous restructurings in order to determine whether the delay in payments is not material.

Handling of debt under restructuring and subsequent restructuring – restructured debt, including debt assessed on group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit losses. In general, reorganized problematic debt would continue to be measured and classified as impaired debt until fully repaid. However, under certain circumstances, when debt is restructured as problematic debt restructuring and later on, the Bank and the debtor have signed an additional restructuring agreement, the Bank is no longer required to treat the debt as restructured problematic debt if the following conditions are fulfilled:

- The debtor is no longer facing financial difficulties upon the date of the subsequent restructuring.
- According to terms of the subsequent restructuring, the banking corporation did not give the debtor any waiver.

Such debt which has been subsequently restructured and from which the Impaired classification has been removed, is to be evaluated on group basis in order to quantify the provision for credit losses and the recorded debt balance will not change during subsequent restructuring (unless cash has been received or paid).

If, in subsequent periods, such debt has been individually reviewed and it was found that impairment should be recognized with respect to it, or if it undergoes problematic debt restructuring, the Bank would reclassify it as Impaired Debt and would treat it as reorganization of problematic debt.

Reinstatement of impaired debt to non-impaired status – impaired debt is reclassified as non-impaired debt upon one of these conditions occurring:

- It includes no principal or interest components which are past due, and the Bank anticipates payment of the outstanding principal and interest in full according to contractual terms (includes amounts subject to accounting write-off or provision).
- When the debt has become well-secured and is in collection proceedings.

Rules governing reinstatement from the Impaired classification, as noted above, shall not apply to debt classified as impaired due to restructuring of problematic debt.

Reinstatement of impaired debt to impaired and accruing status – debt which has been formally restructured, such that after restructuring all of the following conditions are fulfilled::

- There is reasonable certainty that the debt would be repaid and will perform according to its new terms and conditions, based on a current, well-documented credit evaluation of the debtor's financial situation and repayment schedule according to its new terms and conditions.
- The debtor has made cash and cash equivalent payments over a reasonable period of at least six months for loans repaid (principal and interest) by monthly installments, or has repaid 20% of the restructured debt for loans with longer maturities.
- The loan, after restructuring, is not in arrears of 90 days or more.

D. Provision for credit losses

The Bank has put in place procedures for classification of credit and for measurement of provision for credit losses, in order to maintain an appropriate provision to cover expected credit losses with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures to be followed, an appropriate provision to cover expected credit losses with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).

Note 1 – Reporting Principles and Accounting Policies – continued

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit losses.

Such review of debts in order to determine the provision and debt handling is consistently applied to all debts in excess of NIS 700 thousand and in conformity with the Bank's credit management policy – and no transition is made, during the debt term, between the individual review track and the group-based review track – unless in case of restructuring of problematic debt, as noted above.

Individual provision for credit losses – According to Bank policies, this is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher.

An individual provision is also applied to any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt, unless this debt is subject to provision by extent of arrears. The individual provision for credit losses is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. When debt is contingent on collateral, or when the Bank has determined that seizure of an asset is expected, the individual provision for credit loss is evaluated based on the fair value of the collateral pledged to secure such debt, after application of consistent, conservative factors to reflect, *inter alia*, the volatility in fair value of such collateral, the time it would take until actual realization and the expected cost for selling the collateral. For this matter, the Bank defines debt as debt contingent upon collateral, when it is expected to be entirely repaid by pledged collateral, or when the Bank expects repayment from an asset even with no specific pledge on such asset, provided that the borrower has no other reliable sources available for repayment.

The Bank regularly reviews the forecasted expected credit losses, based on actual cash flows, and adjusts the individual provision to the current forecast. Actual credit losses may differ from the Bank's original estimates upon classification of the debt as impaired.

Group provision for credit losses – This is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, according to Bank policy) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses with respect to debts based on group estimate, other than housing loans for which the provision has been calculated based on a formula specified by the Supervisor of Banks based on extent of arrears, is calculated based on rules specified in FAS 5 (ASC 450) as topic 450 of the codification "Accounting treatment of contingencies" and in conformity with directives and guidance from the Supervisor of Banks. The group-based provision for credit losses is based, *inter alia*, on historical loss rates in various economic sectors, divided into problematic and non-problematic debt.

On February 20, 2017, the Supervisor of Banks issued a circular concerning provision for credit losses, whereby the "range of years" used as a component in determining the group-based provision for credit losses, should continue to include 2011 on the financial statements for 2016 and 2017. The guidelines have been revised and in 2019, the range increased to 9 years.

In addition to the average range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for relevant environmental factors, including trends in credit volume for each sector as well as sector condition, macro-economic data, general quality assessment of credit to each economic sector, changes in volume and in trend of balances in arrears and impaired balances and the effect of changes in credit concentration.

In conformity with directives of the Supervisor of Banks, the Bank has formulated a methodology for measuring the group provision, which takes into account both past loss rates and adjustments with respect to relevant environmental factors.

Furthermore, in conformity with the Supervisor of Banks' directive, the rate of adjustment with respect to relevant environmental factors for group provision for credit losses with respect to individuals is 0.75% of the non-impaired consumer credit balance (excluding credit with respect to individuals is not less thanto receivables for bank credit cards without interest charge). This is based on a specific directive by the Supervisor of Banks, dated January 19, 2015.

On July 10, 2017, the Supervisor of Banks issued a circular updating Proper Conduct of Banking Business Directive 314 concerning "Proper assessment of credit risk and proper measurement of debt". According to this circular, as from 2018, when determining the provision for credit losses, credit for which there are no current financial statements should also be weighted.

Note 1 – Reporting Principles and Accounting Policies – continued

Housing loans – A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. This directive applies to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature.

The Bank also applies Proper Conduct of Banking Business Directive 329 concerning "Restrictions on provision of housing loans".

In conformity with these directives, the Bank has set policies designed to ensure that the Bank would be in compliance with stipulations of this directive and that, as from June 30, 2013, the balance of group provision for credit losses with respect to housing loans shall be at least 0.35% of the outstanding balance of such loans as of the report date.

Off-balance sheet credit – The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for total credit exposure (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as set forth in Proper Conduct of Banking Business Directive 203 "Measurement and capital adequacy – Credit risk – Standard approach" with certain adjustments.

Further, the Bank reviews the overall appropriateness of the provision for credit losses. Such assessment of appropriateness is based on management discretion, taking into account the inherent risk in the credit portfolio and in assessment methods applied by the Bank to determine the provision.

For more information about adoption of updates to US GAAP with regard to provision for credit losses (ASU 2016-13), as from January 1, 2022, see section E. below.

E. Revenue recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of interest revenues with respect to it, except as stated above for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest revenues recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. For further information about revenue recognition on cash basis with respect to debt classified as impaired, see section 4 above.

For debt reviewed and provided for on group basis, the Bank discontinues accrual of interest revenues when conditions for accounting write-off of the debt are fulfilled, usually after 150 days in arrears, unless the debt is well-secured and in collection proceedings. Such debt is subject to assessment of provision for credit losses, which ensures that Bank profit is not skewed upwards.

F. Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank (typically defined as terms in excess of two years). For debt whose collection is contingent on collateral, the Bank immediately writes off the debt against the balance of the provision for credit losses amounting to the recorded debt balance in excess of the fair value of collateral. For debt assessed on group basis, write-off rules have been put in place based on extent of arrears (mostly – over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt in Bank accounts.

Debt which has been reviewed on group basis and classified as impaired due to restructuring of problematic debt, are subject to accounting write-off no later than the date when the debt is in arrears 60 days or longer, with regard to terms and conditions of such restructuring.

Note 1 – Reporting Principles and Accounting Policies – continued

7) Transfer and service of financial assets and discharge of liabilities

The Bank applies the measurement and disclosure rules set forth in sub-topic 860-10 of the codification, with regard to transfer and service of financial assets, for handling the transfer of financial assets and discharging of liabilities.

Under these rules, the accounting treatment of transfer of a financial asset would only be deemed a sale if all of these conditions are fulfilled: (1) the transferred financial asset was separated from the transferring entity, even in case of bankruptcy or other form of Receivership; (2) any recipient may pledge or replace the assets (or the beneficiary interests) received, and there is no condition which limits the recipient from exercising their right to pledge or exchange the financial assets, and grants the transferor a non-trivial benefit; (3) the transferor, or subsidiaries consolidated with its financial statements , or their agents do not retain effective control over the financial assets or beneficiary interests related to these transferred assets.

In transactions involving transfer of financial assets, if it is determined that the transferor maintains effective control over transferred assets, the asset transfer shall be accounted for as secured debt. When all of the following conditions are satisfied, *inter alia*, effective control over the asset is maintained:

- The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
- The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price.
- The agreement is made simultaneously with the transfer.

Moreover, for the transfer of part of a financial asset to be considered a sale, the transferred part must fulfill the definition of participatory rights. Participatory rights must fulfill the following criteria: the interest should represent an interest proportional to the complete financial asset; all cash flows received from the assets are divided among participatory interest pro-rata to their ownership stake; interests are not subordinated to other interests; there is no recourse to the transferor or to other holders of participatory interests (other than in case of breach of representation or obligation, current contractual obligations to service the financial asset as a whole and management of the transfer contract, and contractual obligations to share in offset of any benefits received by any holder of participatory interests); and the transferor and the holder of participatory interests have no right to pledge or replace the financial asset in whole, unless all holders of participatory interests agree to pledge or replace the financial asset in whole.

If the transaction fulfills the conditions for treating it as a sale, the transferred financial assets are removed from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered as secured debt. Sale of part of a financial asset, other than a participatory right, is treated as secured debt – that is, the transferred assets remain on the Bank's balance sheet and proceeds from the sale are recognized as a Bank liability.

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner any liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Such loaning and borrowing are treated as credit or deposit, measured at fair value of the related security. Revenues on accrual basis with respect to such securities are recognized as interest income from credit and changes to fair value (in excess of changes to accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of securities available for sale.

The Bank only removes a liability if it has been settled, i.e. if one of the following conditions has been fulfilled: (a) the Bank has paid the lender and is no longer liable for said liability; or (b) the Bank was legally released from the liability by a judicial process or by consent of the lender, being the major party liable for said liability.

For details of syndication transactions, see Note 30 to the financial statements.

Transactions for loaning securities managed as credit transactions

The Bank applies specific provisions specified in Public Reporting Directives for handling transactions to borrow or loan securities, in which lending is made against the borrower's general credit and collateral quality, where the borrower does not provide as collateral for the loaner any liquid instruments specifically related to the securities loaning transaction, which the loaner may sell or pledge.

Note 1 – Reporting Principles and Accounting Policies – continued

Handling un-secured loaning of securities from the available-for-sale portfolio or from the trading portfolio.
When the Bank loans securities to cover short selling by the borrower, the Bank de-recognizes the loaned securities and recognizes credit equal to the market value of these securities on the loaning date. In subsequent periods, the Bank measures the credit extended in the same way it measured the securities prior to loaning. Credit is measured at market value, revenues on accrual basis with respect to such securities are recognized as interest income from credit and changes to market value (in excess of changes to accrual basis) are recognized under Non-interest Financing Revenues in case of securities in the held-for-trade portfolio or under Other Comprehensive Income in case of debentures available for sale. Upon concluding the loaning, the Bank recognizes once again the securities and de-recognizes the credit.

8) Buildings, equipment and software

This item includes investments by the Bank in fixed assets (including payments on account), assets leased by the Bank under a financing lease, and cost of software for its own use, recognized as an asset.

Buildings and equipment

Recognition and Measurement
Fixed asset items are measured at cost net of accumulated depreciation and accumulated impairment loss, if any. Cost includes any cost directly attributable to acquisition of the asset. Cost of self-constructed assets includes the cost of materials and direct labor, as well as any additional cost directly attributable to bringing the asset to the required location and state so as to operate as intended by management.
When significant portions of fixed asset items have a different useful life, they are treated as separate fixed asset items.
The cost of purchased software, which is an integral part of operation of related equipment, is recognized as part of the cost of such equipment. Furthermore, in conformity with Public Reporting Regulations, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use. For more information about the accounting treatment of the cost of software for in-house use, see below.
Gain or loss from disposition of fixed asset items is determined by comparing the proceeds from asset disposition to its carrying amount and are recognized, net, under "Other revenues" in the statement of profit and loss.

Subsequent costs

Current maintenance costs of fixed asset items are charged to profit and loss when incurred.

Depreciation

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.
Depreciation is charged to the statement of profit and loss using the straight line method over the estimated useful life of each part of the fixed asset items – since this method best reflects the anticipated consumption pattern of future economic benefits inherent in the asset. Leasehold improvements are depreciated over the lease term or the useful life, whichever is shorter. Owned land is not depreciated.
An asset is depreciated when available for use, i.e. when it has reached the location and state required for it to be put into operation as intended by management.
For more information about estimated useful life of buildings and equipment, as of December 31, 2019, see Note 16 to the financial statements.

Impairment

The Bank reviews non-current assets (or asset groups) for impairment when events or changes in circumstances occur, indicating that the depreciated cost may not be recoverable.
For the purpose of impairment review and measurement, the Bank groups an asset (or asset group) together with other assets and liabilities at the lowest level that generates cash flows, which is independent of cash flows for other groups of assets and liabilities. Impairment loss recognized is only charged to an asset (or asset group) within the scope of Section 360 of the Codification.
Impairment loss is only recognized if the carrying amounts of a non-current asset (asset group) is not recoverable and exceeds its fair value. The carrying amount is not recoverable if it exceeds total un-capitalized cash flows expected from use of the non-current asset (asset group) and from realization thereof.
Impairment loss is equal to the difference between the carrying amount of the non-current asset (asset group) and the fair value thereof, and is charged to the statement of profit and loss.

Note 1 – Reporting Principles and Accounting Policies – continued

When impairment loss is recognized, the adjusted carrying amount of the non-current asset (asset group) is the new cost basis. Such loss is not reversed in subsequent periods, even in case of appreciation.

Software

Recognition

The Bank applies US GAAP, including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill" and others. The Bank also applies the Bank of Israel directive concerning capitalization of in-house software development costs, as follows:

- Setting of a materiality threshold for each software development project; The materiality threshold specified by the Bank is NIS 450 thousand.
- Revision of the useful life of capitalized software costs, so as not to exceed 5 years.
- With respect to software development projects for which the total software cost which may be capitalized is higher than the specified materiality threshold, capitalization factors would be specified for work hours – factors which would take into account the potential for deviation in recording work hours and for economic inefficiency.

In conformity with Public Reporting Regulations, the Bank classifies under "Buildings and equipment" the cost of software assets acquired, or costs capitalized to an asset with respect to self-developed software for in-house use.

Software acquired by the Group is measured at cost, net of accumulated amortization and impairment loss.

Cost associated with software development or adaptation for in-house use are capitalized only if the development cost may be reliably measured, the software is technically and commercially feasible, future economic benefits are expected and the Bank has the intention and sufficient resources to complete development and to use the software. Cost recognized as an intangible asset with respect to development activities includes direct cost of materials, services and direct payroll cost with respect to employees. Other costs associated with development activities and research costs are charged to the statement of profit and loss when incurred.

In subsequent periods, capitalized development cost is measured a t cost net of accumulated amortization and impairment loss.

Subsequent costs

Cost of upgrades and improvements to software for own use are only capitalized if the expenses incurred are expected to result in additional functionality. Other subsequent costs are expensed when incurred.

Amortization

Depreciation is methodical allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the asset cost, or another amount which is a substitute for such cost, less the residual value of the asset.

Intangible assets generated from a software project are amortized to the statement of profit and loss using the straight line method over the useful life of the software but not to exceed 5 years, as noted above, as from the date on which the software is ready for its designated use. In this regard, the software is ready for its designated use when all material testing has been completed.

Impairment of cost of in-house development of computer software

Impairment of such intangible assets is recognized and measured upon occurrence of any event or change in circumstances that indicate that the carrying amount of the asset may not be recovered.

Events or changes in circumstances which may indicate impairment are:

- It is not expected that the software would provide significant potential service;
- A significant change has occurred in the manner or scope of use or expected use of the software;
- A material modification to the software has been made or will be made;
- The cost of development or adaptation of software designated for in-house use significantly exceeds the anticipated amount.

When it is no longer expected that software development would be completed, the Bank adjusts the carrying amount of the software to be the lower of its carrying amount and fair value net of selling costs.

Note 1 – Reporting Principles and Accounting Policies – continued

9) Intangible assets and goodwill

The Bank applies US GAAP with regard to intangible assets including the presentation, measurement and disclosure rules specified in provisions of ASC 350 "Intangible assets – Goodwill and other".

Intangible assets of unspecified useful life are reviewed if there are indicators of impairment at the Asset Group level. An asset group is the smallest group of assets and liabilities which generates a separate cash flow. First is a review of whether the carrying amount of the asset group is higher than the non-discounted cash flow amount expected there from. If so, impairment is to be recognized equal to the difference between the carrying amount and the fair value of the asset group. Impairment is to be proportionately attributed to assets in the asset group, provided that the value of any individual asset does not drop below its fair value.

Assets of unspecified useful life are reviewed for impairment at least once per year. They are reviewed as to whether the carrying amount of the asset exceeds its fair value. If so, impairment is to be recognized, equal to the difference between the carrying amount and the fair value.

Goodwill is not systematically amortized.

Development cost of acquired software or cost capitalized to an asset with respect to software developed in-house for in-house use, are classified under "Buildings and equipment".

For more information about implementation of US GAAP for impairment of goodwill (ASU 2017-04) as from January 1, 2020, see section E. below.

10) Leases

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risk and reward associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fee, whichever is lower. Future payments for exercise of an option to extend the lease term with ILA are not recognized as part of the referring asset and liability, since they constitute contingent leasing fees, derived from the fair value of the land upon future renewal dates of the lease. Other leases are classified as operating leases, and the leased assets not recognized in the Bank's balance sheet.

Prepaid leasing fees paid to ILA with respect to land leases classified as operating leases are presented on the balance sheet as prepaid expenses, and are recognized in the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.

In a lease for land and buildings, the land and building components are individually reviewed for the purpose of classifying such leases; the key consideration in classification of the land component is the fact that land typically has an unspecified useful life.

Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.

Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

In case of sale and releasing, the type of lease (financing or operating) should be identified. For operating lease – the capital gain from the sale is deferred and attributed over time, if the sale price exceeds the fair value of the asset.

For more information about reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases as from January 1, 2020, see section E. below.

11) Contingent liabilities

The financial statements include appropriate provisions to cover possible damages, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

Note 1 – Reporting Principles and Accounting Policies – continued

A. Probable risk: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
B. Reasonably Possible risk: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision is made in specific instances on the financial statements, at the discretion of Bank management and based on the opinion of legal counsel.
C. Remote risk: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Remote, no provision was made in the financial statements.

See Note 26.C.10 for disclosure of material claims (whose amount, excluding interest and expenses, is over 1% of equity attributable to equity holders of the Bank).

Likewise, Note 26.C.11 provides disclosure of motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed, or in case of delay of proceedings by decision of the Court. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as set forth in Note 26 below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

12) Employee rights

The Bank applies the Supervisor's directives with regard to adoption of US GAAP concerning employees' rights. These principles were codified in the following codification sections (hereinafter: "the directives").

- ASC 710 – Compensation – General.
- ASC 712 – Compensation – Non retirement post employment benefits.
- ASC 715 – Compensation – Retirement benefits.
- ASC 718 – Compensation – Stock Compensation.
- ASC 420 – Exit or Disposal Cost Obligations.

According to the directives, banking corporations should classify employees' benefits according to groups listed in US GAAP, including setting of clear policies and procedures as to how different types of benefits may be distinguished. Employee benefits fall into the following categories:

- Benefits prior to termination.
- Benefits post termination and prior to retirement.
- Post-retirement benefits.

Furthermore, the principle set by the Supervisor of Banks whereby a liability should be included with respect to a material obligation – should be maintained. It is expected that in cases where the Bank expects payment of benefits beyond contractual terms, they would adjust these to situations where a material obligation exists.

According to the Supervisor of Banks' directives, the discount rate for employee benefits is calculated based on yields of government debentures in Israel plus the average spread for corporate debentures rated AA (international rating scale) or higher as of the reporting date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

Below are details for benefit groups at the Bank:

Post-retirement benefits – pension, severance pay and other benefits – defined-benefit programs

The Bank recognizes amounts with regard to pension programs and other post-retirement programs based on calculations which include actuarial and other assumptions, including: discount rates, mortality rates, increase in remuneration and turnover.

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank regularly reviews the need to update actuarial assumptions used in the model.

Changes to assumptions are generally recognized, subject to provisions listed below, first in Cumulative Other Comprehensive Income and are amortized to Profit and Loss in subsequent periods, in conformity with the remaining average terms of service for employees expected to receive benefits.

The liability is accrued over the relevant period, determined in conformity with rules listed in Section 715 of the codification.

The Bank applies the Supervisor of Banks' regulations with regard to internal controls over financial reporting with regard to employee rights, including with regard to review of an "essential commitment" to award benefits to Bank employees with respect to increased severance pay and/or early retirement.

For more information about updates to standards with regard to changes to disclosure requirements for defined benefit plans (ASU 2018-14) as from January 1, 2021, see section E. below.

Other long-term benefits to active employees:

- The liability is accrued over the period of eligibility for this benefit.
- In calculating the liability, the Bank accounts for discount rates and for actuarial assumptions.
- All components of the benefit cost for the period, including actuarial gains and losses, are recorded to Profit and Loss.

Absence eligible for compensation – paid leave and sick leave:

The liability with respect to paid leave is measured on a current basis, without accounting for any discount rates or actuarial assumptions.

The Bank does not accrue a liability with respect to sick leave utilized during current service.

For more information about employee benefits, see Note 2 to the financial statements.

As for accounting treatment of actuarial gains / losses recognized under Other Comprehensive Income due to changes to discount rates:

Actuarial loss as of January 1, 2013, arising from the difference between the discount rate used for calculation of provisions to cover employee rights, linked to the Consumer Price Index, as stipulated by the interim directive in the Public Reporting Directives (4%) – and the discount rates as of that date for CPI-linked employee liabilities, determined based on the new rules as noted above (hereinafter: "the loss") is included under Accumulated Other Comprehensive Income.

Any actuarial gains recognized as from January 1, 2013, due to current changes in discount rates during the reported period, would be included under Accumulated Other Comprehensive Income and would decrease the loss balance recorded as noted above – down to zero.

Actuarial losses due to current changes in discount rates during the reported year and actuarial gains due to current changes in discount rates during the reported year after the loss balance has been decreased to zero as noted above, would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term.

Other actuarial gains and losses(not due to changes in discount rates) as of January 1, 2013 and in subsequent periods are to be included in cumulative other comprehensive income and would be amortized using the straight line method over the average remaining service period of employees expected to receive plan benefits.

Principles of accounting treatment of the streamlining plan:

On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to shareholders' equity (under Other Comprehensive Income).

In subsequent periods, the Bank amortizes the plan costs to the statement of profit and loss, under "Actuarial gain and loss" using the straight line method over the average remaining service period for the employees, which is at 15 years.

Note 1 – Reporting Principles and Accounting Policies – continued

If, in certain periods, total severance pay payments should exceed the cost of service and cost of interest recognized for that year and a settlement would take place (in conformity with US GAAP concerning employee rights), then the ratio of amortization of "actuarial gain and loss" would be adjusted for the settlement pace of the actuarial liability in that period, respectively.

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) is applied on a straight line basis as from 2017, over a five-year period.

See Notes 22 and 25 to the financial statements for further information.

Streamlining program at Bank Yahav

In 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive.

Voluntary retirement is offered to employees in conformity with criteria set forth in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 35 million before tax (NIS 23 million after tax).

As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy is adjusted (increased) and the capital effect of the streamlining is applied on a straight line basis over a five-year period.

13) Share-based payment transactions (employee stock options)

The Bank applies provisions of ASC 718 "Share-based payment transactions" with regard to options awarded to employees. In conformity with these provisions, the Bank recognizes payroll expenses due to the awarded options. Expenses are recognized based on fair value of the options on the award date, concurrently with increase in capital over the term of service for which the options are awarded.

When determining the fair value of options upon the award date, vesting restrictions due to market conditions (such as vesting contingent on share price) are taken into account. Other qualitative restrictions which do not concern market conditions (such as: discretionary component of benefit award) have no impact on determining fair value upon the award date and are reflected in current expensing of the benefit awarded. As allowed by the standard, the Bank treats each awarded lot as a separate award.

As for an award in the ordinary income track, tax authorities in Israel allow an expense to be recognized upon option exercise, so that a tax benefit is expected and deferred taxes should be recognized. According to provisions of the standard, the tax benefit would be recognized based on the cumulative expense carrying amount, multiplied by the tax rate. Upon exercise of the options, when the allowed income tax expense exceeds the expense carried, the difference, multiplied by the tax rate, would be charged to profit and loss. As for the capital gain track, the Tax Authority does not recognize expenses upon option exercise.

14) Guarantees

Guarantees are contracts which require the guarantor, on contingent basis, to make payments to the guaranteed party upon occurrence of conditions requiring the guarantee to be exercised. The guarantee obligation is measured upon initial recognition at the higher of the fair value or the amount of expected loss provisions with respect there to. The obligation is de-recognized when the Bank no longer bears the risk.

15) Derivative instruments and hedging activities

A. The Bank trades in derivative instruments, including currency and interest contracts and credit derivative instruments. The currency contracts include forwards, futures, swaps and options. These trades are executed in all linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest risk – risk to which the Bank is exposed in its day-to-day activities.

B. Derivative instruments are stated at fair value on the Bank balance sheet, under Assets or Liabilities, as the case may be. Changes to fair value of derivative instruments, other than derivative instruments used as cash flow hedges, are recognized on the Statement of Profit and Loss.

Note 1 – Reporting Principles and Accounting Policies – continued

C. It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. Change in fair value of detached embedded derivatives is immediately charged to profit and Loss.

D. In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policies of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policies was adopted for structured securities in the available-for-sale portfolio.

Hedge accounting

The Bank is exposed to market risks due to its business operations. As part of the Bank's overall strategy for management of exposure to such risks, the Bank designates certain financial instruments as fair value hedges and as cash flow hedges.

Upon the hedge relationship start date, the Bank formally documents the hedge relationship and the objective of its risk management and strategy for this hedge. Documentation includes identification of the following: Hedging instrument; hedged item or transaction; nature of hedged risk; method to be applied by the Bank to assess the effectiveness of hedge relationship, offsetting exposure to changes in fair value of the hedged item (for fair value hedge), or offsetting exposure to changes in cash flows with respect to the hedged transaction (for cash flow hedge), attributable to the hedged risk.

For more information about adoption of updates to US GAAP with regard to derivative instruments and hedging operations (ASU 2017-12) as from January 1, 2019, see section C.2 above.

Fair value hedge

The Bank designates derivative instruments as hedges for exposure to changes in fair value of an asset or liability, or an identified part thereof, which is attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for fair value hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized on the statement of profit and loss, presented under the same item as effects of the hedged item. Gain or loss (i.e. change in fair value) with respect to the hedged item attributable to the hedged risk is accounted for as adjustment to the carrying amount of the hedged item and is regularly recognized on the statement of profit and loss. Adjustment to carrying amount of the hedged item shall be accounted for similarly to other components of the carrying amount thereof.

The preliminary value of components excluded from assessment of hedge effectiveness is recognized on the statement of profit and loss, methodically and rationally over the term of the hedging instrument, with the difference between changes to fair value of components excluded from assessment of hedge effectiveness and amounts methodically and rationally recognized on the statement of profit and loss, recognized under Other Comprehensive Income.

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Amounts on Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized on the statement of profit and loss in the period when the hedged item was de-recognized. For all other discontinued fair value hedges, Amounts on Other Comprehensive Income (AOCI) related to amounts excluded from assessment of hedge effectiveness are recognized on the statement of profit and loss similarly to other components included in the carrying amount of the hedged asset or liability.

Cash flows hedges

The Bank designates derivative instruments as hedges for exposure to changes in expected future cash flows attributable to a specific risk.

When a derivative instrument is used as a hedging instrument for a cash flow hedge, changes to fair value included in assessment of the hedge effectiveness are regularly recognized on the statement of Other Comprehensive Income. These amounts are re-classified to the statement of profit and loss in the period(s) in which the hedged anticipated transaction impacts earnings, and are presented under the same item as effects of the hedged item.

The Bank has elected to regularly recognize changes to fair value of components excluded from assessment of hedge effectiveness on the statement of profit and loss, under the same item as effects of the hedged item.

Note 1 – Reporting Principles and Accounting Policies – continued

The Bank discontinues hedge accounting when: The criteria for applying hedge accounting cease to exist; the derivative expires, is sold, canceled or realized, or when the Bank discontinues the designation of hedge relationships.

Net gain or loss with respect to the hedging instrument, related to a discontinued cash flow hedge, continue to be reported under cumulative Other Comprehensive Income (AOCI), unless it is probable that the anticipated transaction would not take place by the end of the original term determined (as documented at the start of the hedging relationship), or within two months thereafter.

If the anticipated hedged transaction is not expected to take place, whether by the end of the original term determined or within two months thereafter, net gain or loss with respect to the hedging instrument reported on cumulative Other Comprehensive Income is immediately re-classified to the statement of profit and loss.

Economic hedge

Hedge accounting is not applied for derivative instruments used as part of the Bank's asset and liability management (ALM). Changes to fair value of such derivatives are recognized on the statement of profit and loss when created.

16) Fair value

A. Fair value is defined as the price which would have been obtained upon sale of the asset, or the price which would have been paid upon transfer of the liability, in a normal transaction between market participants upon the measurement date. The standard requires, *inter alia*, for assessment of fair value, that maximum use be made of observed data and minimum use be made of non-observed data. Observed data reflects information available on the market, obtained from independent sources whereas non-observed data reflects assumptions by the Bank. Sub-topic 820-10 of the codification lists a hierarchy of measurement techniques, based on the source of data used to determine fair value. These data sources result in the following fair value ranking:

Level 1 – fair value measured using prices quoted for identical instruments on an active market accessible by the Bank upon the measurement date.
Level 2 – fair value measured using observed data, either direct or indirect, which are not quoted prices as stipulated under Level 1. Level 2 data include use of quoted market data on active markets, or on non-active markets, if they exist, or data derived from or based upon such observed market data.
Level 3 – fair value measured by using non-observed data.

The standard stipulates that the Bank should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivative instruments, issued there by and measured at fair value . Non-performance risk includes the Bank's credit risk, but is not limited to this risk alone.

The Bank assesses credit risk in derivative instruments as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- In other cases, the Bank estimates the fair value based on indications from transactions on an active market of the credit quality of the counter party, if such indications are available at reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. In the absence of such indications, the Bank calculates the adjustments based on internal ratings.

When the counter-party exposure, on a consolidated basis, is not material, the Bank calculates the aforementioned adjustment on a group basis, using a benchmark for credit quality by groups of similar counter-parties, e.g. based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the Bank's valuation methods to the exit price principle and to provisions stated in the standard, the Bank is required to review the valuation methods applied there by for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

In accordance with Bank of Israel directives, fair value measurement of a derivative instrument, when no quoted prices, liquid collateral or offset agreements exist which adequately secure the derivative's credit quality, and when no market information exists as to the credit quality of the counter-party (such as CDS or negotiable debentures of the counter-party) – shall be classified as a Level 3 fair value measurement.

Note 1 – Reporting Principles and Accounting Policies – continued

For more information about adoption of updates to US GAAP with regard to disclosure requirements concerning fair value measurement as from January 1, 2021, see section E. below.

How fair value is determined:

1) Securities

Fair value of securities held for trading, debentures available for sale and shares not held for trading is determined based on quoted market prices on the major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's position relative to the trading volume (holding size factor).
If such quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.), except for shares not held for trading for which no fair value is available, which are measured as set forth in Note 1D(5) above.

2) Financial derivative instruments

Financial derivative instruments with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market – using a quoted market price on the most effective market. Derivative financial derivatives not traded on an active market are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.)

3) Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument. To this end, the future cash flows for impaired and other debts have been calculated net of effects of accounting write-offs and provision for credit losses with respect to the debts.

For more information about principal methods and assumptions used in estimating fair value, see Note 33 to the financial statements.

B. Fair value option

Sub-topic 825-10 of the codification allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to Public Reporting Directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized in the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized in the statement of profit and loss as they are incurred. Election of the fair value option, as stated above, is made for each instrument individually, and may not be canceled.

Further, the standard stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

17) Taxes on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit and loss, or charged directly to equity if they arise from items directly recognized under equity. The provision for taxes on income of the Bank and its subsidiaries that are financial institutions for VAT purposes includes profit tax levied on earnings under the Value Added Tax Act. The payroll tax levied on the salaries of financial institutions is included under “Payroll and associated expenses”.

Note 1 – Reporting Principles and Accounting Policies – continued

A. Current taxes

Current taxes are taxes on income paid or payable (or refundable) for the current period, as determined by application of statutory tax provisions legislated with regard to taxable income. Current taxes include changes in tax payments with regard to previous years.

B. Deferred taxes

Deferred tax liabilities and deferred tax assets reflect the future effects on taxes on income, due to temporary differences and carry-forward losses existing at the end of the period.
The Bank recognizes deferred tax liabilities with respect to taxable temporary differences. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017.
The Bank recognizes deferred tax assets with respect to all deductible temporary differences and carry-forward losses, while concurrently recognizing a separate valuation allowance for the amount included in the asset that is more likely than not to be realized.

Deferred tax liabilities or deferred tax assets are measured using the statutory tax rates legislated, that are expected to apply to taxable income in the period when the deferred tax liability is expected to be settled or the deferred tax asset is expected to be realized.

C. Offset of deferred tax assets and liabilities

The Bank offsets deferred tax assets and deferred tax liabilities, as well as any related valuation allowance, for a specific taxable component and within a specific tax jurisdiction.

D. Uncertain tax positions

The Bank applies the rules for recognition, measurement and disclosure stipulated in FIN 48. In conformity with these rules, the Bank only recognizes the effect of tax positions if it is more likely than not that those positions would be accepted by the Tax Authority or by the Court. Tax positions recognized are measured at the maximum amount whose likelihood of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which a change in circumstances resulted in a change in judgment.

For more information about adoption of updates to US GAAP with regard to simplified accounting treatment of taxes on income (ASU 2019-12) as from January 1, 2021, see section E. below.

18) Earnings per share

The Bank presents earnings per share data, both basic and diluted, for its ordinary share capital. Basic earnings per share is calculated by dividing the earnings attributable to holders of ordinary shares of the Group, by the weighted average number of ordinary shares outstanding during the period, after adjustment for treasury shares.
Diluted earnings per share is calculated by adjusting earnings (such as adjustment for after-tax effect of dividends, financing costs and other changes, if any) related to holders of ordinary shares, and adjusting the weighted average number of ordinary shares outstanding, after adjustment for treasury shares and for the effect of all potentially dilutive ordinary shares, including stock options awarded to employees.

19) The Bank's operating segments

A. Supervisory operating segments

A supervisory operating segment is a Bank component engaged in certain activities or grouping clients in certain classifications, as specified by the Supervisor of Banks. The format for reporting Bank supervisory operating segments was prescribed in Public Reporting Regulations by the Supervisor of Banks.

A supervisory operating segment is mostly specified in terms of client classification. Individual clients are classified based on financial assets for the household and private banking segments. Clients other than individuals are primarily classified based on the entire turnover for business segments (separated into small and micro business, medium business and large business), institutional investors and the financial management segment.

Furthermore, the Bank is required to apply disclosure requirements for supervisory segments based on the management approach, when such operating segments materially differ from the supervisory operating segments.

Note 1 – Reporting Principles and Accounting Policies – continued

On September 10, 2015, the Supervisor of Banks issued an updated Q&A file, which includes certain relief with regard to client categorization by operating segments based on their revenues – when this data is not typical or is unavailable to the Bank. According to the Q&A file, in such cases the Bank may categorize clients into operating segments based on other parameters, in line with total client indebtedness. Thus, in some cases listed in the Q&A file, clients may be categorized based on the number of employees or total assets on their balance sheet. If this information is not available either, clients may be categorized, in such cases, based on their total financial assets with the bank, multiplied by a specified factor.

B. Operating segments – the management approach

In addition to uniform reporting by supervisory operating segments, the Supervisor of Banks' circular dated November 3, 2014 stipulates that disclosure of "Operating segments in conformity with the management approach" should be provided in conformity with generally acceptable accounting practices by US banks with regard to operating segments (included in ASC 280), if there is a material difference between the management approach and supervisory reportable segments.

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed by chief decision makers at the Bank for the purpose of making decisions about resource allocation and performance evaluation, and
- Separate financial information is available with regard to it.

In fact, there is a correlation between the supervisory operating segments and "operating segments in conformity with the management approach" but never the less, there are some differences in client attribution to segments and in decision making. Therefore, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

For more information about criteria for client classification into supervisory segments and into segments in conformity with the management approach and for differences between them and additional extensive segment information, see Note 29 to the financial statements.

20) Transactions with controlling shareholders

The Bank applies US GAAP for accounting treatment of transactions between the Bank and its controlling shareholder and a company controlled by the Bank. In cases where the aforementioned rules do not refer to the accounting treatment, the Bank applies the rules stated in Standard 23 of the Israel Accounting Standards Board concerning accounting treatment of transactions between an entity and its controlling shareholder.

Assets and liabilities subject to a transaction with a controlling shareholder are measured at fair value as of the transaction date.

Note 1 – Reporting Principles and Accounting Policies – continued

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
ASU 2017-04 Impairment of goodwill	January 2017	January 1, 2020	US Financial Accounting Standards Board ("FASB")	A two-stage test should be applied for each reporting unit, whereby impairment of goodwill is to be recognized as the amount of the difference between the fair value of the reported unit and its carrying amount, taking into account the effect of taxes on income. However, the impairment loss may not exceed the goodwill allocated to the reporting unit.	No material effect is expected.
Adoption of updates to US GAAP with regard to provision for credit losses ASU 2016-13	March 2018	January 1, 2022	Supervisor of Banks	Provision for credit losses is to be calculated in conformity with the expected loss over the credit term. This is *in lieu* of estimation of the loss incurred and yet to be identified; estimation of the provision for credit losses shall include significant use of forward-looking information, reflecting reasonable forecasts with regard to future economic events; the new rules for calculating the provision for credit losses shall apply to loans (including housing loans), debentures held to maturity and certain off-balance sheet credit exposures. Moreover, in April 2019, the US Financial Accounting Standards Board ("FASB") published a comment with regard to accounting treatment of recoveries and extension options for measuring expected credit losses ASU 2019-04.	The Bank is reviewing the effect of the revisions on its financial statements.
Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases	July 2018	January 1, 2020	Supervisor of Banks	Banking corporations that lease assets for a term longer than 12 months shall recognize these on the balance sheet, even in case of an operating lease; for operational lease transactions, an asset shall be recorded on the balance sheet reflecting the corporation's right to use the leased asset, against a liability to make lease payments; as for capital adequacy, risk assets with respect to leases recognized on the balance sheet shall be weighted at 100% for the purpose of minimum capital ratio.	The Bank is preparing to implement the updates. The Bank estimates that application of these directives is expected to result in an increase of NIS 0.7 billion in the balance of assets and to an identical increase in liabilities with respect to a lease as of the initial application date.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Elimination of the required presentation of estimated amounts under Other Comprehensive Income expected to be deducted from cumulative Other Comprehensive Income to the Statement of Profit and Loss as an expense in the following year; Elimination of the required presentation of future annual benefit amounts covered by insurance contracts and significant transactions between the entity or related parties and the plan; details to be provided of reasons for material gain or loss associated with change in liability with respect to defined benefit in the period; Clarification of disclosure requirements for entities with two or more plans.	No effect on the financial statements, other than change to presentation in the Note on employees' rights.

Note 1 – Reporting Principles and Accounting Policies – continued

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
Updated standard with regard to changes to disclosure requirements of fair value measurement ASU 2018-13	August 2018	January 1, 2021	US Financial Accounting Standards Board ("FASB")	The following requirements have been eliminated: Presentation of amounts and reasons for transfer between Level 1 and Level 2 of the fair value ranking; disclosure of information on bank policy on determining when such transfers are deemed to have occurred; providing a verbal description of sensitivity to changes in un-observed data for repeated fair value measurements classified as Level 3 of the fair value ranking; required presentation of changes to Other Comprehensive Income unrealized in the period for assets held at end of the period.	There is no impact to the financial statements, other than a change to presentation in the Note on balances and estimates of fair value of financial instruments.
Extension of transitional provision regarding implementation of provisions of Section 830 of the Codification "Foreign currency matters"	January 2019	January 1, 2022	Supervisor of Banks	The transitional provision instructs banking corporations not to include exchange rate differentials with respect to available-for-sale debentures as part of fair value adjustment of such debentures, but rather to continue treating these as stipulated in the Public Reporting Directives prior to adoption of Section 830 of the Codification "Foreign currency", through December 31, 2021.	No material effect is expected.
Simplified accounting treatment of taxes on income ASU 2019-12	December 2019	January 1, 2021	US Financial Accounting Standards Board ("FASB")	Highlights of revised topics: Allocation of income tax expenses or benefits to continued operations, discontinued operations, other comprehensive income and items recognized directly in equity; recognition of deferred tax liabilities with respect to temporary differences in tax liabilities with respect to investment in foreign associate; calculation of tax revenues with respect to accrued losses on interim financial statements; recognition of the effect of changes in tax legislation or in tax rates on interim financial statements; assessment of increase in tax base for goodwill to determine whether it would be accounted for as part of a business combination or as a separate transaction.	No material effect is expected.
Discontinuation of the use of LIBOR	July 2017	Gradually by December 31, 2021	FCA (Financial Conduct Authority) in the UK and SEC (Securities and Exchange Commission) in the USA.	A decision was made to gradually discontinue the use of LIBOR. Further to this decision, various work teams were set up around the world to determine alternative benchmarks.	Implications are expected across the Bank, such as economic and operating implications, as well as accounting implications that would require review of the terms and effectiveness of accounting hedges, review of the treatment of debt agreements to be revised, and review of the impact on discount rates and on setting the fair value ranking. The Bank has started preparing for this change. However, at this stage, in absence of any directives concerning how this transition would be implemented, it is not possible to assess the extent of the impact on the Bank of discontinued use of LIBOR.

Note 2 – Interest revenues and expenses
For the year ended December 31,

Reported amounts (NIS in millions)

	2019	2018	2017
A. Interest revenues [1]			
From loans to the public	7,293	7,049	5,989
From loans to Governments	33	25	11
From deposits with the Bank of Israel and from cash	203	102	74
From deposits with banks	16	9	8
From securities loaned or acquired in resale agreements[2]	–	–	–
From debentures	166	174	140
Total interest revenues	**7,711**	**7,359**	**6,222**
B. Interest expenses			
On deposits from the public	1,787	1,628	1,261
On deposits from governments	1	2	2
On deposits from banks	8	11	11
On debentures and subordinated notes	573	793	599
On other liabilities	2	3	2
Total interest expenses	**2,371**	**2,437**	**1,875**
Total interest revenues, net	**5,340**	**4,922**	**4,347**
C. Details of net effect of hedging derivative instruments on interest revenues and expenses [3]	22	4	(6)
D. Details of interest revenues on accrual basis from debentures			
Held to maturity	35	45	43
Available for sale	130	126	94
For trading[4]	1	3	3
Total included under interest revenues	**166**	**174**	**140**

(1) Includes the effective element in the hedging ratios.

(2) Balance lower than NIS 0.5 million.

(3) Details of effect of hedging derivative instruments: on interest revenues, net

(4) Net interest expenses from trading operations for 2019, as presented in Note 29, amounting to NIS 47 million (in 2018 and 2017: NIS 46 million and NIS 3 million, respectively), include interest revenues from debentures held for trading, amounting to NIS 1 million (in 2018 and 2017: NIS 3 million for each year), as set forth above, as well as inter-segment expenses amounting to NIS 48 million (in 2018: NIS 49 million) with respect to internal transactions between the Assets and Liability Management segment and the held-for-trading segment.

Note 3 – Non-interest financing revenues
For the year ended December 31,

Reported amounts (NIS in millions)

	2019	2018	2017
A. Non-interest financing revenues (expenses) with respect to non-trading purposes			
1. From activity in derivative instruments			
Non-effective element of hedging ratios[1]	–	1	–
Net revenues (expenses) with respect to ALM derivative instruments[2]	(1,151)	1,406	(1,158)
Total from activity in derivative instruments	**(1,151)**	**1,407**	**(1,158)**
2. From investment in debentures			
Gains on sale of debentures available for sale	35	8	44
Total from investment in debentures	**35**	**8**	**44**
3. Exchange rate differences, net	**1,267**	**(1,081)**	**1,196**
4. Gains from investment in shares			
Gains from sale of shares not held for trading	2	10	8
Provision for impairment of shares not held for trading	(6)	–	–
Dividends from shares not held for trading	17	7	4
[5]Unrealized gains (losses)	45	–	–
Total from investment in shares	**58**	**17**	**12**
5. Net gains with respect to loans sold	**–**	**–**	**4**
Total non-interest financing revenues with respect to non-trading purposes	**209**	**351**	**98**
B. Non-interest financing revenues (expenses) with respect to trading operations[4]			
Net revenues (expenses) with respect to other derivative instruments	137	95	39
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	13	(1)	–
Unrealized losses from adjustment to fair value of debentures held for trading, net	(2)	–	(1)
Total from trading operations[6][7]	**148**	**94**	**38**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure			
Interest exposure	59	68	21
Foreign currency exposure	92	21	12
Exposure to shares	(3)	5	5
Exposure to commodities and others	–	–	–
Total	**148**	**94**	**38**

(1) Excludes the effective element in the hedging ratios.
(2) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Reclassified from Cumulative Other Comprehensive Income.
(4) Includes exchange rate differentials resulting from trading operations.
(5) Including gains / losses from measurement at fair value of shares for which fair value is available, and upward / downward adjustment of shares for which no fair value is available.
(6) For interest revenues from investments in debentures held for trading, see Note 2.D.
(7) Financing revenues other than interest from trading operations for 2019, as presented in Note 29, amounting to NIS 141 million (in 2018 and 2017: NIS 131 million and NIS 63 million, respectively), include total revenues from trading operations, as set forth above, amounting to NIS 148 million (in 2018 and 2017: NIS 94 million and NIS 38 million, respectively), as well as exchange rate differentials (difference between exchange rate differentials with respect to ALM derivative operations and exchange rate differentials for balance sheet operations) amounting to NIS (7) million (in 2018 and 2017: NIS 37 million and NIS 25 million, respectively) as set forth above.

Note 4 – Commissions
For the year ended December 31,
Reported amounts (NIS in millions)

	2019	2018	2017
Account management[1]	360	344	325
Credit cards	190	189	174
Activities involving securities	193	199	202
Commissions on distribution of financial products[2]	54	59	55
Provident fund operations	23	23	22
Handling credit	34	31	33
Translation differences	221	208	184
Foreign trade activity	43	43	40
Net revenues from credit portfolio service	43	45	43
Life insurance distribution commissions	107	103	96
Home insurance distribution commissions	17	16	15
Other commissions	42	45	49
Total commissions other than from financing business	**1,327**	**1,305**	**1,238**
Commissions from financing transactions[3]	208	170	185
Total commissions	**1,535**	**1,475**	**1,423**

Note 4A – Revenue from contracts with clients[4]
Reported amounts (NIS in millions)

								2019
	Households – other	**Households – ortgages**	**Private banking**	**Small businesses**	**Commercial banking**	**Business banking**	**Financial management**	**Total**
Account management[1]	146	–	13	164	18	15	4	360
Credit cards	151	–	1	33	3	2	–	190
Activities involving securities	108	–	23	12	4	21	25	193
Commissions on distribution of financial products[2]	50	–	1	2	–	1	–	54
Provident fund operations	–	–	–	–	–	–	23	23
Handling credit	5	4	–	14	1	10	–	34
Translation differences	60	–	17	52	6	12	74	221
Foreign trade activity	–	–	–	16	9	18	–	43
Net revenues from credit portfolio service	9	26	–	–	–	3	5	43
Life insurance distribution commissions	–	107	–	–	–	–	–	107
Home insurance distribution commissions	–	17	–	–	–	–	–	17
Other commissions	8	–	5	3	1	7	18	42
Total commissions other than from financing business	**537**	**154**	**60**	**296**	**42**	**89**	**149**	**1,327**
Commissions from financing transactions[3]	5	5	–	36	17	145	–	208
Total commissions	**542**	**159**	**60**	**332**	**59**	**234**	**149**	**1,535**

(1) In Israeli and foreign currency
(2) Includes distribution commissions from mutual funds and retirement products.
(3) After effect of risk sale by acquiring an insurance policy for Sales Act guarantees, amounting to NIS 67 million (in 2018 and 2017: NIS 54 million and NIS 48 million, respectively).
(4) Classification of revenues to operating segments is based on the management approach.

Note 4A – Revenue from contracts with clients[4] – continued

								2018
	Households – other	**Households – ortgages**	**Private banking**	**Small businesses**	**Commercial banking**	**Business banking**	**Financial management**	**Total**
Account management[1]	137	–	14	155	18	16	4	344
Credit cards	154	–	1	29	3	2	–	189
Activities involving securities	109	–	22	11	4	24	29	199
Commissions on distribution of financial products[2]	55	–	1	2	–	1	–	59
Provident fund operations	–	–	–	–	–	–	23	23
Handling credit	6	4	–	13	1	7	–	31
Translation differences	43	–	17	42	5	12	89	208
Foreign trade activity	–	–	–	15	8	20	–	43
Net revenues from credit portfolio service	5	29	–	1	1	1	8	45
Life insurance distribution commissions	–	103	–	–	–	–	–	103
Home insurance distribution commissions	–	16	–	–	–	–	–	16
Other commissions	8	2	–	7	1	11	16	45
Total commissions other than from financing business	**517**	**154**	**55**	**275**	**41**	**94**	**169**	**1,305**
Commissions from financing transactions[3]	5	2	–	30	14	119	–	170
Total commissions	**522**	**156**	**55**	**305**	**55**	**213**	**169**	**1,475**

(1) In Israeli and foreign currency
(2) Includes distribution commissions from mutual funds and retirement products.
(3) After effect of risk sale by acquiring an insurance policy for Sales Act guarantees, amounting to NIS 54 million.
(4) Classification of revenues to operating segments is based on the management approach.

Note 5 – Other revenues
For the year ended December 31,
Reported amounts (NIS in millions)

	2019	2018	2017
Gain from sale of buildings and equipment	26	–	47
Trustee fees	20	24	23
Revenues from security services	11	11	9
Rent revenues	10	9	9
Other	7	3	6
Total other revenues	**74**	**47**	**94**

Note 6 – Salaries and Related Expenses
For the year ended December 31,
Reported amounts (NIS in millions)

	2019	2018	2017
Salaries (including bonuses)	1,756	(2)(5)1,681	(5)(1)1,586
(3)Expense due to transactions accounted for as share-based payment transactions settled using equity instruments	57	–	24
Other associated expenses, including study fund and paid leave	81	78	76
Long-term benefits	23	22	19
National Insurance and VAT on salaries	428	(5)418	(5)383
Expenses with respect to retirement (including severance pay and provident funds)			
Defined benefit – cost of service(4)	48	48	40
Defined contribution	146	135	121
Other post-employment benefits and post-retirement benefits, other than pension payment(4)	6	7	5
Expenses with respect to other employee benefits	17	18	17
Total salaries and related expenses	**2,562**	**2,407**	**2,271**
Of which: Payroll and associated expenses overseas	**51**	**49**	**46**

(1) For more information about the impact of the collective bargaining agreement with the Employee Union, see Note 22, section 8.
(2) For more information about an arbitration verdict, a collective bargaining agreement with the Manager Council and a payroll agreement in the Technology Division, see Note 22, sections 7-10.
(3) See Note 23 "Share-based Payment Transactions".
(4) See Note 22 "Employees' Rights".
(5) Reclassified.

Note 7 – Other Expenses
For the year ended December 31,

Reported amounts (NIS in millions)

	2019	2018	2017
Expenses with respect to pension (including severance pay and provident funds), defined benefit (excluding cost of service)	76	75	55
Marketing and advertising	67	61	63
Communications	41	41	40
Computer	139	131	129
Office expenses	37	36	34
Insurance	12	12	11
Professional services	113	129	106
Board members' fees	9	9	9
Training and continuing education	15	14	13
Commissions	33	32	30
Cars and travel	36	35	34
Other	78	655	74
Total other expenses	**656**	**1,230**	**598**

Note 8 – Provision for Taxes on Profit
For the year ended December 31,
Reported amounts (NIS in millions)

A. Composition

	2019	2018	2017
Current taxes –			
For the current year	943	1,022	762
For prior years	7	11	22
Total current taxes	**950**	**1,033**	**784**
Changes in deferred taxes –			
For the current year	82	(108)	24
For prior years	(3)	(3)	(2)
Total deferred taxes	**79**	**(111)**	**22**
Total provision for taxes on income	**1,029**	**922**	**806**
Includes provision for income tax overseas	**46**	**62**	**41**

B. The table excludes the tax effect with respect to certain items recognized directly in equity in each period. The tax effect of all items recognized directly in equity amounted to increase by NIS 51 million in 2019, decrease by NIS 43 million in 2018 and increase by NIS 51 million in 2017.

C. Below is a reconciliation between the theoretical tax amount that would be applicable had the profit been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on profit as included in the statement of profit and loss:

	2019	2018	2017
Pre-tax profit	**2,954**	**2,195**	**2,197**
Statutory tax rate applicable to a bank in Israel	**34.19%**	**34.19%**	**35.04%**
Tax amount based on statutory tax rate	1,010	750	770
Tax (tax saving) from:			
Income of subsidiaries in Israel(1)	(3)	5	(5)
Income of subsidiaries overseas	4	(10)	8
Exempt revenues and reduced tax rate revenues	(4)	(2)	–
Adjustment differences on depreciation, amortization and capital gains	(1)	(5)	(5)
Other non-deductible expenses(2)	20	186	10
Temporary differences for which deferred taxes have not been recorded	(1)	(11)	–
Taxes with respect to previous years:			
Additional amounts payable for problematic debts	3	7	8
Others	1	2	18
Other	–	–	2
Total provision for taxes on income	**1,029**	**922**	**806**

(1) Includes revenues of auxiliary corporations.

(2) In 2018, includes expenses amounting to NIS 152 million with respect to DPA signed with the US Department of Justice, for more information see Note 26.C. to the financial statements.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes

	Balances as of December 31,					
	2018	Changes charged to statement of profit and loss	Changes charged to Other Comprehensive Income	Changes charged to equity	2019	Average tax rate in %
Deferred tax assets[1]:						
Provision for credit losses	548	14	–	–	562	34.2
Provision for vacation pay, long-service bonuses and employees' rights	117	(23)	–	–	94	33.4
Excess liabilities with respect to employees' benefits over plan assets	407	19	53	–	479	34.2
Deferred taxes with respect to provision for DPA signed with US DOJ	65	(65)	–	–	–	34.2
Carry-forward tax loss[2]	–	7	–	–	7	34.2
Other – from monetary items	20	(13)	–	–	7	23.0
Other – from non-monetary items	26	–	–	–	26	34.2
Deferred tax balance, gross	**1,183**	**(61)**	**53**	**–**	**1,175**	**34.1**
Provision for tax asset	–	–	–	–	–	
Tax asset balance net of provision for deferred taxes	**1,183**	**(61)**	**53**	**–**	**1,175**	**34.1**
Deferred tax liabilities with respect to[1]:						
Fixed assets and leases	19	4	–	–	23	23.0
Securities[3]	–	–	–	–	–	–
Investments in investees	39	21	–	–	60	12.0
Other – from monetary items[4]	9	(7)	2	–	4	34.2
Other – from non-monetary items, net	–	–	–	–	–	–
Deferred tax liability balance, gross	**67**	**18**	**2**	**–**	**87**	**16.0**
Deferred tax balance, net	**1,116**	**(79)**	**51**	**–**	**1,088**	

(1) The Bank believes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Carry-forward tax loss with respect to overseas subsidiary.

(3) Changes in this item with respect to gain amounting to NIS 50 million due to adjustment of fair value of securities available for sale (previous year – loss amounting to NIS 25 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 2 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 0.4 million) were charged to a separate item in shareholders' equity.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,

Reported amounts (NIS in millions)

D. Deferred tax assets and provision for deferred taxes – Continued

	Balances as of December 31,					
	2017	Changes charged to statement of profit and loss	Changes charged to Other Comprehensive Income	Changes charged to equity	2018	Average tax rate in %
Deferred tax assets[1]:						
Provision for credit losses	512	36	–	–	548	34.2
Provision for vacation pay, long-service bonuses and employees' rights	84	33	–	–	117	33.3
Excess liabilities with respect to employees' benefits over plan assets	430	20	(43)	–	407	34.1
Deferred taxes with respect to provision for DPA signed with US DOJ	24	41	–	–	65	32.4
Other – from monetary items	12	8	–	–	20	27.1
Other – from non-monetary items	30	(4)	–	–	26	34.2
Deferred tax balance, gross	**1,092**	**134**	**(43)**	**–**	**1,183**	**33.7**
Provision for tax asset	–	–	–	–	–	–
Tax asset balance net of provision for deferred taxes	**1,092**	**134**	**(43)**	**–**	**1,183**	**33.7**
Deferred tax liabilities with respect to[1]:						
Fixed assets and leases	12	7	–	–	19	34.2
Securities[2]	–	–	–	–	–	–
Investments in investees	21	18	–	–	39	12.0
Other – from monetary items[3]	10	(1)	–	–	9	34.2
Other – from non-monetary items, net	1	(1)	–	–	–	–
Deferred tax liability balance, gross	**44**	**23**	**–**	**–**	**67**	**21.7**
Tax balance, net	**1,048**	**111**	**(43)**	**–**	**1,116**	

(1) The Bank believes that, with respect to all of the aforementioned deferred taxes, it is more likely than not that future operating results would generate sufficient taxable income to realize these deferred tax assets.

(2) Changes in this item with respect to a loss amounting to NIS 25 million due to adjustment of fair value of securities available for sale (previous year – gain amounting to NIS 8 million) were charged to a separate item in shareholders' equity.

(3) Changes in this item amounting to NIS 0.4 million due to net loss from cash flow hedges (previous year – loss amounting to NIS 3 million) were charged to a separate item in shareholders' equity.

E. In conformity with directives of the Supervisor of Banks, as from January 1, 2017 the Bank recognizes a deferred tax liability with respect to undistributed earnings of subsidiaries accrued since January 1, 2017. Total liability as of December 31, 2019: NIS 60 million (as of December 31, 2018: NIS 39 million).

F. The Bank has a subsidiary in Holland (United Mizrahi International Holding Company Ltd. B.V. Holland). The company in Holland has carry-forward losses which have no effect on the Bank's tax liability.

Note 8 – Provision for Taxes on Profit – continued
For the year ended December 31,
Reported amounts (NIS in millions)

G. Legislation changes with regard to tax

1. Corporate tax

   On December 22, 2016 the Knesset plenum approved the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), 2016, which stipulated a reduction of the corporate tax rate from 25% to 23% in two steps: the first step, to 24%, as from January 2017 and the second step, to 23%, as from January 2018.

   Deferred tax balances were calculated using the new tax rates, as set forth in the Economic Streamlining Act (Legislation Amendments to Achieve Budget Goals for 2017 and 2018 Budget Years), based on the tax rate expected to apply upon the reversal date.

2. VAT, profit tax and payroll tax

   On October 12, 2015, the Knesset plenum enacted the VAT Ordinance (VAT Rate for Non-Profits and Financial Institutions) (Revised), 2015. Stipulating that profit tax and payroll tax rates applicable to financial Institutions would decrease from 18% to 17% as from October 1, 2015. Due to said change, the statutory tax rate applicable to financial institutions decreased to 35% in 2017 and to 34.2% as from 2018.

Following the aforementioned amendments, the statutory tax rates applicable to banking corporations have been amended as follows:

Tax year	Profit tax rate	Income tax rate	Total tax rate
2017	17%	24%	35.04%
2018 and later	17%	23%	34.19%

The tax indebtedness of Bank subsidiaries is determined based on applicable tax rates in those countries. For overseas branches, the Bank supplements the tax indebtedness based on the tax rate in Israel.

H. The Bank has finalized tax assessments through 2016.

The Bank received agreed tax assessments through the 2014 tax year. The agreed assessments include closing of tax assessments with regard to payroll tax for payroll of local employees at overseas branches of the Bank. The Bank paid a non-material amount with respect to this matter.

Bank Yahav has finalized income tax assessments through 2014.

Note 9 – Earnings per Ordinary Share

	For the year ended December 31, Reported amounts (NIS in millions)		
	2019	**2018**	**2017**
Net profit used to calculate earnings per share:			
Basic and diluted earnings per share			
Total net profit attributable to shareholders of the Bank	**1,842**	**1,206**	**1,347**
Weighted average number of shares (in thousands of shares) (1)(2)			
Weighted average number of ordinary shares used to calculate basic earnings	234,268	233,079	232,358
Weighted average number of ordinary shares used to calculate diluted earnings	**235,124**	**234,317**	**233,949**
Earnings per share:			
Total basic earnings attributable to holders of ordinary Bank shares	7.86	5.17	5.80
Total diluted earnings attributable to holders of ordinary Bank shares	7.83	5.15	5.76

(1) Share of NIS 0.1 par value.

(2) The weighted average number of ordinary shares used to calculate diluted earnings per share includes the number of options due to share-based payment transactions. For more information see Note 23 to the financial statements.

Note 10 – Cumulative other comprehensive income (loss)

Reported amounts (NIS in millions)

A. Changes to cumulative other comprehensive income (loss), after tax effect

	Other comprehensive income (loss), before attribution to non-controlling interests						
	Adjustments for presentation of available-for-sale debentures (2018; 2017: securities) at fair value(1)	**Translation adjustments**(2)	**Net gains (losses) from cash flow hedges**	**Adjustments with respect to employees' benefits**	**Total**	**Other comprehensive income attributed to non-controlling interests**	**Other comprehensive income attributable to shareholders of the Bank**
Balance as of January 1, 2017	**(29)**	**1**	**9**	**(303)**	**(322)**	**(5)**	**(317)**
Net change in the period	14	(3)	(5)	(84)(3)	(78)	(12)	(66)
Balance as of December 31, 2017	**(15)**	**(2)**	**4**	**(387)**	**(400)**	**(17)**	**(383)**
Net change in the period	(43)	1	–	78(4)	36	(1)	37
Balance as of December 31, 2018	**(58)**	**(1)**	**4**	**(309)**	**(364)**	**(18)**	**(346)**
Net change in the period	94	–	4	(99)(4)	(1)	(15)	14
Balance as of December 31, 2019	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.

(3) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million.

(4) Primarily consists of the effect of changes in interest rates in the period on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 10 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

B. Changes in items of cumulative other comprehensive income (loss) before and after tax effect

	For the year ended December 31,								
	2019			2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in items of other comprehensive income (loss), before attribution to non-controlling interests:									
Adjustments for presentation of available-for-sale securities at fair value, net[1]									
Net unrealized gains (losses) from adjustments to fair value	179	(62)	117	(60)	22	(38)	66	(23)	43
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss[2]	(35)	12	(23)	(8)	3	(5)	(44)	15	(29)
Net change in the period	**144**	**(50)**	**94**	**(68)**	**25**	**(43)**	**22**	**(8)**	**14**
Translation adjustments									
Adjustments from translation of financial statements[3]	–	–	–	1	–	1	(4)	1	(3)
Net change in the period	**–**	**–**	**–**	**1**	**–**	**1**	**(4)**	**1**	**(3)**
Cash flows hedges									
Net gains (losses) with respect to cash flows hedging	6	(2)	4	–	–	–	(8)	3	(5)
Net (gains) losses with respect to cash flow hedges reclassified to statement of profit and loss[4]	–	–	–	–	–	–	–	–	–
Net change in the period	**6**	**(2)**	**4**	**–**	**–**	**–**	**(8)**	**3**	**(5)**
Employees' benefits									
Net actuarial gain (loss) for the period	(188)	65	[7] (123)	85	(31)	[7]54	(150)	54	[6](96)
Net losses reclassified to the statement of profit and loss[5]	36	(12)	24	36	(12)	24	18	(6)	12
Net change in the period	**(152)**	**53**	**(99)**	**121**	**(43)**	**78**	**(132)**	**48**	**(84)**
Total net change in the period	**(2)**	**1**	**(1)**	**54**	**(18)**	**36**	**(122)**	**44**	**(78)**
Total net change in the period attributable to non-controlling interests	**(24)**	**9**	**(15)**	**(1)**	**–**	**(1)**	**(18)**	**6**	**(12)**
Total net change in the period attributable to shareholders of the Bank	**22**	**(8)**	**14**	**55**	**(18)**	**37**	**(104)**	**38**	**(66)**

(1) For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2.

(2) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.

(3) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.

(4) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.1.

(5) Pre-tax amounts are included under "Salaries and related expenses" in the statement of profit and loss. For more information see Note 22.C.2.

(6) Includes: The effect of update to the assumption of salary cost and update to the remuneration increase rate in the second quarter of 2017, on the actuarial liability for employees' rights at the Bank, amounting to NIS 69 million, net of taxes, as well as the effect of the streamlining plan at Bank Yahav on Bank shareholders' equity amounting to NIS 11 million.

(7) Primarily consists of the effect of changes in interest rates in the period on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 11 – Cash and Deposits with Banks
As of December 31,

Reported amounts (NIS in millions)

	2019	2018
Cash and deposits with central banks	50,924	42,875
Deposits with commercial banks	748	2,287
Total cash and deposits with banks	**51,672**	**45,162**
Includes: Cash, deposits with banks and deposits with central banks for an original period of up to three months	49,448	44,581

For more information about liens see Note 27 below.

Note 12 – Securities

As of December 31, 2019

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(1) Debentures held to maturity					
of Government of Israel	4,032	4,032	61	–	4,093
Total debentures held to maturity	**4,032**	**4,032**	**61**	**–**	**4,093**

	Carrying amount	Amortized cost	Cumulative other comprehensive income		Fair value[1]
			Gains	Losses	
(2) Debentures available for sale					
Of the Government of Israel[2]	3,362	3,308	55	(1)	3,362
Of foreign governments [2][3]	1,440	1,442	1	(3)	1,440
Of foreign financial institutions[4]	362	359	3	–	362
Total debentures available for sale	**5,164**	**5,109**	**[5]59**	**[5](4)**	**5,164**

	Carrying amount	Cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(3) Investment in shares not held for trading	**149**	**104**	**[6] 45**	**–**	**149**
Of which: Shares for which no fair value is available[7]	49	49	–	–	49
Total securities not held for trading	**9,345**	**9,245**	**165**	**(4)**	**9,406**

	Carrying amount	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
(4) Debentures held for trading					
of Government of Israel	427	427	–	–	427
Of foreign governments [3][8]	341	343	–	(2)	341
Total debentures held for trading	**768**	**770**	**–**	**[6](2)**	**768**
Total securities	**10,113**	**10,015**	**165**	**(6)**	**10,174**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) Of which: Securities pledged to lenders, amounting to NIS 502 million and securities provided as collateral to lenders, amounting to NIS 35 million.
(3) US government debentures.
(4) Includes exposure to Multi-party Development Banks (MDB).
(5) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".
(6) Charged to statement of profit and loss but not yet realized.
(7) Generally shown at cost (net of impairment), adjusted for changes in observed prices in ordinary transactions for similar or identical investments of the same issuer. For more information about application of Public Reporting Directives with regard to classification and measurement of financial instruments, see Note 1.C.2
(8) Securities classified as held for trading, because the Bank elected to present them in accordance with the fair value option in Section 20 of Public Reporting Directives, even though they had not been acquired for trade.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.
– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

As of December 31, 2018

Reported amounts (NIS in millions)

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
Debentures held to maturity					
of Government of Israel	3,917	3,917	29	(6)	3,940
Total debentures held to maturity	**3,917**	**3,917**	**29**	**(6)**	**3,940**
	Carrying amount	**Amortized cost (for shares – cost)**	**Cumulative other comprehensive income – Gains**	**Cumulative other comprehensive income – Losses**	**Fair value[1]**
Debentures available for sale					
Of the Government of Israel[2]	4,420	4,452	6	(38)	4,420
Of foreign governments [2][3]	1,862	1,915	–	(53)	1,862
Of foreign financial institutions[4]	484	487	–	(3)	484
Of others overseas	18	19	–	(1)	18
Total debentures available for sale	**6,784**	**6,873**	**6**	**(95)**	**6,784**
Shares[5]	92	92	–	–	92
Total securities available for sale	**6,876**	**6,965**	**[6]6**	**[6](95)**	**6,876**
	Carrying amount	**Amortized cost**	**Unrealized gains from adjustments to fair value**	**Unrealized losses from adjustments to fair value**	**Fair value[1]**
Debentures held for trading					
of Government of Israel	288	288	–	–	288
Total debentures held for trading	**288**	**288**	**–**	**–**	**288**
Total securities	**11,081**	**11,170**	**35**	**(101)**	**11,104**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) Of which: Securities pledged to lenders, amounting to NIS 521 million and securities provided as collateral to lenders, amounting to NIS 111 million.

(3) US government debentures.

(4) Includes exposure to Multi-party Development Banks (MDB).

(5) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 91 million.

(6) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B For more information of investments in shares – see Note 3.A.4.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the securities.

Note 12 – Securities – Continued

Reported amounts (NIS in millions)

(5) Fair value and unrealized losses, by time period and impairment rate, of debentures (2018: securities) available for sale and held to maturity, which include unrealized loss:

	Less than 12 months				12 months or more			
		Unrealized losses				Unrealized losses		
	[(1)]Fair value	0%-20%	20%-40%	Total	[(1)]Fair value	0%-20%	20%-40%	Total
	As of December 31, 2019							
Debentures available for sale								
of Government of Israel	124	[(4)] –	–	–	10	1	–	1
Of foreign governments[(2)]	14	[(4)] –	–	–	979	3	–	3
Total debentures available for sale	**138**	**–**	**–**	**–**	**989**	**4**	**–**	**4**
	As of December 31, 2018							
Debentures held to maturity								
of Government of Israel	[(5)]1,247	6	–	6	–	–	–	–
Total – debentures held to maturity	**1,247**	**6**	**–**	**6**	**–**	**–**	**–**	**–**
Securities available for sale								
of Government of Israel	2,725	34	–	34	678	4	–	4
Of foreign governments[(2)]	429	3	–	3	1,345	50	–	50
Of foreign financial institutions[(3)]	150	[(4)]–	–	–	186	3	–	3
Of others overseas	–	–	–	–	10	1	–	1
Total securities available for sale	**3,304**	**37**	**–**	**37**	**2,219**	**58**	**–**	**58**

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) US government debentures.
(3) Includes exposure to Multi-party Development Banks (MDB).
(4) Balance lower than NIS 1 million,
(5) Amortized cost.

(6) Asset-backed and mortgage-backed securities

As December 31, 2019 and 2018, there was no balance of asset-backed or mortgage-backed securities.

Note 13 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts, loans to the public and balance of provision for credit losses[1]

	December 31, 2019					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: By extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**[2]135,576**	**20,593**	**206,401**	**7,916**	**214,317**
Of which:						
Impaired debts under restructuring	266	–	65	331	–	331
Other impaired debts	866	56	21	943	–	943
Total impaired debts	**1,132**	**56**	**86**	**1,274**	**–**	**1,274**
Debts in arrears 90 days or longer	37	1,476	24	1,537	–	1,537
Other problematic debts	744	–	121	865	–	865
Total problematic debts	**1,913**	**1,532**	**231**	**3,676**	**–**	**3,676**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: Provision by extent of arrears[3]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**
Of which: With respect to impaired debts	**230**	**2**	**22**	**254**	**–**	**254**

	December 31, 2018					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	40,377	60	674	41,111	6,097	47,208
reviewed on group basis	8,801	126,970	19,074	154,845	–	154,845
Of which: By extent of arrears	1,806	126,970	–	128,776	–	128,776
Total debts	**49,178**	**[2]127,030**	**19,748**	**195,956**	**6,097**	**202,053**
Of which:						
Impaired debts under restructuring	290	–	58	348	–	348
Other impaired debts	674	60	19	753	–	753
Total impaired debts	**964**	**60**	**77**	**1,101**	**–**	**1,101**
Debts in arrears 90 days or longer	42	1,251	23	1,316	–	1,316
Other problematic debts	431	–	129	560	–	560
Total problematic debts	**1,437**	**1,311**	**229**	**2,977**	**–**	**2,977**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	563	2	28	593	4	597
reviewed on group basis	115	642	225	982	–	982
Of which: Provision by extent of arrears [3]	6	642	–	648	–	648
Total provision for credit losses	**678**	**644**	**253**	**1,575**	**4**	**1,579**
Of which: With respect to impaired debts	**149**	**2**	**19**	**170**	**–**	**170**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,696 million (as of December 31, 2018 – NIS 7,028 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 18 million (as of December 31, 2018 – NIS 17 million), and provision calculated on group basis, amounting to NIS 475 million (as of December 31, 2018 – NIS 445 million). For more information see Note 6.D.1.

Note 13 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

B. Change in balance of provision for credit losses

	For the year ended December 31, 2019					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs[(1)]	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years[(1)]	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**

	For the year ended December 31, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses	164	36	107	307	3	310
Accounting write-offs[(1)]	(199)	(24)	(153)	(376)	–	(376)
Collection of debts written off for accounting purposes in previous years [(1)]	102	2	64	168	–	168
Net accounting write-offs	(97)	(22)	(89)	(208)	–	(208)
Balance of provision for credit losses at end of period	**766**	**644**	**263**	**1,673**	**4**	**1,677**
Of which: With respect to off balance sheet credit instruments	**88**	**–**	**10**	**98**	**–**	**98**

	For the year ended December 31, 2017					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	46	24	123	193	(1)	192
Accounting write-offs[(1)]	(245)	(9)	(145)	(399)	–	(399)
Collection of debts written off for accounting purposes in previous years[(1)]	174	–	59	233	–	233
Net accounting write-offs	(71)	(9)	(86)	(166)	–	(166)
Balance of provision for credit losses at end of period	**699**	**630**	**245**	**1,574**	**1**	**1,575**
Of which: With respect to off balance sheet credit instruments	**81**	**–**	**9**	**90**	**–**	**90**

(1) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 14 – Loans to Governments

As of December 31,

Reported amounts (NIS in millions)

	2019	2018
Loans to Government of Israel	–	–
Loans to foreign governments	656	630
Total loans to governments	**656**	**630**

Note 15 – Investments in and Details of Investees

As of December 31,

Reported amounts (NIS in millions)

A. Item composition:

	2019	2018
	Associates	Associates
Investment in shares stated on equity basis	(3)	(3)
Subordinated notes and capital notes	35	35
Total investments	**32**	**32**
Of which:		
Losses accrued since acquisition date	(16)	(16)
Post-acquisition items accrued in shareholders' equity:		
Adjustments from translation of financial statements	**(1)**	**(1)**

B. Bank's share in profits (losses) of associates:

	2019	2018	2017
Bank's share in net profits of associates[(1)(2)]	–	1	–

(1) There are no losses or reversal of losses from impairment of investee companies.
(2) The tax effect on earnings of associated companies is less than NIS 1 million.

Note 15 – Investments in and Details of Investees – continued

Reported amounts (NIS in millions)

	Company information	Share in capital conferring rights to profits		Share in voting rights	
		As of December 31,			
		2019	2018	2019	2018
C. Details of principal investees[2]:					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd. [3]	The Bank	50%	50%	50%	50%
Tefahot Insurance Agency (1989) Ltd.	Insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland) [4]	International holding company	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	Securities portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	Issuance company	100%	100%	100%	100%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Associates					
Psagot Jerusalem Ltd. (“Psagot”)	Land for construction	[8]20%	[8]20%	20%	20%
Rosario Capital Ltd. ("Rosario")	Underwriting company	19.99%	19.99%	19.99%	19.99%
Mustang Mezzanine Fund Limited Partnership	Extending credit	20%	20%		
Planus Technology Fund	Extending credit	20%	20%		
3) Main subsidiary of a subsidiary of United Mizrahi Overseas International Holding Ltd. (BV Holland)					
United Mizrahi Bank (Switzerland) Ltd. [6]	Commercial bank	100%	100%	100%	100%

	December 31, 2019		
	Cost	Accumulated amortization	Amortized balance
D. Balance of goodwill with respect to investees[3][13]:	140	53	87

(1) Includes capital notes.

(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank, and whose assets and liabilities and operating results are included in the Bank's financial statements.

(3) Balance of goodwill with respect to acquisition of Bank Yahav is included on the consolidated balance sheet under Intangible Assets and Goodwill.

(4) The Company is incorporated in Holland. regarding a subsidiary of the Company, see section C.3.

(5) Includes loss due to revaluation of the shekel, relative to foreign currency exchange rates, amounting to NIS 19 million (in 2018: gain amounting to NIS 22 million).

(6) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland. The investment is presented on the Bank's financial statements as an affiliate whose functional currency is identical to the Bank's.

(7) Includes loss due to revaluation of the shekel, relative to CHF exchange rate, amounting to NIS 13 million (in 2018: gain amounting to NIS 14 million).

(8) Share of contribution in case of loss is 27%.

(9) Includes goodwill balance included on the consolidated balance sheet under "Intangible assets and goodwill".

	Investment in shares at equity value[9]		Goodwill balance[3]		Other capital investments[1]		Contribution to net profit (loss) attributable to equity holders of the banking corporation		Dividends recorded		Other items accrued under shareholders equity[10]	
	As of December 31,						For the year ended December 31,		For the year ended December 31,		For the year ended December 31,	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	840	777	69	69	–	–	83	68	(5)	–	(15)	(4)
	1,127	1,044	–	–	–	–	83	83	–	–	–	–
	228	236	–	–	–	–	(5) (8)	(5)(12) (68)	–	–	–	–
	27	27	–	–	–	–	–	–	–	–	–	–
	57	54	–	–	–	–	3	4	–	–	–	–
	61	52	–	–	–	–	9	(11) (16)			–	–
									–		–	
	(16)	(16)	–	–	35	35	–	–	–	–	–	–
	2	2	–	–	–	–	–	1	–	(1)	–	–
	11	11	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–
							–				–	
	133	134	–	–	–	–	(7)(12) (1)	(7) (77)	–	–	–	–

(10) Including adjustments from translation of financial statements and adjustments with respect to presentation of certain securities of investees at fair value and changes to Other Comprehensive Income with respect to employee benefits.

(11) Includes provision for claim amounting to NIS 38 million, in conformity with a verdict given against the Company.

(12) Includes attribution of provisions with respect to the investigation by the US Department of Justice and potential tax implications.

(13) The goodwill balance includes goodwill with respect to acquisition of Tefahot Mortgage Bank Ltd., whose amortized balance as of December 31, 2019 amounted to NIS 14 million (identical to amortized balance as of December 31, 2018 and as of December 31, 2017), and with respect to acquisition of Adanim Mortgage Bank Ltd., whose amortized balance as of December 31, 2019 amounted to NIS 4 million (identical to amortized balance as of December 31, 2018 and as of December 31, 2017).

Note 16 – Buildings and Equipment

Reported amounts (NIS in millions)

	Buildings and land (including installations and leasehold improvements) [(2)]	Equipment, furniture, and vehicles	Cost of software	Total
A. Composition				
Cost of assets				
Cost of assets as of December 31, 2017	**1,238**	**1,219**	**1,930**	**4,387**
Additions	34	75	150	259
Disposals	(1)	–	–	(1)
Cost of assets as of December 31, 2018	**1,271**	**1,294**	**2,080**	**4,645**
Additions	36	34	230	300
Disposals	(59)	–	–	(59)
Cost of assets as of December 31, 2019	**1,248**	**1,328**	**2,310**	**4,886**
Depreciation and impairment loss				
Accumulated depreciation as of December 31, 2017	**545**	**983**	**1,456**	**2,984**
Depreciation	36	61	141	238
Impairment	–	–	–	–
Disposals	(1)	–	–	(1)
Accumulated depreciation as of December 31, 2018	**580**	**1,044**	**1,597**	**3,221**
Depreciation	35	36	174	245
Impairment	–	–	–	–
Disposals	(37)	–	–	(37)
Accumulated depreciation as of December 31, 2019	**578**	**1,080**	**1,771**	**3,429**
Carrying amount[(1)]:				
As of December 31, 2017	**693**	**236**	**474**	**1,403**
As of December 31, 2018	**691**	**250**	**483**	**1,424**
As of December 31, 2019	**670**	**248**	**539**	**1,457**
Weighted average depreciation rate as of December 31, 2018	4.1%	13.1%	23.1%	
Weighted average depreciation rate as of December 31, 2019	4.1%	13.2%	23.4%	

B. Additional information

Depreciation rates are as follows:

Buildings	2%-4%
Leasehold improvements	15%
Office equipment and furniture	6%-25%
Vehicles	15%-20%
Computers, software usage rights and costs	20%-33%

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2019 amounting to NIS 401 million (December 31, 2018: NIS 353 million; December 31, 2017: NIS 405 million). For more information about policy on software cost capitalization, see Note 1.D.8.

(2) Installations, rights in leasehold and payments on account of some of the buildings and leasing rights, amounting to NIS 97 million (as of December 31, 2018: NIS 86 million) have yet to be recorded at the Land Registry Office in the name of the Bank or its subsidiaries.

Note 16 – Buildings and Equipment – continued

Reported amounts (NIS in millions)

C. Assets not used by the Group (depreciable balance):

	Consolidated	
	December 31,	
	2019	2018
Not designated for sale	8	18
Includes – leased to others	8	18
Designated for sale[1]	–	3

(1) In addition, assets used by the Group and designated for sale of December 31, 2019 amounted to NIS 23 million (as of December 31, 2018: NIS 10 million).

D. Leasehold rights in buildings (depreciable balance)

	End dates	Consolidated	
	Lease term	December 31,	
	(In years)	2019	2018
Capitalized lease	2-35	65	70
Non-capitalized lease	0-47	11	15

E. As of December 31, 2019, the Bank Group has an obligation to acquire and refurbish buildings, amounting to NIS 17 million (December 31, 2018 – NIS 8 million).

F. In 2017, the Bank acquired land in order to locate, in as much as possible, the Bank's headquarters units in a single site, in Lod. The acquisition cost amounted to NIS 27 million. For information about this commitment, its effect on the financial statements and capital relief authorized by the Supervisor of Banks with regard to streamlining in the real estate sector, see Note 25.

Note 17 – Other Assets

As of December 31,

Reported amounts (NIS in millions)

	December 31,	
	2019	2018
Deferred taxes receivable, net[1]	1,175	1,183
Excess of advance tax payments over current provisions	149	137
Revenues receivable	127	127
Issuance expenses for debentures and subordinated notes[2]	89	76
Other receivables and debit balances	281	287
Total other assets	**1,821**	**1,810**

(1) For further details, see Note 8.

(2) For more information about debentures and subordinated notes see Note 20.

Note 18 – Deposits from the Public

As of December 31,

Reported amounts (NIS in millions)

A. Deposit types by location and depositor type

	2019	2018
In Israel		
On-call		
Non interest-bearing	52,930	47,674
Interest-bearing	28,977	22,667
Total on-call	**81,907**	**70,341**
Term deposits	125,153	123,723
Total deposits in Israel[1]	**207,060**	**194,064**
Outside of Israel		
On-call		
Non interest-bearing	529	652
Interest-bearing	3	4
Total on-call	**532**	**656**
Term deposits	3,392	4,772
Total deposits overseas	**3,924**	**5,428**
Total deposits from the public	**210,984**	**199,492**
(1) Includes:		
Deposits from individuals	**100,915**	**95,896**
Deposits from institutional investors	**45,330**	**37,712**
Deposits from corporations and others	**60,815**	**60,456**

B. Deposits from the public by size

	2019	2018
Maximum deposit (NIS in millions)		
Up to 1	72,152	69,559
Over 1 to 10	50,875	47,240
Over 10 to 100	29,582	26,703
Over 100 to 500	22,193	18,658
Above 500	36,182	37,332
Total	**210,984**	**199,492**

Note 19 – Deposits from Banks

As of December 31,

Reported amounts (NIS in millions)

	December 31,	
	2019	2018
In Israel		
Commercial banks:		
On-call deposits	324	199
Term deposits	296	254
Acceptances	84	172
Outside of Israel		
Commercial banks:		
On-call deposits	9	–
Term deposits	1	–
Total deposits from banks	**714**	**625**

Note 20 – Debentures and Subordinated Notes

As of December 31,

Reported amounts (NIS in millions)

	Average maturity in years(1)	Internal rate of return(2)	December 31,	
			2019	2018
Debentures and subordinated notes not convertible into shares:				
In Israeli currency – non-linked				
Debentures	2.73	2.57%	8,102	8,119
Subordinated notes(3)	3.79	3.30%	192	192
In Israeli currency – CPI-linked				
Debentures	3.54	0.76%	19,000	16,741
Subordinated notes(3)	7.94	1.58%	3,008	2,434
Debentures and subordinated notes convertible into shares:				
In Israeli currency – CPI-linked				
Subordinated notes(3)	4.00	4.74%	3,158	3,130
Total debentures and subordinated notes	**3.78**	**1.64%**	**33,460**	**30,616**

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.
(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.
(3) Upon dissolution, the subordinated notes issued by the Bank and included under this item are repayable after all other liabilities.

Note 20 – Debentures and Subordinated Notes - continued

As of December 31,

Reported amounts (NIS in millions)

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Proper Business Conduct Directive 311 and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are obligatory notes that, if certain events specified in advance in their terms should occur, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank. On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes , with the changes required by the terms of the subordinated notes.
On September 15, 2009, the Bank and the Trustee for the Bank's subordinated capital notes (Series A) signed an addendum, revising the Deed of Trust dated November 16, 2006, which is effective as of the signing date there of ("the revision"). According to the revision, the capital note section stipulating that interest payment to holders of capital notes would be suspended, inter alia, in case "within a period of six consecutive quarters, the financial statements for the most recent of which was published prior to the date set for payment of such interest, the Bank has not reported a cumulative net profit" (i.e. if the simple summation of quarterly net profit or loss amounts stated on the Bank financial statements, with respect to six consecutive quarters, should be negative).
On January 4, 2017, Maalot announced that the subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, are rated ilA+.
The balance of subordinated capital notes (Series A) as of December 31, 2019 amounted to NIS 2,045 million, NIS 1,623 million par value, issued for consideration of NIS 1,644 million. These capital notes are listed for trading on the Tel Aviv Stock Exchange and mature on January 2, 2022.

B. Mizrahi Tefahot Issue Company (“the Company”), a company wholly-owned and controlled by the Bank, issued to the public CPI-linked pursuant to prospectus, debentures and subordinated notes with a par value of NIS 21,086 million and non-linked debentures with a par value of NIS 7,936 million, as of December 31, 2018, and deposited the proceeds in the Bank earmarked for its day-to-day activities.
In 2019, the Company issued contingent subordinated notes (Contingent Convertibles – CoCo) (Series 50) with loss-absorption provisions through principal write-off (compliant with Basel III provisions and recognized by the supervisor of Banks as Tier II capital), with total par value of NIS 1,090 million for consideration of NIS 1,100 million. Tefahot Issuance also issued CPI-linked debentures (Series 49 and 51), with total par value of NIS 5,544 million, for consideration of NIS 5,600 million. These capital notes are listed for trading on the Tel Aviv Stock Exchange.

C. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision. In such case, the notes would be partially or completely written off.
Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part. Rating agency Standard & Poor's Ma'alot rated the contingent subordinated notes ilAA-. In July 2016 and in August 2017, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 218 million and NIS 120 million, respectively. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

In August 2018, Bank Yahav issued, by private placement, contingent convertible subordinated notes (CoCo) amounting to NIS 180 million. The subordinated notes stipulate that in case of a dissolution event, the instrument principal would be erased. These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.
In August 2018, Bank Yahav made a full, early redemption, as approved by the Bank of Israel, of CPI-linked notes amounting to NIS 620 million, issued in 2009 and 2010 to Bank Mizrahi-Tefahot.

Note 21 – Other Liabilities

Reported amounts (NIS in millions)

	December 31,	
	2019	**2018**
Provision for deferred taxes, net[(1)]	87	67
Excess of provision over funding severance pay, retirement and pension[(2)]	1,317	1,134
Unearned revenues	260	236
Accrued expenses	515	437
Provision for unutilized vacations and long- service bonus	180	182
Guarantees payable	114	104
Provision for doubtful debts for off-balance sheet items	119	98
Payables for credit card operations	4,874	4,151
Market value of securities sold short	349	112
[(3)]Provision for US DOJ investigation	–	730
Other payables and credit balances	751	796
Total other liabilities	**8,566**	**8,047**

(1) For further details, see Note 8.
(2) For more information see Note 22 "Employee rights".
(3) For more information about the US DOJ investigation, see Note 26.C.12.

Note 22 – Employees' Rights

A. Description of benefits

1. Below is a summary of the terms of office and employment of the Chairman of the Board of Directors, Mr. Moshe Vidman**.**

   Mr. Moshe Vidman serves as Chairman of the Bank's Board of Directors, in a full-time position equivalent, as from December 1, 2012.

   On February 14, 2017, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Vidman as Chairman of the Bank's Board of Directors in line with a new officer remuneration policy, also approved by the General Meeting on said date, which was made to conform to provisions of the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and following revisions to Proper Conduct of Banking Business Directive 301A on remuneration ("the new remuneration policy").

   For complete information about terms of office and employment of the Chairman of the Board of Directors, see Appendix B to report dated January 9, 2017 (reference no. 2017-01-003454), and report dated February 14, 2017 (reference no. 2017-01-013930) included herein by way of reference.

   The employment term according to the approved employment agreement ("the amended employment agreement") is from December 1, 2016 through December 31, 2017 and will be automatically renewed, every year, for one additional year – all subject to provisions of the amended employment agreement ("the additional employment term").

   Notwithstanding the foregoing, either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

Note 22 – Employees' Rights – Continued

During the advance notice period, the Chairman of the Board of Directors will be required to fully work as usual, but the Bank may waive such notice period, in whole or in part, and may terminate employment of the Chairman of the Board of Directors; in such case, the Bank will pay to the Chairman of the Board of Directors for the portion of the advance notice period for which the Bank waived the Chairman's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

In conformity with the amended employment agreement, the Chairman of the Board of Directors will be entitled to monthly salary of NIS 189,660. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Chairman of the Board of Directors a budget equal to 14.83% for contributions towards provident fund, retirement fund and severance pay payable by the Bank (6.5% for provident fund and 8.33% for severance pay). The Chairman of the Board of Directors is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Chairman of the Board of Directors.

Should the Chairman of the Board of Directors request, from time to time, the Bank would update the Chairman's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Chairman would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

Upon approval of the terms of office and employment of the Chairman of the Board of Directors by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Chairman of the Board of Directors (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 2,746 thousand per annum (for this matter, any remuneration for which expenses are not expected pursuant to GAAP and contribution towards severance pay and provident funds by law would not be taken into account).

Pursuant to terms of employment and office of the Chairman of the Board of Directors, should the maximum remuneration pursuant to the Executive Remuneration Act, including pursuant to Section 2(b) of the Act, allow this, the Bank would pay the Chairman of the Board of Directors an additional fixed remuneration component equal to up to 2 months' salary (based on the salary for December of that year). With respect to this additional fixed remuneration component, the Bank would make all statutory payments and contributions as well as contribution towards severance pay and provident funds by law.

Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Chairman of the Board of Directors would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Chairman of the Board of Directors would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

Upon termination of employment pursuant to the amended employment agreement, the Bank will pay to the Chairman of the Board of Directors an acclimation bonus in exchange for non-competition, equal to three monthly salaries ("Acclimation Bonus for the Chairman of the Board of Directors").

The amended employment agreement clarifies that the Acclimation Bonus payable to the Chairman of the Board of Directors, as noted above, is the only acclimation bonus to which the Chairman of the Board of Directors would be entitled upon termination of their employment term pursuant to the amended employment agreement.

Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Chairman of the Board of Directors the retirement bonus to which the Chairman is eligible pursuant to the Previous Employment Agreement. for the employment term from December 1, 2012 to November 30, 2015, equal to 150% of the Chairman's final salary, according to the Previous Employment Agreement for 2012-2015, multiplied by the number of years in office (three years), in conformity with the Previous Employment Agreement for said period ("Retirement Bonus for the Chairman of the Board of Directors").

Note that the cost of the Retirement Bonus for the Chairman of the Board of Directors and Acclimation Bonus for the Chairman of the Board of Directors, payable to the Chairman of the Board of Directors, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act.

Note 22 – Employees' Rights – Continued

Should the Chairman of the Board of Directors be eligible for severance pay, pursuant to the Severance Pay Law, 1963 ("the Severance Pay Law") and should the amount accrued in the provident fund with respect to Bank contributions towards severance pay (8.33%) and all accrued returns as of the termination date and as reported by the provident fund, be lower than the Severance Pay Amount, as defined in the Severance Pay Law, gross (hereinafter: "statutory severance pay"), then the aforementioned Retirement Bonus for the Chairman of the Board of Directors, in whole or as required, will be on account of the statutory severance pay; should the amount accrued in the provident fund plus the Retirement Bonus for the Chairman of the Board of Directors amount together be lower than the statutory severance pay – then the Bank will make up the difference up to the statutory severance pay.

2. On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013.

   On December 18, 2019, the General Meeting of Bank shareholders approved, in line with the resolution by the Board of Directors and after approval by the Remuneration Committee, the terms of office and employment of Mr. Fresher as Bank President & CEO, in line with a revised officer remuneration policy, also approved by the General Meeting on said date.

   For complete information about terms of office and employment of the Bank President & CEO, see Appendix C to report dated November 11, 2019 (reference no. 2019-01-096900, report dated December 18, 2019 (reference no. 2019-01-111267, and report dated December 22, 2019 (reference no. 2019-01-112224) included herein by way of reference.

   The Bank President & CEO would be entitled to monthly salary of NIS 238,000. This salary is fully linked to changes in the Consumer Price Index. The Bank provides to the Bank President & CEO a budget of 15.83% for contributions to provident, pension and severance pay funds (5% for provident funds and 8.33% for severance pay); the Bank would also obtain, on behalf of the Bank President & CEO, disability insurance by payment at 2.5% or such rate as to provide to the Bank President & CEO a disability pension equal to 75% of their salary, whichever is lower). The Bank President & CEO is also eligible to employer contributions to a study fund at 7.5% of the salary. These amounts are contributed to provident / pension / study funds as selected by the Bank President & CEO.

   Should the Bank President & CEO request, from time to time, the Bank would update the Bank President & CEO's monthly salary, subject to required adjustments and changes to payment of associated expenses, so that any increase or decrease in the salary would be against concurrent decrease or increase in associated expenses and vice versa, provided that the total cost of employment of the Bank President & CEO would remain unchanged, including the tax cost to the Bank, all subject to statutory provisions and subject to the maximum remuneration allowed by the Executive Remuneration Act and the statutory rate of contributions to severance pay and provident funds.

   Upon approval of the terms of office and employment of the Bank President & CEO by the Remuneration Committee and by the Board of Directors, the total maximum remuneration which the Bank may have paid to the Bank President & CEO (subject to obtaining statutory approvals), pursuant to Section 2(b) to the Executive Remuneration Act, amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

   Since the expense with respect to cost of salary to be incurred by the Bank, directly or indirectly, in the tax year with respect to the Bank President & CEO would exceed the "Maximum payment", as defined in Section 4 of the Executive Remuneration Act, part of the remuneration payable to the Bank President & CEO would not be tax deductible for the Bank pursuant to provisions of the aforementioned Section 4.

   Upon termination of employment pursuant to the additional employment agreement, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries ("Acclimation Bonus for the Bank President & CEO").

   Furthermore, upon termination of employment pursuant to the amended employment agreement, the Bank would pay the Bank President & CEO a retirement bonus equal to 150% of the last monthly salary of the Bank President & CEO prior to end of the transition period pursuant to the Executive Remuneration Act (October 12, 2016) multiplied by the number of years of service with the Bank through the end of the transition period, all subject to provisions of Section 4.9.4 of Addendum B to the immediate report issued by the Bank on May 4, 2014 (reference: 2014-01-056838) ("the Retirement Bonus for the Bank President & CEO").

Note 22 – Employees' Rights – Continued

Note that the cost of the Retirement Bonus for the Bank President & CEO and Acclimation Bonus for the Bank President & CEO payable to the Bank President & CEO, as noted above, has been fully provided for on the Bank's financial statements prior to the end of the transition period for the Executive Remuneration Act. The Retirement Bonus for the Bank President & CEO and one half of the Acclimation Bonus for the Bank President & CEO would be deemed variable retirement remuneration, payable in 4 lots, three of which would be deferred and payable in the three years subsequent to the employment termination date. All provided that the financial statements published soon prior to payment of any such deferred lot would not include deviation in excess of 10% of the minimum ratios for total capital adequacy and Tier I capital adequacy.

The Remuneration Committee and the Board of Directors may, at their discretion, award the Bank President & CEO a monetary bonus for each of 2020, 2021 and 2022, amounting up to three months' salary. Notwithstanding the foregoing, should the Remuneration Committee and the Board of Directors resolve that the performance-based bonus awarded for a given year to officers (other than the Bank President & CEO or Board members) would also include equity-based remuneration, they may resolve, at their own discretion, that the performance-based remuneration to be awarded to the Bank President & CEO for the bonus year would also include equity-based remuneration.

Eligibility of the Bank President & CEO for any performance-based remuneration, should it be awarded, would be contingent on the Bank's total capital adequacy ratio and Tier I capital adequacy ratio, in conformity with the Bank's annual financial statements for the bonus year, would not be lower than the minimum ratios stipulated by Bank of Israel directives.

The variable remuneration to be awarded to the Bank President & CEO would be subject to restitution provisions as per Section 6.10 of Addendum B to the Immediate Report issued by the Bank on November 11, 2019 (reference no. 2019-01-096900.

Either party may announce discontinuation of employment at any time during the additional employment period, for any reason and with no need to justify their position to the other party, subject to providing six months' advance notice to the other party.

During the early notification period, the Bank President & CEO would be required to work as usual and in full, but the Bank may waive such period, in whole or in part, and may terminate the work of the Bank President & CEO. In such case, the Bank will pay to the Bank President & CEO for the portion of the notice period in which the Bank waived the Bank President & CEO's work – in an amount equal to the salary for the waived period plus an amount equal to Bank contributions to provident fund, retirement fund, severance pay and study fund as stated above.

3. Officer remuneration policy

On December 18, 2019, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (hereinafter "revised officer remuneration policy"), effective for three (3) years as from January 1, 2020. The revised remuneration policy incorporates provisions of the Corporate Act, 1999, the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016 ("the Executive Remuneration Act") and Proper Conduct of Banking Business Directive 301A "Remuneration" with general principles which the Bank's Board of Directors, after recommendations by the Remuneration Committee, saw fit to adopt with regard to officer remuneration at the Bank with due attention, inter alia, to the Bank's strategic plan and to current employment terms of officers at the Bank.

In 2019, the officer remuneration policy in effect was the policy approved, after recommendation from the Remuneration Committee and approval by the Board of Directors, by the General Meeting of shareholders on February 14, 2017, and the remuneration policy for all Bank employees other than officers, approved in March 2017 by the Bank Board of Directors, after approval by the Remuneration Committee.

The revised remuneration policy incorporates povisions of the Corporate Act and the Supervisor of Bank's directives with regard to remuneration. The remuneration of officers, other than Board members, will include two major components: monthly salary (and associated components) and performance-based variable remuneration (based on the Bank's performance targets, on individual performance benchmarks and including discretionary remuneration), to include a monetary bonus and which may include long-term equity-based remuneration not to exceed one half of the performance-based variable remuneration. The remuneration package may also include remuneration related to retirement.

The mid-term remuneration (annual bonus) and the long-term remuneration are designed to align the interests of officers with those of the Bank and to strengthen the link between overall Bank performance and the officer's contribution to achievement of such performance to the officer's remuneration, in line with the Bank's risk profile.

Note 22 – Employees' Rights – Continued

In conformity with the remuneration policy, the maximum variable remuneration shall not exceed 85% of the fixed remuneration, except under special conditions, where the maximum variable remuneration may not exceed 170% of the fixed remuneration. The Bank's Board of Directors also stipulated that the maximum variable remuneration for officers who are gatekeepers would not exceed 55% of fixed remuneration and that such officers would be eligible for an additional fixed component (named "Retention bonus" in the previous policy) equal to two months' salary, which constitutes fixed remuneration pursuant to the remuneration policy.

In conformity with the remuneration policy, the maximum remuneration as defined in the Executive Remuneration Act (i.e. excluding payments for severance pay and provident funds by law) for the Chairman of the Board of Directors and the Bank President & CEO would be less than 35 times the lowest salary of any full-time Bank employee, including contractors. The maximum remuneration of other officers (other than Board members) would be NIS 2.5 million (plus linkage differentials to the Consumer Price Index, as set forth in the Executive Remuneration Act).

The policy stipulates that the variable remuneration may be subject to restitution, in whole or in part, under circumstances listed in the remuneration policy.

For more information about the revised remuneration policies, its guidelines and scope – see Addendum B to Immediate Report dated November 11, 2019 (reference no. 2019-01-096900, report dated December 18, 2019 (reference no. 2019-01-111267, and report dated December 22, 2019 (reference no. 2019-01-112224) included herein by way of reference.

As from January 1, 2017, the notice period to the Bank from the Bank President & CEO and from other officers reporting there to, including the Chief Internal Auditor with regard to termination of their employment with the Bank, would be of 6 months.

4. Senior officers are eligible upon their retirement to an acclimation grant equal up to six months' salary, for which a provision was recorded in the financial statements.

5. Remuneration policy for all Bank employees

   In February 2020, the Board of Directors resolved, after receiving the recommendation from the Remuneration Committee, to approve a revised remuneration policy for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above (hereinafter: "the revised remuneration policy for all Bank employees").

   The revised remuneration policy for all Bank employees discusses remuneration terms of key employees at the Bank and those of other managers at the Bank and of other Bank employees for 2020-2022. In 2019, the effective remuneration policy for employees other than officers was the one approved in March 2017.

   The terms of office or employment of Bank employees include fixed and variable remuneration, as customary at the Bank, as well as retirement terms and any other benefit, payment or commitment to make a payment, provided with respect to the aforementioned office or employment.

6. In May 2019, options with respect to 2019 were allotted to Bank officers and to key employees and other managers at the Bank and at Bank subsidiaries. For more information about this allotment, see Note 23.B.4.

7. On September 16, 2009, a special collective bargaining agreement was signed with the Employee Union – clerks sector, whereby the special collective bargaining agreement signed on April 27, 2006 was extended by a further 5 years, from January 1, 2011 through December 31, 2015. This agreement was approved by the Bank Board of Directors on October 19, 2009.

   In late 2015, an economic arbitration process (hereinafter: "arbitration") was launched between the Bank and the Mizrahi Tefahot Employees Union ("the Employee Union"), to discuss the demands made by the Employee Union for 2005-2015.

   On January 28, 2019, an arbitration verdict was issued to the Bank and the Employees' Association, which stipulated that the Bank is to pay a one-time compensation payment, amounting to NIS 94.3 million (cost) to employees who are members of the Employees' Association, who worked for the Bank from January 1, 2005 through December 31, 2015, or during part of this period, and who work for the Bank on the date of issue of this arbitration verdict, as well as to employees who are members of the Employees' Association who worked during said period and retired after June 30, 2013 due to reaching the retirement age. This compensation is payable in two installments: in May 2019 and in April 2020. The arbitration verdict also accepted some of the demands for various benefits, including an increase of contribution to provident funds, to 7% as from January 1, 2019 and to 7.5% as from January 1, 2021.

   The 2018 financial statements included expenses amounting to NIS 94.3 million (NIS 62 million after tax) with respect to the non-recurring compensation. Moreover, the Bank estimates the additional payroll expenses per year, as from 2019, at NIS 15 million (before tax).

Note 22 – Employees' Rights – Continued

8. On December 3, 2017, a collective bargaining agreement was signed with the Employees' Union and on December 11, 2017 this agreement was approved by the qualified organs of the Bank (hereinafter: "the new collective bargaining agreement").

   Below are highlights of the new collective bargaining agreement:

   - The agreement applies to the period 2016-2021.
   - Full and complete labor relations would be maintained throughout the term of the agreement.
   - Bank employees would be engaged and would assist in successful completion of moves to acquire and/or merge another bank, other than the four major banks and including success of the merger with Bank Union LeIsrael Ltd. at no additional cost to the Bank.
   - During this period, fixed pay increases and differential pay increases would be given.
   - The seniority increase to be given to new employees hired by the Bank as from signing the agreement would be lower than the current one.
   - A bonus would be given contingent on Bank performance (return on equity), including a gradual increase based on achievement of the strategic plan targets.
   - Employees employed by the Bank upon signing the agreement would receive a special perseverance and engagement bonus, equal to one half of a 13th monthly salary (based on the value as of the agreement signing date), for each year from 2018 through 2021 in return for their actual work during these years, where the bonus part with regard to 2019 being contingent on overall agreement as to how Bank Union employees would be included in the collective bargaining agreement. The contingent part has been postponed until 2021.
   - The voluntary retirement plan approved by the Bank's Board of Directors on December 27, 2016 would be implemented.
   - Various understandings were reached to allow the Bank additional managerial flexibility with regard to human resources.

9. On December 20, 2018, a collective bargaining agreement was signed with the Managers' Organization for 2018-2022. Below are highlights of the new collective bargaining agreement:

   - This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global overtime and expense reimbursement (per diem, car expenses, education and so forth).
   - The base pay includes all fixed monthly pay components paid prior to the effective start date of this agreement, except for additional seniority pay and additional management pay.
   - The annual additional seniority pay would be at 1% of the base pay.
   - The additional management pay would be determined based on managerial complexity.
   - Overtime will be paid on a global basis.
   - Updated contribution towards expenses for kindergarten, after-school activity and higher education for managers' children.
   - Voluntary retirement program.
   - Monthly pay increase of NIS 2,500 per manager, as from January 1, 2018.
   - Differential pay increase for managers for 2019-2022 (based on return on equity for 2020-2022).
   - Absolutely complete calm labor relations throughout the term of the agreement.

10. Labor and payroll agreements at the Technology Division

    Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employee Council, the Labor Union and the Technology Division over the years.

    Employees of the Technology Division have their pay linked to the pay for Bank employees.

    On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

11. Some Bank employees who take early retirement, sometimes receive, upon retirement, higher amounts than their entitlement pursuant to the law and to agreements. Sometimes the Bank pays these employees a pension until they reach the full retirement age. According to the Supervisor of Banks' directive, an actuarial reserve with respect to these payments is included on the financial statements.

Note 22 – Employees' Rights – Continued

12. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

    Note that the retiring employees, who would be allowed to take such early retirement, include Bank employees and 50 employees of a wholly-owned and wholly-controlled subsidiary of the Bank, Mizrahi-Tefahot Technology Division Ltd. The number of retiring employees from each group may change, but the total number will not exceed 300.

    In conformity with the streamlining plan, the retiring employees would be entitled to an early pension through the official retirement age or to increased severance pay at 150% (in addition to receiving ownership of provident fund accounts in their name), based on the criteria listed in the plan. It is possible that retirement terms and conditions could offer additional, non-material benefits to such employees.

    The cost of update to the actuarial liability with respect to the streamlining program, recorded on the financial statements as of December 31, 2016, amounted to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged in that quarter to equity (under Other Comprehensive Income).

13. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. Bank retirees are also eligible to receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

14. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority. These employees are entitled upon retirement to moneys and other rights accrued on their behalf in various funds as well as to advance termination notice three to six months in advance. The Bank has no intention to terminate any of these senior Bank employees. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

15. Reserves with respect to long-service bonuses and voluntary retirement programs were made based on an actuarial calculation, with the discount rate based on the yield of Government debentures in Israel plus the average yield spread for corporate debentures rated AA (international rating scale) or higher upon the report date. For practical reasons, the spread would be determined by the difference between yields to maturity, by terms to maturity, for corporate debentures rated AA or higher in the USA – and yields to maturity, for the same terms to maturity, for US government debentures, all as of the reporting date.

    The calculation takes into account future real increase in pay of between 3.50%-4.50%.

    The provision with respect to voluntary retirement was calculated in conformity with the retirees' eligibility to have their pension linked to the Consumer Price Index.

16. Long-service bonuses

    Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

17. Reserve with respect to tuition pay

    Bank employees under the collective bargaining agreement hired by August 16, 2017 are entitled to tuition reimbursement for biblical studies and for higher education, based on reimbursement percentage customary at the Bank. A provision for these liabilities was recorded in the financial statements according to an actuarial calculation based on past experience and the likelihood that the employee is still employed by the Bank.

18. Bank Yahav has a defined benefit plan, funded and unfunded, with respect to all of its employees. The plan provides a defined benefit based on years of service and most recent salary.

    Bank Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident and pension funds in the name of the employees. Bank Yahav customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds. Bank Yahav may not withdraw the funded amounts other than for severance payment.

Note 22 – Employees' Rights – Continued

To some of its employees, Bank Yahav committed to transfer, upon termination of their employment for any reason, the severance pay component of recognized provident funds (pursuant to Section 14 of the Severance Pay Law). The Bank is not required to supplement the difference for these employees between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

In 2017, the Bank Yahav Board of Directors approved the voluntary retirement program, as recommended by Bank Yahav management.

Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the program, early retirement of employees would be authorized subject to criteria set forth in the program. The costs of actuarial liability with respect to employees amounted to NIS 35 million before tax (NIS 23 million after tax effect).

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration for 2018-2022.

B. Liability amounts with respect to benefits by type:

	December 31,	
	2019	2018
	NIS in millions	
Post-retirement benefits[1]		
Liability amount	184	140
Benefits post termination and prior to retirement[2]		
Liability amount	1,269	1,110
Fair value of plan assets	136	116
Excess liability over plan assets	**1,133**	**994**
Benefits prior to termination[3]		
Liability amount	115	99
Excess liability included under Other Liabilities	**1,432**	**1,233**
Of which: With respect to overseas employee benefits	**10**	**10**

(1) Holiday gifts and other post-retirement employee benefits

(2) Pension, severance pay and other benefits on defined-benefit plan, including balance of liability with respect to employees who have retired.

(3) Primarily jubilee bonus and tuition for current employees.

C. Defined benefit plans (pension, severance pay and other benefits)[1]

1. Obligations and funding status

1.1. Change in obligations with respect to expected benefit

	December 31,	
	2019	2018
	NIS in millions	
Obligation with respect to expected benefit at start of period	1,250	1,325
Cost of service	51	51
Cost of interest	47	42
Actuarial loss (gain)	181	(91)
Benefits paid	(76)	(77)
Obligation with respect to expected benefit at end of period	**1,453**	**1,250**
Obligation with respect to cumulative benefit at end of period[2]	**1,319**	**1,068**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Excludes any assumptions with regard to level of future remuneration.

Note 22 – Employees' Rights – Continued

1.2. Change in fair value of plan assets and plan funding status

	December 31,	
	2019	2018
	NIS in millions	
Fair value of plan assets at start of period	116	121
Actual return on plan assets	17	(1)
Deposits to plan by the Bank	6	6
Benefits paid	(3)	(10)
Fair value of plan assets at end of period	**136**	**116**
Funding status – net asset recognized at end of period	**136**	**116**

1.3. Amounts recognized on the consolidated balance sheet

	December 31,	
	2019	2018
	NIS in millions	
Amounts recognized under Other Liabilities	**1,317**	**1,134**

1.4. Amounts recognized under Other Comprehensive Income (Loss), before tax effect

	December 31,	
	2019	2018
	NIS in millions	
Net actuarial loss	(615)	(463)
Net liability with respect to transition	–	–
Total – recognized under Other Comprehensive Income	**(615)**	**(463)**

1.5. Plans for which the obligation with respect to cumulative and expected benefit exceeds plan assets

	December 31,	
	2019	2018
	NIS in millions	
Obligation with respect to expected benefit	1,453	1,250
Obligation with respect to cumulative benefit	1,319	1,068
Fair value of plan assets	136	116

Note 22 – Employees' Rights – Continued

C. Defined benefit plans (pension, severance pay and other benefits)[1] – Continued

2. Expenses during the reported period

2.1. Net benefit cost components recognized on Profit and Loss

	For the year ended December 31,		
	2019	2018	2017
	NIS in millions		
Under payroll and associated expenses			
Cost of service	51	51	42
Under other expenses			
Cost of interest	47	42	42
Expected return on plan assets	(4)	(5)	(4)
Deduction of non-allowed amounts:			
Net actuarial loss	36	36	18
Total under other expenses	79	73	56
Total benefit cost, net	**130**	**124**	**98**

2.2. Changes to plan assets and benefit obligation recognized under Other Comprehensive Income (Loss), before tax effect

	For the year ended December 31,		
	2019	2018	2017
	NIS in millions		
Net actuarial loss (gain) for the period	188	(85)	150
Amortization of actuarial loss[2]	(36)	(36)	(18)
Total – recognized under Other Comprehensive Income	**152**	**(121)**	**132**
Total benefit cost, net	**130**	**124**	**98**
Total recognized under benefit cost, net for the period and under Other Comprehensive Income	**282**	**3**	**230**

2.3. Estimated amounts included under Cumulative Other Comprehensive Income expected to be deducted from Cumulative Other Comprehensive Income to the Statement of Profit and Loss as expense in 2020, before tax effect

	NIS in millions
Net actuarial loss	40
Total expected to be deducted from Cumulative Other Comprehensive Income	**40**

(1) Post-employment pre-retirement benefits and post-retirement benefits, including balance of liability with respect to employees who have retired.

(2) Actuarial loss due to current changes in discount rates during the reported year would be amortized using the straight line method over the remaining average terms of service for employees expected to receive benefits over the plan term or, alternatively, over the average remaining term for receipt of benefits by employees. See also Note 1.D.12 to the financial statements.

Note 22 – Employees' Rights – Continued

3. Assumptions

3.1 Assumptions based on weighted average, used to determine the obligation with respect to benefit and to measure the benefit cost, net

3.1.1. Key assumptions used to determine the obligation with respect to benefit:

	December 31,	
	2019	2018
		In %
Discount rate	0.57	1.92
Discount rate – CPI	2.00	2.00
Departure rate	2.65	3.52
Remuneration increase rate	3.50	2.14

3.1.2. Key assumptions used to measure benefit cost for the period (in %):

	December 31,		
	2019	2018	2017
			In %
Discount rate	4.02	3.25	3.77
Expected long-term return on plan assets	3.52	3.85	3.85
Remuneration increase rate	3.50	2.14	2.34

3.2. Effect of change of 1 percentage point on obligation with respect to expected benefit, before tax effect:

	Increase by 1 percentage point		Decrease by 1 percentage point	
	December 31,		December 31,	
	2019	2018	2019	2018
Discount rate	(141)	(103)	173	125
Departure rate	157	101	(159)	(117)
Remuneration increase rate	105	80	(88)	(67)

Note 22 – Employees' Rights – Continued

4. Plan assets

4.1. Fair value composition of plan assets

Property type		December 31, 2019	December 31, 2018
Shares		34	33
Government assistance to legacy pension funds		10	8
Other		17	14
Debentures:	Government	40	10
	Designated Government	9	26
	Corporate	26	25
Total		**136**	**116**

4.2. Fair value of plan assets by asset type and allocation target for 2020 (in %)

Property type		Allocation target For 2020	Percentage of plan assets As of December 31, 2019	Percentage of plan assets As of December 31, 2018
Shares		23	25	29
Government assistance to legacy pension funds		8	8	7
Other		9	12	12
Debentures:	Government	33	29	9
	Designated Government	7	7	22
	Corporate	20	19	21
Total		**100**	**100**	**100**

5. cash flows

5.1. Deposits to defined-benefit pension plan

Property type	Allocation target For [(1)]2020	Actual deposits For the year ended December 31, 2019	Actual deposits For the year ended December 31, 2018
Deposits	7	6	6

(1) Estimated deposits expected to be paid into defined-benefit pension plans in 2020.

5.2 Cash flows – Benefits which the corporation expects to pay in future:

Year	NIS in millions
2020	101
2021	104
2022	91
2023	88
2024	84
2025-2029	319
2030 and later	695
Total	**1,482**

Note 23 – Share-based Payment Transactions

A. Stock option plan for the President

As part of the option plan and in conformity with its terms and conditions, the Bank will allot to a trustee, on behalf of the Bank President & CEO, options in three annual lots as follows: 186,915 options for 2014, 177,720 options for 2015 and 172,503 options for 2016. Each option may be exercised for one Bank ordinary share of NIS 0.1 par value, subject to adjustments for bonus share distribution, rights issuance, share split or reverse-split, dividend distributions etc.

Assuming full exercise of all options, and assuming allotment of the maximum possible number of exercise shares, all options allotted under the stock option plan to the Bank President pursuant to the option plan (based on the report "Equity status and securities registries of the corporation and changes there to", issued by the Bank on April 10, 2014) would be equal to 0.23% of the Bank's issued share capital and voting rights (after allotment of the full number of exercise shares), and assuming full dilution – 0.18% of the Bank's issued share capital and voting rights.

The President & CEO's eligibility for options allotted with respect to any bonus year is contingent on the following threshold conditions being fulfilled for the bonus year:

1. Return on equity for the bonus year shall be at least 9%.
2. Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives.

The Bank President's eligibility for options included in any annual lot would be calculated soon after publication of the Bank's financial statements for the bonus year for which the annual lot has been allotted, based on fulfillment of the specified eligibility conditions.

Each of the annual lots for 2014-2016 would vest in three equal parts as from April 1 of 2016-2020.

The exercise price for each option to be allotted to the Bank President pursuant to the plan is NIS 46.19[(1)] plus CPI linkage differentials, from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date. The exercise price was determined based on the average closing price per Bank ordinary share on the stock exchange over the thirty trading days preceding the date of approval by the Board of Directors. Accordingly, note that on the exercise date, the Bank President would not be required to pay the exercise price – which would only serve to determine the monetary benefit amount and the number of exercise shares actually allotted to the Bank President.

For calculation of fair value as of approval of the option award by the General Meeting of Bank shareholders, as noted above, the following terms of the option plan were taken into account as well as annualized standard deviation between 26.7%-32.1%, reflecting the standard deviation for periods of 3.41-7.42 years. Risk-free interest ranges between (0.82%)-0.55% for the various lots.

Based on these assumptions, the average fair value of each option awarded to the Bank President pursuant to the option plan, as of the approval date of option award by the General Meeting of Bank shareholders, is as follows: Options included in the first lot – NIS 7.90; options included in the second lot – NIS 8.37; options included in the third lot – NIS 8.67.

Accordingly, the theoretical benefit value of the options in this plan (the fair value), calculated in accordance with accounting standards, amounts to NIS 4.5 million (NIS 5.3 million including Payroll Tax). This value will be recognized over the eligibility period in non-linear fashion.

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the Bank President from exercise of these options shall be taxed at the marginal tax rate applicable to the Bank President upon exercise of the options. The Bank would be required to pay the payroll tax with respect to the benefit arising to the President from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the Bank President & CEO, the Bank may make a deduction for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

In 2019 some 198,861 options (2018: 77,884 options) were exercised at an exercise price of NIS 46.19[(1)] (identical to 2018). The average share price upon exercise of options into shares in 2019 was NIS 76.05 (in 2018: NIS 69.77). In conformity with financial results for 2016, in 2017, some 50,827 options with an exercise price of NIS 46.19[(1)] expired. As of December 31, 2019, the Bank President & CEO had 40,558 options (as of December 31, 2018: 239,419 options; as of December 31, 2017: 317,303 options) at an exercise price of NIS 46.19[(1)] (identical to 2017-2018).

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(1) Plus linkage differentials and adjustment.

Note 23 – Share-based Payment Transactions – continued

B. Stock option plan for employees

1. On June 10, 2014, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank (for details see section C. above).

   On June 19, 2014, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 16, 2014, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Act, all as delisted a report issued by the Bank on June 19, 2014, reference 2014-01-091176 (hereinafter: "the outline report").

   As resolved by the Board of Directors on June 19, 2014, the following option plans were approved:
   - **Option plan A** – up to 2,083,197 options A to be awarded to up to eight Bank officers who are not gatekeepers, exercisable for up to 2,083,197 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan B** – up to 873,066 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 873,066 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan C** – up to 2,708,060 options C to be awarded to up to forty-three key Bank employees and up to ten managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 2,708,060 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan D** – up to 1,183,110 options D to be awarded to up to twenty-eight managers employed by the Bank subject to individual employment contracts and up to eight managers at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 1,183,110 Bank ordinary shares of NIS 0.1 par value each.
   - **Option plan E** – up to 5,046,390 options E to be awarded to up to two hundred fifty-three managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 5,046,390 Bank ordinary shares of NIS 0.1 par value each.

   Threshold conditions and eligibility conditions for options

   An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:
   - Return on equity for the bonus year shall be at least 9%.
   - Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives.

   In addition, eligibility conditions for options would be based on the following criteria:
   - Options A and options B to be issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in any annual lot would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").
   - The total weight assigned to quantitative benchmarks would be 80% of the annual lot of options A or options B. The total weight assigned to the qualitative benchmarks would be 20%: the weight assigned to the individual target benchmark would be 10% and the weight assigned to the supervisor's discretion benchmark would be 10%.

   Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

   The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to benchmark, operating efficiency ratio and average ratio of deposits to loans.

   The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 96 million (NIS 113 million including Payroll Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

Note 23 – Share-based Payment Transactions – continued

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options shall be taxed at the marginal tax rate applicable to the offerees upon exercise of the options. The Bank would be required to pay the wages tax with respect to the benefit arising to the offerees from exercise of the options under the stock option plan. Furthermore, upon payment of the tax with respect to this benefit by the offerees, the Bank may make deduct the expenses for tax purposes with respect to the aforementioned options based on the effective tax rate applicable upon the exercise date.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated June 19, 2014, reference 2014-01-091176. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

On August 3, 2015, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve the outline of an offering to employees, whereby the Bank would allot 229,990 options to 19 offerees who are managers at the Bank.

The option plan is based on the principles of the stock option plan approved by the Bank in 2014, according to which the Bank allotted options to managers on June 19, 2014. See below.

The options were allotted as follows:

- Up to 11,494 options D to be awarded to up to one Bank officer who is employed by an individual employment contract, exercisable for up to 11,494 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan D dated June 19, 2014.
- Up to 218,496 options E to be awarded to up to eighteen managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 218,496 Bank ordinary shares of NIS 0.1 par value each. In conformity with Option Plan E dated June 19, 2014.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting standards, amounts to NIS 1.6 million (NIS 1.9 million including Wages Tax). When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated August 3, 2015, reference 2015-01-088305. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on June 19, 2014:

	Lot 1	Lot 2	Lot 3	Total
Option plan A				
Number of options (in thousands)	728	690	665	2,083
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.70	8.12	8.43	
Total fair value per lot, NIS in thousands	5,605	5,605	5,605	16,815
Option plan B				
Number of options (in thousands)	314	284	275	873
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.73	8.17	8.43	
Total fair value per lot, NIS in thousands	2,428	2,319	2,319	7,066
Option plan C				
Number of options (in thousands)	917	896	896	
Annualized standard deviation	20.07%-28.99%	22.00%-34.72%	25.94%-35.64%	2,709
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	0.08%-(0.45%)	0.64%-(0.87%)	1.08%-(0.70%)	
Term to expiration (in years)	2.75-4.75	3.75-5.75	4.75-6.75	
Fair value per single option	7.64	8.06	8.35	
Total fair value per lot (NIS in thousands)	7,006	7,222	7,482	21,710
Option plan D				
Number of options (in thousands)	394	394	394	1,182
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	3,317	3,219	3,010	9,546
Option plan E				
Number of options (in thousands)	1,682	1,682	1,682	5,046
Annualized standard deviation	20.07%-27.06%	22.00%-28.31%	25.94%-26.81%	
Exercise price (in NIS)	46.21	46.21	46.21	
Risk-free interest rate	(0.12%)-(0.16%)	0.26%-(0.87%)	0.61%-(0.70%)	
Term to expiration (in years)	4.50	4.50	4.50	
Fair value per single option	8.42	8.17	7.64	
Total fair value per lot (NIS in thousands)	14,162	13,742	12,850	40,754

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots awarded on August 3, 2015:

	Lot 1	Lot 2	Total
Option plan D			
Number of options (in thousands)	6	6	12
Annualized standard deviation	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	(1)47.76	(1)47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	40	40	80
Option plan E			
Number of options (in thousands)	109	109	218
Annualized standard deviation	17.48%-21.01%	17.48%-22.92%	
Exercise price (in NIS)	47.76	47.76	
Risk-free interest rate	(0.58%)-(0.86%)	(0.45%)-(0.86%)	
Term to expiration (in years)	3.50	3.50	
Fair value per single option	7.08	6.91	
Total fair value per lot (NIS in thousands)	774	755	1,529

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2019		2018		2017	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	2,951,940	46.22	4,827,012	46.23	8,071,922	46.24
Granted during the year	–	–	–	–	–	–
Forfeited during the year	–	–	–	–	1,297,047	46.26
Exercised during the year(1)	2,510,956	46.23	1,875,072	46.26	1,947,863	46.26
Outstanding at year end	440,984	46.21	2,951,940	46.22	4,827,012	46.23

(1) The weighted average share price upon exercise of options into shares during 2019 was NIS 71.75 (2018 – NIS 67.94).

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
(in NIS)	**40-50**	**40-50**	**40-50**
Number of stock options	440,984	2,951,940	4,827,012
Weighted average exercise price (in NIS)	46.21	46.22	46.23
Weighted average remaining contractual term (in years)	1.68	1.10	1.77
Of which vested:			
Number of stock options	30,822	1,724,155	2,389,747
Weighted average exercise price (in NIS)	46.21	46.23	46.26

Note 23 – Share-based Payment Transactions – continued

4. On February 14, 2017, the General Meeting of Bank shareholders approved, after approval by the Board of Directors and recommendation by the Remuneration Committee, the revised officer remuneration policy at the Bank, effective for three years as from January 1, 2017.
On August 31, 2017, the Bank's Board of Directors approved, after approval by the Remuneration Committee on June 12, 2017, the offering of options to Bank officers, pursuant to section 15B(1)(a) of the Securities Act. Further, the Bank's Board of Directors approved, after approval by the Remuneration Committee, an option offering to key Bank employees and to other managers of the Bank and its subsidiaries, pursuant to section 15B(1)(a) of the Securities Law, all as described in a report issued by the Bank on August 31, 2017, reference 2017-01-088584 (hereinafter: "the outline report"). (In addition, stock option reserves were approved to be issued in two additional annual lots for 2018 and 2019, in addition to those allocated in 2017, which issue would be subject to the required approvals from the Remuneration Committee and the Board of Directors in due course).

As resolved by the Board of Directors on August 31, 2017, the following option plans were approved:

- Option plan A – up to 572,985 options A to be awarded to up to seven Bank officers who are not gatekeepers, exercisable for up to 572,985 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 254,076 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 254,076 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 180,353 options C to be awarded to up to four key Bank employees and up to three key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 180,353 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 978,796 options D to be awarded to up to sixty-nine managers employed by the Bank subject to individual employment contracts and up to thirty-one other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 978,796 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 1,365,244 options E to be awarded to up to two hundred sixty-seven managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,365,244 Bank ordinary shares of NIS 0.1 par value each.

The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C were in three equal lots, which may be exercised as from April 1, 2019, April 1, 2020 and April 1, 2021 and would expire eighteen months after said date.
All options issued pursuant to option plans D and E may be exercised in a single lot from the 2nd to the 5th anniversaries of the issue date.
An offeree's eligibility for options pursuant to each of the aforementioned option plans, for any bonus year, is contingent on fulfillment of all of the following threshold conditions in the bonus year:
Return on equity for the bonus year shall be at least 9%;
Overall capital adequacy ratio and core capital adequacy ratio for the Bank, for the bonus year, shall be no less than the minimum ratios specified in Bank of Israel directives. In addition, eligibility conditions for options would be based on the following criteria:

- Options A and options B issued to offerees who are officers of the Bank, as noted above, constitute part of these officers' variable remuneration. Officer eligibility to options A or to options B included in the annual lot for 2017 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and on two qualitative criteria based on supervisor assessment of achievement of individual targets (hereinafter: "the individual targets") of the officer specified in the employee offering outline and on assessment of the officer's performance by the supervisor at the latter's discretion (hereinafter: "supervisor's discretion"). The individual targets and supervisor's discretion, hereinafter: "the qualitative benchmarks").
  The total weight of quantitative benchmarks would be forty-two percent of the annual lot of options A and thirty percent of the annual lot of options B. The total weight assigned to the qualitative benchmarks would be fifty-two percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark would be twenty-two percent.
  The total weight of qualitative benchmarks would be fifty-eight percent of the annual lot of options A and fourty percent for options B. The total weight assigned to the qualitative benchmarks would be seventy percent of the annual lot of options: the weight assigned to the individual target benchmark would be thirty-six percent and the weight assigned to the supervisor's discretion benchmark for options A would be fourty percent for options B.
- Eligibility of offerees who are not officers of the Bank to options C and options D, with respect to any bonus year, would be determined based on the quantitative benchmarks and would not be based on any qualitative benchmark. Eligibility of offerees who are not officers of the Bank to options C and options E, with respect to any bonus year, would be determined based on the quantitative benchmarks and on the quality rating assigned to such offerees, as stated in section 2.12.9 of the outline report.

Note 23 – Share-based Payment Transactions – continued

The quantitative benchmarks specified in the option plan are: return on equity, return on Bank shares relative to banking benchmark, operating efficiency ratio and average ratio of deposits to loans.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 28 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

The options were allotted under the "Capital Gain" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the offerees from exercise of these options will be taxed at the capital gain tax rate applicable to the offerees upon exercise of the options. All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit) are described in an Immediate Report dated August 31, 2017, reference 2017-01-088584. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

In 2018, no options were issued under any of the plans listed in the outline report.

On April 11, 2019, the Bank's Board of Directors, after receiving the recommendation of the Bank Remuneration Committee, resolved to approve allotment of options to other officers and managers of the Bank and subsidiaries thereof, whereby the Bank would allot 4,363,275 options to 396 offerees. The options were allotted pursuant to the employee offering outline, issued by the Bank on August 31, 2017 ("the 2017 outline").

The options were allotted as follows:

- Up to 357,140 options A to be awarded pursuant to option plan A to up to 7 Bank officers who are not gatekeepers.
- Up to 159,145 options B to be awarded pursuant to option plan B to up to 5 Bank officers who are not gatekeepers.
- Up to 263,975 options C to be awarded pursuant to option plan C to up to 4 key employees of the Bank and 19 key employees of Bank subsidiaries.
- Up to 1,430,360 options D to be awarded pursuant to option plan D to up to 98 managers employed by the Bank subject to individual employment contracts and to other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group for the purpose of the outline.
- Up to 2,152,655 options E to be awarded pursuant to option plan E to up to 267 managers employed by the Bank subject to collective bargaining agreements.

For more information see report dated April 11, 2019, reference no. 2019-01-035857.

The theoretical benefit value of the options in these plans, calculated in accordance with accounting rules of US standards pursuant to ASC718, amounts to NIS 57 million. When spreading the theoretical benefit value in the Bank's accounts, the estimated expected churn rate for plan offerees would be taken into account.

All other details of the plans and the outline of offering to employees (including the threshold conditions for eligibility for options, vesting and exercise periods of options and the Board of Directors' authority to reduce the number of options and provisions with regard to reimbursement of the monetary benefit are described in an Immediate Report dated April 11, 2019, reference 2019-01-035857. This mention constitutes inclusion by way of reference of all information provided in the aforementioned Immediate Report.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on August 31, 2017:

Exercise price	NIS 64.65(1)
Risk-free interest rate	(0.44%)–0.39%
Annualized standard deviation	16.54%–19.11%

Option plan	**A**	**B**	**C**	**D**	**E**
Number of options (in thousands)	573	254	180	979	1,365
Term to expiration (in years)	3.09-5.09	3.09-5.09	3.09-5.09	5.09	5.09
Average fair value per single option	7.33(2)	7.36(2)	7.22	8.63	8.63
Total fair value (NIS in thousands)	4,200	1,869	1,300	8,449	11,780

(1) Plus linkage differentials and dividend adjustment.

(2) Fair value with respect to supervisor's discretion and achievement of individual targets components was recalculated as of December 31, 2017.

Note 23 – Share-based Payment Transactions – continued

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for options awarded on April 11, 2019:

Exercise price	NIS 72.37[1]
Risk-free interest rate	(0.10%)–(0.55%)
Annualized standard deviation	17.74%–18.03%

Option plan	A	B	C	D	E
Number of options (in thousands)	357	159	264	1,430	2,153
Term to expiration (in years)	3.48-5.48	3.48-5.48	3.48-5.48	5.15	5.15
Average fair value per single option	11.76	11.75	11.82	13.42	13.42
Total fair value (NIS in thousands)	4,198	1,868	3,120	19,191	28,893

(1) Plus linkage differentials and dividend adjustment.

Details of the number of stock options and their exercise price for all plans are as follows:

	2019		2018		2017	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at year start	2,604,052	64.65	3,350,957	64.65	–	–
Awarded during the year[(1)(2)]	4,363,275	72.37	–	–	3,351,420	64.65
Forfeited during the year	13,456	72.37	746,905	64.65	463	64.65
Exercised during the year	1,609,518	64.65	–	–	–	–
Outstanding at year end	5,344,353	70.94	2,604,052	64.65	3,350,957	64.65

(1) The weighted average fair value of stock options granted in 2017, as of the measurement date, was NIS 8.24.
(2) The weighted average fair value of stock options granted in 2019, as of the measurement date, was NIS 13.13.

Below is information about stock options outstanding at year end by exercise price range:

Exercise price range	December 31, 2019	December 31, 2018	December 31, 2017
(in NIS)	70-80	60-70	60-70
Number of stock options	5,344,353	2,604,052	3,350,957
Weighted average exercise price (in NIS)	70.94	64.65	64.65
Weighted average remaining contractual term (in years)	3.83	3.50	4.50
Of which vested:			
Number of stock options	420,866	–	–
Weighted average exercise price (in NIS)	64.65	–	–

Note 24 – Share Capital and Shareholders' Equity[(1)]

A. Details on share capital of the Bank (in NIS):

	Registered		Issued and paid-in	
	December 31,		December 31,	
	2019	2018	2019	2018
Ordinary shares, NIS 0.1 par value[(2)]	40,000,000	40,000,000	23,490,740	23,334,947

(1) For allotment of stock options – see Note 23 to the financial statements.
(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

B. Policies for distribution of dividends:

The Bank's dividends policy is to distribute dividends, as from 2018, with respect to quarterly earnings, at 40% of net profit attributable to shareholders of the Bank. The dividends policy is subject to the Bank achieving a ratio of Tier I capital to risk components as required by the Supervisor of Banks and maintaining appropriate safety margins.
On March 12, 2019, the Bank's Board of Directors approved the signing of a DPA agreement with the US Department of Justice to conclude the investigation into the Bank Group's business with its US clients. For more information see Note 26.C.12 to the financial statements.
On August 12, 2019, the Bank Board of Directors approved a dividend distribution amounting to NIS 392 million with respect to earnings in the first half of 2019.
On November 18, 2019, the Bank Board of Directors approved a dividend distribution amounting to NIS 168.8 million with respect to earnings in the third quarter of 2019.
This information constitutes forward-looking information, as defined in the Securities Act, 1968 and based on assumptions, facts and data underlying the strategic plan and listed therein, which may fail to materialize due to factors not solely under Bank control, causing the strategic plan, including with regard to the policy of distribution of dividends, to fail to materialize.
For more information and for a summary of previous decisions by the Board of Directors with regard to dividends distribution policy, see Note 24 to the 2017 financial statements.

Dividends declaration

On February 24, 2020, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 176 million, or 40% of earnings in the fourth quarter of 2019, in conformity with the Bank's dividend policy.
The dividends are 748.94% of issued share capital, i.e. NIS 0.7489 per NIS 0.1 par value share. The effective date for dividends payment is March 3, 2020 and the payment date is March 11, 2020. The final dividends per share is subject to changes due to realized convertible securities of the Bank.

Below are details of dividends distributed by the Bank since 2017 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percentage of profit	Total dividends paid
		(Agorot)		(NIS in millions)
March 20, 2017	April 26, 2017	17.12	0.30	39.8
May 15, 2017	June 20, 2017	41.45	0.30	96.3
August 28, 2017	September 26, 2017	51.63	0.30	120.0
November 13, 2017	December 10, 2017	33.67	0.30	78.3
Total dividends distributed in 2017[(1)]				**334.4**
February 26, 2018	March 26, 2018	47.03	0.30	109.5
May 7, 2018	June 5, 2018	58.91	0.40	137.2
Total dividends distributed in 2018[(2)]				**246.7**
August 12, 2019	August 27, 2019	167.21	[(4)]0.40	392.0
November 18, 2019	December 3, 2019	71.89	0.40	168.8
Total dividends distributed in 2019[(3)]				**560.8**

(2) Total dividends distributed with respect to 2017 earnings – NIS 404.1 million
(2) Total dividends distributed with respect to 2018 earnings – NIS 137.2 million.
(3) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.
(4) Dividend rate as percentage of net profit in the first half of 2019.

Note 24 – Share Capital and Shareholders' Equity [(1)] - continued

C. Information on n limitations on distribution of dividends is provided below:

- According to the directives of the Supervisor of Banks with respect to a distribution of dividends by banking corporations, a bank may not distribute cash dividends, as long as its non-monetary assets exceed its shareholder equity. As of December 31, 2014, the Bank's reported capital exceeds its non-monetary assets by NIS 7,371 million.
- The permit issued to the purchasers of the controlling interest by the Governor of the Bank of Israel stipulates that dividends will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.

  Furthermore, the Bank may not distribute dividends without prior consent of the Supervisor of Banks for such distribution, when:

  1. The Bank's retained earnings, net of negative differences included under Other Comprehensive Income, are not positive.
  2. One or more of the most recent three years ended in comprehensive loss.
  3. Cumulative results for the three quarters ending at the end of the interim period for which the most recent financial statements have been published – show a comprehensive loss.

In a letter from the Supervisor of Banks with regard to the Basel III framework – minimum core capital ratios, banks were required, *inter alia*, to avoid distributions of dividends if it may cause them to fail to achieve the capital targets set therein.

D. On June 2, 2014, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares.

On July 17, 2014, the Bank submitted the detailed buy-back plan by date, as requested by the Supervisor of Banks.

The buy-back plan which was presented is in five stages, from the fourth quarter of 2015 to the fourth quarter of 2017, with restrictions for each buy-back lot and in total not to exceed 5 million shares. According to the plan, the Bank would sell any surplus shares after the end date for exercising all options under the stock option plan.

On July 27, 2014, the Supervisor of Banks approved the buy-back plan subject to conditions set between the Bank and the Supervisor of Banks.

On August 13, 2014, the Bank's Board of Directors approved the aforementioned share buy-back outline.

Note 25 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

On February 1, 2018, the Bank applied to the Supervisor of Banks for approval of a buy-back of 5 million Bank shares. The share purchase is to be conducted against shares allotted or to be alloted pursuant to the stock option plans for 2014-2016 and the stock option plans for 2017-2019. On July 23, 2018, the Supervisor of Banks approved the buy-back plan subject to conditions specified.

Buy-back of Bank shares is tantamount to a distribution of dividends.

To date, the Bank has not bought back any of its shares pursuant to the aforementioned buy-back plans.

For more information about share-based payment transactions, see Note 23 "Share-based Payment Transactions".

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of December 31,	
	2019	**2018**
1. Consolidated data		
A. Capital for purpose of calculating the capital ratio		
Tier I shareholders' equity	16,520	15,172
Tier I capital	16,520	15,172
Tier II capital	6,090	5,515
Total capital	**22,610**	**20,687**
B. Weighted risk asset balances		
Credit risk	150,878	140,572
Market risks	1,791	1,494
Operational risk	10,189	9,561
Total weighted risk asset balances(1)	**162,858**	**151,627**
		In %
C. Ratio of capital to risk components		
Ratio of Tier I capital to risk components	10.14	10.01
Ratio of Tier I capital to risk components	10.14	10.01
Ratio of total capital to risk components	13.88	13.64
Minimum Tier I capital ratio required by Supervisor of Banks(2)	9.83	9.84
Total minimum capital ratio required by the Supervisor of Banks(2)	13.33	13.34
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Ratio of Tier I capital to risk components	9.51	9.36
Ratio of Tier I capital to risk components	9.51	9.36
Ratio of total capital to risk components	13.22	13.29
Minimum Tier I capital ratio required by Supervisor of Banks	9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	12.50	12.50

(1) Of the total weighted balance of risk assets, NIS 139 million was deducted due to adjustments with respect to the streamlining plan (December 31, 2018: NIS 178 million).

(2) Capital ratios required by the Supervisor of Banks as from January 1, 2015. As from January 1, 2015, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date. This requirement was gradually implemented through January 1, 2017.

Note 25 – Capital adequacy, liquidity *and* leverage – Continued

Reported amounts (NIS in millions)

A. Capital adequacy – Continued

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy" – continued

	As of December 31,	
	2019	**2018**
3. Capital components for calculating the capital ratio (on consolidated data)		
A. Tier I shareholders' equity		
Shareholders' equity	16,805	15,390
Differences between shareholders' equity and Tier I capital	(315)	(286)
Total Tier I capital before supervisory adjustments and deductions	**16,490**	**15,104**
Supervisory adjustments and deductions:		
Goodwill	(87)	(87)
Supervisory adjustments and other deductions	(14)	(13)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	**(101)**	**(100)**
Total adjustments with respect to the streamlining program(1)	131	168
Total Tier I capital after supervisory adjustments and deductions	**16,520**	**15,172**
B. Tier II capital		
Tier II capital: Instruments, before deductions	4,544	4,012
Tier II capital: Provisions, before deductions	1,546	1,503
Total Tier II capital, before deductions	**6,090**	**5,515**
Deductions:		
Total deductions – Tier II capital	–	–
Total Tier II capital	6,090	5,515
Total capital	**22,610**	**20,687**

4. Effect of adjustments with respect to streamlining plan on Tier I capital ratio:

	As of December 31,	
	2019	**2018**
	In %	
Ratio of capital to risk components		
Ratio of Tier I capital to risk components, before effect of adjustments with respect to the streamlining plan(2)	10.05	9.88
Effect of adjustments with respect to the streamlining plan	0.09	0.13
Ratio of Tier I capital to risk components after application of transitional provisions	10.14	10.01

(1) Of which, NIS 102 million is with respect to the streamlining plan with regard to employees and NIS 29 million with respect to the streamlining plan with regard to real estate (as of December 31, 2018: NIS 120 million with respect to the streamlining plan with regard to employees and NIS 48 million with respect to the streamlining plan concerning real estate).

(2) Including adoption of US GAAP with regard to employee rights.

Note 25 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

B. Liquidity coverage ratio

Calculated in accordance with Proper Conduct of Banking Business Directive 221 "Liquidity coverage ratio"

	As of December 31,	
	2019	2018
	In %	
1. Consolidated data		
Liquidity coverage ratio(1)	121	116
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	100
2. Bank data		
iquidity coverage ratio(1)	122	116
Minimum liquidity coverage ratio required by the Supervisor of Banks(2)	100	100
3. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Liquidity coverage ratio (1)	208	185
Minimum liquidity coverage ratio required by the Supervisor of Banks (2)	100	100

(1) In terms of simple average of daily observations during the reported quarter.
(2) As from January 1, 2017, the minimum liquidity coverage ratio required by the Supervisor of Banks is 100%.

C. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of December 31,	
	2019	2018
1. Consolidated data		
Tier I capital(1)	16,520	15,172
Total exposure	297,779	279,827
	In %	
Leverage ratio	5.55	5.42
Minimum leverage ratio required by the Supervisor of Banks(2)	5.00	5.00
2. Significant subsidiaries		
Bank Yahav for Government Employees Ltd. and its subsidiaries		
Leverage ratio	5.56	5.38
Minimum leverage ratio required by the Supervisor of Banks(2)	4.70	4.70

(1) For effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.
(2) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

Note 25 – Capital adequacy, liquidity and leverage – Continued

D. As from January 1, 2014, the Bank applies Proper Conduct of Banking Business Directives 201-211 with regard to capital measurement and adequacy, as amended to align them with Basel III directives.

The Basel III directives stipulated significant changes to calculation of regulatory capital requirements, including with regard to the following:

- Supervisory capital components
- Deductions from capital and supervisory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk with respect to impaired debt
- Capital allocation with respect to CVA risk

These regulations are applied gradually, in line with transitional provisions specified in Proper Conduct of Banking Business Directive 299 with regard to "Capital measurement and adequacy – Supervisory capital – Transitional provisions", in order to allow for compliance with new supervisory capital requirements in applying Basel III and to specify a transition period pending full application. The transitional provisions refer, *inter alia*, to supervisory adjustments and deductions from capital, and to capital instruments that do not qualify for inclusion in supervisory capital based on the new criteria listed in the Basel directives. In particular, according to the transitional provisions, supervisory adjustments and deductions from capital, as well as non-controlling interest that do not qualify for inclusion in supervisory capital, were gradually deducted from capital at 20% per year, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized up to 80% on January 1, 2014, and this cap is further reduced by 10% in each subsequent year, until January 1, 2022. As from January 1, 2018, the transitional provisions with regard to supervisory adjustments and deductions from regulatory capital expired and are at 100%. Furthermore, the cap for instruments qualifying as supervisory capital is at 40%. As from January 1, 2019, the cap would be at 30%.

E. In conformity with the Supervisor of Banks' circular regarding minimum capital ratios, an additional capital requirement was added to these ratios at 1% of the housing loan balance as of the reporting date.

The minimum Tier I capital ratio and the minimum total equity ratio required by the Supervisor of Banks, on a consolidated basis, in conformity with data as of the reporting date, are 9.83% and 13.33%, respectively.

This target may change based on actual data for the housing loan portfolio and for total risk assets.

F. In December 2015 and in January 2016, the Bank issued contingent subordinated notes (Contingent Convertibles – CoCo) with loss-absorption provisions through principal write-off, amounting to NIS 600 million.

In December 2017, Tefahot Issuance issued to the public contingent subordinated notes (Contingent Convertibles – Coco) with loss-absorption provisions through principal write-off, amounting to NIS 679 million.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

The notes include loss-absorption provisions if the Bank's Tier I capital should drop below 5% or in case of another event leading to non-sustainability of the Bank, in conformity with the Supervisor of Banks' decision.

In such case, the notes would be partially or completely written off.

Should the Tier I capital ratio exceed the minimum required ratio, the Bank may announce a write-off of principal, in whole or in part.

In July 2016, Bank Yahav issued contingent subordinated notes (Contingent Convertibles – Coco) with loss-absorption provisions through principal write-off, amounting to NIS 218 million.

In August 2017, Bank Yahav issued additional contingent (CoCo) subordinated notes amounting to NIS 120 million.

In August 2018, Bank Yahav issued contingent convertible (CoCo) subordinated notes recognized by the Supervisor of Banks as Tier II capital, with par value of NIS 180 million.

In October 2018, Tefahot Issuance issued contingent convertible (CoCo) subordinated notes recognized by the Supervisor of Banks as Tier II capital, with par value of NIS 711 million.

In June and October 2019, Tefahot Issuance issued contingent convertible (CoCo) subordinated notes recognized by the Supervisor of Banks as Tier II capital, with par value of NIS 700 million and NIS 390 million, respectively.

These notes qualify for recognition as Tier II equity pursuant to Basel III provisions.

Note 25 – Capital adequacy, liquidity and leverage – Continued

G. On December 27, 2016, the Bank's Board of Directors approved the streamlining program recommended by Bank management, whereby early retirement would be possible for 300 employees in 2017-2021, at improved conditions.

Bank management is in negotiations with the Employees' Union with regard to the retirement program and as a first step, has started implementation of the plan in the Technology Division Ltd., pending agreement with the Employees' Union at the Bank.

The cost of update to the actuarial liability with respect to the streamlining program, recorded in the financial statements as of December 31, 2016, amounts to NIS 286 million; the cost net of tax, amounting to NIS 188 million, was charged to equity (under Other Comprehensive Income).

In conformity with the Supervisor of Banks' letter dated January 12, 2016, with regard to operating streamlining of the Israeli banking system, the Supervisor of Banks allowed capital relief with respect to this plan. The Bank applies this capital relief so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining (a decrease by 0.14%) would be applied on a straight line basis as from 2017, over a five-year period.

H. On December 28, 2016, the Bank acquired an insurance policy for credit exposure due to guarantees provided by the Bank pursuant to the Sale Act (Apartments) (Securing Investments of Home Buyers), 1974 and obligations to issue such guarantees.

The aforementioned transaction was made through an insurance company which is a wholly-owned subsidiary of the Bank which, concurrently, has contracted with international reinsurers with a high international rating.

The insurance policy provides the Bank with coverage should the Bank be required to pay due to forfeiture of the guarantees; it is primarily intended to reduce risk assets with respect to credit exposure due to these guarantees.

In the second quarter of 2018, the Bank increased the coverage ratio of the insurance policy from 80% to 90% for guarantee amounting to NIS 15.5 billion.

In the third quarter, the Bank purchased a rider to the existing insurance policy, so that it would also apply to other types of guarantees associated with projects, amounting to NIS 1.8 billion.

The aforementioned insurance policies apply to guarantees issued by the Bank through 2018.

In the fourth quarter of 2018, the Bank obtained an insurance policy with 90% coverage for credit exposures with respect to guarantees to be issued by the Bank as from January 2019, in conformity with the Sale Law and other project-related guarantees, similar to the insurance policies described above.

In the fourth quarter of 2019, the Bank obtained an insurance policy with 90% coverage for credit exposures with respect to guarantees to be issued by the Bank as from January 2020, in conformity with the Sale Law.

I. Relief with regard to capital adequacy with respect to implementation of a real estate streamlining plan.

On January 12, 2016, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel. According to this letter, the Board of Directors of the banking corporation should set a multi-year streamlining plan. A banking corporation which is compliant with conditions listed in the letter would receive relief, whereby they may allocate the effect of such plan over 5 years, in a straight line, for calculation of capital adequacy. As noted in the financial statements as of December 31, 2016, in Notes 22 and 25, the Bank implemented on December 27, 2016 a streamlining program with regard to early retirement of employees as well as allocation of capital relief, so that supervisory capital used to calculate capital adequacy would be adjusted (increased) and the effect of streamlining on capital would be attributed on a straight line as from 2017 over a 5-year period.

On June 13, 2017, the Supervisor of Banks issued another letter, encouraging banking institutions to review, in addition to streamlining of payroll expenses, the optional reduction of the cost of real estate and maintenance of headquarters units and management, including through re-evaluation of their geographic location.

According to this letter, the Supervisor of Banks would allow banking corporations to apply similar relief to the foregoing with regard to capital adequacy for implementation of a real estate streamlining program, subject to the following conditions:

- The plan includes relocation of the corporation's headquarters units and management.
- The plan is economically viable and expected to achieve long-term cost savings.
- The plan provides a response to current and expected needs of the banking corporation over the time frame of its strategic plan.

Note 25 – Capital adequacy, liquidity and leverage – Continued

On June 19, 2017, the Bank's Board of Directors approved a plan to relocate operations of Bank headquarters units to one central site in Lod and directed Bank management to take the required actions to this end. This is further to contracting the purchase of land in Lod Industrial Zone, adjacent to the existing building in Lod.

The plan, including planning, construction and relocation, should take several years.

On June 28, 2017, the Bank closed (through its subsidiary Netzivim Assets and Equipment Ltd.) the sale of its interest in the headquarters building in Ramat Gan and concurrently leased back the building for a period of 8 years (hereinafter: "the streamlining period"). The Bank may extend the lease for additional terms, so that the total lease term would not exceed 24 years.

On July 12, 2017, the Bank applied to the Supervisor of Banks for the capital relief.

In conformity with the requirements stated by the Supervisor of Banks in the letter, the Bank presented the following:

- Plan for relocation of headquarters units and management to Lod.
- Economic viability of the plan.
- Firm commitment to carry out the streamlining program.

As directed by the Supervisor of Banks, the capital gain would be recognized over the lease term, in conformity with existing US standards for sale and lease-back transactions (section 840-40-25-2 of topic 840-40 of the codification concerning "Sale and lease-back transactions"). On July 20, 2017, the Supervisor of Banks allowed the Bank to recognize the capital gain (of NIS 83 million) generated by sale of the headquarters building in Ramat Gan as regulatory capital. The capital relief is to be amortized over the term of the streamlining program.

J. On June 13, 2017, the Board of Directors of Bank Yahav approved streamlining measures, including a voluntary retirement program and reduction of real estate areas. Bank Yahav was granted approval for this program by the Supervisor of Banks, as required in the streamlining directive. Pursuant to the retirement program, early retirement of Bank Yahav employees would be authorized subject to criteria stated in the program. The costs of actuarial liability with respect to the retirement program at Bank Yahav amounted to NIS 36 million before tax (NIS 23 million after tax). As directed by the Bank of Israel, supervisory capital used to calculate capital adequacy would be adjusted (increased) and the capital effect of the streamlining would be applied on a straight line basis over a five-year period.

K. On April 28, 2015, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 218 concerning "Leverage ratio". This directive adopts the Basel Committee recommendations with regard to leverage ratio, stipulated in January 2014.

The leverage ratio is reflected in percent, defined as the ratio of Tier I capital according to Basel rules to total exposure. Total exposure for the Bank is the sum of balance sheet exposures, exposures to derivatives and to securities financing transactions and off-balance sheet items.

According to the directive, banking corporations must maintain a leverage ratio of 5% or higher on a consolidated basis, as from January 1, 2018. Banking corporations which comply with the requirement upon publication of the directive may not drop below the threshold stated in the regulation. Any banking corporation which does not meet the requirements of this directive is required to increase its leverage ratio at fixed quarterly steps by January 1, 2018.

L. For more information about the Bank's policy on distribution of dividends, see Note 24.B. – share capital and equity.

Note 26 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Off-balance sheet liability for activities based on extent of collection at year end[1]

1. Balance of loans from deposits based on extent of collection[2]

	As of December 31,	
	2019	2018
Israeli currency – linked to the CPI	3,335	3,523
Israeli currency – non-linked	3,524	3,332
Foreign currency	67	74
Total	**6,926**	**6,929**

2. Cash flows with respect to collection commissions on activities based on extent of collection[2]

	As of December 31,							
	2019							2018
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
In the CPI-linked sector[3]								
Cash flows of futures contracts	25	38	26	33	13	3	138	168
Expected future cash flows net of management's estimate of early repayments	25	37	26	30	11	1	130	158
Discounted expected future flows net of management's estimate of early repayments[4]	25	36	24	28	9	1	123	146
In the non-linked NIS-denominated sector								
Cash flows of futures contracts	–	–	–	–	–	–	–	2
Expected future cash flows net of management's estimate of early repayments	–	–	–	–	–	–	–	1
Discounted expected future flows net of management's estimate of early repayments[4]	–	–	–	–	–	–	–	1

3. Information on loans extended by mortgage banks during the year

	2019	2018
Loans out of deposits according to extent of collection	357	294
Standing loans and grants	90	73

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given with respect to them totaling NIS 1,149 million (2018 – NIS 1,231 million) are not included in this table.

(3) Includes foreign currency sector.

(4) In the CPI- and foreign currency-linked segments, capitalized at a rate of 1.12%; in the non-linked segment, capitalized at a rate of 2.50% (2018: at 2.07% and 1.78%, respectively).

Note 26 – Contingent Liabilities and Special Commitments – continued

Reported amounts (NIS in millions)

B. Other liabilities and special commitments

		2019	2018
1.	Computerization and software service contracts	366	296
2.	Acquisition and renovation of buildings	17	8
3.	Long-term rental and lease contracts – rent for buildings, equipment and vehicles(1)(2)(3):		
	First year	208	201
	Second year	197	191
	Third year	187	182
	Fourth year	182	176
	Fifth year	174	172
	Sixth year and thereafter	1,510	1,602
	Total rent for buildings, equipment and vehicles	2,458	2,524

4. Credit sales operations

	2019	2018	2017
Carrying amount of credit sold	571	2,326	2,598
Consideration received in cash	577	2,350	2,625
Consideration received in securities	–	–	–
Total consideration	577	2,350	2,625
Total net gain (loss) with respect to credit sold	–	–	4

(1) The Bank and subsidiaries have rented buildings and equipment for the long term for which the rental payments are subject to linkage conditions.

(2) Includes IT and operating services provided to Bank Yahav by the international Tata Group company as from January 1, 2017. The company specializes, *inter alia*, in providing IT services to financial institutions and banking corporations world-wide. In this regard, Bank Yahav uses a core banking system which includes banking services in various channels, based on the bank's lines of business. Bank Yahav also receives operating services from the company with respect to IT systems it provides, as well as additional outsourced services.

Bank Yahav's contract with the company is a long-term one and Bank Yahav may optionally extend it for additional terms of up to 30 years.

(3) Rent is assuming exercise of optional lease extensions, if the Bank is expected to exercise such options to the maximum extent possible.

C. Contingent liabilities and other commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange ("TASE"), a risk fund was established, which totaled NIS 797 million as of December 31, 2019. The Bank's share of the fund as of December 31, 2019 is estimated at NIS 77 million (as of December 31, 2018 – NIS 74 million). The size of the risk fund is updated semi-annually based on the average daily total clearing volume – but no less than NIS 150 million. Each member's share in the risk fund will be determined by a ratio between the member's clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.

In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

On October 31, 2016, the Board of Directors of the Stock Exchange resolved to approve opening of an account with the Bank of Israel, actually opened on June 19, 2017, for deposit of collateral provided by members of the stock exchange clearing house (as stated above), which have been deposited with other commercial banks through the account opening date.

See Note 27.A regarding liens that the Bank has undertaken to furnish for this liability. to the financial statements.

Note 26 – Contingent Liabilities and Special Commitments – continued

2) The Bank has undertaken toward the MAOF Clearinghouse Ltd., a subsidiary of the TASE (hereinafter: "MAOF Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the MAOF Clearinghouse, for their customers.

   The amount of the liability for these customers, as of the balance sheet date, amounts to NIS 274 million (as of December 31, 2018 – NIS 290 million).

   Likewise, the Bank has undertaken to refund its share in the risk fund of the MAOF Clearinghouse, which totaled NIS 560 million as of December 31, 2019. The Bank's share of the fund as of December 31, 2019 is estimated at NIS 58 million (as of December 31, 2018: NIS 56 million).

   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house deposits in cash at least 25% of their share in the risk fund.

   On October 30, 2016, the Board of Directors of the MAOF clearing house resolved to approve opening of an account with the Bank of Israel, actually opened on June 19, 2017, for deposit of collateral provided by members of the MAOF clearing house (as stated above), which have been deposited with other commercial banks through the account opening date. For information regarding charges that the Bank undertook to furnish with respect to these liabilities, see Note 27.B. to the financial statements.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange (hereinafter: "TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by that company.

4) In 1992, a General Meeting of the Bank’s shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank’s by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company’s authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

5) In December 2001, a General Meeting of the Bank’s shareholders ratified the granting an advance exemption from liability (as described below) as well as advance commitment by the Bank to indemnify Board members and other officers (hereinafter jointly: “the officers”). Pursuant to the resolution by the General Meeting of shareholders, the Bank exempts in advance any liability by officers of the Bank towards the Bank with respect to any damage incurred by the Bank due to breach of the officer's duty of care towards the Bank in the officer's conduct, arising from his position as officer of the Bank. Committed to indemnify officers of the Bank for any liability or expense incurred by the officer in conjunction with his action in the course of their office, all as stated in the letter of commitment to indemnify, including with regard to actions by officers who are not Board members in conjunction with their action as Board member on behalf of the Bank, or at the Bank's request, of another company whose shares are owned by the Bank (hereinafter: "the original letter of indemnification").

   According to the original letter of indemnification, the amount if indemnification paid by the Bank to all officers on aggregate shall not exceed 25% of the Bank's shareholder equity on the Bank's 2000 financial statements, adjusted for the CPI as from December 2000 (hereinafter: (“total indemnification amount). This indemnification applies to action related, directly or indirectly, to one or more of the event types listed in the Addendum to the letter of commitment to indemnify.

Note 26 – Contingent Liabilities and Special Commitments – continued

On October 28, 2004, the General Meeting of Bank shareholders resolved to add to the list of events for which the Bank granted a commitment to indemnify to its officers, pursuant to the original letter of indemnification, a merger event, as defined in the Companies Law, including any decision, action or reporting with regard to a merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date with respect to the indemnification.

On May 14, 2006, the General Meeting of Bank shareholders resolved to adapt the wording of the letter of indemnification to the provisions of the Companies Law (Amendment 3), 2005 and resolved to grant advance commitment to indemnify, of identical wording, to Bank employees serving as Board member on a company in which the Bank owns some shares, and to those serving, from time to time at the Bank's request, as Board member on a company controlled by the Bank.

On November 9, 2011, the General Meeting of Bank shareholders resolved to add a commitment by the Bank to indemnify Bank employees who are not officers of the Bank, who serve from time to time, upon request by the Bank, as officers of companies controlled by the Bank (such a resolution was also passed by the Bank's Board of Directors on February 16, 2009 – resolving to provide a letter of indemnification identical to the one granted to Bank officers), and to those who are not employees or officers of the Bank, who serve from time to time as officers of a company, other than a banking corporation, wholly-owned by the Bank (jointly: "the parties eligible for indemnification").

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011.

The General Assembly of Bank shareholders also resolved that the maximum indemnification amount payable by the Bank, on aggregate to all those eligible for indemnification pursuant to the letter of commitment to indemnify, shall not exceed 25% of the Bank's shareholder equity, based on its most recent financial statements published soon prior to the actual payment date of the indemnification amount ("maximum indemnification amount"). Should the total indemnification amount exceed the maximum indemnification amount specified above, the maximum amount payable by the Bank on aggregate to all those eligible for indemnification shall not exceed the total indemnification amount, but the differences between these two amounts would only be used for indemnification with respect to action taken before November 9, 2011.

On September 20, 2012, the General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and in the Financial Services Supervision Act (Provident Funds), 2005 and with respect to expenses related to any administrative proceeding, including reasonable litigation expenses – all as specified in the Restrictive Trade Practices Act, 1988.

The General Assembly of Bank shareholders further decided to add a commitment by the Bank to indemnify the parties eligible for indemnification for any monetary liability arising from payment to any party injured by the breach or similar, pursuant to any other statute, including reasonable litigation expenses, including attorneys' fees, with regard to any administrative proceeding pursuant to any other statute, provided that such indemnification is not prohibited by law.

On December 23, 2015, the General Assembly of Bank shareholders resolved to reduce the liability exemption for officers, so that it would not apply to any breach of duty of care after the approval date by the General Assembly of Bank shareholders, when making a decision or approving a transaction in which the controlling shareholder of the Bank or any officer of the Bank (including another officer, other than the officer who received the waiver) has a personal interest.

The General Assembly of Bank shareholders also resolved to add clarifications, details and elaboration to the events listed in the addendum to the letter of commitment to indemnify, according to events which the Board of Directors considers to be likely in view of actual Bank operations. The General Assembly of Bank shareholders further resolved to amend the letter of commitment to indemnify with regard to obtaining indemnification from an insurer or from a third party, so that the indemnification cap equal to the difference between the liabilities imposed on the officer or on the employee and/or legal expenses incurred by or charged to them, would also apply if the officer or employee would be reimbursed by any third party or by any third party's insurer who provided indemnification to the officer or employee for the same matter. It was further resolved that if the liability or legal expenses would not be actually covered in a timely manner by the insurer or by the third party, the Bank would indemnify the officer or employee for such liability and/or legal expenses – provided that the officer or employee would assign to the Bank their rights vis-a-vis the insurer or third party, so that the Bank would replace them vis-a-vis the insurer or third party.

On August 30, 2018, the General Meeting of Bank shareholders approved once again the Bank's waiver and commitment to indemnification, with regard to applicability to controlling shareholders of the Bank and their relatives who may serve from time to time, including those who have served in the past or to be appointed in future.

Note 26 – Contingent Liabilities and Special Commitments – continued

6) In May 1998, General Assemblies of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and Boards of Directors as follows:

The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with provisions of the Companies Ordinance.

The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately – NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action that he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately – will not exceed NIS 750 million (linked to the CPI of March 1998).

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately – will be limited to NIS 1,000 million (linked to the CPI of March 1998).

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

7) In November 2001, approval was given by General Assemblies of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot (hereinafter: "Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").

The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and with respect to any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.

Bank Tefahot undertook vis-à-vis Tefahot Issuance that, should it be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot would pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.

The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholder equity of Bank Tefahot according to the latest financial statements published as of the actual payment date of the indemnification, whichever is lower.

In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.

Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its Board of Directors and approval of its Audit Committee, ratified an undertaking to indemnify ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

Note 26 – Contingent Liabilities and Special Commitments – continued

Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policies as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policies will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the Audit Committee and ratification by its Board of Directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholder equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policies for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim was one of the insured parties in the officers' insurance policies purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

Under terms and conditions of the merger of Bank Adanim into the Bank, the Bank assumed this commitment.

10) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include appropriate provisions, where necessary, to cover possible damages.

Below are details of significant claims, including motions for approval of class action status and claims in which the amount claimed (excluding interest and fees) exceeds 1% of Bank equity attributable to equity holders of the Bank:

A) In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns two alleged claims made against the Bank – firstly, late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service. Secondly, failure to indicate on the reporting forms the number of the principal to be reduced by the reported credit, and the number of the interest calculation rule applied to the reported payment amount. The lawsuit and motion allege that, by late reporting to the Court Order Execution Service and by failure to provide the aforementioned indications on the reporting forms, the Bank misleads clients, causes clients not to be credited with interest in line with the date of their payment and in accordance with the correct interest rate, creates a situation in which the debt on Court Order Execution Service files is higher than the real debt, and over-charges in payments. The lawsuit and motion further allege that the Enforcement and Collection Authority and the Court Order Execution Service admit that under crediting occurs in case of late reporting and failure to provide the required indications on the reporting form.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

On January 9, 2012, the Bank filed its response to the motion, describing in detail the factual and legal defense claims made by the Bank. On May 20, 2012, the plaintiff filed their response to the Bank's response to the motion. In view of new claims made by the plaintiff in their response to the Bank's response, the Bank filed a further, more detailed response on August 15, 2012.

On October 17, 2012 and on October 29, 2012, the Court held preliminary hearings in this case.

Note 26 – Contingent Liabilities and Special Commitments – continued

The parties have agreed and launched a mediation process aimed to try and resolve their differences. The mediation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files.

The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement.

On August 29, 2016, a Court hearing took place and the Court resolved that the parties to this lawsuit and to the lawsuit described in section B. below, should file a settlement agreement and motion for approval thereof, no later than October 30, 2016. The resolution dated November 7, 2016 allowed the parties an extension to file a settlement agreement and motion for approval thereof, no later than November 30, 2016. On January 16, 2017, a hearing concerning the settlement agreement took place. On March 28, 2017, a hearing took place with regard to the settlement agreement and in particular, concerning the issue of Court action and its scope On June 12, 2017, the parties filed the draft settlement agreement with the Court, asking for the Court's assistance in the matter of the aforementioned Court action. On June 15, 2017, another hearing on this disagreement took place.

In accordance with the Court ruling of July 4, 2017, on August 13, 2017, the parties submitted the final agreed version of the settlement agreement.

On November 7, 2017, the parties submitted to the Court the signed settlement agreement and its appendices with the application for approval thereof. On March 8, 2018 and on April 10, 2018, further hearings took place, at which the Court raised questions regarding the settlement agreement in general and in particular, the issue of maintaining information confidentiality by the Enforcement and Collection Authority. On May 28, 2018, a further hearing took place, at which the Court asked, *inter alia*, for clarifications regarding the motion by the Bank dated May 22, 2018 with regard to the need for maintaining data confidentiality, as well as clarifications with regard to other sections of the settlement agreement. A clarification notice from the bank with regard to sections of the settlement agreement was filed on July 5, 2018.

On October 10, 2018, the plaintiff filed a motion to bring forward the approval of this settlement; consequently, on November 6, a hearing took place at which the Court ordered that a notice would be published with regard to the motion for approval and that such motion would be sent for comments to the Attorney General and to the Supervisor of Banks. Notice of the motion for approval has been issued, as noted. On May 26, 2019, representatives of the Enforcement Authority and the parties attended a meeting and agreed on the outline for carrying out the agreement. On June 16, 2019, a notice was filed with the Court, along with an agreed motion to approve the aforementioned outline. On July 2, 2019, a Court hearing took place to discuss the various motions in this case, after which a resolution was handed down to have the various motions referred for comments by the Attorney General; a hearing is scheduled for September 25, 2019. On September 25, 2019, a hearing took place, at which the notice by the Attorney General, whereby they would object to two issues in the agreement (confidentiality provision and professional fees) was discussed. In conformity with the Court ruling, on November 22, 2019, the parties filed a revised agreement and on December 8, the Attorney General filed their objection, as noted. On December 11, 2019, a hearing took place and in conformity with the Court ruling, on January 2, 2020 the parties filed with the Court the final version of the revised agreement. A resolution dated January 5, 2020 stipulated that the agreement would be made public and would then be approved. Accordingly, the revised agreement was published on the Bank website and in two newspapers.

B) In December 2012, an action and a motion for recognition as a class action were filed with the Tel Aviv District Court, with regard to setting rates of arrears interest charged by the Bank in Court Order Execution Service cases filed against debtors. According to the plaintiff, the Bank charges interest significantly higher than the maximum interest rate on checking accounts. The plaintiff is unable to estimate the amount claimed.

The parties agreed to add this motion to the mediation process on-going with regard to other motions which also concern collection processes conducted by the Bank against clients in debt, as stated in section A. above and on January 4, 2016, a resolution was issued to refer the above claim for hearing by the same party as the above claims.

As for the motion for approval of class action status, a compromise was reached in conjunction with the motion for approval of class action status listed in section A) above.

Note 26 – Contingent Liabilities and Special Commitments – continued

C) In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to "hundreds of millions of NIS". No specific amount was specified in the statement of claim. The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

In February 2012, the Bank filed its response to the motion and in August 2012, the plaintiff filed their response to the Bank's response to the motion.

In November 2012, the parties launched a mediation process designed to try and settle their disagreements. The mediation process was concurrent with regard to other motions filed against other banks for the same cause, as well as with regard to other motions for class action status filed against the Bank and against other banks for causes related to debt management in Court Order Execution Service files. The parties negotiated directly from August 2014 and in January 2016, due to a specific disagreement, the negotiations between the parties were terminated. They were resumed soon thereafter, in an attempt to reached an agreed arrangement. On January 6, 2016, the Bank filed a motion seeking a preliminary ruling on its claim with regard to the statute of limitations with regard to the cause of claim of alleged class members and/or of most of them. The plaintiff's response was filed on January 26, 2016 and the Bank's response was filed on February 1, 2016. On February 14, 2016, a resolution was handed down whereby, inter alia, the claim with regard to the statute of limitations would be adjudicated at the end of the process.

Following direct negotiations between the parties, the parties reached an agreed settlement brought for approval by the Court on November 14, 2016.

On January 16, 2017, a hearing took place at which the parties agreed for the Bank to respond to questions raised at the hearing with regard to the settlement agreement and motion for approval filed by the parties. On February 8, 2017, the Bank filed its comments with the Court. On March 7, 2017, the Court ordered that within 15 days, a revised announcement text is to be filed with the Court for approval, and a copy of the settlement agreement is to be sent to the Supervisor of Banks and to the Attorney General and the parties were instructed to file their claims with regard to the issue of the statute of limitations.

On April 2, the Court approved the revised announcement text and on April 12, 2017, the announcement was published in the newspapers with regard to filing a motion for approval of a settlement agreement.

Further to the Court resolutions dated March 7, 2017 and June 13, 2017, the Bank filed additional claims with regard to the statute of limitations; a resolution is still pending.

The position of the Attorney General with regard to the settlement was submitted on July 30 and on September 17, 2017, the Bank filed its response to the Attorney General's position, and the plaintiff filed their response to the Attorney General's position.

On October 2, 2017, a hearing was held with regard to the Attorney General's position. On May 28, 2018, a further hearing took place, at which the Court asked for further clarifications with regard to the settlement agreement. At the end of this hearing it was agreed that the Court would issue its ruling in absence of the parties. On September 17, 2018, a partial verdict was issued, whereby the Court approved the settlement agreement reached by the parties, despite the objection by the Attorney General's representative. In this partial verdict, the Bank's claim of the statute of limitations was accepted. Moreover, dates were set for publishing the approval of the agreement and for filing claims with regard to legal fees and remuneration.

On October 25, 2018, the Bank filed a motion for approval of a notice to be published with regard to approval of the agreement. On October 31, 2018, the plaintiff announced that they did not intend to appeal the verdict and consent to publication of the notice in the format as provided by the Bank.

On December 5, 2018, the plaintiff filed their arguments with regard to compensation and legal fees. On January 8, 2019, the Bank filed its arguments. On May 26, 2019, the Attorney General notified the Court that they were leaving the decision with regard to legal fees to the Court's discretion. On July 4, 2019, a resolution was made with regard to legal fees. The Bank is acting to implement the settlement agreement.

D) 1) In August 2013, a claim and motion for class action status in the amount of NIS 10.5 billion were filed with the Tel Aviv District Court against the 5 major banks, including the Bank, and against bank Presidents, including the Bank President & CEO, in person – with respect to unlawful charging of commissions by the banks with regard to foreign currency conversion and transfer, which the plaintiffs allege was made without proper disclosure. The plaintiffs also claim that a restrictive trade practice exists among the banks.

In September 2013, the defendants filed a motion with the Court, seeking dismissal of the personal claim against bank Presidents, and the individual claim against them was dismissed.

A revised motion for class action status filed on February 3, 2014 set the claim amount at NIS 11.15 billion for all banks on aggregate.

Note 26 – Contingent Liabilities and Special Commitments – continued

2) In March 2014, a claim and motion for class action status in the amount of NIS 2.07 billion were filed with the Tel Aviv District Court against the Bank and against Bank Otzar HaChayal, Mercantile Discount Bank, Bank Union Le Israel and Bank Yahav, alleging unlawful commissions charged by the banks with regard to conversion and transfer of foreign currency (this claim is identical to the aforementioned one).

   A motion has been filed to combine heating of this motion with the first aforementioned motion and the Court has agreed to said motion and has combined both claims.

On December 23, 2014. the Bank filed its response to each of the motions for class action status. The plaintiffs filed their response to the combined response to the two aforementioned motions, in which they attributed part of the claim amount to each of the plaintiffs; the Bank's alleged share for both these claims amounted to NIS 1.145 billion in principal.

On March 8, 2015, a pre-trial hearing of this case took place, after which the Court set deadlines for completion of the statements of claim by all parties.

On April 23, 2015, the plaintiffs filed, in conformity with the Court decision, a summary motion for approval of class action status, based on the current motions. The Bank filed its response to the summary motion on October 18, 2015.

On October 25, 2015, another pre-trial hearing took place. In this hearing, the Court combined the hearing of motions filed against the credit card companies and the Postal Bank with those filed against the banks. Evidentiary hearings took place in March 2016. The plaintiffs filed their summations in April 2016. Given the banks' motion to dismiss the plaintiffs' summation, an extension was granted for the banks to file their summations within 60 days after the decision on the motion to dismiss. On August 10, 2016, the Court accepted the motion by the banks and ordered the summation by the plaintiffs to be dismissed; on September 4, 2016, the plaintiffs filed new summations; and on January 17, 2017, the Bank filed its summation and the plaintiffs filed their response summations. On March 1, 2018, a verdict was handed down rejecting the motions and requiring the defendants to pay the expenses. On March 18, 2018, concurrently with filing of the appeal, the plaintiffs filed a motion to delay execution of the verdict (payment of expenses) and a motion seeking exemption from a bond deposit and a motion to add evidence in the appeal. On May 23, 2018, the Supreme Court ruled that the payment of expenses would be delayed pending a ruling on the appeal. The plaintiffs filed their summations and on January 7, 2019, the Bank filed its summation.

On April 1, 2019, a hearing took place in this appeal. At the end of this hearing, the Court handed down a verdict denying the appeal.

E) In March 2015, a counter-claim was filed against the Bank with the Central District Court, along with a motion for class action status, with respect to alleged over-charging of commissions in an "individual" account and in a "small business" account, allegedly in breach of Banking Rules (Customer Service) (Commissions), 2008. The plaintiff alleges that the breach was due, *inter alia*, to the Bank charging holders of "individual" or "small business" account commissions for certain services at higher tariffs than those set for large corporations, in contravention of the aforementioned Banking Rules.

   The plaintiff claimed they were unable to estimate the damage incurred by potential class members.

   The Bank filed its response to the motion on June 30, 2015. The plaintiff also filed their response to the Bank's response.

   According to a Court resolution dated September 10, 2015, the Bank of Israel filed its position on December 15, 2015. On December 16, 2015, another pre-trial hearing took place – at which the parties were urged to negotiate a potential settlement agreement. A pre-trial hearing took place on March 29, 2016 and an evidentiary hearing took place on July 12, 2016. On November 8, 2016, the plaintiff filed their summation and on January 22, 2017, the Bank filed their summation, the plaintiff filed their response summation.

   On January 31, 2018, the Court issued its ruling, allowing class action proceedings with regard to one commission only (the commission charged for issue of a bank guarantees) and rejecting the motion for class action status with regard to the other commissions listed in the motion for approval. Dates were scheduled
   for filing a statement of claim and a response statement. As ruled by the Court, the plaintiff filed a motion to confirm a substitute class representative. On January 6, 2019, the Court ruled to accept the substitute class representative. On January 20, 2019, the Court approved for publication the notice with regard to approval of class action status. On March 23, 2019, a Court hearing took place, and the parties agreed to launch a mediation process and Court proceedings have been suspended. Accordingly, the parties are in a mediation process which has yet to be completed.

Note 26 – Contingent Liabilities and Special Commitments – continued

F) In January 2016, a claim and motion for class action status was filed with the Jerusalem District Court, amounting in total to NIS 697.5 million, against the Bank, First International Bank of Israel Ltd., Bank Otzar HaChayal Ltd., Bank Yahav for Government Employees Ltd. and Bank Union LeIsrael Ltd. (hereinafter: "the defendants"). This claim alleges discrimination of the Arab population with regard to access to banking services, in that the defendants do not maintain branches close to Arab population and do not make their banking services accessible to this population – in alleged violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000.

The plaintiff seeks a verdict stating, in conformity with the Class Action Lawsuit Act, that the claim is to be filed on behalf of all Israeli residents who are Muslim, Christian or Druze, who suffer from discrimination in access to banking services by the defendants, due to absence of bank branches of the defendants in their town.

The plaintiffs set their claim against all defendants at NIS 697.5 million, noting that each defendant's share of the damage caused to class members is based on their market share – as is their share in compensation to class members. The Bank filed its response to the motion on August 4, 2016 and the plaintiffs filed their response to it on November 13, 2016.

A pre-trial hearing took place on December 19, 2016, at which the Court recommended that the parties reach a settlement in this case. As proposed by the Court, the parties have started negotiations. On May 10, 2017, another pre-trial hearing took place where the parties informed the Court that they had not reached understandings. On May 24, 2017, the plaintiffs filed data obtained from the Bank of Israel about the banks in 2009 and thereafter,

the respondents filed their own updated data. Evidentiary hearings took place in November. The parties filed their written summations and verbal summations were heard on November 30, 2017.

On December 28, 2017, a verdict was issued rejecting the motion for approval. On February 11, 2018, this verdict was appealed to the Supreme Court. On March 21, 2018, the plaintiffs filed a motion seeking to reduce the bond amount set in this case, and on March 26, 2018 the Bank filed its response to this motion. The Court has rejected the motion to reduce the bond. The parties have filed their summations. On December 11, 2019, a hearing of the appeal took place and the Supreme Court recommended that the appellants withdraw their appeal; after the appellants did so, a verdict was handed down on the same date, rejecting the appeal.

G) In February 2016, a claim and application for class action status was filed with the Tel Aviv District Court against the Bank and against Bank HaPoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd. (hereinafter: "the defendants"). The plaintiff set the claim amount for all defendant Banks, jointly and severally, at NIS 219 million. The motion concerns alleged discrimination in providing service to student groups by age, allegedly in violation of the Prohibition of Discrimination in Products, Services and in Access to Entertainment Venues and to Public Venues Act, 2000 (hereinafter "the Non-Discrimination Act") and the Banking Act (Customer Service), 1981 (hereinafter: "the Banking Act").

According to the plaintiffs, this is a general policy of all defendants, which seeks to exclude the "non-young" population from student benefit plans and/or from being able to open an account with the terms and conditions of a student account, by setting an age cap for receiving student benefits.

The plaintiff asks, in conformity with the Class Actions Law, for the claim to be filed on behalf of all students discriminated against due to their age, by comparison to younger students, who were precluded from receiving student benefits from the defendants in the past seven years (for causes pursuant to the Banking Act (Customer Service), 1981 or as from July 15, 2014 (pursuant to the amendment to the Non-Discrimination Act). The Bank filed its response to the motion on September 13, 2016 and the plaintiff has filed their response to this response. On October 27, 2016, the plaintiff filed its response to the Bank's response to the motion. On January 25, 2017, a preliminary hearing was held on the motion for approval. An evidentiary hearing set for September 2017 was canceled after the parties concluded a written agreement. The plaintiff's summation was filed on October 26, 2017 and the Bank's summation was filed on December 21, 2017. The plaintiff filed their response summation, including a motion for removal of annexes enclosed with the banks' summations. The banks filed their response to this motion on January 9, 2018 and on September 26, 2019 a verdict was handed down, rejecting the motion for class action status and erasing the personal claim. On November 4, 2019, the plaintiff appealed the rejection of the motion to the Supreme Court. Dates have been scheduled for filing summations in this appeal; on December 29, 2019 the parties reached a hearing agreement. The deadline for completing arguments was set at November 2, 2020.

H) In May 2016, a lawsuit was filed against the Bank with the Tel Aviv Yafo District Court, along with a motion for class action status, amounting to NIS 220 million. The lawsuit alleges unlawful over-charging of commissions to clients eligible to be classified as a small business, in breach of the Bank's duties in its relations with clients.

Note 26 – Contingent Liabilities and Special Commitments – continued

The plaintiff claims that the Bank has not disclosed to clients who manage a small business that they are eligible for the lower commission schedule of a "small business", in order to foil the commission reform and to charge small businesses commissions other than according to the small business tariff, allegedly resulting in unlawful gain at the expense of these clients.

The Bank filed its response to the motion on November 1, 2016 and the plaintiff filed their response to the Bank's response on November 30, 2016.

On April 23, 2017, a preliminary hearing took place and resolutions were handed down with regard to questions and document discovery; the parties are to comply with these by May 23, 2017. Given the plaintiff's notice of their intention to file a motion to consolidate the hearing of this motion with a hearing of 5 other motions for class action status in lawsuits filed on the same matter, on June 22, 2017 the Bank filed a petition with the Court seeking a stay of proceedings in this lawsuit, including preliminary discovery proceedings, pending a ruling by the Supreme Court on the motion for consolidation. On June 28, 2017, a motion was filed with the Supreme Court for consolidation of the hearing of this lawsuit with the five other motions; the Bank filed its response on July 10, 2017; on July 20, 2017 the Court rejected the motion to consolidate all of these lawsuits. As directed by the Supreme Court, a motion was filed to consolidate the hearing of the motions for approval to the District Court. On January 21, 2018 the motion for consolidation was heard. On April 17, 2018, a resolution was handed down combining the hearing of this motion with 5 other motions filed against 5 other banks. Consequently, a pre-trial hearing of all these motions is scheduled for December 19, 2018. At this hearing, the Court discussed a motion by the Bank to erase sections from the plaintiff's response, as well as a motion by the plaintiff to erase the Bank's response to the motion for approval, citing alleged breach of a prior resolution with regard to document discovery. On November 28, 2019, the Court handed down a ruling on the pre-trial motions, rejecting the motion by the plaintiff to erase the Bank's response. The plaintiff has filed a motion to appeal with the Supreme Court the ruling rejecting their discovery motion, and a resolution on this matter is still pending.

I) In February 2017, a motion for class action status was filed with the Central District Court against the Bank, Bank Leumi, Bank Hapoalim and Bank Yahav, alleging over-charging and un-lawful charging of "teller commission", where only the "direct channel commission" should have been charged, in violation of Banking Regulations (Customer Service) (Commissions), 2008 and in violation of Section 9 of the Banking Act (Customer Service), 1981. The plaintiff allege that where clients deposit a check and/or cash through a teller at the Bank branch, due to failure of the automated deposit machines, without assistance from the teller, the clients are charged the "teller commission", rather than the lower "direct channel commission". The plaintiffs are unable to estimate the amount claimed.

The Bank filed its response to the motion on October 31, 2017. On December 14, 2017, a pre-trial hearing took place, after which a decision was made whereby the plaintiff should state their position within 90 days, whether they insist on further pursuing their claim as it stands, or whether they wish to withdraw , or amend their claim. At this stage, none of these actions took place and the plaintiffs have yet to announce their position. On November 19, 2018, another hearing took place and a ruling was given stipulating, *inter alia*, that they should consider withdrawal of the motion against the Bank (and other banks). Accordingly, an agreed withdrawal motion was filed and a verdict was issued on February 22, 2019, confirming the agreed withdrawal, whereby the motion was erased and the individual claims were rejected without awarding of expenses.

J) In November 2017, a claim and motion for class action status were filed with the District Court Center–Lod against the Bank, in the amount of NIS 437.3 million alleging charging of excess interest on housing loans, due to reduction of the loan component based on the prime lending rate which is allegedly misleading and lacking proper disclosure.

According to the plaintiffs, the Bank refrained from providing its customers with a housing loan, in which the loan component based on the prime lending rate is the maximum permitted by Bank of Israel directives (33.3%), in order to increase the amount which the Bank may provide in supplementary, costlier loans.

The plaintiffs note that they do not deny or challenge the fact that the Bank has discretion in granting housing loans and the approved composition of the loan, but rather the manner in which the Bank exercises its discretion and its extended fiduciary, trust and disclosure duties.

The Bank filed its response on March 29, 2018 and the plaintiffs have filed their response to the Bank's response. A pre-trial hearing took place on July 2, 2018, after which the Court suggested the parties seek mediation. The direct discussions by the parties failed. The case was returned to the Court. The parties have reached agreement on proceeding, whereby this case would be ruled based on the existing material in the case, without calling any witnesses. Consequently, on January 13 the plaintiffs filed their summation and on March 28, 2019, the Bank filed its summations. Resolutions in this case are still pending.

Note 26 – Contingent Liabilities and Special Commitments – continued

K) In December 2017, a claim and motion for approval of class action status was filed with the Central District Court amounting to NIS 124 million. The claim involves setting of interest rate in housing loans bearing adjustable interest - debentures. The plaintiffs allege that the Bank issues an approval in principle to the client, listing the debenture base as the only mechanism for interest calculation in the adjustable interest track - debentures for the term of the loan. However, the loan agreement includes another mechanism titled "Emergency Protection Mechanism" for setting the interest rate, in addition to the original mechanism, without providing proper disclosure. It is further alleged that the condition stipulated by the Bank in the agreement, with regard to triggering of the Emergency Protection Mechanism, is unfair and gives the Bank an unreasonable advantage over its clients.

the Bank filed its response on July 25, 2018. The plaintiff filed its response to the Bank's response on January 6, 2019.

On February 27, 2019, a pre-trial hearing took place, and the Court scheduled a further pre-trial hearing to allow the parties to conduct preliminary proceedings. The Court also proposed that the parties try to reach agreement. As proposed by the Court, the parties have launched mediation proceedings, which have yet to be completed. In conformity with the Court ruling, on February 18, 2020, the parties filed an update notice with regard to the mediation process and an agreed motion asking for a further 60 days' extension in order to consider the feasibility of concluding this proceeding by agreement.

L) In September 2018, a lawsuit and motion for class action status was filed with the Tel Aviv Yafo District Court in the amount of NIS 180 million (estimate). Claim and motion for approval of class action status amounting to NIS 180 million (estimated).

The motion alleges over-charging of commission upon early repayment of housing loans consisting of multiple tracks, some of which have generated positive capitalization differences and some of which have generated negative capitalization differences, where the Bank fails to offset the capitalization differences of the different tracks against each other, in contravention of provisions of the Banking Ordinance (Early repayment of Housing Loan), 2002.

The plaintiffs seek a ruling, pursuant to the Class Action Lawsuit Act, whereby the lawsuit would be filed on behalf of all Bank clients who have and/or would repay a mortgage by full or partial early repayment and one of their tracks generated a negative capitalization balance not offset against the early repayment fee, as stipulated by law. In March, the plaintiff's attorney informed the Court of their intention to replace the expert opinion filed with the motions, with an opinion from another expert. Consequently, the deadline for filing the Bank's response to the motion was postponed by agreement to April 29, 2019. Due to disagreement on the text of the opinion, the filing of the response will be delayed pending a motion by the plaintiff to amend the motion for approval. On June 3, 2019, the parties reached a litigation agreement.

The Bank's response to the motion was filed on October 29, 2019 and the plaintiff's response to the Bank's response was filed on January 1, 2020. On January 5, 2020, a pre-trial hearing took place in this case, at which the Court ruled that it would await further claims to be formulated by the parties, including with regard to combined hearing with similar motions filed on the same matter; a further pre-trial hearing is scheduled for May 20, 2020.

M) In December 2018, a claim and motion for class action status was filed with the Tel-Aviv District Court, in the total amount of NIS 280 million, against the Bank, Bank Leumi, Bank HaPoalim, Bank Discount and against insurance companies Harel, HaPhoenix and Menorah, alleging unlawful over-charging of insurance premium for superfluous insurance policies issued to the building owner, even though at the time of their issue, the same or another insurance company already had issued insurance policies covering the same building for the same period.

The plaintiffs set their individual and joint damage at NIS 280 million. They claim that the damage with respect to each bank, should the defendants seek proportionate liability, is based on their market shares – with at least half of the damage to be attributed to the banks and the remainder – to the insurers.

The Bank filed its response to the motion on June 10, 2019 and the plaintiff has yet to file their response to the Bank's response. A pre-trial hearing is scheduled for March 24, 2020.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 10 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 10 million.

11. Motions for class action status and a motion for approval of a derivative claim are pending against the Bank and subsidiaries, where the amount claimed is material, as itemized below, which, in the opinion of the Bank's management, based on the opinion of their legal counsel (with regard to lawsuits brought against the Bank), the prospects for which cannot be estimated on the date of the financial statements, so that no provision was made for these.

Note 26 – Contingent Liabilities and Special Commitments – continued

A) 1. In March 2015, a motion for approval of derivative claim was filed with the District Court in Tel Aviv ("the motion") on behalf of the Bank and its subsidiary, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") against past and incumbent officers of the Bank and of Mizrahi Switzerland, at a minimum amount of NIS 95 million, for damage allegedly sustained by Mizrahi Group due to the defendants' deeds and omissions with regard to providing assistance to US clients in avoiding taxes in the USA. The plaintiff claims that defendants should reimburse the Bank for the damage they have caused to Mizrahi Group in general and to the Bank in particular.

On March 24, 2015, a Bank shareholder filed a motion in conjunction with the aforementioned proceeding, seeking to join as a party to that proceeding and to delay the hearing or, alternatively, to dismiss it out of hand, given the motion for document discovery filed by that shareholder in December 2014 with the Tel Aviv District Court against the Bank and its officers pursuant to provisions of Section 198a of the Companies Law 1999 ("the motion for discovery"). In conjunction with the motion for discovery, the plaintiff asked the Court to instruct the Bank and the other defendants to provide to the plaintiff various documents with regard to on-going proceedings in the USA, so as to allow the plaintiff to review potential filing of a motion for derivative defense (on behalf of the Bank in the USA) or filing of a motion for approval of a derivative claim (against executives and employees of the Bank). The plaintiff claims in the motion for discovery that the process of the motion for discovery is a pending process which has priority over the motion for approval – which is why hearing of the motion for approval should be delayed and even dismissed out of hand.

On May 10, 2015, the Court approved, in conjunction with the motion for approval, a hearing arrangement agreed by the parties in this case, with regard to dates for filing statements of claim whereby, *inter alia*, at this stage the deadlines for filing the defendants' responses to the motion for approval would be suspended and soon after a decision is given, *inter alia*, with regard to the aforementioned motion to join and subject to it, the schedule for filing these responses would be set considering, *inter alia*, the progress made in proceedings with the Department of Justice in the USA.

It should be noted, with regard to the motion for discovery, that on May 3, 2015, a preliminary hearing of this motion took place wherein the Court approved the agreement reached by the parties, that the hearing of the actual motion for discovery would currently be suspended, pending completion of document discovery for filing with authorities in the USA. In December 2015, the Court resolved that the motion for approval would be dismissed, but the dismissal would be delayed that should the motion for discovery be allowed and should the plaintiff of the motion for discovery file a motion for approval 90 days after receiving the documents in a timely manner as instructed by the Court in its resolution, the motion for approval would be dismissed. Should the discovery motion be dismissed, or should a motion for approval not be filed by 90 days after receiving the documents – the motion for approval would be considered a preliminary motion to any other motion, if filed.

On April 18, 2016, the Court resolved to postpone the hearing of the motion pending conclusion of the investigation and reporting of its outcome.

On April 12, 2017, the Court directed the Attorney General to inform the Court in 45 days' time of their intention to join the proceeding.

On August 3, 2017, the Attorney General submitted a notice on behalf thereof, regarding their appearance in the discovery process, to which they attached their position. On September 10, 2017, the Bank and the other defendants filed their responses to the Attorney General's position.

On September 19, 2017 Court approved a procedural arrangement reached by the parties in the case, whereby the hearing of this case will be suspended at this stage, subject to the defendants reporting to the Court and to the plaintiff as from December 31, 2017, once every 90 days, of the investigation by the US DOJ. Updates with regard to the investigation process were given on March 29, 2018 and on June 27, 2018.

On October 2, 2018, the Bank provided an update to the Court with regard to the investigation process, enclosing the report made public in the Bank's financial statements as of June 30, 2018 whereby, *inter alia*, the Bank started negotiations with the US DOJ, the outcome of which cannot yet be estimated. Consequently, the Court scheduled the case for follow-up in 90 days.

On December 31, the Bank filed another update with the Court with regard to the investigation; the next update is due on March 31, 2019.

On March 14, 2019, the Bank filed an update notice with the Court, whereby on March 12, 2019, the Bank and the US Department of Justice signed a Deferred Prosecution Agreement to conclude the investigation.

Note 26 – Contingent Liabilities and Special Commitments – continued

In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of llitigation agreement with regard to further litigation of this motion. On December 18, 2019, the Court handed down a ruling whereby, inter alia, a pre-trial hearing was scheduled for April 22, 2020 and requiring the parties to state their consent to referring their dispute to mediation. In view of the notice by the Bank dated January 1, 2020, stating that the Bank believes this is not the appropriate timing for mediation proceedings, however, as ruled by the Court, in case of circumstances or developments which would warrant this in the Bank's opinion, the Bank would reconsider such option. On January 2, 2020, the Court ruled that the hearing date scheduled for April 22, 2020 would remain in effect.

2. On March 17, 2019, a Bank shareholder filed a motion with the Tel Aviv District Court, against the Bank, UMB (Switzerland) Ltd. ("Mizrahi Switzerland") and Mizrahi Tefahot Trust Company Ltd., seeking a document discovery order pursuant to Section 198a of the Companies Law, 1999 ("Motion for Late Disclosure"), to instruct the Bank and the other defendants to disclose to the plaintiff various documents with regard to the investigation proceedings that took place in the USA and with regard to the Deferred Prosecution Agreement signed with the US Department of Justice to conclude the investigation. The plaintiff alleges that the findings of this investigation constitute prima faciae evidence, justifying the issue of the document discovery order, and that all requested documents are (or may be) relevant for filing a motion for approval of a derivative claim against officers and the independent auditors, with regard to damage incurred by the Bank due to the investigation and the penalty consequently imposed on the Bank.

   On March 24, the plaintiff filed a motion to combine the hearing of the two aforementioned motions, to which the Bank objected. On April 8, the Bank (and Mizrahi Tefahot Trust Company Ltd.) filed a motion to dismiss one of these motions. On April 15, 2019, the Court granted the motion by the parties and postponed the date for filing the Bank's response to the late discovery motion, to be submitted within 60 days after final resolution of the question as to which o the discovery motions with regard to the US investigation would proceed. On April 18, 2019, the Court handed down a resolution on the motions and the various responses filed by the parties, setting dates for filing the plaintiffs' responses to the motion to dismiss filed by the Bank. On June 24, 2019, a further Court hearing took place of the motion to dismiss filed by the Bank. On August 14, 2019, the Court issued its resolution, whereby the later motion for discovery should be erased. On September 10, 2019, the plaintiff appealed to the Supreme Court the resolution to dismiss. The parties filed their summations and a hearing of this appeal is scheduled for March 25, 2020.

   On October 10, 2019, the District Court ruled that the late discovery motion would be separated from the aforementioned lawsuit in section 1 above, and would be closed.

See also section 12 with regard to an investigation by the US Department of Justice concerning Bank Group business with its US clients.

B) In June 2019, a motion for class action status was filed with the Tel Aviv-Yafo District Court against the Bank and 5 other banks.
This motion involves allegedly unlawful over-charging of currency conversion differences and transaction fees with respect to foreign currency conversion transactions and lack of proper disclosure, in breach of multiple laws.
With regard to charging of currency conversion differences, the motion alleges that when clients conduct a foreign currency conversion transaction, the defendants charge for currency conversion differences that are not listed in the price list, hence these are charged without lawful authorization. The motion further alleges that because this charge is not visible to clients, clients cannot tell the cost of the currency conversion service.
With regard to the transaction fee, the motion alleges that the Bank (and 2 other defendants) calculate this fee after adding the currency conversion differences, thereby over-charging for the transaction fee.
The motion further alleges that the defendants are party to a restrictive trade practice.
The motion defined the class as all persons or legal entities who used the defendants' services for currency conversion transactions, as well as the general public in Israel, which was directly and indirectly impacted by the aforementioned breach.
The damage incurred by the class, according to the motion, amounted to NIS 8 billion; the share attributable to the Bank amounted to NIS 1.745 billion. The Bank filed a motion to dismiss the motion out of hand. On October 27, 2019, the plaintiff filed a motion to erase the motion to dismiss and a ruling on this motion is still pending. As resolved by the Court on October 26, 2019, the parties were granted an extension to file the defendants' response to the motion for approval, pending any other ruling. A pre-trial hearing is scheduled for March 9, 2020.

Note 26 – Contingent Liabilities and Special Commitments – continued

12) In 2011, authorities in the USA and in Switzerland have been negotiating the tax treaty between these countries. As requested by Swiss authorities, several Swiss banks, including Mizrahi Bank Switzerland, have provided, as from September 2011, to Swiss authorities quantitative data as requested about their business with US customers, to be provided to US authorities.

In June 2014, the Bank was first informed of expansion of the US DOJ investigation, which would apply to all inter-state activities of the Bank Group with its US clients. This was further to an investigation with regard to activities of Bank Mizrahi Switzerland with their US clients, which was reported to Bank Mizrahi Switzerland back in August 2013.

In a letter dated July 25, 2014, the US DOJ required the Bank to provide data and information with regard to a wide range of issues concerning inter-state transactions with US clients of the Bank Group, for the period starting on January 1, 2002 and ending on the date of the letter; In conjunction with the investigation, the Bank provided additional information and documents, as requested from time to time by the US Department of Justice.

In a letter dated August 6, 2018 to the Bank's US legal counsel, the US Department of Justice announced its willingness to offer the Bank a settlement, based on payment of USD 342 million, to conclude the investigation. Soon after this letter was received by the Bank, the Board of Directors instructed the Bank's US legal counsel to immediately inform the US DOJ that their proposal is not acceptable to the Bank. Further to the letter, the parties negotiated an agreed settlement outline for the Bank Group; on March 12, 2019, the Bank, Mizrahi Switzerland Ltd. and Mizrahi Tefahot Trust Company Ltd. ("the Bank Group Companies") and the US Department of Justice signed a Deferred Prosecution Agreement (DPA) ("the Agreement").

In conformity with the agreement, the Bank Group agreed to accept responsibility according to U.S. law (Respondeat Superior doctrine), for the acts and omissions of certain former employees of the Bank Group – private bankers, relationship managers and other employees with similar levels of responsibility – who had acted in breach of its policy and procedures during the years 2002-2012; Acts and omissions (as described in an agreed Statement of Facts, which is attached as an exhibit to the DPA) as a result of which US clients were able to avoid their US tax obligations.

Pursuant to the agreement, the Bank Group would pay to the US Government a total of USD 195 million ("the Total Payment Amount"). The Total Payment Amount consists of USD 53 million, reflecting the tax payable by the relevant US customers of the Bank Group Companies to the US Tax Authority; USD 24 million, reflecting the revenues generated by the Bank Group Companies with respect to provision of banking services to these customers; and a penalty amounting to USD 118 million.

The Bank also agreed to take certain actions (all of which are already implemented) relating to the implementation of FATCA mechanisms and to adequate compliance programs, including with regard to relevant affiliated companies. The Bank Group has committed to continue the full cooperation with the US authorities to the extent required by such authorities, with regard to the subject matter of the investigation.

Pursuant to the DPA, a deferred indictment ("Information") against the Bank Group has been submitted to a US court, with respect to the above conducts of the Bank Group employees. The indictment is deferred for a period of two years, such that if the Bank Group complies with the provisions of the agreement, the indictment shall be dismissed at the end of such deferral period, without any conviction.

The total payment amount, pursuant to the agreement, was paid by the Bank on April 10, 2019.

On March 19, 2019, the US Court confirmed the validity of the Agreement.

On March 27, 2019, the Bank received a letter from the Supervisor of Banks, requiring the Bank, as the investigation is concluded and in view of the agreement reached, to conduct a structured, in-depth review and lesson learning process, including appointment of an independent commission, headed by a retired judge, to review the management and control processes and to formulate any general and personal conclusions and recommendations, as needed. On March 27, 2019, the Bank Board of Directors resolved to create such a commission. The Committee has yet to conclude its work.

13) In February 2019, the Bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") – (hereinafter jointly: "CAL Group") to extend the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements.

In February 2019, the Bank signed with Isracard Ltd. and with Europay (Eurocard) Israel Ltd. an extension to the agreement on joint issuing of charge cards to Bank clients. The extension of this agreement revised the commercial terms agreed by the parties in previous agreements. The Bank also has an agreement with Poalim Express Ltd. of Isracard Group on joint issuing of charge cards to Bank clients.

Note 26 – Contingent Liabilities and Special Commitments – continued

In March 2015, the Bank signed with Leumi Card Ltd. an agreement on joint issuing of charge cards to Bank clients. The agreements with the credit card companies are subject to all regulatory requirements required by statute, if any.

14) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

15) The Bank has undertaken vis-à-vis the trustee for debentures and subordinated notes issued by Mizrahi Tefahot Issue Company Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes.

16) The Bank contracts loan syndication transactions with multiple institutional investors. Some of these transactions are organized, managed and operated by the Bank.
For more information about syndication transactions, see Note 30D.

D. Guarantees by maturity

The Bank provides a wide range of guarantees and indemnification to its clients, to allow them to conduct a wide range of transactions. The maximum amount of potential future payments is determined based on the amount stated in the guarantee, without accounting for any potential refunds or collateral helped or pledged. Most guarantees at the Bank are rated by credit performance rating.

The following are guarantees issued by the Bank, by maturity:

					As of December 31, 2019
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	2,250	438	15	195	2,898
Guarantees to home buyers	8,500	2,083	56	33	10,672
Guarantees and other commitments	3,441	722	138	4,312	8,613
Commitments to issue guarantees	3,056	5,289	1,317	331	9,993
Total guarantees	**17,247**	**8,532**	**1,526**	**4,871**	**32,176**

					As of December 31, 2018
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	1,731	380	120	157	2,388
Guarantees to home buyers	8,999	1,531	14	–	10,544
Guarantees and other commitments	4,252	891	169	2,633	7,945
Commitments to issue guarantees	2,905	4,291	286	–	7,482
Total guarantees	**17,887**	**7,093**	**589**	**2,790**	**28,359**

					As of December 31, 2017
	Expiring in 12 months or sooner	Expiring in 1 to 3 years	Expiring in 3 to 5 years	Expiring in over 5 years	Total
Loan guarantees	1,566	487	101	129	2,283
Guarantees to home buyers	4,377	6,418	–	–	10,795
Guarantees and other commitments	2,891	1,008	156	1,622	5,677
Commitments to issue guarantees	2,674	3,307	–	–	5,981
Total guarantees	**11,508**	**11,220**	**257**	**1,751**	**24,736**

Note 27 – Liens

A. Stock exchange members are required to deposit a system of collateral to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, to the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 26.C.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government debentures of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. As of December 31, 2019: NIS 58 million were deposited. (As of December 31, 2018: NIS 56 million).

2) Additionally, as from June 19, 2017, in the account opened by the stock exchange clearinghouse in the Bank of Israel in its name on behalf of the Bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from those securities, including cash proceeds from their sale. As of December 31, 2019, deposits to this account amounted to NIS 19 million (as of December 31, 2018: NIS 19 million).

3) Through June 19, 2017, funds provided as collateral by stock exchange clearing house members, currently deposited with the Bank of Israel (as set forth in section 2) above), were deposited on behalf of the Bank with another bank.

4) The accounts discussed in Par. 1 and 3 above have been pledged under a first-level fixed lien in favor of the stock exchange clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the stock exchange clearing house.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to MAOF transactions that are executed by them or their customers or by stock exchange members that are not members of the MAOF Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 26.C.2).

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the MAOF Clearinghouse ("main MAOF collateral account"), government debentures of the Bank were deposited as security in favor of the MAOF Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2019 is NIS 274 million (as of December 31, 2018 – NIS 290 million).

2) Additionally, as from June 19, 2017, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with the Bank of Israel, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from said securities, including cash proceeds from their sale. As of December 31, 2019, deposits to this account amounted to NIS 14 million (as of December 31, 2018: NIS 13 million).

3) Through June 19, 2017, funds provided as collateral by MAOF clearing house members, currently deposited with the Bank of Israel (as state in section 2) above), were deposited on behalf of the Bank with another bank.

4) The aforementioned accounts in sections 1 and 3 above are pledged under a floating and fixed lien to benefit the MAOF clearinghouse. The aforementioned account in section 2 above was pledged by a first-ranked lien and by assignment by way of pledge of unlimited amount in favor of the MAOF clearing house.

C. The Bank of Israel operates the Real Time Gross Settlement system (RTGS) – a system which allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2019 and as of December 31, 2018, no debentures were deposited in this account.

D. The Bank conducts securities operations through the EuroClear clearinghouse, which is a settlement system for securities traded on international markets. For these operations, the Bank pledged securities valued, as of December 31, 2019, at USD 15 million (as of December 31, 2018: USD 15 million).

Note 27 – Liens - Continued

To secure Bank client activity involving options overseas, the Bank provides as collateral debentures of foreign governments. For these operations, the Bank pledged securities valued, as of December 31, 2019, at USD 10 million (as of December 31, 2018: USD 29 million).

E. The Bank and subsidiaries contract Credit Support Annex (CSA) agreements with counter parties, intended to minimize the mutual credit risks created between banks when trading in derivatives. According to these agreements, the fair value of the parties' rights and obligations are measured periodically, and if either party's exposure exceeds the threshold specified in advance, then that party would make a transfer to the other party so as to limit the exposure until the next measurement date.

As of December 31, 2019, the Bank Group has provided to counter parties deposits amounting to NIS 246 million (December 31, 2018: NIS 1,597 million).

F. In accordance with the requirement of the regulatory agencies in the USA, the Bank's branch pledged securities worth USD 34 million as of the balance sheet date (as of December 31, 2018: USD 32 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other government directives. Most of the amount pledged, which as of December 31, 2019 amounted to USD 22 million (as of December 31, 2018 – USD 28 million), relates to a demand by U.S. regulatory agencies to secure 7.5% of the branch's liabilities, as defined by the authorities there.

G. To secure credit facilities provided to the Bank by the Bank of Israel, the Bank has pledged an account containing foreign securities. As of December 31, 2019 and December 31, 2018, the Bank pledged no foreign securities.

H.

	December 31,	
	2019	**2018**
Sources of securities which have been received and which the Bank may sell or pledge, at fair value excluding set-offs:		
Securities received in transactions for borrowing securities against cash	120	26

Note 28 – Derivative instruments and hedging activities

Reported amounts (NIS in millions)

a) Description of derivatives and the risks inherent in such activity

1) Overview

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options and financial swaps, are executed both as broker for its customers and as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

The Bank designates certain derivative instruments as fair value hedges or as cash flow hedges. For more information, see Note 1.D.16. to the financial statements.

2) Types and description of activity in financial derivative instruments

The activities in financial derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the MAOF market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:
- A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments (hereinafter: "underlying asset"), to be executed on a future date and at a price specified in advance.
- Swaps:

  Contracts to exchange a specified quantity of underlying assets on the transaction date, with a reciprocal obligation to re-exchange the items that had been exchanged on a future date.
- Options:

  Contracts that confer, in return for the payment of a premium, the right to purchase (call) or sell (put) the underlying assets at a pre-determined fixed price, quantity and time.
- Spot trades (transactions for immediate delivery):

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within two business days.
- Credit derivatives:

  Contracts that confer, in return for the payment of a one-time or periodic premium, the right to receive payment in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Fair value hedges:

  The Bank designates certain derivatives as fair value hedges. Change in fair value of derivatives hedging exposure to change in fair value of an asset, liability or firm commitment, is regularly recognized on the statement of profit and loss, as is the change in fair value of the hedged item, which may be attributed to the hedged risk.
- Cash flows hedges:

  The Bank designates certain derivatives as cash flows hedges. The accounting treatment of changes to fair value of derivatives hedging exposure to change in cash flows from an asset, liability or anticipated transaction depends on the effectiveness of hedging relationship.
  - The effective portion of the change in fair value of derivatives used to hedge cash flows is initially recognized under equity (off the statement of profit and loss), as a component of Other Comprehensive Income and then, when the anticipated transaction impacts the statement of profit and loss, it is reclassified to the statement of profit and loss.
  - The non-effective portion of the change in fair value of derivatives thus designated is immediately recognized on the statement of profit and loss.

Note 28 – Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

b) Activity on consolidated basis

	December 31, 2019			December 31, 2018		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
1. Stated amounts of derivative instruments						
Interest contracts						
Forward contracts	1,562	–	1,562	2,388	300	2,688
Options written	–	79	79	19	–	19
Options purchased	174	148	322	–	75	75
(1)Swaps	8,263	30,577	38,840	8,851	30,859	39,710
(2)Total	**9,999**	**30,804**	**40,803**	**11,258**	**31,234**	**42,492**
(3)Of which: Hedging derivatives	**4,263**	**–**	**4,263**	**3,202**	**–**	**3,202**
Currency contracts						
(4)(6)Forward contracts	54,757	71,397	126,154	57,167	62,694	119,861
Options written	–	19,936	19,936	–	19,230	19,230
Options purchased	–	16,947	16,947	–	16,408	16,408
Swaps	3,325	2,736	6,061	4,367	2,842	7,209
Total	**58,082**	**111,016**	**169,098**	**61,534**	**101,174**	**162,708**
(3)Of which: Hedging derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares						
Options written	88	15,564	15,652	–	11,127	11,127
(5)Options purchased	–	15,596	15,596	–	11,170	11,170
Swaps	–	1,794	1,794	–	4,321	4,321
Total	**88**	**32,954**	**33,042**	**–**	**26,618**	**26,618**
Commodities and other contracts						
Forward contracts	6	12	18	44	–	44
Options written	–	10,789	10,789	–	6,783	6,783
Options purchased	–	10,789	10,789	–	6,783	6,783
Total	**6**	**21,590**	**21,596**	**44**	**13,566**	**13,610**
Credit contracts						
Bank is guarantor	276	–	276	300	–	300
Bank is beneficiary	462	–	462	647	–	647
Total	**738**	**–**	**738**	**947**	**–**	**947**
Total stated amount	**68,913**	**196,364**	**265,277**	**73,783**	**172,592**	**246,375**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 27,626 million (as of December 31, 2018: NIS 26,980 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,484 million (as of December 31, 2018: NIS 9,083 million).
(3) The Bank conducts fair value hedging and cash flow hedging through interest rate swap contracts and NIS/CPI swap contracts, respectively.
(4) Of which: Foreign currency spot swaps amounting to NIS 4,083 million (as of December 31, 2018: NIS 6,508 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 15,564 million (as of December 31, 2018: NIS 11,170 million).
(6) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

Note 28 – Derivative instruments and hedging activities - continued

b) Activity on consolidated basis – continued

	December 31, 2019					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Gross fair value of derivative instruments						
Interest contracts	206	469	675	273	543	816
Of which: Hedging derivatives	31	–	31	71	–	71
(1)Currency contracts	431	1,138	1,569	398	1,134	1,532
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	2	333	335	–	332	332
Commodities and other contracts	–	1	1	–	1	1
Credit contracts	6	–	6	5	–	5
(2)Total assets / liabilities with respect to derivatives, gross	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	164	146	310	271	333	604

b) Activity on consolidated basis

	December 31, 2018					
	Assets with respect to derivatives, gross			Liabilities with respect to derivatives, gross		
	Derivatives not held for trading	Derivatives held for trading	Total	Derivatives not held for trading	Derivatives held for trading	Total
2. Gross fair value of derivative instruments						
Interest contracts	227	412	639	316	387	703
Of which: Hedging derivatives	8	–	8	44	–	44
(1)Currency contracts	958	1,173	2,131	1,415	978	2,393
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	–	470	470	8	554	562
Commodities and other contracts	1	–	1	1	–	1
Credit contracts	3	–	3	10	–	10
(2)Total assets / liabilities with respect to derivatives, gross	**1,189**	**2,055**	**3,244**	**1,750**	**1,919**	**3,669**
Fair value amounts offset on the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**1,189**	**2,055**	**3,244**	**1,750**	**1,919**	**3,669**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	613	1,050	1,663	484	190	674

(1) Including diversion between the negotiable portfolio and the banking portfolio, primarily due to proactive internal transactions as part of asset and liability management.

(2) Of which: Gross fair value of assets with respect to embedded derivatives amounting to NIS 8 million (as of December 31, 2018: NIS 4 million); Gross fair value of liabilities with respect to embedded derivatives as of December 31, 2018 amounting to NIS 8 million

Note 28 – Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

b) Accounting hedges

	For the year ended December 31, 2019		
	Amounts recognized in Other Comprehensive Income (loss) from derivatives	Interest revenues (expenses)	Total
Interest contracts			
(1)Derivatives used to hedge cash flows	4	26	**30**
(2)Derivatives used to hedge fair value	8	(4)	**4**
Total	**12**	**22**	**34**

(1) Reflects amounts included in assessment of hedge effectiveness.
(2) Reflects amounts excluded from assessment of hedge effectiveness, for which the difference between the change in fair value and the periodic write-down is recognized on Other Comprehensive Income (Loss).

C) Credit risk on financial derivative instruments according to counter-party to the contract – Consolidated – continued

	December 31, 2019					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**57**	**1,349**	**73**	**1**	**1,106**	**2,586**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,006)	–	–	(181)	(1)(1,187)
Mitigation of credit risk with respect to cash collateral received	–	(290)	–	–	(241)	(531)
Net amount of assets with respect to derivative instruments	**57**	**53**	**73**	**1**	**684**	**868**
(2)Off-balance sheet credit risk on derivative instruments	179	1,034	157	–	617	1,987
Mitigation of off-balance sheet credit risk	–	(428)	–	–	(300)	(728)
Net off-balance sheet credit risk with respect to derivative instruments	179	606	157	–	317	1,259
Total credit risk on derivative instruments	236	659	230	1	1,001	2,127
Carrying amount of liabilities with respect to derivative instruments	**54**	**1,290**	**73**	**–**	**1,269**	**2,686**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,006)	–	–	(181)	(1,187)
Pledged cash collateral	–	(246)	–	–	–	(246)
Net amount of liabilities with respect to derivative instruments	**54**	**38**	**73**	**–**	**1,088**	**1,253**

Note 28 – Derivative instruments and hedging activities - continued

	December 31, 2018					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**95**	**1,093**	**31**	**–**	**2,025**	**3,244**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(810)	–	–	(524)	[(1)](1,334)
Mitigation of credit risk with respect to cash collateral received	–	(137)	–	–	(217)	(354)
Net amount of assets with respect to derivative instruments	**95**	**146**	**31**	**–**	**1,284**	**1,556**
[(2)]Off-balance sheet credit risk on derivative instruments	163	1,564	279	–	997	3,003
Mitigation of off-balance sheet credit risk	–	(594)	–	–	(57)	(651)
Net off-balance sheet credit risk with respect to derivative instruments	163	970	279	–	940	2,352
Total credit risk on derivative instruments	258	1,116	310	–	2,224	3,908
Carrying amount of liabilities with respect to derivative instruments	**96**	**2,378**	**31**	**60**	**1,104**	**3,669**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(810)	–	–	(524)	(1,334)
Pledged cash collateral	–	(1,533)	–	(60)	–	(1,593)
Net amount of liabilities with respect to derivative instruments	**96**	**35**	**31**	**–**	**580**	**742**

(1) This balance consists entirely of derivative instruments subject to offset agreements.

(2) The difference, if positive, between the total amounts with respect to derivative instruments (including with respect to derivative instruments with negative fair value) included under borrower indebtedness, as calculated for restrictions on indebtedness of a borrower, before mitigation of credit risk, and the carrying amount of assets with respect to derivative instruments of the borrower.

In 2019, the Bank recognized revenues with respect to a decrease in credit losses with respect to derivative instruments, amounting to NIS 6 million (in 2018, the Bank recognized revenues with respect to a decrease in credit losses amounting to NIS 3 million; in 2017 the Bank recognized revenues due to a decrease in credit losses amounting to NIS 2 million).

Note 28 – Derivative instruments and hedging activities - continued

Reported amounts (NIS in millions)

d) Maturity dates – stated amounts: year-end balances – Consolidated

	December 31, 2019				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS – CPI	1,298	2,907	3,183	1,097	8,485
Other	6,732	7,842	11,634	6,110	32,318
Currency contracts	100,647	63,751	4,515	185	169,098
Contracts for shares	30,504	1,747	791	–	33,042
Commodities and other contracts	21,394	279	532	129	22,334
Total	**160,575**	**76,526**	**20,655**	**7,521**	**265,277**
	December 31, 2018				
Total	**138,607**	**69,549**	**30,573**	**7,646**	**246,375**

Note 29 – Operating Segments and Geographic Regions

A. Information regarding supervisory operating segments

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the turnover volume for clients.

Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.

In addition, the financial statements include, in this Note, disclosure with regard to "Operating segments in conformity with the management approach".

An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, there is a strong correlation between supervisory operating segments and "operating segments in conformity with the management approach" but nevertheless, there are some differences in client attribution to segments and in decision making. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for other than individuals (including business operating segments, institutional investors and financial management of the Bank).

Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Definitions of supervisory operating segments are as follows:

Households – individuals, other than private banking clients, as noted below.

Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.

Small and micro businesses – businesses with turnover amounting up to NIS 50 million.

Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.

Large businesses – businesses with turnover higher than NIS 250 million

Institutional investors – Businesses which own pension funds, study funds, mutual funds, ETFs, insurance companies, stock exchange members, portfolio managers.

Financial management – includes trading operations, asset and liability management and non-banking investments.

Trade operations – Investment in securities held for trading, market making operations for securities, operations involving derivative instruments not designated as hedges and which are not part of asset and liability management for the Bank, borrowing of securities for trading, short selling of securities, underwriting services for securities.

Asset and liability management – including investment in debentures available for sale and in debentures held to maturity, hedging using derivative instruments, ALM hedging, deposits with banks and deposits from banks in Israel and overseas, currency hedging of investments overseas, deposits with and from Governments.

Real investments – Investment in shares available for sale and in associated companies of businesses.

Other financial management operations – management, operation, trust and custody services for banks, sale and management of loan portfolios.

The aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	961	4,014	2	1,157	297
Interest expenses from externals	576	–	176	118	65
Interest revenues, net from externals	385	4,014	(174)	1,039	232
Interest revenues, net – inter-segment	964	(2,319)	260	111	63
Total interest revenues, net	**1,349**	**1,695**	**86**	**1,150**	**295**
Total non-interest financing revenues	–	–	–	–	–
Total commissions and other revenues	526	160	11	387	90
Total non-interest revenues	526	160	11	387	90
Total revenues	**1,875**	**1,855**	**97**	**1,537**	**385**
Expenses (reduction of expenses) with respect to credit losses	99	44	2	166	42
Operating and other expenses to externals	1,762	651	85	809	62
Operating and other expenses – inter-segment	(134)	–	7	(75)	60
Total operating and other expenses	**1,628**	**651**	**92**	**734**	**122**
Pre-tax profit	148	1,160	3	637	221
Provision for taxes on profit	52	404	1	222	77
After-tax profit	**96**	**756**	**2**	**415**	**144**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit before attribution to non-controlling interests	96	756	2	415	144
Net profit attributed to non-controlling interests	(44)	–	–	(5)	–
Net profit attributable to shareholders of the banking corporation	**52**	**756**	**2**	**410**	**144**
Average balance of assets	20,708	130,749	112	20,412	7,104
Of which: Investments in associated companies	–	–	–	–	–
Average balance of loans to the public	20,708	130,749	112	20,412	7,104
Balance of loans to the public at end of reported period	21,893	135,311	227	21,241	7,196
Balance of impaired debts	86	56	–	622	145
Balance of debt in arrears 90 days or longer	24	1,476	–	37	–
Average balance of liabilities	87,897	–	13,938	25,283	8,388
Of which: Average balance of deposits from the public	84,672	–	13,938	25,283	8,388
Balance of deposits from the public at end of reported period	86,076	–	14,839	26,725	8,935
(1)Average balance of risk assets	19,016	74,823	26	19,517	8,157
(1)Balance of risk assets at end of reported period	19,749	78,190	25	20,250	8,389
(2)Average balance of assets under management	42,576	9,945	2,687	29,648	6,123
Breakdown of interest revenues net:					
Margin from credit granting operations	831	1,622	–	984	240
Margin from activities of receiving deposits	516	–	86	142	46
Other	2	73	–	24	9
Total interest revenues, net	**1,349**	**1,695**	**86**	**1,150**	**295**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

(3) Includes capital gains under Other Revenues amounting to NIS 26 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
	576	30	266	7,303	24	384	408	7,711
	274	446	615	2,270	1	100	101	2,371
	302	(416)	(349)	5,033	23	284	307	5,340
	224	534	256	93	–	(93)	(93)	–
	526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**
	–	–	349	349	–	8	8	357
	143	39	223(3)	1,579	24	6	30	1,609
	143	39	572	1,928	24	14	38	1,966
	669	**157**	**479**	**7,054**	**47**	**205**	**252**	**7,306**
	24	(6)	(3)	368	–	(4)	(4)	364
	107	67	366	3,909	28	51	79	3,988
	83	54	5	–	–	–	–	–
	190	**121**	**371**	**3,909**	**28**	**51**	**79**	**3,988**
	455	42	111	2,777	19	158	177	2,954
	158	15	38	967	7	55	62	1,029
	297	**27**	**73**	**1,810**	**12**	**103**	**115**	**1,925**
	–	–	–	–	–	–	–	–
	297	27	73	1,810	12	103	115	1,925
	–	–	(34)	(83)	–	–	–	(83)
	297	**27**	**39**	**1,727**	**12**	**103**	**115**	**1,842**
	16,881	1,051	53,589	250,606	910	9,169	10,079	260,685
	–	–	32	32	–	–	–	32
	16,881	1,051	–	197,017	591	2,637	3,228	200,245
	15,357	1,569	–	202,794	376	3,231	3,607	206,401
	241	124	–	1,274	–	–	–	1,274
	–	–	–	1,537	–	–	–	1,537
	25,985	39,992	32,083	233,566	699	10,127	10,826	244,392
	25,985	39,992	–	198,258	625	4,648	5,273	203,531
	25,155	45,330	–	207,060	605	3,319	3,924	210,984
	23,107	2,029	6,694	153,369	436	3,743	4,179	157,548
	23,833	1,810	6,385	158,631	424	3,803	4,227	162,858
	27,695	**329,318**	**10,324**	**458,316**	**–**	**–**	**–**	**458,316**
-								
	434	19	–	4,130	12	96	108	4,238
	70	93	–	953	2	9	11	964
	22	6	(93)	43	9	86	95	138
	526	**118**	**(93)**	**5,126**	**23**	**191**	**214**	**5,340**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	Households – other	Households – housing loans	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	930	4,056	1	1,011	269
Interest expenses from externals	576	–	160	91	53
Interest revenues, net from externals(3)	354	4,056	(159)	920	216
Interest revenues, net – inter-segment(3)	880	(2,539)	235	88	28
Total interest revenues, net	1,234	1,517	76	1,008	244
Total non-interest financing revenues	–	–	–	–	–
Total commissions and other revenues	520	156	10	367	78
Total non-interest revenues	520	156	10	367	78
Total revenues	**1,754**	**1,673**	**86**	**1,375**	**322**
Expenses (reduction of expenses) with respect to credit losses	108	36	1	137	11
Operating and other expenses to externals	1,670	611	539	775	57
Operating and other expenses – inter-segment	(140)	–	8	(79)	62
Total operating and other expenses	1,530	611	547	696	119
Pre-tax profit (loss)	116	1,026	(462)	542	192
Provision for taxes on profit	41	360	(37)	190	67
After-tax profit (loss)	75	666	(425)	352	125
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	75	666	(425)	352	125
Net profit attributed to non-controlling interests	(37)	–	–	(3)	–
Net profit (loss) attributable to shareholders of the banking corporation	**38**	**666**	**(425)**	**349**	**125**
Average balance of assets	19,607	123,590	93	18,267	6,205
Of which: Investments in associated companies	–	–	–	–	–
Average balance of loans to the public	19,607	123,590	93	18,267	6,205
Balance of loans to the public at end of reported period	21,184	126,749	99	19,324	6,669
Balance of impaired debts	77	60	–	526	70
Balance of debt in arrears 90 days or longer	23	1,250	–	42	–
Average balance of liabilities	81,090	–	12,511	20,458	7,680
Of which: Average balance of deposits from the public	77,970	–	12,511	20,458	7,680
Balance of deposits from the public at end of reported period	82,119	–	13,777	22,664	8,332
(1)Average balance of risk assets	17,987	68,903	30	17,381	7,150
(1)Balance of risk assets at end of reported period	18,803	71,811	28	18,080	7,641
(2)Average balance of assets under management	42,263	9,240	2,431	23,611	3,348
Breakdown of interest revenues net:					
Margin from credit granting operations	808	1,449	1	874	198
Margin from activities of receiving deposits	423	–	75	108	40
Other	3	68	–	26	6
Total interest revenues, net	1,234	1,517	76	1,008	244

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).

(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.

(3) Reclassified

Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
550	37	173	7,027	22	310	332	7,359
224	417	827	2,348	3	86	89	2,437
326	(380)	(654)	4,679	19	224	243	4,922
208	498	642	40	–	(40)	(40)	–
534	**118**	**(12)**	**4,719**	**19**	**184**	**203**	**4,922**
–	–	435	435	–	10	10	445
113	42	208	1,494	19	9	28	1,522
113	42	643	1,929	19	19	38	1,967
647	**160**	**631**	**6,648**	**38**	**203**	**241**	**6,889**
8	2	3	306	(2)	6	4	310
88	68	395	4,203	129	52	181	4,384
89	55	5	–	–	–	–	–
177	**123**	**400**	**4,203**	**129**	**52**	**181**	**4,384**
462	35	228	2,139	(89)	145	56	2,195
162	12	80	875	(4)	51	47	922
300	**23**	**148**	**1,264**	**(85)**	**94**	**9**	**1,273**
–	–	1	1	–	–	–	1
300	23	149	1,265	(85)	94	9	1,274
–	–	(28)	(68)	–	–	–	(68)
300	**23**	**121**	**1,197**	**(85)**	**94**	**9**	**1,206**
16,528	1,434	49,563	235,287	1,052	8,986	10,038	245,325
–	–	32	32	–	–	–	32
16,528	1,434	–	185,724	567	2,824	3,391	189,115
16,440	1,341	–	191,806	552	3,598	4,150	195,956
212	156	–	1,101	–	–	–	1,101
–	–	–	1,315	1	–	1	1,316
26,172	39,260	33,601	220,772	841	8,664	9,505	230,277
26,172	39,260	–	184,051	808	4,624	5,432	189,483
29,460	37,712	–	194,064	657	4,771	5,428	199,492
21,239	2,624	6,323	141,637	437	3,516	3,953	145,590
22,016	3,055	5,941	147,375	444	3,808	4,252	151,627
26,459	159,405	12,837	279,594	–	–	–	279,594
448	30	–	3,808	11	101	112	3,920
70	85	–	801	2	12	14	815
16	3	(12)	110	6	71	77	187
534	**118**	**(12)**	**4,719**	**19**	**184**	**203**	**4,922**

Note 29 – Operating Segments and Geographic Regions – Continued

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	House-holds – other	House-holds – housing loans	Private banking	Small and micro businesses	Medium businesses
Interest revenues from externals	865	3,297	2	903	218
Interest expenses from externals	467	–	124	66	26
Interest revenues, net from externals(3)	398	3,297	(122)	837	192
Interest revenues, net – inter-segment(3)	723	(1,986)	181	61	14
Total interest revenues, net	**1,121**	**1,311**	**59**	**898**	**206**
Total non-interest financing revenues	–	–	–	–	–
Total commissions and other revenues	502	145	10	335	76
Total non-interest revenues	502	145	10	335	76
Total revenues	**1,623**	**1,456**	**69**	**1,233**	**282**
Expenses (reduction of expenses) with respect to credit losses	122	24	1	149	7
Operating and other expenses to externals	1,583	600	46	726	53
Operating and other expenses – inter-segment	(121)	–	7	(67)	53
Total operating and other expenses	**1,462**	**600**	**53**	**659**	**106**
Pre-tax profit	39	832	15	425	169
Provision for taxes on profit	14	305	6	156	62
After-tax profit	**25**	**527**	**9**	**269**	**107**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit before attribution to non-controlling interests	25	527	9	269	107
Net profit attributed to non-controlling interests	(28)	–	–	(2)	–
Net profit (loss) attributable to shareholders of the banking corporation	**(3)**	**527**	**9**	**267**	**107**
Average balance of assets	18,866	118,042	86	16,190	5,704
Of which: Investments in associated companies	–	–	–	–	–
Average balance of loans to the public	18,866	118,042	86	16,190	5,704
Balance of loans to the public at end of reported period	20,058	120,189	119	17,045	5,854
Balance of impaired debts	70	33	–	396	64
Balance of debt in arrears 90 days or longer	22	1,071	–	42	–
Average balance of liabilities	76,920	–	11,563	18,284	6,470
Of which: Average balance of deposits from the public	73,505	–	11,563	18,284	6,470
Balance of deposits from the public at end of reported period	75,008	–	12,448	18,942	7,138
(1)Average balance of risk assets	16,675	65,085	28	15,484	6,484
(1)Balance of risk assets at end of reported period	17,202	66,921	31	16,344	7,014
(2)Average balance of assets under management	41,306	7,080	2,367	18,644	4,116
Breakdown of interest revenues, net:					
Margin from credit granting operations	744	1,268	1	786	176
Margin from activities of receiving deposits	374	–	58	84	25
Other	3	43	–	28	5
Total interest revenues, net	**1,121**	**1,311**	**59**	**898**	**206**

(1) Risk assets – as calculated for capital adequacy purposes (Proper Conduct of Banking Business Directive 201).
(2) Assets under management – includes clients' provident funds, study funds, mutual funds and securities.
(3) Includes capital gains under Other Revenues amounting to NIS 47 million before tax, from realization of assets in conjunction with asset reorganization and streamlining of the Bank's branch network.

	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Private individuals	Business operations	Total – operations overseas	Total
	500	42	162	5,989	19	214	233	6,222
	162	342	633	1,820	3	52	55	1,875
	338	(300)	(471)	4,169	16	162	178	4,347
	126	412	485	16	–	(16)	(16)	–
	464	112	14	4,185	16	146	162	4,347
	(1)	(1)	131	129	–	7	7	136
	134	44	242[(3)]	1,488	21	8	29	1,517
	133	43	373	1,617	21	15	36	1,653
	597	**155**	**387**	**5,802**	**37**	**161**	**198**	**6,000**
	(89)	(22)	(1)	191	–	1	1	192
	94	77	361	3,540	27	44	71	3,611
	76	48	4	–	–	–	–	–
	170	125	365	3,540	27	44	71	3,611
	516	52	23	2,071	10	116	126	2,197
	189	19	9	760	(3)	49	46	806
	327	33	14	1,311	13	67	80	1,391
	–	–	–	–	–	–	–	–
	327	33	14	1,311	13	67	80	1,391
	–	–	(14)	(44)	–	–	–	(44)
	327	**33**	**–**	**1,267**	**13**	**67**	**80**	**1,347**
	14,642	1,413	49,529	224,472	1,033	9,107	10,140	234,612
	–	–	33	33	–	–	–	33
	14,642	1,413	–	174,943	502	2,529	3,031	177,974
	15,011	1,175	–	179,451	504	2,647	3,151	182,602
	160	–	–	723	–	–	–	723
	–	–	–	1,135	1	–	1	1,136
	27,864	38,748	32,221	212,070	948	7,746	8,694	220,764
	27,864	38,748	–	176,434	900	4,202	5,102	181,536
	26,284	38,881	–	178,701	847	4,025	4,872	183,573
	20,887	2,334	5,872	132,849	374	3,121	3,495	136,344
	20,747	2,290	6,493	137,042	454	3,028	3,482	140,524
	26,700	147,742	12,174	260,129	–	–	–	260,129
	393	34	–	3,402	13	80	93	3,495
	60	76	–	677	1	11	12	689
	11	2	14	106	2	55	57	163
	464	112	14	4,185	16	146	162	4,347

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel
For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Housing loans	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	4,014	36	925	4,975	–	2	2	4,977
Interest expenses from externals	–	–	576	576	–	176	176	752
Interest revenues, net from externals	4,014	36	349	4,399	–	(174)	(174)	4,225
Interest revenues, net – inter-segment	(2,319)	(6)	970	(1,355)	–	260	260	(1,095)
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**–**	**86**	**86**	**3,130**
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	160	149	377	686	1	10	11	697
Total non-interest revenues	160	149	377	686	1	10	11	697
Total revenues	**1,855**	**179**	**1,696**	**3,730**	**1**	**96**	**97**	**3,827**
Expenses with respect to credit losses	44	–	99	143	–	2	2	145
Operating and other expenses to externals	651	62	1,700	2,413	1	84	85	2,498
Operating and other expenses – inter-segment	–	(12)	(122)	(134)	–	7	7	(127)
Total operating and other expenses	**651**	**50**	**1,578**	**2,279**	**1**	**91**	**92**	**2,371**
Pre-tax profit	1,160	129	19	1,308	–	3	3	1,311
Provision for taxes on profit	404	45	7	456	–	1	1	457
After-tax profit	**756**	**84**	**12**	**852**	**–**	**2**	**2**	**854**
Share of banking corporation in earnings of associates	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	756	84	12	852	–	2	2	854
Net profit attributed to non-controlling interests	–	(5)	(39)	(44)	–	–	–	(44)
Net profit (loss) attributable to shareholders of the banking corporation	**756**	**79**	**(27)**	**808**	**–**	**2**	**2**	**810**
Average balance of assets	130,749	3,225	17,483	151,457	12	100	112	151,569
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	130,749	3,225	17,483	151,457	12	100	112	151,569
Balance of loans to the public at end of reported period	135,311	3,961	17,932	157,204	12	215	227	157,431
Balance of impaired debts	56	–	86	142	–	–	–	142
Balance of debt in arrears 90 days or longer	1,476	–	24	1,500	–	–	–	1,500
Average balance of liabilities	–	3,225	84,672	87,897	–	13,938	13,938	101,835
Of which: Average balance of deposits from the public	–	–	84,672	84,672	–	13,938	13,938	98,610
Balance of deposits from the public at end of reported period	–	–	86,076	86,076	–	14,839	14,839	100,915
Average balance of risk assets	74,823	3,441	15,575	93,839	7	19	26	93,865
Balance of risk assets at end of reported period	78,190	3,471	16,278	97,939	7	18	25	97,964
Average balance of assets under management	9,945	–	42,576	52,521	–	2,687	2,687	55,208
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,622	30	801	2,453	–	–	–	2,453
Margin from activities of receiving deposits	–	–	516	516	–	86	86	602
Other	73	–	2	75	–	–	–	75
Total interest revenues, net	**1,695**	**30**	**1,319**	**3,044**	**–**	**86**	**86**	**3,130**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Housing loans	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	4,056	34	896	4,986	–	1	1	4,987
Interest expenses from externals	–	–	576	576	–	160	160	736
Interest revenues, net from externals	4,056	34	320	4,410	–	(159)	(159)	4,251
Interest revenues, net – inter-segment	(2,539)	(5)	885	(1,659)	–	235	235	(1,424)
Total interest revenues, net	**1,517**	**29**	**1,205**	**2,751**	**–**	**76**	**76**	**2,827**
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	156	148	372	676	–	10	10	686
Total non-interest revenues	156	148	372	676	–	10	10	686
Total revenues	**1,673**	**177**	**1,577**	**3,427**	**–**	**86**	**86**	**3,513**
Expenses with respect to credit losses	36	–	108	144	–	1	1	145
Operating and other expenses to externals	611	60	1,610	2,281	1	538	539	2,820
Operating and other expenses – inter-segment	–	(13)	(127)	(140)	–	8	8	(132)
Total operating and other expenses	**611**	**47**	**1,483**	**2,141**	**1**	**546**	**547**	**2,688**
Pre-tax profit (loss)	1,026	130	(14)	1,142	(1)	(461)	(462)	680
Provision for taxes on profit	360	46	(5)	401	–	(37)	(37)	364
After-tax profit (loss)	**666**	**84**	**(9)**	**741**	**(1)**	**(424)**	**(425)**	**316**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	666	84	(9)	741	(1)	(424)	(425)	316
Net profit attributed to non-controlling interests	**–**	**(2)**	**(35)**	**(37)**	**–**	**–**	**–**	**(37)**
Net profit (loss) attributable to shareholders of the banking corporation	**666**	**82**	**(44)**	**704**	**(1)**	**(424)**	**(425)**	**279**
Average balance of assets	123,590	3,120	16,487	143,197	12	81	93	143,290
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	123,590	3,120	16,487	143,197	12	81	93	143,290
Balance of loans to the public at end of reported period	126,749	3,756	17,428	147,933	12	87	99	148,032
Balance of impaired debts	60	–	77	137	–	–	–	137
Balance of debt in arrears 90 days or longer	1,250	–	23	1,273	–	–	–	1,273
Average balance of liabilities	–	3,120	77,970	81,090	–	12,511	12,511	93,601
Of which: Average balance of deposits from the public	–	–	77,970	77,970	–	12,511	12,511	90,481
Balance of deposits from the public at end of reported period	–	–	82,119	82,119	–	13,777	13,777	95,896
Average balance of risk assets	68,903	3,183	14,804	86,890	7	23	30	86,920
Balance of risk assets at end of reported period	71,811	3,246	15,557	90,614	7	21	28	90,642
Average balance of assets under management	9,240	–	42,263	51,503	–	2,431	2,431	53,934
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,449	29	779	2,257	–	1	1	2,258
Margin from activities of receiving deposits	–	–	423	423	–	75	75	498
Other	68	–	3	71	–	–	–	71
Total interest revenues, net	**1,517**	**29**	**1,205**	**2,751**	**–**	**76**	**76**	**2,827**

Note 29 – Operating segments and Geographic Regions – Continued
Individuals – households and private banking – operations in Israel
For the year ended December 31, 2017
Reported amounts (NIS in millions)

	Household Segment				Private Banking Segment			
	Housing loans	Credit cards	Other	Total – Households	Credit cards	Other	Total – private banking	Total
Interest revenues from externals	3,297	33	832	4,162	–	2	2	4,164
Interest expenses from externals	–	–	467	467	–	124	124	591
Interest revenues, net from externals	3,297	33	365	3,695	–	(122)	(122)	3,573
Interest revenues, net – inter-segment	(1,986)	(5)	728	(1,263)	–	181	181	(1,082)
Total interest revenues, net	**1,311**	**28**	**1,093**	**2,432**	**–**	**59**	**59**	**2,491**
Total non-interest financing revenues	–	–	–	–	–	–	–	–
Total commissions and other revenues	145	145	357	647	–	10	10	657
Total non-interest revenues	145	145	357	647	–	10	10	657
Total revenues	**1,456**	**173**	**1,450**	**3,079**	**–**	**69**	**69**	**3,148**
Expenses with respect to credit losses	24	–	122	146	–	1	1	147
Operating and other expenses to externals	600	56	1,527	2,183	2	44	46	2,229
Operating and other expenses – inter-segment	–	(11)	(110)	(121)	–	7	7	(114)
Total operating and other expenses	**600**	**45**	**1,417**	**2,062**	**2**	**51**	**53**	**2,115**
Pre-tax profit (loss)	832	128	(89)	871	(2)	17	15	886
Provision for taxes on profit	305	47	(33)	319	(1)	7	6	325
After-tax profit (loss)	**527**	**81**	**(56)**	**552**	**(1)**	**10**	**9**	**561**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	527	81	(56)	552	(1)	10	9	561
Net profit attributed to non-controlling interests	–	(3)	(25)	(28)	–	–	–	(28)
Net profit (loss) attributable to shareholders of the banking corporation	**527**	**78**	**(81)**	**524**	**(1)**	**10**	**9**	**533**
Average balance of assets	118,042	3,415	15,451	136,908	11	75	86	136,994
Of which: Investments in associated companies	–	–	–	–	–	–	–	–
Average balance of loans to the public	118,042	3,415	15,451	136,908	11	75	86	136,994
Balance of loans to the public at end of reported period	120,189	3,611	16,447	140,247	12	107	119	140,366
Balance of impaired debts	33	–	70	103	–	–	–	103
Balance of debt in arrears 90 days or longer	1,071	–	22	1,093	–	–	–	1,093
Average balance of liabilities	–	3,415	73,505	76,920	–	11,563	11,563	88,483
Of which: Average balance of deposits from the public	–	–	73,505	73,505	–	11,563	11,563	85,068
Balance of deposits from the public at end of reported period	–	–	75,008	75,008	–	12,448	12,448	87,456
Average balance of risk assets	65,085	3,051	13,624	81,760	7	21	28	81,788
Balance of risk assets at end of reported period	66,921	3,115	14,087	84,123	7	24	31	84,154
Average balance of assets under management	7,080	–	41,306	48,386	–	2,367	2,367	50,753
Breakdown of interest revenues, net:								
Margin from credit granting operations	1,268	28	716	2,012	–	1	1	2,013
Margin from activities of receiving deposits	–	–	374	374	–	58	58	432
Other	43	–	3	46	–	–	–	46
Total interest revenues, net	**1,311**	**28**	**1,093**	**2,432**	**–**	**59**	**59**	**2,491**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2019

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	326	831	1,157	93	204	297	331	245	576
Interest expenses from externals	18	100	118	8	57	65	12	262	274
Interest revenues, net from externals	308	731	1,039	85	147	232	319	(17)	302
Interest revenues, net – inter-segment	(15)	126	111	–	63	63	(42)	266	224
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	51	336	387	45	45	90	83	60	143
Total non-interest revenues	51	336	387	45	45	90	83	60	143
Total revenues	**344**	**1,193**	**1,537**	**130**	**255**	**385**	**360**	**309**	**669**
Expenses (reduction of expenses) with respect to credit losses	–	166	166	(5)	47	42	(9)	33	24
Operating and other expenses to externals	47	762	809	10	52	62	33	74	107
Operating and other expenses – inter-segment	(4)	(71)	(75)	5	55	60	15	68	83
Total operating and other expenses	**43**	**691**	**734**	**15**	**107**	**122**	**48**	**142**	**190**
Pre-tax profit	301	336	637	120	101	221	321	134	455
Provision for taxes on profit	105	117	222	42	35	77	111	47	158
After-tax profit	**196**	**219**	**415**	**78**	**66**	**144**	**210**	**87**	**297**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	196	219	415	78	66	144	210	87	297
Net profit attributed to non-controlling interests	–	(5)	(5)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**196**	**214**	**410**	**78**	**66**	**144**	**210**	**87**	**297**
Average balance of assets	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	5,502	14,910	20,412	2,406	4,698	7,104	7,956	8,925	16,881
Balance of loans to the public at end of reported period	5,795	15,446	21,241	2,347	4,849	7,196	8,071	7,286	15,357
Balance of impaired debts	146	476	622	27	118	145	6	235	241
Balance of debt in arrears 90 days or longer	9	28	37	–	–	–	–	–	–
Average balance of liabilities	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Of which: Average balance of deposits from the public	4,450	20,833	25,283	2,176	6,212	8,388	4,298	21,687	25,985
Balance of deposits from the public at end of reported period	4,737	21,988	26,725	2,367	6,568	8,935	4,729	20,426	25,155
Average balance of risk assets	6,621	12,896	19,517	3,113	5,044	8,157	13,876	9,231	23,107
Balance of risk assets at end of reported period	7,123	13,127	20,250	3,212	5,177	8,389	15,103	8,730	23,833
Average balance of assets under management	3,868	25,780	29,648	711	5,412	6,123	5,179	22,516	27,695
Breakdown of interest revenues, net:									
Margin from credit granting operations	265	719	984	71	169	240	257	177	434
Margin from activities of receiving deposits	21	121	142	9	37	46	9	61	70
Other	7	17	24	5	4	9	11	11	22
Total interest revenues, net	**293**	**857**	**1,150**	**85**	**210**	**295**	**277**	**249**	**526**

Note 29 – Operating segments and Geographic Regions – Continued

Small and micro, medium and large business – operations in Israel

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	256	755	1,011	81	188	269	296	254	550
Interest expenses from externals	14	77	91	4	49	53	8	216	224
Interest revenues, net from externals	242	678	920	77	139	216	288	38	326
Interest revenues, net – inter-segment	(7)	95	88	(5)	33	28	(40)	248	208
Total interest revenues, net	**235**	**773**	**1,008**	**72**	**172**	**244**	**248**	**286**	**534**
Total non-interest financing revenues	–	–	–	–	–	–	–	–	–
Total commissions and other revenues	51	316	367	33	45	78	64	49	113
Total non-interest revenues	51	316	367	33	45	78	64	49	113
Total revenues	**286**	**1,089**	**1,375**	**105**	**217**	**322**	**312**	**335**	**647**
Expenses (reduction of expenses) with respect to credit losses	17	120	137	–	11	11	(19)	27	8
Operating and other expenses to externals	42	733	775	9	48	57	28	60	88
Operating and other expenses – inter-segment	(6)	(73)	(79)	5	57	62	16	73	89
Total operating and other expenses	**36**	**660**	**696**	**14**	**105**	**119**	**44**	**133**	**177**
Pre-tax profit	233	309	542	91	101	192	287	175	462
Provision for taxes on profit	82	108	190	32	35	67	101	61	162
After-tax profit	**151**	**201**	**352**	**59**	**66**	**125**	**186**	**114**	**300**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	151	201	352	59	66	125	186	114	300
Net profit attributed to non-controlling interests	–	(3)	(3)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**151**	**198**	**349**	**59**	**66**	**125**	**186**	**114**	**300**
Average balance of assets	4,841	13,426	18,267	1,719	4,486	6,205	7,813	8,715	16,528
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	4,841	13,426	18,267	1,719	4,486	6,205	7,813	8,715	16,528
Balance of loans to the public at end of reported period	5,115	14,209	19,324	2,234	4,435	6,669	8,027	8,413	16,440
Balance of impaired debts	110	416	526	24	46	70	45	167	212
Balance of debt in arrears 90 days or longer	12	30	42	–	–	–	–	–	–
Average balance of liabilities	3,548	16,910	20,458	1,917	5,763	7,680	4,493	21,679	26,172
Of which: Average balance of deposits from the public	3,548	16,910	20,458	1,917	5,763	7,680	4,493	21,679	26,172
Balance of deposits from the public at end of reported period	3,913	18,751	22,664	2,024	6,308	8,332	4,433	25,027	29,460
Average balance of risk assets	5,751	11,630	17,381	2,559	4,591	7,150	13,759	7,480	21,239
Balance of risk assets at end of reported period	5,953	12,127	18,080	2,914	4,727	7,641	13,555	8,461	22,016
Average balance of assets under management	2,874	20,737	23,611	666	2,682	3,348	5,367	21,092	26,459
Breakdown of interest revenues, net:									
Margin from credit granting operations	214	660	874	64	134	198	232	216	448
Margin from activities of receiving deposits	15	93	108	6	34	40	7	63	70
Other	6	20	26	2	4	6	9	7	16
Total interest revenues, net	**235**	**773**	**1,008**	**72**	**172**	**244**	**248**	**286**	**534**

Note 29 – Operating segments and Geographic Regions – Continued
Small and micro, medium and large business – operations in Israel
For the year ended December 31, 2017
Reported amounts (NIS in millions)

	Small and micro business segment			Medium business segment			Large business segment		
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total
Interest revenues from externals	187	716	903	67	151	218	269	231	500
Interest expenses from externals	10	56	66	3	23	26	7	155	162
Interest revenues, net from externals	177	660	837	64	128	192	262	76	338
Interest revenues, net – inter-segment	(3)	64	61	(5)	19	14	(43)	169	126
Total interest revenues, net	**174**	**724**	**898**	**59**	**147**	**206**	**219**	**245**	**464**
Total non-interest financing revenues	–	–	–	–	–	–	–	(1)	(1)
Total commissions and other revenues	46	289	335	36	40	76	89	45	134
Total non-interest revenues	46	289	335	36	40	76	89	44	133
Total revenues	**220**	**1,013**	**1,233**	**95**	**187**	**282**	**308**	**289**	**597**
Expenses (reduction of expenses) with respect to credit losses	15	134	149	–	7	7	(78)	(11)	(89)
Operating and other expenses to externals	37	689	726	9	44	53	30	64	94
Operating and other expenses – inter-segment	(4)	(63)	(67)	4	49	53	13	63	76
Total operating and other expenses	**33**	**626**	**659**	**13**	**93**	**106**	**43**	**127**	**170**
Pre-tax profit	172	253	425	82	87	169	343	173	516
Provision for taxes on profit	63	93	156	30	32	62	126	63	189
After-tax profit	**109**	**160**	**269**	**52**	**55**	**107**	**217**	**110**	**327**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	109	160	269	52	55	107	217	110	327
Net profit attributed to non-controlling interests	–	(2)	(2)	–	–	–	–	–	–
Net profit attributable to shareholders of the banking corporation	**109**	**158**	**267**	**52**	**55**	**107**	**217**	**110**	**327**
Average balance of assets	3,880	12,310	16,190	1,611	4,093	5,704	6,516	8,126	14,642
Of which: Investments in associated companies	–	–	–	–	–	–	–	–	–
Average balance of loans to the public	3,880	12,310	16,190	1,611	4,093	5,704	6,516	8,126	14,642
Balance of loans to the public at end of reported period	4,248	12,797	17,045	1,839	4,015	5,854	7,240	7,771	15,011
Balance of impaired debts	83	313	396	24	40	64	53	107	160
Balance of debt in arrears 90 days or longer	9	33	42	–	–	–	–	–	–
Average balance of liabilities	2,903	15,381	18,284	1,432	5,038	6,470	4,462	23,402	27,864
Of which: Average balance of deposits from the public	2,903	15,381	18,284	1,432	5,038	6,470	4,462	23,402	27,864
Balance of deposits from the public at end of reported period	3,206	15,736	18,942	1,725	5,413	7,138	4,454	21,830	26,284
Average balance of risk assets	4,844	10,640	15,484	2,395	4,089	6,484	13,429	7,458	20,887
Balance of risk assets at end of reported period	5,314	11,030	16,344	2,631	4,383	7,014	13,114	7,633	20,747
Average balance of assets under management	1,934	16,710	18,644	1,568	2,548	4,116	4,870	21,830	26,700
Breakdown of interest revenues, net:									
Margin from credit granting operations	158	628	786	53	123	176	207	186	393
Margin from activities of receiving deposits	7	77	84	5	20	25	6	54	60
Other	9	19	28	1	4	5	6	5	11
Total interest revenues, net	**174**	**724**	**898**	**59**	**147**	**206**	**219**	**245**	**464**

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated
For the year ended December 31, 2019
Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	1	265	–	–	266
Interest expenses from externals	–	615	–	–	615
Interest revenues, net from externals	1	(350)	–	–	(349)
Interest revenues, net – inter-segment	(48)	304	–	–	256
Interest revenues, net	**(47)**	**(46)**	**–**	**–**	**(93)**
Non-interest revenues from externals – financing	141	150	58	–	349
Non-interest revenues from externals – operating	81	–	–	142	223
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	222	150	58	142	572
Total revenues	**175**	**104**	**58**	**142**	**479**
Expenses (reduction of expenses) with respect to credit losses	–	–	–	(3)	(3)
Operating and other expenses from externals	129	70	–	167	366
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**129**	**70**	**–**	**172**	**371**
Pre-tax profit (loss)	46	34	58	(27)	111
Provision for taxes on profit	16	12	20	(10)	38
After-tax profit (loss)	**30**	**22**	**38**	**(17)**	**73**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	30	22	38	(17)	73
Net profit attributed to non-controlling interests	–	–	–	(34)	(34)
Net profit (loss) attributable to share holders of the banking corporation	**30**	**22**	**38**	**(51)**	**39**
Average balance of assets	74	53,377	138	–	53,589
Of which: Investments in associated companies	–	–	32	–	32
Average balance of liabilities	–	32,083	–	–	32,083
Of which: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,922	684	193	3,895	6,694
Balance of risk assets at end of reported period	1,917	531	224	3,713	6,385
Average balance of assets under management	–	–	–	10,324	10,324
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differences, net	29	(1)	–	–	–
CPI differences, net	–	64	–	–	–
Interest exposures, net	26	43	–	–	–
Equity exposures, net	(3)	–	–	–	–
Interest spreads attributable to financial management	–	51	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	52	157	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	35	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized on profit and loss	–	(88)	–	–	–
Other non-interest revenues	123	–	–	–	–
Total net interest revenues and non-interest revenues	**175**	**104**	**–**	**–**	**–**

Note 29 – Operating Segments and Geographic Regions – Continued

Financial Management Segment – Operations in Israel, Consolidated

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	3	170	–	–	173
Interest expenses from externals	–	827	–	–	827
Interest revenues, net from externals	3	(657)	–	–	(654)
Interest revenues, net – inter-segment	(49)	691	–	–	642
Interest revenues, net	**(46)**	**34**	**–**	**–**	**(12)**
Non-interest revenues from externals – financing	131	287	17	–	435
Non-interest revenues from externals – operating	88	–	–	120	208
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	219	287	17	120	643
Total revenues	**173**	**321**	**17**	**120**	**631**
Expenses with respect to credit losses	–	–	–	3	3
Operating and other expenses from externals	132	71	–	192	395
Operating and other expenses – inter-segment	–	–	–	5	5
Total operating and other expenses	**132**	**71**	**–**	**197**	**400**
Pre-tax profit (loss)	41	250	17	(80)	228
Provision for taxes on profit	14	88	6	(28)	80
After-tax profit (loss)	**27**	**162**	**11**	**(52)**	**148**
Share of banking corporation in earnings of associated companies	–	–	–	1	1
Net profit (loss) before attribution to non-controlling interests	27	162	11	(51)	149
Net profit attributed to non-controlling interests	–	–	–	(28)	(28)
Net profit (loss) attributable to share holders of the banking corporation	**27**	**162**	**11**	**(79)**	**121**
Average balance of assets	96	49,345	122	–	49,563
Of which: Investments in associated companies	–	–	32	–	32
Average balance of liabilities	–	33,601	–	–	33,601
Includes: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,682	1,170	175	3,296	6,323
Balance of risk assets at end of reported period	1,635	782	173	3,351	5,941
Average balance of assets under management	–	–	–	12,837	12,837
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differences, net	12	20	–	–	–
CPI differences, net	–	182	–	–	–
Interest exposures, net	40	13	–	–	–
Equity exposure, net	5	–	–	–	–
Interest spreads attributable to financial management	–	36	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	57	251	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	–	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized on profit and loss	–	70	–	–	–
Other non-interest revenues	116	–	–	–	–
Total net interest revenues and non-interest revenues	173	321	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued
Financial Management Segment – Operations in Israel, Consolidated
For the year ended December 31, 2017
Reported amounts (NIS in millions)

	Financial Management Segment				
	Trading activity	Asset and liability management activity	Real investment activity	Other	Total
Interest revenues from externals	3	159	–	–	162
Interest expenses from externals	–	633	–	–	633
Interest revenues, net from externals	3	(474)	–	–	(471)
Interest revenues, net – inter-segment	–	485	–	–	485
Interest revenues, net	**3**	**11**	**–**	**–**	**14**
Non-interest revenues from externals – financing	63	52	12	4	131
Non-interest revenues from externals – operating	77	–	–	165	242
Non-interest revenues – inter-segment	–	–	–	–	–
Total non-interest revenues	140	52	12	169	373
Total revenues	**143**	**63**	**12**	**169**	**387**
Reduced expenses with respect to credit losses	–	–	–	(1)	(1)
Operating and other expenses from externals	131	70	–	160	361
Operating and other expenses – inter-segment	–	–	–	4	4
Total operating and other expenses	**131**	**70**	**–**	**164**	**365**
Pre-tax profit (loss)	12	(7)	12	6	23
Provision for taxes on profit	5	(3)	5	2	9
After-tax profit (loss)	**7**	**(4)**	**7**	**4**	**14**
Share of banking corporation in earnings of associated companies	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	7	(4)	7	4	14
Net profit attributed to non-controlling interests	–	–	–	(14)	(14)
Net profit (loss) attributable to share holders of the banking corporation	**7**	**(4)**	**7**	**(10)**	**–**
Average balance of assets	56	49,345	128	–	49,529
Of which: Investments in associated companies	–	–	33	–	33
Average balance of liabilities	–	32,221	–	–	32,221
Of which: Average balance of deposits from the public	–	–	–	–	–
Balance of deposits from the public at end of reported period	–	–	–	–	–
Average balance of risk assets	1,442	1,240	200	2,990	5,872
Balance of risk assets at end of reported period	1,756	1,313	181	3,243	6,493
Average balance of assets under management	–	–	–	12,174	12,174
Components of net interest revenues and non-interest financing revenues:					
Exchange rate differences, net	10	(20)	–	–	–
CPI differences, net	–	32	–	–	–
Interest exposures, net	24	10	–	–	–
Equity exposures, net	1	–	–	–	–
Interest spreads attributable to financial management	–	45	–	–	–
Total net interest revenues and non-interest revenues, by accrual basis	35	67	–	–	–
Gain or loss from sale or other then temporary impairment of debentures	–	44	–	–	–
Change in difference between fair value and accrual basis of derivative instruments recognized on profit and loss	–	(48)	–	–	–
Other non-interest revenues	108	–	–	–	–
Total net interest revenues and non-interest revenues	143	63	–	–	–

Note 29 – Operating Segments and Geographic Regions – Continued

Reported amounts (NIS in millions)

B. Information about operations by geographic region

	Revenues[(1)]			Net profit attributable to shareholders of the banking corporation			Total assets	
	For the year ended December 31,							
	2019	2018	2017	2019	2018	2017	2019	2018
Israel	6,961	6,608	5,786	1,727	1,197	1,267	260,795	247,710
Switzerland	30	24	23	6	(85)	1	745	898
Other – outside of Israel	315	257	191	109	94	79	11,704	9,265
Total outside Israel	345	281	214	115	9	80	12,449	10,163
Total consolidated	**7,306**	**6,889**	**6,000**	**1,842**	**1,206**	**1,347**	**273,244**	**257,873**

(1) Revenues – net interest revenues and non-interest revenues.

C. Operating segments in conformity with the management approach.

The Bank manages its operations in six major operating segments, which are distinguished by client characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments, as well as custom banking services designed for needs in specific fields. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.
For more information about measurement of Bank operations in conformity with the supervisory segments approach, as specified by the Supervisor of Banks, see chapter "Supervisory operating segments".
Below are the Bank's operating segments in conformity with the management approach:

Household segment – under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves micro business clients (businesses with annual turnover below NIS 10 million) and small businesses (with annual turnover from NIS 10 million to under NIS 50 million). It may happen, due to business growth of a client served by the Retail Division, that the client may exceed the aforementioned criteria. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and investments in securities) over NIS 1 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital market activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via three business centers located throughout Israel. As from 2019, new business clients with annual turnover from NIS 50 million to under NIS 250 million are assigned to the Business sector. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking – the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. As from 2019, businesses with annual turnover above NIS 250 million are assigned to the Corporate Sector. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Financial management – operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The major products and guidelines for attribution of balances, revenues and expenses to clients in the system to operating segments in conformity with the management approach, are similar to products and guidelines according to the supervisory operating segment approach.

Note 29 – Operating Segments and Geographic Regions – Continued

Operating segments in conformity with the management approach

For the year ended December 31, 2019

Reported amounts (NIS in millions)

	House-holds – other	House holds – mortgages	Private banking	Small busi-nesses	Com-mercial banking	Busi-ness banking	Finan-cial managem ent	Total consoli dated
Interest revenues, net:								
From externals	574	3,693	(36)	746	199	674	(510)	5,340
Inter-segment	1,058	(2,231)	131	167	39	304	532	–
Total interest revenues, net	**1,632**	**1,462**	**95**	**913**	**238**	**978**	**22**	**5,340**
Non-interest financing revenues	5	–	2	1	1	26	322	357
Commissions and other revenues	546	159	60	334	59	235	216	1,609
Total revenues	**2,183**	**1,621**	**157**	**1,248**	**298**	**1,239**	**560**	**7,306**
Expenses (reduction of expenses) with respect to credit losses	96	42	(1)	148	39	44	(4)	364
Operating and other expenses	1,692	619	128	620	152	387	390	3,988
Pre-tax profit	395	960	30	480	107	808	174	2,954
Provision for taxes on profit	138	334	10	167	37	281	62	1,029
After-tax profit	**257**	**626**	**20**	**313**	**70**	**527**	**112**	**1,925**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	257	626	20	313	70	527	112	1,925
Attributable to non-controlling interests	(44)	–	–	(5)	–	–	(34)	(83)
Net profit attributable to shareholders of the Bank	**213**	**626**	**20**	**308**	**70**	**527**	**78**	**1,842**
(1)Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	**11.5%**	**8.6%**	**36.9%**	**25.1%**	**10.3%**	**14.2%**	**11.6%**	**11.9%**
Average balance of loans to the public, net	26,163	124,979	1,036	13,931	6,005	26,538	–	198,652
Average balance of deposits from the public	93,578	–	8,663	23,584	7,898	54,435	15,373	203,531
Average balance of assets	26,599	125,498	1,558	14,059	6,067	32,624	54,280	260,685
(2)Average balance of risk assets	22,566	71,771	534	12,332	6,698	36,689	6,958	157,548

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued

Operating segments in conformity with the management approach

For the year ended December 31, 2018

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	531	3,769	(21)	652	185	530	(724)	4,922
Inter-segment	954	(2,455)	108	156	29	391	817	–
Total interest revenues, net	**1,485**	**1,314**	**87**	**808**	**214**	**921**	**93**	**4,922**
Non-interest financing revenues	5	–	1	2	1	30	406	445
Commissions and other revenues	528	156	55	308	55	214	206	1,522
Total revenues	**2,018**	**1,470**	**143**	**1,118**	**270**	**1,165**	**705**	**6,889**
Expenses with respect to credit losses	97	35	1	134	6	34	3	310
Operating and other expenses	1,596	579	682	595	147	362	423	4,384
Pre-tax profit (loss)	325	856	(540)	389	117	769	279	2,195
Provision for taxes on profit	114	300	(36)	127	41	294	82	922
After-tax profit (loss)	**211**	**556**	**(504)**	**262**	**76**	**475**	**197**	**1,273**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	1	1
Net profit (loss):								
Before attribution to non-controlling interests	211	556	(504)	262	76	475	198	1,274
Attributable to non-controlling interests	(37)	–	–	(3)	–	–	(28)	(68)
Net profit (loss) attributable to shareholders of the Bank	**174**	**556**	**(504)**	**259**	**76**	**475**	**170**	**1,206**
Return on equity (percentage of net profit attributed to shareholders of the banking [(1)]corporation out of average equity)	10.2%	8.4%	–	23.7%	12.2%	14.1%	25.3%	8.5%
Average balance of loans to the public, net	24,795	118,121	1,028	12,602	5,563	25,499	–	187,608
Average balance of deposits from the public	85,679	–	8,065	19,659	7,035	59,854	9,191	189,483
Average balance of assets	25,260	118,554	1,638	12,728	5,628	30,635	50,882	245,325
[(2)]Average balance of risk assets	21,188	66,181	570	11,110	6,250	33,559	6,732	145,590

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 29 – Operating Segments and Geographic Regions – Continued

Operating segments in conformity with the management approach

For the year ended December 31, 2017

Reported amounts (NIS in millions)

	House-holds – other	House holds – mortgages	Private banking	Small busi-nesses	Com-mercial banking	Busi-ness banking	Finan-cial mana-gement	Total consoli dated
Interest revenues, net:								
From externals	548	3,043	(11)	585	162	564	(544)	4,347
Inter-segment	837	(1,915)	85	109	22	295	567	–
Total interest revenues, net	**1,385**	**1,128**	**74**	**694**	**184**	**859**	**23**	**4,347**
Non-interest financing revenues	4	–	1	1	1	23	106	136
Commissions and other revenues	506	143	52	276	45	238	257	1,517
Total revenues	**1,895**	**1,271**	**127**	**971**	**230**	**1,120**	**386**	**6,000**
Expenses (reduction of expenses) with respect to credit losses	117	23	–	142	7	(88)	(9)	192
Operating and other expenses	1,528	557	92	561	134	340	399	3,611
Pre-tax profit (loss)	250	691	35	268	89	868	(4)	2,197
Provision for taxes on profit	92	254	13	98	33	318	(2)	806
After-tax profit (loss)	**158**	**437**	**22**	**170**	**56**	**550**	**(2)**	**1,391**
Share in net profits of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	158	437	22	170	56	550	(2)	1,391
Attributable to non-controlling interests	(28)	–	–	(2)	–	–	(14)	(44)
Net profit (loss) attributable to shareholders of the Bank	**130**	**437**	**22**	**168**	**56**	**550**	**(16)**	**1,347**
(1)Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)	8.0%	6.9%	33.4%	16.8%	10.4%	16.8%		10.2%
Average balance of loans to the public, net	23,026	113,112	919	11,598	4,750	23,106	–	176,511
Average balance of deposits from the public	80,092	–	7,931	18,252	6,389	58,954	9,918	181,536
Average balance of assets	23,507	113,510	1,550	11,718	4,809	28,527	50,991	234,612
(2)Average balance of risk assets	19,691	62,374	646	9,947	5,257	32,022	6,407	136,344

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

(2) Risk weighted assets – as calculated for capital adequacy (Proper Conduct of Banking Business Directive 201).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debt[1] and credit instruments

1. Movement in balance of provision for credit losses

	For the year ended December 31, 2019					
	Provision for credit losses					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	222	44	101	367	(3)	364
Accounting write-offs[2]	(237)	(15)	(155)	(407)	–	(407)
Collection of debts written off for accounting purposes in previous years[2]	114	1	64	179	–	179
Net accounting write-offs	(123)	(14)	(91)	(228)	–	(228)
Balance of provision for credit losses at end of period	**865**	**674**	**273**	**1,812**	**1**	**1,813**
Of which: With respect to off balance sheet credit instruments	**110**	**–**	**9**	**119**	**–**	**119**

	For the year ended December 31, 2018					
Balance of provision for credit losses at start of period	699	630	245	1,574	1	1,575
Expenses with respect to credit losses[2]	164	36	107	307	3	310
Accounting write-offs	(199)	(24)	(153)	(376)	–	(376)
Collection of debts written off for accounting purposes in previous years[2]	102	2	64	168	–	168
Net accounting write-offs	(97)	(22)	(89)	(208)	–	(208)
Balance of provision for credit losses at end of period	**766**	**644**	**263**	**1,673**	**4**	**1,677**
Of which: With respect to off balance sheet credit instruments	**88**	**–**	**10**	**98**	**–**	**98**

	For the year ended December 31, 2017					
Balance of provision for credit losses at start of period	724	615	208	1,547	2	1,549
Expenses with respect to credit losses	46	24	123	193	(1)	192
Accounting write-offs[2]	(245)	(9)	(145)	(399)	–	(399)
Collection of debts written off for accounting purposes in previous years[2]	174	–	59	233	–	233
Net accounting write-offs	(71)	(9)	(86)	(166)	–	(166)
Balance of provision for credit losses at end of period	**699**	**630**	**245**	**1,574**	**1**	**1,575**
Of which: With respect to off balance sheet credit instruments	**81**	**–**	**9**	**90**	**–**	**90**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accounting write-offs presented in the Note primarily consist of write-offs of a technical nature, due to passage of time of clients being in arrears, in conformity with US standards applicable to the Bank in this regard. Thus, for example, the balance of the provision for large impaired debts will typically be written off after two years. Debt measured on a group basis will be written off after 150 days in arrears. This means that the Bank's collection efforts may sometimes take longer when compared to the timing for write-off according to accounting rules. Consequently, relatively high balances of "accounting write-offs" and relatively high balances of "Recovery of debts written off in previous years" are presented.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

A. Off balance sheet debt [1] and credit instruments

2. Additional information about calculation of the provision for credit losses with respect to debts, and debts for which the provision has been calculated

	December 31, 2019					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	41,317	56	729	42,102	7,916	50,018
reviewed on group basis	8,915	135,520	19,864	164,299	–	164,299
Of which: the relevant provision is calculated by extent of arrears	1,638	135,520	–	137,158	–	137,158
Total debts	**50,232**	**[2]135,576**	**20,593**	**206,401**	**7,916**	**214,317**
Provision for credit losses with respect to debts[1]						
reviewed on individual basis	640	2	31	673	1	674
reviewed on group basis	115	672	233	1,020	–	1,020
Of which: For which a provision for credit losses is calculated by extent of arrears [3]	6	672	–	678	–	678
Total provision for credit losses	**755**	**674**	**264**	**1,693**	**1**	**1,694**

	December 31, 2018					
Recorded debt balance of debts [1]						
reviewed on individual basis	40,377	60	674	41,111	6,097	47,208
reviewed on group basis	8,801	126,970	19,074	154,845	–	154,845
Of which: the relevant provision is calculated by extent of arrears	1,806	126,970	–	128,776	–	128,776
Total debts	**49,178**	**[2]127,030**	**19,748**	**195,956**	**6,097**	**202,053**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	563	2	28	593	4	597
reviewed on group basis	115	642	225	982	–	982
Of which: For which a provision for credit losses is calculated by extent of arrears [3]	6	642	–	648	–	648
Total provision for credit losses	**678**	**644**	**253**	**1,575**	**4**	**1,579**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 7,696 million (as of December 31, 2018 – NIS 7,028 million).

(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 18 million (as of December 31, 2018 – NIS 17 million), and provision calculated on group basis, amounting to NIS 475 million (as of December 31, 2018 – NIS 445 million). For more information see Note 6.D.1.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts [1]

1.A. Credit quality and arrears

	As of December 31, 2019					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,259	42	116	13,417	8	11
Construction and real estate – real estate operations	3,859	363	62	4,284	1	6
Financial services	3,889	9	135	4,033	–	1
Commercial – other	23,716	342	782	24,840	28	100
Total commercial	**44,723**	**756**	**1,095**	**46,574**	**37**	**118**
Private individuals – housing loans	133,724	[7]1,476	56	135,256	[7]1,476	[6]637
Private individuals – other	20,245	145	86	20,476	24	108
Total public – activity in Israel	**198,692**	**2,377**	**1,237**	**202,306**	**1,537**	**863**
Banks in Israel	110	–	–	110	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**198,802**	**2,377**	**1,237**	**202,416**	**1,537**	**863**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,846	–	1	1,847	–	–
Commercial – other	1,750	25	36	1,811	–	–
Total commercial	**3,596**	**25**	**37**	**3,658**	**–**	**–**
Private individuals	437	–	–	437	–	–
Total public – activity overseas	**4,033**	**25**	**37**	**4,095**	**–**	**–**
Overseas banks	7,150	–	–	7,150	–	–
Overseas governments	656	–	–	656	–	–
Total activity overseas	**11,839**	**25**	**37**	**11,901**	**–**	**–**
Total public	202,725	2,402	1,274	206,401	1,537	863
Total banks	7,260	–	–	7,260	–	–
Total governments	656	–	–	656	–	–
Total	**210,641**	**2,402**	**1,274**	**214,317**	**1,537**	**863**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debt restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 64 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 73 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 1,759 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts[1]

1.A. Credit quality and arrears – continued

	As of December 31, 2018					
		Problematic[2]			Non impaired debts – additional information	
	Non problematic	Non impaired	Impaired[3]	Total	In arrears 90 days or longer[4]	In arrears 30 to 89 days[5]
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction[8]	13,958	82	151	14,191	11	42
Construction and real estate – real estate operations	2,780	13	26	2,819	1	21
Financial services	4,092	12	168	4,272	1	5
Commercial – other	22,727	352	614	23,693	29	92
Total commercial	**43,557**	**459**	**959**	**44,975**	**42**	**160**
Private individuals – housing loans	125,363	[7]1,250	60	126,673	[7]1,250	[6]505
Private individuals – other	19,244	152	77	19,473	23	79
Total public – activity in Israel	**188,164**	**1,861**	**1,096**	**191,121**	**1,315**	**744**
Banks in Israel	622	–	–	622	–	–
Government of Israel	1	–	–	1	–	–
Total activity in Israel	**188,787**	**1,861**	**1,096**	**191,744**	**1,315**	**744**
Borrower activity overseas						
Public – commercial						
Construction and real estate	2,146	14	2	2,162	–	–
Commercial – other	2,038	–	3	2,041	–	–
Total commercial	**4,184**	**14**	**5**	**4,203**	**–**	**–**
Private individuals	631	1	–	632	1	–
Total public – activity overseas	**4,815**	**15**	**5**	**4,835**	**1**	**–**
Overseas banks	4,845	–	–	4,845	–	–
Overseas governments	629	–	–	629	–	–
Total activity overseas	**10,289**	**15**	**5**	**10,309**	**1**	**–**
Total public	192,979	1,876	1,101	195,956	1,316	744
Total banks	5,467	–	–	5,467	–	–
Total governments	630	–	–	630	–	–
Total	**199,076**	**1,876**	**1,101**	**202,053**	**1,316**	**744**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Credit risk which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Generally, impaired debts do not accrue interest revenues. For information about certain impaired debts restructured using problematic debt restructuring, see Note 30.B.2.c. to the financial statements.
(4) Classified as problematic non-impaired debts. Accruing interest revenues.
(5) Accruing interest revenues. Debts in arrears 30 to 89 days amounting to NIS 63 million were classified as problematic non-impaired debts.
(6) In conformity with Public Reporting Directives, excludes the balance of housing loans in arrears up to 2 months.
(7) Includes balance of housing loans amounting to NIS 88 million provided for by extent of arrears of borrower, for which an agreement has been signed for repayment of arrears by the borrower, where a change was made to the repayment schedule for the outstanding loan balance not yet due.
(8) Includes debts amounting to NIS 2,023 million, extended to certain purchase groups which are in the process of construction.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

1.B. Credit quality

The state of debts arrears is monitored daily and automatically, providing one of the key indications of credit quality. The state of arrears, and consequently classification of the debt, are based, *inter alia*, on the actual number of days in arrears for each debt.

Non-performing debts

Debt measured on individual basis is classified as non-performing (not accruing interest revenues) after 90 days in arrears. Debt previously restructured as problematic debt and which is again in arrears with regard to the new terms thereof – is also classified as non-performing. Debt measured on a group basis is classified as non-performing (inferior) after 150 days in arrears. At that time, accounting write-off of the debt is also carried out.

Inferior debts

Debt in the individual track is classified as inferior debt accruing revenues after 60 days in arrears. Debt in the group track is classified as inferior after 90 days in arrears.

Housing loans

The state of arrears for housing loans is monitored by the extent of arrears for the loan, except for loans with no monthly or quarterly payment.

Credit risk attributes, including specific risk for housing loans, are included on the Report of the Board of Directors and Management under "Risks Overview".

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

						December 31, 2019
						Credit segment
Debt quality	Commercial	Housing	Individuals	Governments	Banks	Total
Debts in good standing at performing credit rating	47,519	134,044	20,337	656	7,260	209,816
Debts in good standing other than at performing credit rating(1)	800	–	25	–	–	825
Problematic non-impaired debts(2)	781	1,476	145	–	–	2,402
Impaired debts	1,132	56	86	–	–	1,274
Total	**50,232**	**135,576**	**20,593**	**656**	**7,260**	**214,317**
	December 31, 2018					
Debts in good standing at performing credit rating	47,741	125,719	19,519	630	5,467	199,076
Debts in good standing other than at performing credit rating(1)	1,523	–	30	–	–	1,553
Problematic non-impaired debts(2)	473	1,251	152	–	–	1,876
Impaired debts	964	60	77	–	–	1,101
Total	**50,701**	**127,030**	**19,778**	**630**	**5,467**	**203,606**

(1) On-balance sheet credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.

(2) Balance sheet credit risk which is inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision

	December 31, 2019				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	103	23	13	116	191
Construction and real estate – real estate operations	52	2	10	62	71
Financial services	130	8	5	135	144
Commercial – other	729	181	53	782	944
Total commercial	**1,014**	**214**	**81**	**1,095**	**1,350**
Private individuals – housing loans	4	2	52	56	56
Private individuals – other	37	22	49	86	103
Total public – activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,055**	**238**	**182**	**1,237**	**1,509**
Borrower activity overseas					
Public – commercial					
Construction and real estate	1	–	–	1	1
Commercial – other	36	16	–	36	36
Total commercial	**37**	**16**	**–**	**37**	**37**
Private individuals	–	–	–	–	–
Total public – activity overseas	**37**	**16**	**–**	**37**	**37**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**37**	**16**	**–**	**37**	**37**
Total public	1,092	254	182	1,274	1,546
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,092**	**254**	**182**	**1,274**	**1,546**
Of which:					
Measured at present value of cash flows	1,043	252	167	1,210	
Debts under problematic debts restructuring	268	33	63	331	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Recorded debt balance.

(3) Debt balance net of accounting write-off, if made.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

A. Impaired debts and individual provision – continued

	December 31, 2018				
	Balance of impaired debts for which an individual provision has been made[2][3]	Balance of individual provision	Balance of impaired debts for which no individual provision has been made[2]	Total balance of impaired debts[2]	Contractual principal balance of impaired debts
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	147	19	4	151	226
Construction and real estate – real estate operations	22	1	4	26	60
Financial services	163	12	5	168	204
Commercial – other	555	117	59	614	674
Total commercial	**887**	**149**	**72**	**959**	**1,164**
Private individuals – housing loans	11	2	49	60	60
Private individuals – other	39	19	38	77	98
Total public – activity in Israel	**937**	**170**	**159**	**1,096**	**1,322**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**937**	**170**	**159**	**1,096**	**1,322**
Borrower activity overseas					
Public – commercial					
Construction and real estate	2	–	–	2	4
Commercial – other	3	–	–	3	6
Total commercial	**5**	**–**	**–**	**5**	**10**
Private individuals	–	–	–	–	–
Total public – activity overseas	**5**	**–**	**–**	**5**	**10**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**5**	**–**	**–**	**5**	**10**
Total public	942	170	159	1,101	1,332
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**942**	**170**	**159**	**1,101**	**1,332**
Of which:					
Measured at present value of cash flows	831	168	153	984	
Debts under problematic debts restructuring	268	26	80	348	

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Recorded debt balance.
(3) Debt balance net of accounting write-off, if made.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

B. Average balance and interest revenues[4]

	December 31, 2019			December 31, 2018			December 31, 2017		
	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis	Average balance of impaired debts[2]	Interest revenues recorded[3]	Of which: Recorded on cash basis
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	145	6	6	152	3	3	107	3	3
Construction and real estate – real estate operations	33	1	1	19	–	–	41	1	1
Financial services	155	3	3	45	1	1	22	–	–
Commercial – other	668	13	12	556	8	8	382	7	6
Total commercial	**1,001**	**23**	**22**	**772**	**12**	**12**	**552**	**11**	**10**
Private individuals – housing loans	54	–	–	45	–	–	32	–	–
Private individuals – other	83	8	7	73	5	5	69	4	3
Total public – activity in Israel	**1,138**	**31**	**29**	**890**	**17**	**17**	**653**	**15**	**13**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,138**	**31**	**29**	**890**	**17**	**17**	**653**	**15**	**13**
Borrower activity overseas									
Public – commercial									
Construction and real estate	6	–	–	1	–	–	1	–	–
Commercial – other	8	–	–	3	–	–	3	–	–
Total commercial	**14**	**–**	**–**	**4**	**–**	**–**	**4**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**14**	**–**	**–**	**4**	**–**	**–**	**4**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	**14**	**–**	**–**	**4**	**–**	**–**	**4**	**–**	**–**
Total public	1,152	31	29	894	17	17	657	15	13
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total[4]	**1,152**	**31**	**29**	**894**	**17**	**17**	**657**	**15**	**13**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Average recorded debt balance of impaired debts during reported period.
(3) Interest revenues recorded in the reported period with respect to average balance of debts in arrears, in the period in which the debts were classified as impaired.
(4) Had the impaired debt accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 64 million (As of December 31, 2018 – NIS 69 million; as of December 31, 2017 – NIS 63 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts [(1)]

2. Additional information about impaired debts

C. Problematic debts under restructuring

	December 31, 2019				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[(2)] in arrears 90 days or longer	Accruing interest revenues[(2)], in arrears 30-89 days	Accruing interest revenues[(2)] not in arrears	Total[(3)]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	14	–	–	–	14
Construction and real estate – real estate operations	3	–	–	–	3
Financial services	129	–	–	–	129
Commercial – other	108	–	–	12	120
Total commercial	**254**	**–**	**–**	**12**	**266**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	33	–	1	31	65
Total public – activity in Israel	**287**	**–**	**1**	**43**	**331**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**287**	**–**	**1**	**43**	**331**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	287	–	1	43	331
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**287**	**–**	**1**	**43**	**331**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.
(2) Accruing interest revenues.
(3) Included under impaired debts.

As of December 31, 2019, the Bank had no commitments to provide additional credit to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts[1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2018				
	Recorded debt balance				
	Not accruing interest revenues	Accruing interest revenues[2] in arrears 90 days or longer	Accruing interest revenues[2], in arrears 30-89 days	Accruing interest revenues[2] not in arrears	Total[3]
Borrower activity in Israel					
Public – commercial					
Construction and real estate – construction	22	–	–	12	34
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	159	–	–	–	159
Commercial – other	90	–	–	6	96
Total commercial	**272**	**–**	**–**	**18**	**290**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	33	–	1	24	58
Total public – activity in Israel	**305**	**–**	**1**	**42**	**348**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**305**	**–**	**1**	**42**	**348**
Borrower activity overseas					
Public – commercial					
Construction and real estate	–	–	–	–	–
Commercial – other	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**
Total public	305	–	1	42	348
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**305**	**–**	**1**	**42**	**348**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Accruing interest revenues.

(3) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. [(1)]Debts

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2019			December 31, 2018			December 31, 2017		
	Restructurings made[(2)]								
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel									
Public – commercial									
Construction and real estate – construction	45	5	5	39	30	29	41	10	9
Construction and real estate – real estate operations	–	–	–	8	1	1	8	2	1
Financial services	5	3	3	9	158	158	1	–	–
Commercial – other	361	70	69	330	62	61	267	130	72
Total commercial	**411**	**78**	**77**	**386**	**251**	**249**	**317**	**142**	**82**
Private individuals – housing loans	–	–	–	–	–	–	–	–	–
Private individuals – other	947	45	45	980	40	39	826	35	34
Total public – activity in Israel	**1,358**	**123**	**122**	**1,366**	**291**	**288**	**1,143**	**177**	**116**
Banks in Israel	–	–	–	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–	–	–	–
Total activity in Israel	**1,358**	**123**	**122**	**1,366**	**291**	**288**	**1,143**	**177**	**116**
Borrower activity overseas									
Public – commercial									
Construction and real estate	–	–	–	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total public	1,358	123	122	1,366	291	288	1,143	177	116
Total banks	–	–	–	–	–	–	–	–	–
Total governments	–	–	–	–	–	–	–	–	–
Total	**1,358**	**123**	**122**	**1,366**	**291**	**288**	**1,143**	**177**	**116**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Included under impaired debts.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts [1]

2. Additional information about impaired debts

C. Problematic debts under restructuring – continued

	December 31, 2019		December 31, 2018		December 31, 2017	
	Restructurings made which are in default[2]					
	Recorded debt balance					
	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance	Number of contracts	Recorded debt balance
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	6	–	5	1	7	–
Construction and real estate – real estate operations	2	–	3	–	–	–
Financial services	11	–	1	–	1	–
Commercial – other	49	9	51	7	45	2
Total commercial	**68**	**9**	**60**	**8**	**53**	**2**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	104	2	88	2	87	2
Total public – activity in Israel	**172**	**11**	**148**	**10**	**140**	**4**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**172**	**11**	**148**	**10**	**140**	**4**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–	–	–
Commercial – other	–	–	–	–	–	–
Total commercial	**–**	**–**	**–**	**–**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**–**	**–**	**–**	**–**	**–**	**–**
Total public	172	11	148	10	140	4
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**172**	**11**	**148**	**10**	**140**	**4**

(1) Loans to the public, loans to governments, deposits with banks and other debts, except for debentures and securities borrowed or acquired in conjunction with resale agreements, except for deposits with Bank of Israel.

(2) Debts which became, in the reported period, debts in arrears of 30 days or longer, which were restructured under problematic debt restructuring in the 12 months prior to the date on which they became debts in arrears

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

B. Debts

3. Additional information about housing loans

Below is the composition of balances by loan-to-value ratio (LTV) [(1)], repayment type and interest type:

		December 31, 2019			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	91,321	2,850	58,824	2,955
	Over 60%	43,979	569	28,083	2,665
Junior lien or no lien		276	2	203	7,728
Total		**135,576**	**3,421**	**87,110**	**13,348**

		December 31, 2018			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	85,545	3,052	55,336	2,470
	Over 60%	41,224	512	26,672	1,566
Junior lien or no lien		261	2	196	5,251
Total		**127,030**	**3,566**	**82,204**	**9,287**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

C. Balances of loans to the public and off-balance sheet credit risk according to extent of borrower credit risk:

Loan ceiling and credit risk (NIS in thousands)		December 31, 2019 Number of Borrowers[1]	Credit[2]	Off balance sheet credit risk[3]
	Up to 10	238,699	312	357
Above 10	Up to 20	94,778	599	764
Above 20	Up to 40	126,563	1,721	1,922
Above 40	Up to 80	135,429	4,511	3,236
Above 80	Up to 150	102,726	8,434	2,880
Above 150	Up to 300	90,139	16,552	2,661
Above 300	Up to 600	78,904	30,777	3,678
Above 600	Up to 1,200	90,160	65,783	9,500
Above 1,200	Up to 2,000	21,273	26,452	4,694
Above 2,000	Up to 4,000	6,137	13,475	2,540
Above 4,000	Up to 8,000	1,512	6,407	1,663
Above 8,000	Up to 20,000	788	6,911	2,676
Above 20,000	Up to 40,000	266	4,944	2,361
Above 40,000	Up to 200,000	277	11,678	10,938
Above 200,000	Up to 400,000	53	5,998	7,842
Above 400,000	Up to 800,000	13	1,599	5,127
Above 800,000	Up to 885,000	1	248	637
Total		**987,718**	**206,401**	**63,476**

Loan ceiling and credit risk (NIS in thousands)		December 31, 2018 Number of Borrowers[1]	Credit[2]	Off balance sheet credit risk[3]
	Up to 10	218,610	288	349
Above 10	Up to 20	92,083	579	749
Above 20	Up to 40	124,001	1,692	1,892
Above 40	Up to 80	128,865	4,251	3,111
Above 80	Up to 150	102,114	8,542	2,699
Above 150	Up to 300	88,536	16,469	2,419
Above 300	Up to 600	75,975	30,218	3,124
Above 600	Up to 1,200	82,078	60,908	7,492
Above 1,200	Up to 2,000	18,010	23,313	3,199
Above 2,000	Up to 4,000	5,302	11,974	1,949
Above 4,000	Up to 8,000	1,382	5,872	1,486
Above 8,000	Up to 20,000	710	6,340	2,363
Above 20,000	Up to 40,000	284	5,241	2,531
Above 40,000	Up to 200,000	279	11,512	10,989
Above 200,000	Up to 400,000	48	6,719	6,289
Above 400,000	Up to 800,000	12	2,036	4,132
Above 800,000	Up to 1,018,000	1	2	1,016
Total		**938,290**	**195,956**	**55,789**

(1) Number of borrowers is based on total loans and off-balance sheet credit risk.

(2) Off-balance sheet credit and credit risk is stated before impact of provision for credit losses, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limitation. Data is in conformity with the definition of indebtedness in Proper Conduct of Banking Business Directive 313.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year

1. Sale and purchase of loans to the public

	December 31, 2019							
	Sold risk with respect to loans to the public					Purchased risk with respect to loans to the public[(1)(2)]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year[(3)]	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	–	–	–	–	–	–	–	–
Private individuals – housing loans	571	–	–	–	5,718	–	–	–
Private individuals – other	–	–	–	–	–	782	–	–
Total credit risk to public	**571**	**–**	**–**	**–**	**5,718**	**782**	**–**	**–**

	December 31, 2018							
	Sold risk with respect to loans to the public					Purchased risk with respect to loans to the public[(1)(2)]		
	Loans to the public sold during the year	Off-balance sheet credit risk sold during the year	Of which: Problematic credit	Total gain (loss) with respect to credit sold	Balance at end of year of credit sold, which is serviced by the Bank	Loans to the public purchased during the year[(3)]	Off-balance sheet credit risk purchased during the year	Of which: Problematic credit
Commercial	144	–	–	–	–	52	–	–
Private individuals – housing loans	2,182	–	–	–	5,749	–	–	–
Private individuals – other	–	–	–	–	–	325	–	–
Total credit risk to public	**2,326**	**–**	**–**	**–**	**5,749**	**377**	**–**	**–**

(1) Excluding short-term factoring transactions.
(2) Excludes purchase of credit risk to foreign governments, amounting to NIS 38 million in 2019 (in 2018: NIS 118 million).
(3) Includes: Loans backed (credit risk) by the seller – NIS 91 million in 2019 (in 2018: NIS 68 million).

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

D. Sale, purchase and syndication of loans to the public during the year – Continued

2. Loan syndication and participation in syndication

	December 31, 2019					
Balance at end of the year	**Syndication transactions initiated by the Bank**				**Syndication transactions initiated by others**	
	Bank's share		**Others' share**		**Bank's share**	
	Loans to the public	**Off-balance sheet credit risk**	**Loans to the public**	**Off-balance sheet credit risk**	**Loans to the public[(1)]**	**Off balance sheet credit risk[(2)]**
Construction and real estate	364	–	340	132	537	9
Commercial – other	1,478	29	2,296	27	1,533	303
Total credit risk to public	**1,842**	**29**	**2,636**	**159**	**2,070**	**312**

(1) Excludes syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 505 million.
(2) Excludes off-balance sheet credit risk in syndication transactions with foreign governments, amounting to NIS 10 million.

	December 31, 2018					
Balance at end of the year	**Syndication transactions initiated by the Bank**				**Syndication transactions initiated by others**	
	Bank's share		**Others' share**		**Bank's share**	
	Loans to the public	**Off-balance sheet credit risk**	**Loans to the public**	**Off-balance sheet credit risk**	**Loans to the public[(1)]**	**Off balance sheet credit risk[(2)]**
Construction and real estate	381	–	312	266	1,249	27
Commercial – other	818	25	1,178	65	1,402	909
Total credit risk to public	**1,199**	**25**	**1,490**	**331**	**2,651**	**936**

(1) Excludes syndication transactions initiated by others to extend credit to foreign governments, amounting to NIS 460 million.
(2) Excludes off-balance sheet credit risk in syndication transactions with foreign governments, amounting to NIS 37 million.

Note 30 – Additional information about credit risk, loans to the public and provision for credit losses – Continued

Reported amounts (NIS in millions)

E. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at the end of the year

	As of December 31,			
	2019	2018	2019	2018
	Balance(1)	Balance(1)	Provision for credit losses	Provision for credit losses
Transactions in which the balance represents a credit risk:				
Unutilized debitory account and other credit facilities in accounts available on demand	14,734	15,586	19	19
Guarantees to home buyers	10,672	10,544	3	3
Irrevocable commitments for loans approved but not yet granted	22,466	16,730	17	15
Unutilized revolving credit card facilities	8,160	7,574	5	5
Commitments to issue guarantees	9,993	7,482	3	2
Guarantees and other liabilities(2)	8,613	7,945	33	30
Loan guarantees	2,898	2,388	28	23
Documentary credit	206	292	1	1

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 57 million. (As of December 31, 2018: NIS 35 million). For more information see Note 26.C.2. and Note 27.B.

Note 31 – Assets and Liabilities by Linkage Basis

As of December 31, 2019

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
	Non-linked	CPI-linked	USD	EUR	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	44,161	–	6,986	277	248	–	51,672
Securities	5,038	607	3,883	436	–	149	10,113
Securities borrowed or bought in conjunction with resale agreements	104	16	–	–	–	–	120
Loans to the public, net[3]	137,223	57,272	5,612	3,008	1,593	–	204,708
Loans to Governments	–	–	453	203	–	–	656
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,457	1,457
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,766	345	234	96	137	–	2,578
Other assets	1,123	531	88	–	26	53	1,821
Total assets	**189,451**	**58,771**	**17,256**	**4,020**	**2,004**	**1,742**	**273,244**
Liabilities							
Deposits from the public	158,980	14,345	31,352	4,123	2,184	–	210,984
Deposits from banks	178	–	395	117	24	–	714
Deposits from the Government	8	2	19	–	–	–	29
Debentures and subordinated notes	8,294	25,166	–	–	–	–	33,460
Liabilities with respect to derivative instruments	1,986	76	358	142	124	–	2,686
Other liabilities	6,858	1,287	102	7	46	266	8,566
Total liabilities	**176,304**	**40,876**	**32,226**	**4,389**	**2,378**	**266**	**256,439**
Difference	**13,147**	**17,895**	**(14,970)**	**(369)**	**(374)**	**1,476**	**16,805**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,458	(3,458)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,982)	(1,024)	16,203	602	201	–	–
Net in-the-money options (in terms of underlying asset)	1,367	–	(1,133)	(212)	(22)	–	–
Net out-of-the-money options (in terms of underlying asset)	(249)	–	325	(71)	(5)	–	–
Grand total	**1,741**	**13,413**	**425**	**(50)**	**(200)**	**1,476**	**16,805**
Net in-the-money options (capitalized par value)	(1,880)	–	921	981	(22)	–	–
Net out-of-the-money options (capitalized par value)	4,423	–	(2,495)	(2,042)	114	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 31 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2018

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]			Non-	
	Non-linked	CPI-linked	USD	EUR	Other currencies	monetary items[2]	Total
Assets							
Cash and deposits with banks	39,544	124	4,603	559	332	–	45,162
Securities	4,661	418	5,375	535	–	92	11,081
Securities borrowed or bought in conjunction with resale agreements	4	22	–	–	–	–	26
Loans to the public, net[3]	129,042	53,384	6,917	2,877	2,161	–	194,381
Loans to Governments	–	–	467	163	–	–	630
Investments in associated companies	35	–	–	–	–	(3)	32
Buildings and equipment	–	–	–	–	–	1,424	1,424
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,178	318	1,579	102	63	–	3,240
Other assets	1,247	380	90	–	43	50	1,810
Total assets	**175,711**	**54,646**	**19,031**	**4,236**	**2,599**	**1,650**	**257,873**
Liabilities							
Deposits from the public	145,705	14,443	32,920	4,145	2,279	–	199,492
Deposits from banks	135	5	390	95	–	–	625
Deposits from the Government	17	2	23	–	–	–	42
Debentures and subordinated notes	8,311	22,305	–	–	–	–	30,616
Liabilities with respect to derivative instruments	1,297	86	2,038	194	46	–	3,661
Other liabilities	5,773	1,188	711	10	141	224	8,047
Total liabilities	**161,238**	**38,029**	**36,082**	**4,444**	**2,466**	**224**	**242,483**
Difference	**14,473**	**16,617**	**(17,051)**	**(208)**	**133**	**1,426**	**15,390**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,353	(2,353)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,313)	(1,347)	16,967	57	(364)	–	–
Net in-the-money options (in terms of underlying asset)	60	–	(192)	138	(6)	–	–
Net out-of-the-money options (in terms of underlying asset)	(94)	–	95	(10)	9	–	–
Grand total	**1,479**	**12,917**	**(181)**	**(23)**	**(228)**	**1,426**	**15,390**
Net in-the-money options (capitalized par value)	(770)	–	622	150	(2)	–	–
Net out-of-the-money options (capitalized par value)	2,830	–	(1,855)	(1,256)	281	–	–

(1) Includes linked to foreign currency.
(2) Includes derivative instruments whose base relates to a non-monetary item.
(3) Where the provision for credit losses may not be attributed to any specific linkage basis, such provision was deducted *pro-rata* from the different linkage bases.

Note 32 – Assets and liabilities by currency and by term to maturity[(1)]

Reported amounts (NIS in millions)

	Expected contractual future cash flows					
	On-call to 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**
As of December 31, 2019						-
Israeli currency (including linked to foreign currency)						-
Assets	[(3)]59,170	8,979	27,431	21,829	16,624	14,614-
Liabilities	104,719	40,428	26,857	7,518	16,579	4,652-
Difference	**(45,549)**	**(31,449)**	**574**	**14,311**	**45**	**9,962-**
Futures transactions	(11,233)	(13,344)	7,220	(24)	(313)	(214)-
Options	55	321	521	82	27	6-
Difference after effect of derivative instruments	**(56,727)**	**(44,472)**	**8,315**	**14,369**	**(241)**	**9,754-**
Foreign currency						-
Assets	10,208	1,366	2,277	1,656	1,921	1,272-
Liabilities	19,117	6,960	11,843	642	220	85-
Difference	**(8,909)**	**(5,594)**	**(9,566)**	**1,014**	**1,701**	**1,187-**
Of which: Difference in USD	(1,322)	(4,023)	(9,669)	(231)	89	(118)-
Of which: Difference with respect to foreign operations	5,910	(1,173)	210	900	90	271-
Futures transactions	11,233	13,344	(7,220)	24	313	214-
Options	(55)	(321)	(521)	(82)	(27)	(6)-
Difference after effect of derivative instruments	**2,269**	**7,429**	**(17,307)**	**956**	**1,987**	**1,395-**
Total						-
Assets	69,378	10,345	29,708	23,485	18,545	15,886-
Liabilities	123,836	47,388	38,700	8,160	16,799	4,737-
Difference	**(54,458)**	**(37,043)**	**(8,992)**	**15,325**	**1,746**	**11,149-**
Of which: Loans to the public	15,317	9,003	27,403	22,318	16,337	14,343-
Of which: Deposits from the public	117,532	37,352	32,884	6,262	7,810	2,170-
						-
						-
						-
As of December 31, 2018						-
Assets	[(2)]62,798	11,693	29,180	23,163	18,473	15,410-
Liabilities	123,417	36,771	39,628	14,463	5,704	15,584-
Difference	**(60,619)**	**(25,078)**	**(10,448)**	**8,700**	**12,769**	**(174)-**

(1) Presented in this note are expected contractual future cash flows with respect to assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets amounting to NIS 533 million and NIS 553 million as of December 31, 2019 and 2018, respectively, which are past due.

(3) Includes loans at debitory account terms amounting to NIS 5,012 million and NIS 5,414 million as of December 31, 2019 and 2018, respectively and amounts exceeding limits in debitory account facilities amounting to NIS 100 million and NIS 353 million as of December 31, 2019 and 2018, respectively.

(4) Contractual rate of return is the interest rate which discounts the expected contractual future cash flows, as presented in this Note, for the monetary item to its balance sheet balance.

						Balance sheet balance		
-	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without maturity	Total	Contractual rate of return(4)
-								
-								
-	12,357	49,400	61,266	21,418	293,088	(2)3,213	252,053	3.04%
-	4,076	12,640	4,944	490	222,903	35	217,628	1.23%
-	**8,281**	**36,760**	**56,322**	**20,928**	**70,185**	**3,178**	**34,425**	
-	90	47	–	–	(17,771)	–	(17,771)	
-	–	–	–	–	1,012	–	1,011	
-	**8,371**	**36,807**	**56,322**	**20,928**	**53,426**	**3,178**	**17,665**	
-								
-	299	2,028	271	–	21,298	(2)31	19,449	3.07%
-	10	46	–	–	38,923	–	38,545	1.45%
-	**289**	**1,982**	**271**	**–**	**(17,625)**	**31**	**(19,096)**	
-	50	57	(6)	–	(15,173)	–	(14,350)	
-	61	384	251	–	6,904	–	7,781	
-	(90)	(47)	–	–	17,771	–	17,771	
-	–	–	–	–	(1,012)	–	(1,011)	
-	**199**	**1,935**	**271**	**–**	**(866)**	**31**	**(2,336)**	
-								
-	12,656	51,428	61,537	21,418	314,386	3,244	271,502	3.00%
-	4,086	12,686	4,944	490	261,826	35	256,173	1.23%
-	**8,570**	**38,742**	**56,593**	**20,928**	**52,560**	**3,209**	**15,329**	
-	12,275	48,960	61,537	21,415	248,908	2,801	204,708	3.10%
-	1,558	4,902	3,011	184	213,665	–	210,984	0.67%
-								
-								
-								
-								
-	13,007	48,095	57,835	20,338	299,992	(3)2,299	256,223	3.51%
-	1,139	14,795	5,387	363	257,251	136	242,259	1.28%
-	**11,868**	**33,300**	**52,448**	**19,975**	**42,741**	**2,163**	**13,964**	

Note 33 – Balances and estimates of fair value of financial instruments

1) Fair value of financial instruments

For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument.

The estimate of fair value using future cash flows and determination of a discount rate is subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2) The principal methods and assumptions for estimating fair value of financial instruments:

A. Fair value was calculated taking into account the possibility of early repayment based on empirical analysis.
The early repayment assumptions in mortgages are based on empirical testing and on a borrower behavior model with regard to early repayment rate out of all mortgages, on annual basis. These assumptions are verified from time to time against actual early repayment, in each linkage segment and interest type, separately short and long original loan terms.
Early repayment assumptions for deposits and savings plans with early withdrawal options (bearing fixed or variable interest, CPI-linked or non-linked), where interest terms are known in advance, are based on empirical analysis and are reviewed and revised from time to time.
The early repayment assumptions resulted in a NIS 835 million decrease in total fair value of assets, and in a NIS 644 million decrease in total fair value of liabilities.

B. Deposits from the public, deposits with banks and loans to Governments, as well as debentures and non-negotiable subordinated notes – the discounted future cash flow method, using interest rates at which, according to Bank management, similar transactions could have been executed on the balance sheet date. For transactions which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar transactions upon the balance sheet date is separated. In calculating fair value, this difference is treated as a fixed interest component. For debentures and subordinated notes traded as an asset on an active market, fair value is based on quoted market prices or on trader quotes for identical liabilities traded on an active market.

C. Negotiable securities, see Note 1. D.16. to the financial statements.

D. Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

E. Loans to the public – The fair value of loans to the public is estimated by the present value of future cash flows method, using an appropriate discount rate. For loans which bear variable interest, the difference between the spread over the variable interest base for the transaction, and the spread for similar loans upon the reporting date is separated. In calculating fair value, this difference is treated as a fixed interest component. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, for which the flows of future receipts (principal and interest) were calculated. The balance of housing loans is divided into homogeneous risk categories.
These receipts were discounted at the interest rates at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans for a similar client (for housing loans – a rate which reflects the risk associated with the category).
In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

Note 33 – Balances and estimates of fair value of financial instruments - continued

F. Impaired debt – fair value is calculated using discount rates that reflects the high credit risk inherent therein. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debts were calculated after deducting the provisions for credit losses and after deducting accounting write-offs.

a decrease by 1% in the discount rate affects the fair value of the problematic debts of the Group by NIS 9 million.

G. Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as of the balance sheet date approximates the fair value.

H. Derivative instruments – see Note 1. D.16. to the financial statements.

I. Financial instruments with original maturity of three months or shorter (other than derivative instruments and negotiable financial instruments) – the balance on the balance on the financial statements as of the balance sheet date approximates the fair value, subject to changes in credit risk and in Bank margin.

3) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	December 31, 2019				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	51,672	11,846	38,978	848	51,672
Securities (3)	10,113	7,571	2,537	66	10,174
Securities loaned or purchased in resale agreements	120	120	–	–	120
Loans to the public, net	204,708	781	10,887	(5)194,709	206,377
Loans to Governments	656	–	–	657	657
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,578	215	1,662	(2)701	2,578
Other financial assets	627	6	–	621	627
Total financial assets	**(4)270,506**	**20,539**	**54,064**	**197,634**	**272,237**
Financial liabilities					
Deposits from the public	210,984	781	64,919	147,289	212,989
Deposits from banks	714	–	315	399	714
Deposits from the Government	29	–	–	31	31
Debentures and subordinated notes	33,460	32,750	–	1,990	34,740
Liabilities with respect to derivative instruments	2,686	213	1,509	(2)964	2,686
Other financial liabilities	6,616	490	4,874	1,251	6,615
Total financial liabilities	**(4)254,489**	**34,234**	**71,617**	**151,924**	**257,775**

(1) Level 1 – Fair value measurement using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities, see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 72,028 million and NIS 67,968 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 8 million.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

A. Fair value balances – continued

	December 31, 2018				
		Fair value			
	Book balance	Level 1[1]	Level 2[1]	Level 3[1]	Total
Financial assets					
Cash and deposits with banks	45,162	7,976	34,858	2,327	45,161
Securities [3]	11,081	6,964	4,049	91	11,104
Securities loaned or purchased in resale agreements	26	26	–	–	26
Loans to the public, net	194,381	508	11,486	181,105[5]	193,099
Loans to Governments	630	–	–	630	630
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	3,240	255	1,650	1,335[2]	3,240
Other financial assets	641	15	–	626	641
Total financial assets	**[4]255,193**	**15,744**	**52,043**	**186,146**	**253,933**
Financial liabilities					
Deposits from the public	199,492	508	55,078	144,244	199,830
Deposits from banks	625	–	309	316	625
Deposits from the Government	42	–	–	44	44
Debentures and subordinated notes	30,616	29,147	–	1,945	31,092
Liabilities with respect to derivative instruments	3,661	256	2,560	845[2]	3,661
Other financial liabilities	6,463	451	4,152	1,860	6,463
Total financial liabilities	**[4]240,899**	**30,362**	**62,099**	**149,254**	**241,715**

(1) Level 1 – Fair value measurement using quoted prices on an active market; Level 2 – Fair value measurement using other significant observed data; Level 3 – Fair value measurement using significant non-observed data.

(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

(3) For more information about the carrying amount and fair value of securities , see Note 12 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 65,894 million and NIS 58,253 million, respectively, whose carrying amount equals their fair value (instruments presented at fair value on the balance sheet). For more information on instruments measured at fair value on recurring basis and on non-recurring basis, see B.-D. below.

(5) Of which embedded derivatives in loans to the public, net amounting to NIS 4 million.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value:

1. On recurring basis

	December 31, 2019			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	1,187	2,175	–	3,362
Of foreign governments	1,440	–	–	1,440
Of banks and financial institutions overseas	–	362	–	362
Shares not held for trading	83	–	17	100
Securities held for trading:				–
Debentures of the Government of Israel	427	–	–	427
Debentures of foreign governments	341	–	–	341
Securities loaned or purchased in resale agreements	120	–	–	120
Credit with respect to loans to clients	781	–	–	781
Assets with respect to derivative instruments (1)				–
Interest contracts:				–
NIS / CPI	–	70	126	196
Other	–	455	24	479
Currency contracts	47	1,037	485	1,569
Contracts for shares	167	97	63	327
Commodities and other contracts	1	3	3	7
Other financial assets	6	–	–	6
Other	–	–	8	8
Total assets	**4,600**	**4,199**	**726**	**9,525**
Liabilities				
Deposits with respect to borrowing from clients	781	–	–	781
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	67	14	81
Other	–	695	40	735
Currency contracts	44	717	771	1,532
Contracts for shares	168	29	135	332
Commodities and other contracts	1	1	4	6
Other financial liabilities	490	–	–	490
Total liabilities	**1,484**	**1,509**	**964**	**3,957**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

1. On recurring basis

	December 31, 2018			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets				
Debentures available for sale				
Debentures:				
of Government of Israel	873	3,547	–	4,420
Of foreign governments	1,862	–	–	1,862
Of banks and financial institutions overseas	–	484	–	484
Of others overseas	–	18	–	18
Shares not held for trading	1	–	–	1
Securities held for trading:				
Debentures of the Government of Israel	288	–	–	288
Securities loaned or purchased in resale agreements	26	–	–	26
Credit with respect to loans to clients	508	–	–	508
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	119	75	194
Other	–	436	9	445
Currency contracts	32	1,007	1,092	2,131
Contracts for shares	223	87	156	466
Commodities and other contracts	–	1	3	4
Other financial assets	15	–	–	15
Other	–	–	4	4
Total assets	**3,828**	**5,699**	**1,339**	**10,866**
Liabilities				
Deposits with respect to borrowing from clients	508	–	–	508
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	70	25	95
Other	–	581	27	608
Currency contracts	32	1,777	584	2,393
Contracts for shares	224	124	206	554
Commodities and other contracts	–	8	3	11
Other financial liabilities	451	–	–	451
Other	–	–	8	8
Total liabilities	**1,215**	**2,560**	**853**	**4,628**

(1) Fair value measurement of derivative instruments classified under Level 3 is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

B. Items measured at fair value – continued:

2. On non-recurring basis

	December 31, 2019				For the year ended December 31, 2019
				Fair value	
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	16	46	62	24

	December 31, 2018				For the year ended December 31, 2018
				Fair value	
	Level 1[1]	Level 2[1]	Level 3[1]	Total	Gains
Impaired credit whose collection is contingent on collateral	–	11	104	115	13

(1) Level 1 – Fair value measurements using quoted prices on an active market. Level 2 – Fair value measurements using other significant observed data. Level 3 – Fair value measurements using significant non-observed data.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

C. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2019								
		Realized / unrealized gains (losses) included, net(1)							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Disposi tions	Transfer to level 3(4)	Fair value as of December 31, 2019	Unrealized gains (losses) with respect to instruments held as of December 31, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	75	7	–	24	–	(52)	72	126	114
Other	9	(18)	–	33	–	–	–	24	133
Currency contracts	1,092	(137)	–	1,020	–	(1,490)	–	485	362
Contracts for shares	156	(65)	–	68	–	(96)	–	63	–
Commodities and other contracts	3	3	–	1	–	(4)	–	3	–
Other	4	4	–	–	–	–	–	8	–
Total assets	**1,339**	**(206)**	**–**	**1,146**	**–**	**(1,642)**	**89**	**726**	**609**
Liabilities									
Liabilities with respect to derivative instruments(2)(3)									
Interest contracts:									
NIS / CPI	25	(10)	–	3	–	(20)	16	14	(36)
Other	27	(10)	–	23	–	–	–	40	244
Currency contracts	584	113	–	1,159	–	(1,085)	–	771	731
Contracts for shares	206	(164)	–	179	–	(86)	–	135	–
Commodities and other contracts	3	2	–	–	–	(1)	–	4	–
Other	8	(8)	–	–	–	–	–	–	–
Total liabilities	**853**	**(77)**	**–**	**1,364**	**–**	**(1,192)**	**16**	**964**	**939**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

D. Change in items measured at fair value on recurrent basis, included in level 3:

	For the year ended December 31, 2018								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2017	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acqui-sitions	Sales	Dispos-itions	Transfer to level 3[4]	Fair value as of December 31, 2018	Gains (losses) with respect to instruments held as of December 31, 2018
Assets									
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	146	(12)	–	4	–	(100)	37	75	27
Other	21	(11)	–	2	–	(3)	–	9	52
Currency contracts	603	474	–	1,821	–	(1,806)	–	1,092	593
Contracts for shares	123	94	–	122	–	(183)	–	156	–
Commodities and other contracts	6	(3)	–	2	–	(2)	–	3	1
Other	6	(1)	–	2	–	(3)	–	4	–
Total assets	**905**	**541**	**–**	**1,953**	**–**	**(2,097)**	**37**	**1,339**	**673**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	85	(6)	–	9	–	(77)	14	25	–
Other	35	(5)	–	2	–	(5)	–	27	14
Currency contracts	669	267	–	673	–	(1,025)	–	584	681
Contracts for shares	113	80	–	139	–	(126)	–	206	–
Commodities and other contracts	3	2	–	1	–	(3)	–	3	1
Other	–	8	–	–	–	–	–	8	–
Total liabilities	**905**	**346**	**–**	**824**	**–**	**(1,236)**	**14**	**853**	**696**

(1) Realized gains (losses) included in the statement of profit and loss under "Non-interest financing revenues". Unrealized gains and losses included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value under Other Comprehensive Income.
(2) Fair value measurement is primarily based on use of observed data (market interest rate curves), except for credit quality of counter party.
(3) Included in statement of profit and loss under "Non-interest financing revenues".
(4) Transfers to Level 3 include transactions for which market data, in the reported periods, are not observed.

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

E. Additional information about non-observed significant data and valuation techniques used in fair value measurement of items classified at Level 3:

	Fair value as of December 31, 2019	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Assets with respect to derivative instruments :					
Interest contracts – NIS CPI	123	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.84%
Contracts for shares	300	Options pricing model	Standard deviation per share	41.49% – 40.86%	41.26%
Other	286	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.66%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	14	Cash flows discounting	Inflationary expectations	0.93%- 0.82%	0.89%
Other	950	Cash flows discounting	Counter-party credit quality	3.10% – 0.30%	1.76%

	Fair value as of December 31, 2018	Valuation t echnique	Non-observed data	Range	Weighted average
Assets with respect to derivative instruments:					
Interest contracts – NIS CPI	51	Cash flows discounting	Inflationary expectations	2.01%- 0.87%	1.24%
Contracts for shares	212	Options pricing model	Standard deviation per share	39.39% – 20.33%	35.87%
Other	1,076	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.73%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	20	Cash flows discounting	Inflationary expectations	2.22%- 0.87%	1.17%
Other	833	Cash flows discounting	Counter-party credit quality	2.90% – 0.30%	1.74%

Note 33 – Balances and estimates of fair value of financial instruments - continued

Reported amounts (NIS in millions)

E. Transfers between Levels 1 and 2 of the fair value hierarchy

There were no transfers from Level 2 and Level 3 to Level 1 during the reported period.

F. Election of fair value option

Should the Bank elect the fair value option, changes to fair value of investments in certain debentures would be charged to the Statement of Profit and Loss, with debentures classified under the portfolio held for trading, although they had not been purchased for this purpose.

Election of the fair value option was made under the following circumstances:

1. Reduce volatility in profit and loss resulting from changes between the original measurement basis of financial instruments designated at the fair value option, and the measurement basis of derivative financial instruments used to manage risks with respect to such investments.
2. Complexity of implementing hedge accounting.
3. More accurate economic presentation of assets managed on fair value basis.

As of December 31, 2019, the Bank elected the fair value option with regard to securities classified as securities held for trading, even though they had not been acquired for trading purposes. For more information see Notes 2D, 3A.2, 3B And 12(4).

As of December 31, 2018, the Bank did not elect the fair value option.

	Fair value as of December 31, 2019	Losses with respect to changes in fair value for the year ended December 31, 2019
Securities available for sale	341	(2)

Note 34 – Interested and Related Parties

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2019									
								Interested parties	Related parties owned by the banking corporation	
	Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets										
Loans to the public	10	15	16	16	23	42	–	–	1	1
Provision for credit losses	–	–	–	–	1	4	–	–	–	–
Loans to the public, net	10	15	16	16	22	38	–	–	1	1
Investments in associates	–	–	–	–	–	–	–	–	32	32
Liabilities										
Deposits from the public	41	66	73	93	588	668	–	–	10	10
[2]Shares (included in shareholders' equity)	7,027	7,027	–	–	–	–	–	–	–	–
[3]Credit risk in off-balance sheet financial instruments	3	3	4	5	92	99	–	–	1	1

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's shareholders' equity.
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purposes of per-borrower limitations.
(4) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.
(5) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

As of December 31, 2018									
Interested parties								Related parties owned by the banking corporation	
Controlling shareholders		Officers[4]		Others[5]		Interested parties upon the transaction date		Jointly-controlled associated companies or investee companies	
Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date[1]	Highest balance during the year[1]
46	52	17	19	37	250	–	–	–	3
–	–	–	–	4	4	–	–	–	–
46	52	17	19	33	246	–	–	–	3
–	–	–	–	–	–	–	–	32	32
49	78	68	81	357	820	–	–	5	10
6,477	6,477	–	–	–	–	–	–	–	–
3	5	18	18	130	210	–	–	–	–

Note 34 – Interested and Related Parties – Continued

Reported amounts (NIS in millions)

B. Summary of business results with interested and related parties

	For the year ended December 31,			
	2019			
	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
Net interest revenues from loans to the public	2	–	2	–
Interest expenses for deposits from the public	(1)	(1)	–	–
Total interest revenues (expenses), net	**1**	**(1)**	**2**	**–**
Net non-interest financing revenues	–	–	4	–
Operating and other expenses	–	(44)	(2)	–
Total	**1**	**(45)**	**4**	**–**

C. Remuneration and other benefits to interested parties (by the banking corporation and its investees)

	For the year ended December 31,			
	2019			
	Officers[1]		Others[2]	
	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
Interested party employed by or on behalf of the corporation	38	14	–	–
Board member not employed by or on behalf of the corporation	6	16	–	–
Other interested party not employed by or on behalf of the corporation	–	–	2	1

(1) Officers of the Bank (including the President & CEO) and including Board members along with their close family members.

(2) Any corporation in which a person or corporation included in one of these interested party groups has a controlling interest or owns 25% or more of their issued share capital or voting rights thereof, or may appoint 25% or more of their Board members.

	2018				2017			
	Interested parties			Related parties owned by the banking corporation	Interested parties			Related parties owned by the banking corporation
	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies	Controlling shareholders	Officers[1]	Others[2]	Jointly-controlled associated companies or investee companies
	2	1	4	–	–	1	4	–
	–	(1)	(1)	–	–	(1)	(4)	–
	2	**–**	**3**	**–**	**–**	**–**	**–**	**–**
	–	–	–	–	–	–	–	–
	–	(37)	(4)	–	–	(43)	(3)	–
	2	**(37)**	**(1)**	**–**	**–**	**(43)**	**(3)**	**–**

	2018				2017			
	Officers[1]		Others[2]		Officers[1]		Others[2]	
	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients	Total benefits	Total number of benefit recipients
	31	14	–	–	36	14	–	–
	6	13	–	–	7	12	–	–
	–	–	4	3	–	–	3	3

Note 35 – Events after the balance sheet date

- On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, informed the Bank Board of Directors of his intention to conclude his term in office in the coming months. The end date of his term in office has yet to be determined, and would be agreed after the Bank Board of Directors would complete the process of appointment of the next Bank President & CEO.
- On February 24, 2020, the Board of Directors resolved to create a committee, headed by the Chairman of the Board of Directors, to nominate a new Bank CEO.
- On February 24, 2020, after the balance sheet date, the Bank's Board of Directors resolved to distribute dividends amounting to NIS 176 million, or 40% of earnings in the fourth quarter of 2019. The dividends are 748.94% of issued share capital, i.e. NIS 0.7489 per NIS 0.1 par value share. The effective date for dividends payment is March 3, 2020 and the payment date is March 11, 2020. The final dividends per share is subject to changes due to realized convertible securities of the Bank. According to accounting rules, this amount will be deducted from retained earnings in the first quarter of 2020.

Note 36 – Condensed financial statements of the Bank (1)

A. Statement of profit and loss

Reported amounts (NIS in millions)

	2019	2018	2017
Interest revenues	7,196	6,905	5,804
Interest expenses	2,633	2,689	2,084
Interest revenues, net	4,563	4,216	3,720
Expenses with respect to credit losses	338	280	163
Interest revenues, net after expenses with respect to credit losses	**4,225**	**3,936**	**3,557**
Non-interest revenues			
Non-interest financing revenues	370	417	159
Commissions	1,258	1,203	1,163
Other revenues	59	31	79
Total non-interest revenues	**1,687**	**1,651**	**1,401**
Operating and other expenses			
Payroll and associated expenses	2,242	2,110	1,978
Maintenance and depreciation of buildings and equipment	642	619	616
Other expenses	451	898	415
Total operating and other expenses	**3,335**	**3,627**	**3,009**
Pre-tax profit	2,577	1,960	1,949
Provision for taxes on profit	910	835	724
After-tax profit	**1,667**	**1,125**	**1,225**
Share in profits of investee companies, after tax	175	81	122
Net profit	**1,842**	**1,206**	**1,347**

(1) Complete data for the Bank solo is available on the Bank website: www.mizrahi-tefahot.co.il about the bank > investor relations > financial statements.

Note 36 – Condensed financial statements of the Bank – Continued

B. Balance sheet

Reported amounts (NIS in millions)

	2019	2018
Assets		
Cash and deposits with banks	49,327	42,708
Securities[(1)]	7,101	9,539
Securities loaned or purchased in resale agreements	120	26
Loans to the public	195,255	185,416
Provision for credit losses	(1,613)	(1,501)
Loans to the public, net	193,642	183,915
Loans to Governments	656	630
Investments in investees	2,542	2,400
Buildings and equipment	1,205	1,147
Assets with respect to derivative instruments	2,577	3,240
Other assets	1,531	1,569
Total assets	**258,701**	**245,174**
Liabilities and Equity		
Deposits from the public	217,198	205,138
Deposits from banks	12,782	12,138
Deposits from the Government	23	25
Debentures and subordinated notes	3,350	3,322
Liabilities with respect to derivative instruments	2,685	3,661
Other liabilities [(2)]	6,630	6,209
Total liabilities	**242,668**	**230,493**
Capital	**16,033**	**14,681**
Total liabilities and equity	**258,701**	**245,174**

(1) Of which: NIS 5,984 million recognized on the financial statements at fair value (on December 31, 2018: NIS 7,040 million).

(2) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 119 million (on December 31, 2018: NIS 97 million).

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows[(1)]

Reported amounts (NIS in millions)

	2019	2018	2017
Cash flows provided by current operations			
Net profit	1,842	1,206	1,347
Adjustments			
Share of the Bank in undistributed earnings of associated companies	(175)	(81)	(122)
Depreciation of buildings and equipment (including impairment)	185	181	188
Expenses with respect to credit losses	338	280	163
Gain from sale of securities available for sale	(35)	(18)	(52)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(11)	1	1
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(2)		
Gain from sale of buildings and equipment	(26)	–	(55)
Impairment of shares not held for trading	6	–	–
Expenses arising from share-based payment transactions	57	–	24
Deferred taxes, net	189	(90)	22
Change in employees' provisions and liabilities	12	64	11
Adjustments with respect to exchange rate differentials	234	(126)	78
Proceeds from sale of loan portfolios	–	–	(4)
Accrual differences included with investment and financing operations	577	(210)	(26)
Net change in current assets			
Assets with respect to derivative instruments	669	180	156
Securities held for trading	(469)	(80)	138
Other assets, net	(135)	(39)	10
Net change in current liabilities			
Liabilities with respect to derivative instruments	(976)	579	(483)
Other liabilities	243	419	360
Net cash provided by current operations	**2,523**	**2,266**	**1,756**

Note 36 – Condensed financial statements of the Bank – Continued

C. Statement of cash flows – continued

Reported amounts (NIS in millions)

	2019	2018	2017
Cash flows provided by investment activities			
Net change in deposits with banks	46	(16)	5
Net change in loans to the public	(9,854)	(14,853)	(11,201)
Net change in loans to Governments	12	(56)	(126)
Net change in securities loaned or acquired in resale agreements	(94)	50	(67)
Acquisition of debentures held to maturity	(158)	–	(3,816)
Proceeds from redemption of securities held to maturity	1,422	723	–
Acquisition of securities available for sale	(5,491)	(2,454)	–
Proceeds from sale of securities available for sale	3,509	838	4,671
Proceeds from redemption of securities available for sale	3,265	1,026	–
Proceeds from sale of loan portfolios	577	2,350	2,586
Purchase of loan portfolios – public	(782)	(377)	(702)
Purchase of loan portfolios – Government	(38)	(118)	–
Acquisition of buildings and equipment	(266)	(203)	(197)
Proceeds from sale of buildings and equipment	58	–	320
Proceeds from redemption of securities – associated companies	–	603	–
Proceeds from realized investment in associated companies	33	–	1
Net cash used in investment activities	**(7,761)**	**(12,487)**	**(8,526)**
Cash flows provided by financing operations			
Net change in deposits from the public	12,060	15,192	7,705
Net change in deposits from banks	644	742	(2)
Net change in deposits from Government	(2)	–	(5)
Issuance of debentures and subordinated notes	–	–	–
Redemption of debentures and subordinated notes	(4)	(4)	(67)
Dividends paid to shareholders	(561)	(247)	(334)
Net cash provided by financing operations	**12,137**	**15,683**	**7,297**
Increase (decrease) in cash	6,899	5,462	527
Cash balance at beginning of the period	42,644	37,056	36,607
Effect of changes in exchange rate on cash balances	(234)	126	(78)
Cash balance at end of the period	**49,309**	**42,644**	**37,056**
Interest and taxes paid / received			
Interest received	5,997	6,284	6,103
Interest paid	2,162	1,925	1,663
Dividends received	17	7	4
Income taxes received	177	91	64
Income taxes paid	1,007	1,034	747
Appendix A – Non-cash Investment and Financing Transactions			
Acquisition of buildings and equipment	–	–	25
Sales of buildings and equipment	–	–	–

Mizrahi-Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

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Corporate governance and audit

Board of Directors and management

Board of Directors

During 2019, the Bank's Board of Directors held 28 plenary meetings. During this period there were also 68 meetings of Board committees and 6 Board member workshops.

The permanent Board committees are: Audit, Credit, Risks Management, IT and Technology Innovation and Remuneration Committees.

Presented below are changes during 2019 and through publication of these financial statements:

On January 28, 2019, the Bank Board of Directors established the IT and Technology Innovation Committee. Mr. Moshe Vidman was appointed Chair of this Committee.

On February 7, 2019, Ms. Liora Ofer concluded her term in office as a member of the Bank's Board of Directors.

On March 12, 2019, Mr. Gilad Rabinowitz was appointed External Board Member of the Bank. As from the appointment approval date, Mr. Gilad Rabinowitz serves as member of the IT and Technology Innovation Committee.

On March 27, 2019, Mr. Ron Gazit concluded their term in office as member of the Risk Management Committee and was appointed member of the Credit Committee.

On March 28, 2019. Mr. Ilan Kremer was appointed member of the Bank Board of Directors and member of the Risks Management Committee.

On March 28, 2019, Mr. Mordechai Meir concluded their term in office as a member of the Bank's Board of Directors.

On April 25, 2019, Mr. Yosef Shachak concluded their term in office as member of the Bank's Board of Directors.

On May 20, 2019, Ms. Sabina Biran was appointed member of the Credit Committee.

On June 25, 2019, Mr. Zvi Ephrat concluded their term in office as member of the Bank's Board of Directors.

On June 25, 2019. Mr. Eli Elroy was appointed member of the Bank Board of Directors.

On August 20, 2019, Mr. Yosef Plus was appointed External Board Member of the Bank. On August 26, 2019, Mr. Yosef Plus was confirmed as member of the Audit and Remuneration Committee. On November 4, 2019, Mr. Yosef Plus was confirmed as member of the Risks Management Committee.

On November 7, 2019, Mr. Avraham Neumann announced his resignation from the office of External Board Member, effective as from December 31, 2019.

On December 18, 2019, Mr. Yoav Asher Nachshon concluded their term in office as member of the Bank's Board of Directors.

On December 24, 2019, the Bank's Board of Directors approved the following appointments and changes in committee membership, effective as from January 1, 2020:

Appointment of Mr. Yoav Asher Nachshon as member of the Bank's Board of Directors and member of the Credit Committee and of the IT and Technology Innovation Committee.

Appointment of Ms. Hannah Fayer as Chair of the Remuneration Committee.

Appointment of Mr. Yosef Plus as Chair of the Audit Committee.

Appointment of Mr. Yoni Kaplan as member of the Credit Committee and termination of their membership of the IT and Technology Innovation Committee.

Appointment of Mr. Eli Elroy as member of the IT and Technology Innovation Committee.
Termination of Mr. Ron Gazit's membership of the Credit Committee.

Members of the Bank's Board of Directors and their membership of Board committees, as of the publication date of these financial statements:

Moshe Vidman, Chairman of the Board of Directors	Credit Committee – Chairman; Risks Management Committee – Chairman; IT and Technology Innovation Committee – Chairman
Eli Elroy	IT and Technology Innovation Committee
Yoav Asher Nachshon	Credit and IT and Technology Innovation Committees
Sabina Biran	Audit, Credit, Risks Management, IT and Technology Innovation and Remuneration Committees
Ron Gazit	IT and Technology Innovation Committee
Avraham Zeldman	Audit Committee and Risks Management Committees
Hannah Fayer	Remuneration Committee – Chair, Audit Committee, Credit Committee
Yosef Plus	Audit Committee – Chair; Risks Management Committee, Remuneration Committee
Jonathan Kaplan	Credit Committee and Risks Management Committee
Ilan Kremer	Risks Management Committee
Gilad Rabinowitz	Audit, IT and Technology Innovation and Remuneration Committees

Board members with accounting and financial expertise – The Bank's Board of Directors prescribed that at least three directors should have accounting and finance qualifications. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that the Audit Committee would have as members at least 2 Board members having accounting and financial qualifications. The Audit Committee includes 5 Board members having accounting and financial qualifications.

Based on their skills, education, experience and knowledge, the Bank's Board of Directors includes, as of the publication date of these financial statements, 9 Board members having accounting and financial qualifications: Messrs. Moshe Vidman, Yoav Asher-Nachshon, Sabina Biran, Avraham Zeldman, Hannah Fayer, Yosef Plus, Jonathan Kaplan, Ilan Kremer and Gilad Rabinowitz.

For more information about members of the Bank's Board of Directors, including: qualifications, education and experience and other information about their office, as well as other information about Board members with accounting and financial expertise and professional qualifications, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26 on the Bank's 2019 Annual Report on the ISA MAGNA website.

The Bank's Board of Directors thanks the Bank President & CEO, management and employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with due responsibility. The Board of Directors appreciates the constant efforts of the Bank President & CEO, Bank management and Bank employees to expand the business activities and client base.

Executive Management

The following are Executive Management Forum members as of December 31, 2019 with their title and position:

Eldad Fresher(1)	President & CEO
Menahem Aviv	Vice President, Manager, Accounting & Financial Reporting Division and Chief Accountant(2)
Israel Engel	Vice President and Manager, Retail Division(2)
Ayala Hakim	Manager, Mizrahi Tefahot Technology Division Ltd. and CIO
Moshe Lari	Vice President, Manager, Finance Division and Chief Financial Officer (CFO)(2)
Nisan Levi	Vice President, Manager, Planning, Operations and Customer Asset Division(2)
Ofir Morad	Vice President and Manager, Business Banking Division
Dinah Zuaretz Navot	Vice President and Manager, Marketing, Promotion and Business Development Division
Racheli Friedman	Vice President, Manager, Legal Division, Chief Legal Counsel
Doron Klauzner	Vice President, Manager, Risks Control Division and Chief Risk Officer (CRO)
Rita Rubinstein(3)	Vice President and Manager, Human Resources and Administration Division(2)
Galit Weiser	Chief Internal Auditor; Manager, Internal Audit Division
Maya Feller	Corporate Secretary
Benny Shoukroun	Bank Spokesman

For more information about senior officers of the Bank, including: education and experience and other information about their office, as required pursuant to the Public Reporting Directives and the Securities Regulations, see Regulation 26A on the Bank's 2019 Annual Report on the ISA MAGNA website.

(1) On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, informed the Bank Board of Directors of his intention to conclude his term in office in the coming months. The end date of his term in office has yet to be determined, and would be agreed after the Bank Board of Directors would complete the process of appointment of the next Bank President & CEO.

(2) For more information about re-organization of the Bank as from 2020, see chapter Human Resources below.

(3) On December 31, 2019, Rita Rubinstein concluded her term in office as Manager, Human Resources and Administraion Division.

Internal Auditor

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name:	Galit Weiser
Start of term in office:	July 2011
Education:	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience:	Deputy Chief Internal Auditor at Bank Mizrahi Tefahot; previously, Chief Internal Auditor of Bank Tefahot.

Pursuant to provisions of Section 146(B) of the Companies Law, 1999 – the Internal Auditor is not an interested party of the corporation, an officer or relative of it.
Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to her position as Chief Internal Auditor, other than as Ombudsman, Internal Auditor of Bank Yahav and Auditor of Bank Mizrahi-Tefahot subsidiaries. The Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with her position as Internal Auditor. Other than the foregoing, the Internal Auditor has no material business relationships or other material relationships with the Bank or with any related entity thereof.
In conformity with Proper Conduct of Banking Business Directive 307, audit staff are only appointed subject to consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal Audit staff do not hold other positions with the banking corporation in addition to

internal audit, other than as Ombudsman. Internal Audit staff may only sign on behalf of the banking corporation documents related to audit work or to inquiries from the public. Internal Audit employees are terminated with due process and consent of the Internal Auditor.

As of December 31, 2019, the Internal Auditor is entitled to 18,112 options to purchase Mizrahi Tefahot ordinary shares of NIS 0.1 par value, in conformity with the 2014 Allotment Program approved by the Mizrahi Tefahot Board of Directors, and 53,937 options to purchase such shares, in conformity with the 2017 Alottment Program approved by the Mizrahi Tefahot Board of Directors. The Internal Auditor is also entitled to up to 36,595 options to purchase such ordinary shares, in conformity with the 2019 Allotment Program approved by the Mizrahi Tefahot Board of Directors. For further details about this allotment, see Note 23 to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

The Internal Auditor is a full-time employee of the Bank.

Appointment process – Roles and responsibilities

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

The roles and responsibilities of Internal Audit are listed in the Appointment Letter, which has been discussed and approved by the Bank's Board of Directors, including:

- The authority and ability to initiate audits of all units and existing operations of the Bank, in Israel or overseas, and to demand and receive any document and any information required for discharging their office.
- Employees of the Internal Audit function shall have direct access – for discharging their office – to all records, to any regular or computer-based repository, to any database and work files and to any program of automated data processing, including managerial information and meeting minutes of decision making entities, related to the audit subject.
- Employees of the Audit function may enter any property owned or used by the Bank and to examine it.
- With regard to confidential information by law, the Internal Auditor, their staff and anyone acting on behalf thereof shall be subject to statutory limitations. The Internal Auditor, their staff and anyone acting on behalf thereof must not disclose any document or information obtained in the course of discharging their office – unless such disclosure is required for lawfully discharging their office or if such disclosure is required by any law.

Identity of the Internal Auditor's Supervisor

The Internal Auditor reports to the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived. Note that checking of material operations and transactions, including checking of transactions with related parties, are incorporated into the multi-annual work plan of Internal Audit.

Considerations in determining the multi-annual audit plan

Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency accordingly.

- Risks surveys conducted at the Bank.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Basel directives and the ICAAP process.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the Audit Division.
- Decisions of the Audit Committee and the Chairman of the Board of Directors, as well as requests from the Bank President & CEO.

The multi-annual work plan is prepared by the Internal Auditor, brought up for discussion by the Board of Directors' Audit Committee and sent to the Bank President. After discussion and recommendation by the Audit Committee, the plan is submitted for approval by the Board of Directors.

Accordingly, on February 25, 2019, the Board of Directors approved the multi-annual Internal Audit work plan for 2019-2022.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as a basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Supervisor of Banks and the Audit Committee. In addition, the audit refers to issues as requested by Bank management.

Any material changes are brought for approval by the Audit Committee. In case of non-material changes, the Audit Committee is informed after the fact.

Similar to the multi-annual audit plan, the annual audit plan is also prepared by the Internal Auditor and brought for discussion by the Board's Audit Committee. The plan is also submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Board of Directors.

Accordingly, on February 25, 2019, the Board of Directors approved the annual Internal Audit work plan for 2019.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during her tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With regard to this company and in conformity with Proper Conduct of Banking Business Directive 307, the Internal Auditor ensures that proper Internal Audit is maintained.

At Bank Yahav, a separate audit plan is submitted to the Bank Yahav Board of Directors.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions reporting to the Internal Auditor is derived from Internal Audit needs, which arise from the multi-annual work plan and from the annual work plan of Internal Audit. The average number of positions in 2019, including internal auditors of subsidiaries and overseas branches is as follows:

	In Israel	Outside of Israel
Employees engaged in internal audit	Employees engaged in role of Ombudsman	Employees engaged in internal audit
(1)50	6	(2)2

(1) Includes 8 full-time positions for audit at Bank Yahav, including outsourcing at Bank Yahav. In addition, Internal Audit at Bank Mizrahi Tefahot used outsourced services equivalent to 2 full time positions, which are also included.

(2) Includes use of external service providers overseas.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307 concerning "Internal Audit function".
- Standards for Professional Engagement in Internal Audit of the Global Institute of Internal Auditors.
  The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit. This is done, *inter alia*, based on annual reporting, semi-annual reporting and work plans of Internal Audit, which include reference to these issues. Furthermore, as needed, an independent external survey is conducted, once every 5 years, of the quality of work of Internal Audit, which is reported to the Audit Committee.

Access to information

The Internal Auditor regularly has complete access to all the information he needed, in conformity with Proper Conduct of Banking Business Directive 307, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data. Note that in conducting audits at investees and operations outside of Israel, too, Internal Audit has full access, as noted above, through visits to operation hubs outside of Israel or through receiving material on demand.

Submitting report of Audit findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the Audit Committee, the Bank President & CEO and head of the internal audit unit. A copy of each report is also sent to the CRO, Compliance Officer and AML Supervisor, Manager, Risk Control Division and to the Chief Accountant. Audit reports are submitted in writing. Once every six months, the Auditor submits to members of the Audit Committee the list of all reports submitted during the six-month period. All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The material reports are discussed by a forum headed by the Bank President & CEO. The Chairman of the Audit Committee, in consultation with the Internal Auditor, determines the material audit reports to be discussed by the Audit Committee.

On August 8, 2019, a report about the performance of the Internal Audit work plan for the first half of 2019 was distributed and was discussed by the Audit Committee on August 12, 2019. The summary report of Internal Audit in 2019 was distributed in February 2020 and discussed at the Audit Committee meeting held on February 20, 2020. Other major reports were discussed during the year at regular meetings of the Audit Committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor realize the objectives of internal auditing.

Remuneration of the Internal Auditor

Below is information about the salary, benefits, employer contributions and provisions paid or provided for to the Chief Internal Auditor in 2019: Salary amounting to NIS 1,168 thousand, bonuses amounting to NIS 614 thousand (including retention bonus amounting to NIS 176 thousand), social benefits amounting to NIS 310 thousand and other benefits valued at NIS 99 thousand. Total remuneration paid or provided for, to the Internal Auditor in 2019 amounted to NIS 2,621 thousand. The outstanding balance of loans at standard terms, as of the end of 2019, amounted to NIS 36 thousand. For more information on officer remuneration policy, see Note 22.A.3.

The Board of Directors believes that the size of remuneration provided to the Internal Auditor should not influence her judgment with respect to his work.

Independent Auditors' Fees for the Group[(1)(2)(3)(4)]

(NIS in thousands)

	Consolidated		The Bank	
	2019	**2018**	**2019**	**2018**
For audit activities:[(5)]				
Independent auditors[(6)]	7,290	7,772	6,649	7,074
Other independent auditors	1,248	844	404	–
Total	**8,538**	**8,616**	**7,053**	**7,074**
For audit-related services:				
Independent auditors	199	–	199	–
For tax services:[(7)]				
Independent auditors	–	103	–	103
Other independent auditors	188	182	188	182
For other services:[(6)(8)]				
Independent auditors	1,808	2,061	1,438	2,053
Other independent auditors	640	540	–	–
Total	**2,835**	**2,886**	**1,825**	**2,338**
Total fees to independent auditors	**11,373**	**11,502**	**8,878**	**9,412**

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, accordance with Sections 165 and 167 of the Companies Law, 1999.
(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Lav
(3) Includes fees paid and accrued.
(4) The Bank's Independent Auditors, from 1995 to date, have been Brightman Almagor Zohar & Co.
(5) Audit of annual financial statements, review of interim financial statements and audit of report adjusted for income tax purposes.
(6) Includes other independent auditors in overseas branches.
(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.
(8) Includes mainly payments for consulting and various services.

Details of senior officer remuneration

(NIS in thousands)

Details of remunerated party[(1)]		2019									
		Remuneration for services rendered[(2)]						Loans granted at beneficial terms[(3)]			
Name	Role	Salary	Bonuses	Social benefit contributions[(4)]	Share-based payment[(5)]	Value of additional benefits[(6)]	Total[(7)]	Balance as of December 31, 2019	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[(8)]	Chairman of the Board of Directors	2,866	–	594	–	149	**3,609**	215	1.8	42
Eldad Fresher[(9)]	President & CEO	2,635	235	585	235	141	**3,831**	–	–	89
Shaul Gelbard	President, Bank Yahav for Government Employees Ltd.	1,409	739	882	–	–	**3,030**	–	–	–
Ofir Morad[(11)]	Deputy President and Manager, Business Division	1,174	597	239	600	107	**2,717**	1,473	4.4	380
Israel Engel[(11)]	Deputy President and Manager, Retail Division	1,168	611	233	600	97	**2,709**	–	–	42
Moshe Lari[(11)]	Vice President and Manager, Finance Division, CFO	1,167	611	237	600	94	**2,709**	934	11.0	15

Details of remunerated party[(1)]		2018								
		Remuneration for services rendered[(2)]						Loans granted at beneficial terms[(3)]		
Name	Role	Salary	Bonuses	Social benefit contributions[(4)]	Share-based payment[(5)]	Value of additional benefits[(6)]	Total[(7)]	Balance as of December 31, 2018	Average term to repayment (in years)	Loans granted at standard terms
Moshe Vidman[(8)]	Chairman of the Board of Directors	2,844	–	496	–	144	**3,484**	272	2.3	9
Eldad Fresher[(9)]	President & CEO	2,599	174	583	–	140	**3,496**	–	–	51
Shaul Gelbard	President, Bank Yahav for Government Employees Ltd.	1,397	680	608	–	–	**2,685**	–	–	–
Racheli Friedman[(11)]	Vice President, Manager, Legal Division, Chief Legal Counsel	1,139	848	304	–	83	**2,374**	381	2.2	34
Dan Lubash	President, United Mizrahi Bank (Switzerland) Ltd.	1,677	191	383	–	98	**2,349**	–	–	–
Moshe Lari [(11)]	Vice President and Manager, Finance Division, CFO	1,145	739	359	–	90	**2,333**	913	11.2	14
Limor Friedman	Vice President, Bank Yahav for Government Employees Ltd.	634	170	[(10)]1,530	–	–	**2,310**	–	–	149
Israel Engel[(11)]	Deputy President and Manager, Retail Division	1,152	739	247	–	95	**2,233**	–	–	31

Remarks:

(1) Remuneration recipients are employed in a full-time position and do not hold Bank equity.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes severance pay, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 23 to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit with respect to deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Excluding payroll tax. Including payment of pension and severance pay by law, in 2019 (2018) to Mr. Moshe Vidman amounting to NIS 402 (398) thousand, to Mr. Eldad Fresher amounting to NIS 375 (371) thousand, to Ms. Racheli Friedman, to Mr. Ofir Morad, to Mr. Moshe Lari and to Mr. Israel Engel amounting to NIS 161 (155) thousand, each.

(8) Mr. Moshe Vidman – Mr. Vidman's employment start date was December 1, 2012 for three years, ended November 30, 2015 and extended from December 1, 2015 through December 31, 2017 and would automatically renew annually for one additional year, subject to provisions of the employment agreement. For more information about Mr. Vidman's employment terms, see Appendix II to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.1 to the financial statements.

(9) Mr. Eldad Fresher – On June 17, 2013, the Bank's Board of Directors approved the appointment of Mr. Eldad Fresher as Bank President. Mr. Fresher started in his office as full-time Bank President on August 16, 2013. For more information about Mr. Fresher's employment terms, see Appendix III to report dated January 9, 2017 (reference: 2017-01-003457) as well as Note 22.A.2 to the financial statements.

(10) Including supplement to provisions for related expenses, due to changes in salaries during the current year, amounting to NIS 1,280 thousand.

(11) Officers employed pursuant to an individual employment agreement for an unspecified term:
Mr. Ofir Morad – as from January 1, 2014
Mr. Israel Engel – as from June 15, 1999
Mr. Moshe Lari – as from November 8, 2009
Ms. Racheli Friedman – sa from October 11, 2009

For more information about employment terms, see Note 22.A.3 to the financial statements.

Transactions with controlling shareholders and related parties

Pursuant to Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "the Amendment"), the Audit Committee of the Board of Directors has previously approved criteria for unusual and immaterial transactions, which the Committee ratified on January 13, 2020, as follows:

Transaction other than a banking transaction

Definition of "immaterial transaction":

A transaction other than a banking transaction, conducted in the normal course of business at market terms and conditions, and which meets one or more of the following criteria, is an immaterial transaction:

In this section, "transaction" means a transaction with a controlling shareholder, or a transaction in which a controlling shareholder has a personal interest.

A. Transaction for purchase of retail products in the normal course of Bank business and at market conditions, amounting up to NIS 1.5 million per transaction, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.1% of supervisory capital, after adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202 (hereinafter: "Supervisory capital"). This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

B. Transaction for provision of services, including in the field of TV advertising, in the normal course of Bank business and at market conditions, amounting up to 0.1% of supervisory capital, or a continuous transaction as stated above (multiple, essentially identical transactions with the same company), whose aggregate amount over one calendar year is up to 0.75% of total annual operating and other expenses by the Bank's most recent annual financial statements. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

C. Transactions involving leasing of space, in the normal course of Bank business and at market conditions, approved in a single calendar year and amounting up to 0.1% of supervisory capital.

D. Any other transaction in the normal course of Bank business and at market conditions, where the total amount for such a transaction type in a single calendar year is up to 0.1% of supervisory capital. This amount will not apply to individual transactions whose amount is under NIS 25 thousand each.

Banking transaction

Definition of "unusual transaction" – a transaction other than at market conditions or not in the normal course of business or a material transaction.

A banking transaction which meets one of the following criteria shall be deemed to be, for this matter, a "material transaction":

A. **Indebtedness transaction** - an indebtedness transaction (after deductions, as specified in Proper Conduct of Banking Business Directive 312), which results in total indebtedness of any group of controlling shareholders exceeding 5% of supervisory capital, or a transaction which results in the increase in indebtedness of an individual borrower from among the controlling shareholders exceeding 2% of supervisory capital. If multiple indebtedness transactions are approved for the same borrower in a single calendar year, these indebtedness transactions shall be measured in aggregate. Any specific provision for doubtful debts, or write-off of any amount with regard to indebtedness of a controlling shareholder or a corporation affiliated with it, shall be deemed to be a material transaction. Measurement of total indebtedness, for this matter, shall be separate for the Wertheim Group and for the Ofer Group.

   "**Group of controlling shareholders**" – a controlling shareholder, as defined in the Securities Law, together with corporations affiliated there with, as the term "affiliated person" is defined in Proper Business Conduct of Banking Directive 312, and together with relatives of controlling shareholders included in the group.

B. **Deposits** – receipt of deposit from a controlling shareholder shall be deemed to be a material transaction if, consequently, total deposits from the same group of controlling shareholders would exceed 2% of total deposits at the Bank. Receipt of deposit from a company which is an "related person" of the controlling shareholder, and which is not a company controlled by it, shall be deemed to be a material transaction if, consequently, total deposits from that company, on a consolidated basis, would exceed 2% of total deposits at the Bank. Total deposits at the Bank will be calculated based on the most recent annual financial statements published by the Bank prior to the transaction date.

C. **Transaction in securities or in foreign currency (other than an indebtedness transaction or deposit transaction, as stated above)** – a transaction in securities or in foreign currency where the annual commission charged with respect to it does not exceed 2% of total annual operating revenues of the Bank (less revenues from investment in shares), based on the most recent annual financial statement published by the Bank prior to the transaction date.
D. **Other transactions** – any other transaction for provision of financial and banking services, the revenues from which to the Bank exceed 0.1% of the Bank's total supervisory capital.
Any temporary, immaterial deviation for a period of up to 30 days would not change classification of the transaction as an immaterial transaction, and disclosure of such deviation would be provided in the annual report.

"Market terms" – terms which are not preferable to those at which similar transactions are made by the Bank with individuals or corporations which are not controlling shareholders of the Bank, or in transactions in which the controlling shareholder has no personal interest . Market terms with regard to banking transactions are compared to terms of similar transactions of similar volume at the Bank, as used for review of transactions with affiliated persons in accordance with Proper Conduct of Banking Business Directive 312, with Bank clients who are not affiliated persons, or are not entities where the controlling shareholder has a personal interest in transactions with it; market conditions with regard to transactions other than banking transactions are compared to conditions of similar transactions made by the Bank with suppliers and/or with regard to offers from other suppliers reviewed prior to deciding to make the commitment. In cases where the Bank has no similar transactions, market conditions are to be compared with regard to similar transactions made in the market, provided that such transactions are made in the normal course of business and that such transactions have a market in which similar transactions are made.
Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply – as for Indebtedness transactions to which Proper Conduct of Banking Business Directive 312 does not apply, should the Bank become aware of any such transaction, the Bank commits to bring any such transaction for approval pursuant to Proper Conduct of Banking Business Directive 312 and to provide disclosure of it in the Bank's annual financial statements. The definition of "immaterial transaction" and "unusual transaction" with regard to these transactions would be similar to the aforementioned definitions by the Bank.

Below is summary data with regard to banking transactions with controlling shareholders (NIS in millions):

A. Indebtedness transactions

	December 31, 2019				
Group of controlling shareholders[(2)]	**Loan balance on balance sheet**	**Unutilized facility**	**Risk assets due to derivatives activity**	**Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party**	**Total indebtedness[(1)]**
Wertheim Group and private companies it controls	10	3	–	–	13
Relatives of Wertheim Group and private companies they control	–	–	–	–	–
Total – Wertheim Group	**10**	**3**	**–**	**–**	**13**
Ofer Group and private companies it controls	13	–	–	–	13
Relatives of Ofer Group and private companies it controls	9	21	–	–	30
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	–	69	–	–	69
Israel Chemicals Ltd.	–	–	1	–	1
Total – Ofer Group	**22**	**90**	**1**	**–**	**113**

	December 31, 2018				
Group of controlling shareholders	**Loan balance on balance sheet**	**Unutilized facility**	**Risk assets due to derivatives activity**	**Guarantees provided by the Bank to secure credit of controlling shareholder or its affiliated party**	**Total indebtedness[(1)]**
Wertheim Group and private companies it controls	46	4	–	–	50
Relatives of Wertheim Group and private companies they control	–	–	–	–	–
Total – Wertheim Group	**46**	**4**	**–**	**–**	**50**
Ofer Group and private companies it controls	19	22	–	–	41
Relatives of Ofer Group and private companies it controls	15	14	–	4	33
Reporting entities controlled by relatives of Ofer Group					
Oil Refineries Ltd.	–	39	–	–	39
Israel Chemicals Ltd.	–	42	3	–	45
Gadiv Petrochemical Industries Ltd.	–	4	–	–	–
Total – Ofer Group	**34**	**121**	**3**	**4**	**162**

(1) Indebtedness as defined in Proper Conduct of Banking Business Directive 312, after set off of allowed deductions.
(2) Information about controlling shareholders is current as of the control structure of the Bank as of December 31, 2019.

B. Deposits

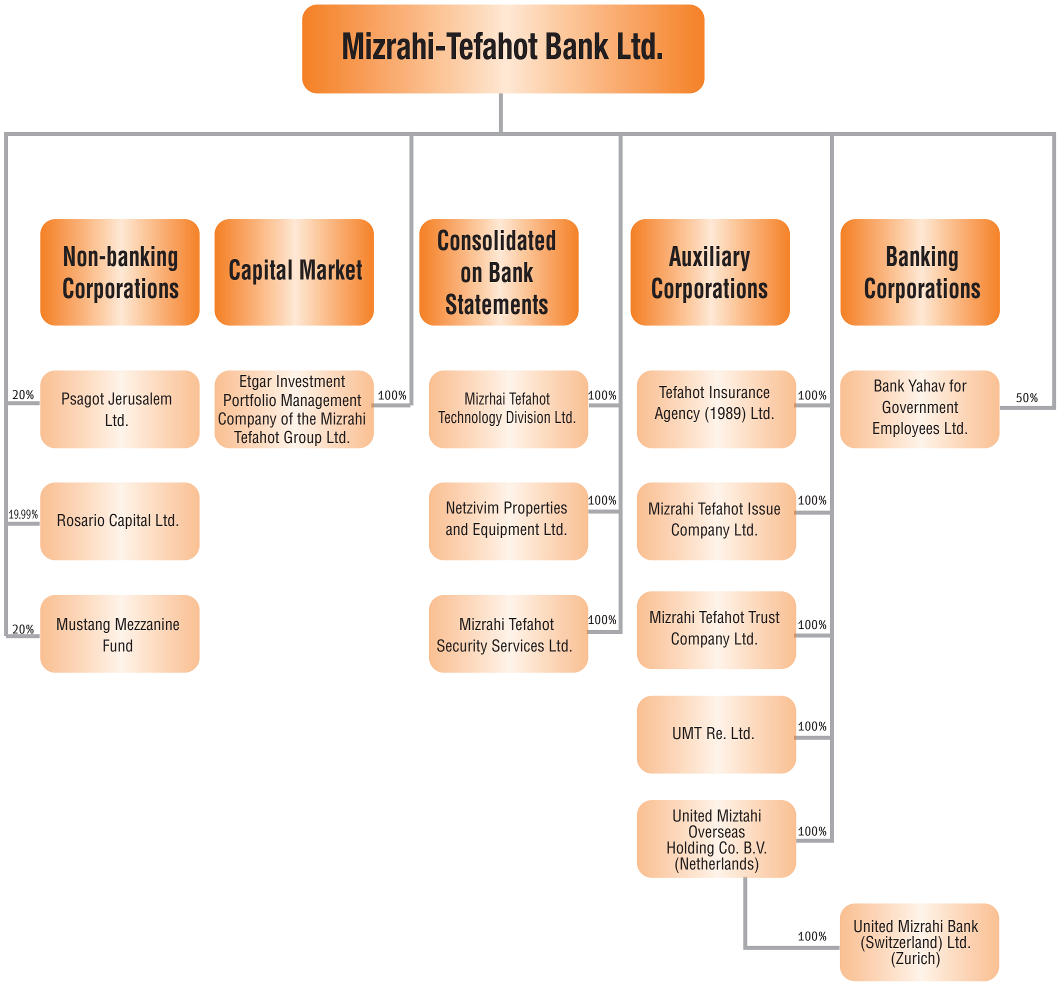
Group of controlling shareholders	Balance as of December 31, 2019	Highest balance in 2019
Wertheim Group and private companies it controls	39	69
Relatives of Wertheim Group and private companies it controls	–	–
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	1	2
Total – Wertheim Group	**40**	**71**
Ofer Group and private companies it controls	1	1
Relatives of Ofer Group and private companies it controls	32	55
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	54	111
Israel Corporation Ltd.	419	419
Israel Chemicals Ltd.	78	78
Gadiv Petrochemical Industries Ltd.	5	5
Total – Ofer Group	**589**	**669**

Group of controlling shareholders	Balance as of December 31, 2018	Highest balance in 2018
Wertheim Group and private companies it controls	42	60
Relatives of Wertheim Group and private companies it controls	–	–
Reporting entities controlled by relatives of Wertheim Group		
Amot Investments Ltd.	2	2
Total – Wertheim Group	**44**	**62**
Ofer Group and private companies it controls	5	16
Relatives of Ofer Group and private companies it controls	38	97
Reporting entities controlled by relatives of Ofer Group		
Oil Refineries Ltd.	1	39
Israel Corporation Ltd.	248	575
Israel Chemicals Ltd.	64	99
Gadiv Petrochemical Industries Ltd.	6	8
Total – Ofer Group	**362**	**834**

To the best of the Bank's knowledge, transactions with affiliated persons were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities.
On February 19, 2020, the Bank Board of Directors approved, after approval by the Remuneration Committee, for the Bank to contract a Board member and officer liability insurance policy (including controlling shareholders of the Bank and their relatives who may serve from time to time, including those to be appointed in future), or those who have served as Bank Board members, including officers where the controlling shareholder of the Bank has a personal interest in their liability insurance, for a term of twelve months starting on April 1, 2020, other than pursuant to the officer remuneration policy. Obtaining such insurance policy is subject to approval by the General Meeting of Bank shareholders. For more information see Immediate Report dated February 19, 2020, (reference: 2020-01-017415 and 2020-01-017409).

Other information about the Bank and its management

Major holding structure(1) of Mizrahi Tefahot Group



(1) The Bank has holdings in other companies which are not material for Bank business.

See Note 15 to the financial statements for details.

Controlling shareholders

The Controlling Shareholders of the Bank as of December 31, 2019 are Wertheim Group and Ofer Group.
Holdings of Wertheim Group are through Z.W.M (Holdings) Ltd. and F&W(Registered Partnership), holding 8.60% and 13.01%, respectively, of capital and voting rights.
Holdings of Ofer Group as of December 31, 2019 are through L.I.N (Holdings) Ltd., which holds, directly and through L.A.B.M. (Holdings) Ltd. (a wholly-owned subsidiary thereof) 22.22% of capital and voting rights in the Bank.

Wertheim Group
On June 5, 2019 the Bank received notice from Mr. David Wertheim, with regard to the latter's decision to sell some of his Alony Hetz shares and with regard to their continued holding in the Bank, pursuant to provisions of the Competition Enhancement and Concentration Reduction Law, 2013. For more information see Immediate Report dated June 5, 2019 (reference: 2019-01-056059).
Furthermore, on December 11, 2019 the Bank received notice in the name of MWZ and F&W, whereby on December 10, 2019 Mr. David Wertheim and Ms. Drorit Wertheim received a control permit for the Bank. For more information see Immediate Report dated December 11, 2019 (reference: 2019-01-108168).

Ofer Group
As from February 7, 2019, L.I.N (Holdings) Ltd. holds (directly and through L.A.B.M. (Holdings) Ltd.) all holdings of Ofer Group in the Bank, further to amendment of the control permit for the Bank received on January 31, 2019, whereby Mr. Eyal Ofer is the only permit holder in Ofer Group. For more information see Immediate Report by the Bank dated February 7, 2019 (reference: 2019-01-011308).

Shareholder agreements
L.A.B.M. (Holdings) Ltd. Of Ofer Group and Feinberg-Wertheim (Registered Partnership) of Wertheim Group are party to a cooperation agreement for exercising rights associated with Bank shares, dated October 6, 1994 (hereinafter: ("voting agreement"). The aforementioned voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of controlling shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

Fixed assets and installations

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2019 amounts to NIS 669 million, compared to NIS 691 million at the end of 2018.
In conformity with the resolution by the Bank's Board of Directors to relocate all units of Bank management to a single central site in Lod, in 2019 a project was approved for construction of this site, at a total cost of NIS 322 million (including acquisition of the land, approved and carried out in 2017). This project would last for several years. In 2019, planning of the building continued, the project budget was approved by the Bank Board of Directors, and at the end of the year a construction permit was received for excavation and shoring work and construction of underground floors for the project. In early 2020, excavation work is scheduled to start.
Other than the foregoing, in 2020, no unusual investments are expected in fixed assets and in plant (buildings, land, equipment, furniture and automobiles).
For more information about fixed assets for the Group, see Note 16 "Buildings and equipment" on the financial statements.
This information constitutes forward-looking information, based inter alia on various assumptions and forecasts with regard to the state of the economy, legislation, directives of supervisory entities, technological developments, developments in the real estate and construction market and human resource issues. This information may not materialize, or materialize in part, to the extent and on dates to be determined by Bank management or due to changes that could occur in various influencing factors that are not under sole control of the Bank.
For more information about investments and expenses with respect to IT, see chapter "Analysis of composition of assets, liabilities, capital and capital adequacy below.

Intangible assets

The Bank Group has data base entries of clients and employees. The Bank also owns the rights to the trademarks "Mizrahi-Tefahot", including with the infinity symbol and the words "Team", "Live", "Tefahot", "Tefahot – No. 1 in Mortgages", "Retirement portfolio Based on a Nobel Prize Winning Model", "Mizrahi Bank" with the image of the sun and variations of these marks. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Canada, Switzerland and in the European Union as well.
The Bank has acted extensively to develop its technological capabilities, in response to evolution of its business and in order to achieve the strategic plan.
The balance of discounted software development cost is included on the financial statements under "Buildings and equipment".
For more information about treatment of software development costs on the financial statements, including their useful life, see Note 1.D. 8. to the financial statements.
For more information about investments and expenses with respect to IT, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management.

Human Resources

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions and other departments, reporting to the Bank President & CEO (except for the Internal Audit Division, which reports to the Chairman of the Board of Directors). On December 12, 2019, the Bank's Board of Directors approved the recommendation by the Bank President & CEO for a re-organization at the Bank, as from start of 2020. The roles and responsibilities of the Human Resources and Administration Division have been expanded to cover all resources and operations at the Bank, and this division was renamed the Human Capital, Resources and Operations Division. The Planning, Operations and Customer Asset Division was eliminated, such that the various units thereof responsible for resources or for operations are now part of the Human Capital, Resources and Operations Division and the units responsible for client assets are now part of the Retail Division (financial advisory service and Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.) or of the Finance Division (provident fund operations and Mizrahi-Tefahot Trust Company Ltd.), respectively. The Planning & Economics Department is now part of the Accounting Division, renamed the Financial Information and Reporting Division, in charge of information, information analysis and financial reporting. Furthermore, a new unit has been established, reporting to the Bank President & CEO, in charge of the Bank Secretary and headquarters management operations. This change would help the Bank in maintaining optimal operational efficiency, while grouping all capital market operations under the Finance Division, with all branch operations transferred to the Retail Division.
The current organizational structure of the Bank is as follows:
Retail Division – This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; and the mortgage sector, responsible for mortgage operations. Bank branches and business centers operate under this division in six geographic regions and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat). The division also includes the departments which provide financial and retirement advisory services offered to clients. The Division is also responsible for the subsidiary, Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.
Business Banking Division – this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the **business sector**, in charge of operations of the commercial banking segment, operating three geographically-distributed business centers. The division also includes other units providing specialized services for clients in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special client sector, in charge of arrangement and collection of troubled debt.
Finance Division – The division includes the financial management sector – which is responsible for management of the Bank's financial assets and liabilities – and the trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Client Service Sector which supports all financial market operations, providing Back Office services and provident fund operations. The Division is

also responsible for the Group's international operations and for private banking, *inter alia*, through private banking units in Israel and through affiliates and subsidiaries overseas. This division is also in charge of the capital market subsidiary, Mizrahi Tefahot Trust Company Ltd.

Technology Division – in charge of information technology, including pursuant to requirements of Proper Conduct of Banking Business Directive 357, through the Mizrahi-Tefahot Technology Division Ltd., a wholly-owned subsidiary of the Bank.

Risks Control Division – this division includes the various risks control departments at the Bank (including: market, interest, liquidity, credit and derivatives risk), which also manages the operational risk at the Bank. This division is in charge of information security issues. The Division includes the Bank's Chief Compliance Officer as well as the Analysis Department, tasked with formulating independent recommendations with regard to extending credit as well as opinions with regard to associated risk.

Human Capital , Resources and Operations Division – this division includes management of human resources, training, logistics (including properties, construction and procurement) as well as security (including the cash and courier center), community outreach and corporate social responsibility. This division includes an engineering and operations branch, including the Process Engineering Department, in charge of back-office banking operations, bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages and the clearinghouse.

Marketing, Advertising and Business Development Division – This division consolidates activities relating to advertising, marketing, and development of financial products that the Bank markets to customers.

Financial Information and Reporting Division – in charge of preparing the Bank's public financial statements, reporting to statutory authorities and to management, taxation, main ledger, accounting, treasury and payroll department. The Division is also responsible for credit classification and for determining the provision for credit losses, as well as for challenging the discovery and reporting processes of problematic debt. This division includes the Information, Analysis and Planning Department, which is responsible, *inter alia*, for supervision and control over subsidiaries.

Legal Division – this division is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk and to handle claims against the Bank.

Internal Audit Division – the division is responsible for conducting internal audits of Bank business and operating units. The division is also responsible for handling the public inquiries and complaints against the Bank.

Human Resource Division Policy

Bank management regards all Bank employees and managers as a key component for achieving its business strategy and business growth targets. This commitment is reflected by implementation of three key principles in Bank operations:

- Creating a respectful work environment – The Bank regards its employees and managers as partners in the Bank's success and therefore strives to promote them and to create a supportive work environment.
- Caring for employees' rights – The Bank ensures the rights of all employees, as well as their right to join a labor union. The Bank offers its employees better working conditions than required by labor laws.
- Caring for employees' welfare – Employees' welfare is managed as follows: Creating welfare support for Bank employees and their families, an extensive health care plan for employees, an organizational culture which supports recognition and allows for optional leisure activities – based on the understanding that such balance generates value for both the employee and the Bank.

The Bank regularly promotes equal opportunity in the work place. This is based on recognizing the ultimate importance of the value of equality. The Bank does not discriminate against any employee by religion, ethnicity, race, gender nor any other attributes.

Significant developments

As part of the Bank's strategy of expansion in certain demographic segments, focused on the Arab segment and on the Jewish Orthodox segment, the Bank continued to recruit employees from these demographics.

Staff – general information

Provided below is information on the number of employees whose pay was reported under "Payroll and associated expenses", in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number of Bank employees provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mizrahi-Tefahot Technology Division Ltd. and Mizrahi-Tefahot Security Services Ltd. – service companies wholly-owned and controlled by the Bank, that provide computerization, security and protection services to the Bank:

						2019
	At the Bank	Overseas branches	Total for the Bank	Subsidiaries In Israel	Subsidiaries Overseas	Total for the Group
Number of full-time equivalent positions as of December 31, 2019	5,364	68	5,432	987	14	6,433
Number of full-time employees based on monthly average	5,326	68	5,394	961	18	6,373

	At the Bank	Overseas branches	Total for the Bank	Subsidiaries In Israel	Subsidiaries Overseas	Total for the Group
Number of full-time equivalent positions as of December 31, 2018	5,318	65	5,383	953	19	6,355
Number of full-time employees based on monthly average	5,244	65	5,309	955	21	6,285

Below is the distribution of number of positions in the Group by operating segment: (1)(2)

	As of December 31,	
Operating segment	**2019**	**2018**
Households	3,891	3,837
Private banking	117	117
Small businesses	1,150	1,143
Commercial banking	297	288
Business banking	628	621
Financial management	350	349
Total	**6,433**	**6,355**

(1) Composition is by operating segments based on management approach. For more information see Note 29 to the financial statements.
(2) Including Head Office employees that are allocated pro-rata to the various segments.

Cost and salary per employee position in 2019

	Excluding variable remuneration components	Including variable remuneration components
Salary per employee position	241	274
Cost of salary per employee position	358	400

Human resource management

Bank management regards all Bank employees and managers as a significant component for achieving its business strategy and growth objectives for operations and profitability. Human resources at the Bank are managed on two levels:

- Caring for the individual includes: recruitment, on-boarding and during the employee's service life time, through retirement.
- Human resources are developed during regular work, through individual and group training and development processes.
  The Bank invests in development of Bank staff and management, by training for skills related to banking, regulatory affairs, new behavioral and managerial skills, as well as by preservation of existing knowledge and skills. This is done through training activities throughout the employee's time with the organization, from starting in their new role, through training, mentoring and promotion tracks, completing and expanding academic education and enrichment through external seminars.

In 2019, the Training Center took part in enterprise-wide campaigns and in deployment of Bank strategy, inter alia through reinforcement and deployment of business skills among bankers and continued deployment of the Bank's human service concept. The Training Center continues to deploy the "Learning organization" concept – whereby managers and employees regard learning as an on-going task carried out at their workstation as well. Unit managers lead organizational change and are responsible for their employees' professional skills through mentoring and training. This is achieved in cooperation with and with assistance from the Training Center, which develops a range of training customized for needs, on professional and business topics, regulation, AML, compliance and risk management. Such training is customized for the learning culture at the Bank, incorporating diverse training methods, such as: In-person training at the Training Center, in-person learning at units ("Learning Bank", "Learn & Teach", mobile trainers), interactive learning aids, eLearning kits, professional and managerial mentoring, videos, games, personal training, deployment at units and so forth.

The Training Center acts to develop Bank managers through managerial training, offered to them throughout their term in office, as well as management cadre tracks in preparation for their next managerial roles.

The Organizational Development and Training Division applies diverse tools to develop intra-organizational communication channels in general and conducting evaluation and feedback processes, with each employee given personal feedback for their performance over the past year, as well as development targets for the coming year.

Training expenses in 2019 amounted to NIS 15 million, compared to NIS 14 million in the previous year.

In 2019, all Bank employees attended training (in-person and online), for a total of 38,303 training days, compared to 35,824 training days in 2018.

For more information about human resource management, see also the 2018 Corporate Governance Report on the Bank website.

www.mizrahi-tefahot.co.il >> about the bank >> investor relations

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees,), which are expressed in two employee organizations:

A. **The Association of Bank Mizrahi-Tefahot Employees Ltd.** is a long-standing organization, which was authorized, by virtue of an inter-organization agreement signed by the Association and the HaPoel HaMizrahi Union, by that Union to act as the representative organization of Bank employees for the purpose of signing collective bargaining agreements and of representing Bank employees (hereinafter: ("Employees' Association").

B. **The Association of Managers and Authorized Signatories at Bank Mizrahi-Tefahot Ltd.** was founded by branch- and department managers in 2005 (hereinafter: ("Manager Council"). This organization has been recognized by the Bank and by the Employees' Association as a "bargaining unit" for negotiation and signing agreements.

C. **Bank Mizrahi Tefahot Ltd. Technology Division Employees' Committee** – the organization authorized to sign, together with the MAOF trade union, on behalf of Bank Mizrahi Tefahot Ltd. Technology Division employees (a subsidiary wholly owned and controlled by the Bank), any collective bargaining agreements applicable to company employees (except for Technology Division employees employed under individual employment contracts).

D. **Bank Yahav employee representatives** – empowered to sign on behalf of Bank Yahav employees any collective bargaining agreements applicable to Bank Yahav employees.

Employment terms of employees represented by the Bank's Employees' Union

Overview

The employment terms are anchored in a series of collective agreements, together called "labor constitution". The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Collective bargaining agreement

On December 3, 2017, a new collective bargaining agreement was signed by management and by the Employee Union. For details see Note 22 to the financial statements.

Salary update method

Salaries of most Bank employees (except for a small number of employees employed under individual contracts signed by them and by the Bank – see chapter Individual Employment Contracts below) are updated based on three key components:

- Components which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The major component is the basic salary. In addition, other increments derived from the basic salary are updated, primarily the seniority increment, which is updated at the start of each year by an increasing percentage, as employee seniority increases. The seniority increment reaches 4% per year (of the basic salary), for an employee with over 26 years' service with the Bank. The seniority pay increase for employees hired by the Bank as from August 17, 2017 would be revised at the start of each year, to a pay increase of up to 3% per year (of their base pay) for employees with over 22 years of service with the Bank.
- Components updated in accordance with changes in the Consumer Price Index.
- Components linked to changes in external tariffs.

All of the above components apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Union. Updates to part of the salary based on criteria not linked to the CPI, as well as payment of automatic Seniority Bonus as stated above, result in a situation where the real rate of salary increase at the Bank is higher the lower the inflation rate.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial calculation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

During the term of the payroll agreement for 2016-2021 and subject to achievement of return on equity targets, the Bank would pay to employees a return bonus.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal promotion is achieved primarily via promotion in rank and in the bonus component, about which Bank management decides each year and these decisions are approved by the Board of Directors. Decisions relating to the extent of personal promotion and bonus or grant are not derived from provisions of labor agreements, but are influenced by the assessment of the employee performance, the Bank's situation and profitability in the relevant period.

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview – Wage Agreements

On December 20, 2018, a collective bargaining agreement was concluded with the Managers' Council, with respect to wages and work conditions for 2018-2022. This agreement includes a new pay structure, consisting of base pay, additional seniority pay, additional management pay, global over-time and expense reimbursement for car expenses, education and studies. This agreement also includes a voluntary retirement program, increase in the number of individual employment contracts, as well as calm labor relations throughout the term of the agreement.

Individual employment contracts

The labor agreements signed by the Bank in the years 1995, 1998, 2003, 2006 and 2018, stipulated that the Bank will be permitted to enter into individual employment contracts with senior employees, as defined in the agreements, as well as several individual employment contracts with certain officers. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include a provision for the severance bonuses accrued through the balance sheet date. See Note 22 to the financial statements for additional information.

Employment terms of employees of Mizrahi-Tefahot Technology Division Ltd.

Employment terms of employees of Mizrahi Tefahot Technology Division Ltd. (hereinafter: "the Technology Division" or "the Company") are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed by the Technology Division Employees' Council, the Labor Union and the Technology Division over the years.

Employees of the Technology Division have their pay linked to the pay for Bank employees.

On February 4, 2020, a special collective bargaining agreement was signed by the Mizrahi-Tefahot Technology Division Ltd., the New General Labor Union and the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd., whereby the parties agreed to apply the managers' agreement signed by the Bank on December 20, 2018 and the arbitration verdict received by the Bank on January 28, 2019, as stipulated by the company's collective bargaining agreements. This resolved all claims made by the Labor Union and by the Division Employee Council of Mizrahi-Tefahot Technology Division Ltd. on these matters. The signed agreement has no material impact on the Bank's financial statements.

Labor and payroll agreements at Bank Yahav

On January 17, 2019, Bank Yahav signed a new collective bargaining agreement with employee representation which governs labor and remuneration at Bank Yahav for 2018-2022.

Significant Agreements

A. Employment agreements signed with the Employees' Council, the Manager and Authorized Signatory Association and the Technology Division Employees' Committee. For more information see chapter "Human Resources" above.
B. Indemnification letters. For more information see Note 26.C. 4-9) to the financial statements.
C. Agreements for co-issuing debit cards with the following: ICC Ltd., Diners Club Israel Ltd. (hereinafter: "ICC Group"), Isracard Ltd. and/or Europay (Eurocard) Israel Ltd., Poalim Express Ltd. of Isracard Group and Leumi Card Ltd. For more information see Note 26.C.13 to the financial statements.
D. Directed loans to Ministry of Construction and Housing eligible borrowers. For more information see chapter "Household segment" above.
E. Sale of assets and liabilities in mortgage portfolio – For more information see chapter "Significant Developments in Management of Business Operations" in the Report of the Board of Directors and Management.
F. Agreement with Bank Union shareholders – For more information see chapter "Significant developments in management of business operations" in the Report of the Board of Directors and Management.

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

Credit Data Law, 2016

On April 12, 2016, the Credit Data Law was made public and became effective on April 12, 2019.
The act reforms the market for credit data service. When this act became effective, the Credit Data Service Law, 2002 would be rescinded.
This act is relevant for the Bank, both due to the Bank being an "information source", required to provide credit data for Bank clients to a central information repository at the Bank of Israel and due to the Bank being a "credit data user", authorized to receive credit data from the credit bureaus.
In conformity with the Law, an information repository is being created at the Bank of Israel. A credit bureau would receive information from this repository and a credit provider may request a credit report, credit indication (definitive recommendation on whether to extend credit) and monitoring (monitoring of changes to the borrower's standing over the loan term) from the credit bureau. In order to obtain information, the credit provider must obtain explicit consent from the borrower (to obtain an indication, it is sufficient to inform the borrower). A client may ask the Bank of Israel to exclude their credit data from the repository or not to provide such data for compiling a credit report.
Over the preparation period for application of the Law (from publishing of the Law through its effective start date), the Bank provided information about clients to the repository being created, as instructed from time to time by the Bank of Israel.
Application of the Law has no material impact on the Bank's financial statements.

The Non-banking Loans Arrangement Act (Amendment 5), 2017

On August 6, 2017, the Act, known as the "Fair Credit Act", was published. The provisions of the Act would apply only to new loans. The original effective start date of the Act was November 9, 2018, and was postponed to August 25, 2019.
The law applies to credit extended to individuals from banking corporations, settlement providers, insurers and management companies.
The Act provides a uniform maximum interest rate for all lending entities as follows:
- Loans in NIS: The Bank of Israel interest rate plus 15%.
- Loans in foreign currency: One-year LIBOR interest rate plus 15%.
- The arrears interest rate was set at the maximum interest rate multiplied by 1.2.

The following were excluded from the scope of the uniform maximum interest rate:
- Short-term loans (up to 3 months) – capped at a maximum of 5% over the maximum interest rate.
- Transactions involving discounting a note for business (non-personal) use.
- Loans where the actual loan amount received exceeds NIS 1.2 million.
- Loans subject to an interest rate decree, pursuant to the Interest Act (such as arrears interest for housing loans or CPI-linked loans).

In the third year after implementation of the Act, the Finance Minister will examine the average interest rate for credit extended by banks and will be authorized to reduce the maximum borrowing cost.
The Bank applies the Act. Application of the Law has no material impact on the Bank's financial statements.

Reduction of Cash Usage Law, 2018

On March 18, 2018, the Reduction of Cash Usage Law, 2018 was made public.
The Law is designed to reduce the use of cash in transactions – by both payer and payee.
The Law also governs payment by check. The Law stipulates certain restrictions on the use of cash and checks.
The Law became effective on January 1, 2019, except for certain sections effective as from July 1, 2019.
Pursuant to the Law, the Supervisor of Banks may impose monetary sanctions on banking corporations that pay a check in breach of any of the restrictions applicable to such check pursuant to Addendum II.
The Supervision of Banks may start imposing sanctions as from July 1, 2019.
The Bank applies the Act. Application of the Law has no material impact on the Bank's financial statements.

Insolvency and Financial Rehabilitation Act, 2018

The Insolvency and Financial Rehabilitation Law, 2018 (hereinafter: "the Law") was published on March 15, 2018. The Act became effective on September 15, 2019.

The Act provides a codification of insolvency and financial rehabilitation laws and comprehensively encompasses all insolvency and financial rehabilitation laws for individuals and corporations (companies and partnerships), eliminating the old ordinances and arrangements provided for in the Bankruptcy Ordinance and in the Companies Act.

The Act has three major goals:

- Financial rehabilitation of the debtor. Regard credit default and insolvency as a financial mishap, rather than a moral flaw.
- Increase in debt percentage to be repaid to un-secured creditors.
- Increase certainty and stability of the Act, through shorter proceedings and reduced bureaucratic burden.

The Act stipulates changes to various matters, such as: Threshold for launch of insolvency proceedings, duration of insolvency proceedings, linkage and interest, floating lien, mutual debt offsetting, the position of a secured creditor in insolvency proceedings, liability of Board members and CEOs and negotiations of debt re-structuring.

Application of the Law has no material impact on the Bank's financial statements.

Economic Plan Act (Legislation Amendments to Implement Economic Policy for 2019 Budget Year), 2018

On March 22, 2018, the Act was made public, including multiple legislative amendments. These include amendment of the Banking Act (Customer Service), 1981. The amendment to the Act involves client transition from one bank to another, and would become effective on March 22, 2021 unless postponed (two allowed six-month postponements).

According to the amendment to the Act, should a client (individual or corporation of the type specified in regulations by the Governor of the Bank of Israel) wish to transfer to another bank, the client's original bank and the receiving bank shall take all required actions to allow the client to transfer their financial activity to the receiving bank through an online, convenient, reliable, secure process at no cost to the client for such transfer of their financial activity, within seven business days or by another date specified by the Governor of the Bank of Israel with consent of the Minister of Finance.

As for the period prior to the effective start date of the Act, it was stipulated that should a client ask to close their account with their bank, the bank shall not rescind, merely due to the closing request, any benefits and discounts to which the client was eligible in managing their account, sooner than prescribed in an agreement between the bank and the client and, unless otherwise stipulated, for at least three months.

On December 17, 2019, the Governor of the Bank of Israel issued Banking Rules (Customer Service) (Transfer of Client Financial Activity between Banks), 2019, which stipulate the types of accounts and financial activities subject to the Act.

Application of the amendment to the Act is not expected to have any material impact on the Bank's financial statements.

Anti-Trust Act (Amendment 21), 2019

In January 2019, the Amendment to the Anti-Trust Act was published, renaming the Act "the Economic Competitiveness Act". The Amendment further expanded the liability of corporate officers, increased the cap on monetary sanctions, expanded the definition of a monopoly owner, stipulated stricter criminal punishment for cartels, modified the time frame for review of mergers and waivers, and stipulated that exclusion of a certain restrictive trade practice from the scope of any category waiver shall be subject to judicial supervision by the Supreme Court.

Application of the amendment has no material impact on the Bank's financial statements.

Payment Services Act, 2019

On January 9, 2019, the Payment Services Act, 2019 was published (hereinafter: "the Payment Services Act"), which would mostly become effective on October 14, 2020; a small part of this Act (Section 77(b) and (c)) would become effective on January 9, 2022.

Provisions of the Act are primarily based on corresponding regulation in Europe (the PSD2 Directive and implementation of provisions of the Directive in key European countries) and on arrangement pursuant to the Charge Card Act, 1986, which is superseded by the Payment Services Act.

The key purpose of the Payment Services Act is to provide consumer protection to clients (payers or recipients) who would receive in future "payment services" from "payment service providers" (including banks, credit card companies, payment apps etc.), to increase public trust in diverse "means of payment" and to create the initial infrastructure to increase competition in the payment services market in Israel.

The Act defines two types of payment services:

A. "Payment services to beneficiary", including management of payment account on behalf of a recipient and settlement of payment transactions for recipients (merchants); and
B. "Payment services to payer", including management of payment account on behalf of the payer and issuing of "means of payment" to the payer.

Definition of "means of payment" in the new Act is distinct from the physical aspect of means of payment as a required component. Thus, whereas the Charge Card Act only applies to physical charge cards, the Payment Services Act applies to all "means of payment" – current or future, physical or non-physical. That is to say, the consumer protection specified in the Payment Services Act would apply not only to making transactions and payments using charge cards, but also to making transfers, deposits and withdrawals from a bank current account, to standing orders to charge an account, to transactions using advanced means of payment, such as eWallets and payment apps, and to foreign payment service providers operating, or who would be operating in future, in Israel.
Whereas the Charge Card Act only refers to the legal relationship between the charge card issuer and the card holder, the Payment Services Act also covers the obligations of the payment service provider towards the recipient (e.g. the settlement provider) towards the recipient (e.g. the merchant).
The Bank is preparing to implement provisions of the Act. Application of the Act is not expected to have any material impact on the Bank's financial statements.

Income Tax Regulations (Implementation of uniform standard for reporting and due diligence of information about financial accounts), 2019

On February 6, 2019, the Income Tax Regulations (Implementation of uniform standard for reporting and due diligence of information about financial accounts), 2019 were published. These regulations are further to the amendment of the Income Tax Ordinance (Amendment no. 227), 2016.
The uniform Common Reporting Standard (or CRS) was developed by the OECD to collect information about financial accounts of foreign residents, for information exchange between countries for tax enforcement purposes ("the Uniform Standard"). In October 2014, Israel announced that it would adopt the Uniform Standard. This required legislative amendments to Israeli laws and regulations enacted accordingly.
These regulations stipulate, *inter alia*, as follows:

- Provisions requiring an Israeli reporting financial institution, to conduct due diligence for financial accounts of individuals and entities they managed , and classification of such accounts as accounts of foreign residents.
- Provisions requiring an Israeli reporting financial institution to report to the Tax Authority in Israel any reportable accounts or absence of any reportable accounts.
- Provisions requiring an Israeli reporting financial institution to inform clients of the transfer of information about the client and their account to the Supervisor at the Israeli Taxes Authority and there from to the foreign country's authority.
- Transition provisions with regard to implementation of these provisions for 2017 and 2018.
- The regulations stipulate a schedule for carrying out the identification and reporting proceedings by financial institutions; the first date for reporting to the Taxes Authority with respect to 2017 is June 23, 2019 and with respect to 2018 – September 8, 2019.

The Bank applies provisions of the Income Tax Ordinance Amendment Act (Amendment no. 227), 2016 and the regulations and reports to tax authorities in conformity there with.

Banking Ordinance (Customer Service) (Supervision of Service – Deposit of Post-dated Check), 2019

On April 3, 2019, the Banking Ordinance (Customer Service) (Supervision of Service – Deposit of Post-dated Check) (Interim Provision), 2019 was made public. The Ordinance imposes supervision over fees for "Service – Deposit of Post-dated Check" provided to individuals and to small businesses; A fee up to NIS 2 may be charged for this service. The supervision is effective as from April 15, 2019 through June 30, 2019.
The Bank applied the provisions of the Ordinance. Application of this decree has no material impact on the Bank's financial statements.

Supervisor of Banks

Circulars and Public Reporting Directives

Reduced cross commission in deferred and immediate charge transactions using credit cards

On February 25, 2018, the Bank of Israel issued an outline designed to reduce the cross commission in deferred charge transactions using charge cards by 30%, from 0.7% of transaction amount today, to 0.5% in January 2023. This change will take place in 5 stages: First in January 2019 (0.6%); second in January 2020 (0.575%); third in January 2021 (0.55%); fourth in January 2022 (0.525%); and final in January 2023.

The Bank of Israel also decided to reduce the cross commission for immediate charge transactions using credit cards, from 0.3% to 0.25% in January 2023. This change will take place in 2 stages: First in January 2021 (0.275%) and second in January 2023.

Application of the reduced commission has no material impact on the Bank's financial statements.

Transactions to acquire debtor debt from commercial clients

On May 28, 2018, the Bank of Israel issued a letter about transactions to acquire debtor debt from commercial clients, which lists highlights and bank commitment to map and to manage the risks due to each debt acquisition transaction and to address aspects of credit management, financial reporting and compliance arising from terms and conditions of such transaction. The Bank is required to conduct a comprehensive Internal Audit with regard to appropriate handling and must provide the audit report to the Supervisor no later than the end of June 2019. In June 2019, the audit report was submitted to the Supervisor of Banks.

Application of this directive has no material impact on the Bank's financial statements.

Debit cards

On July 2, 2018, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 470 concerning "Debit cards". According to this circular, as from February 1, 2019, banks would transfer to the debit card issuer operator any funds with respect to transactions in cards issued by it on the date when the operator is required to transfer these funds to the settlement provider, regardless of the client debit date or the identity of the settlement provider. It was further stipulated that new operating agreements between issuer and operator, or similar agreements materially amended and signed by January 2022, would be sent to the Supervisor of Banks.

The Bank applied the provisions of the circular. Application of this circular has no material impact on the Bank's financial statements.

Board of Directors

On November 13, 2018, the Supervisor of Banks issued an update to Proper Conduct of Banking Business Directive 301 concerning "Board of Directors".

According to this circular, further to targets for improvement of the effectiveness of Board work and to enhance the professional qualifications of the Board of Directors, another requirement has been added, to set policy with regard to the maximum term in office of Board committee Chairs.

It was further stipulated that the Board of Directors should be more involved in business innovation areas based on technology, infrastructure, information management and use, by setting up a dedicated Board committee on technology and technological innovation.

The directive is effective as from the issue date thereof, except for the requirement whereby at least one member of the Committee on Technology and Technological Innovation shall be knowledgeable in this area – which is effective as from July 1, 2020.

The Bank is applying this directive.

For more information about creation of the IT and Technology Innovation Committee and appointment of Mr. Gilad Rabinowitz as external Board member of the Bank, see chapter "Board of Directors and management" above.

Streamlining operations of the banking system in Israel – extension of validity of the Supervisor's letters

On December 16, 2019, the Supervisor of Banks issued a letter with regard to streamlining operations of the banking system in Israel – further extension of validity of the Supervisor's letters. According to the letter, in order to allow banking corporations to implement further streamlining plans, the validity of the letters dated January 12, 2016 and June 13, 2017 would be extended through December 31, 2021.

For more information about the streamlining plans approved by the Bank's Board of Directors on December 27, 2016 and on June 19, 2017 see Notes 22 and 25 to the 2017 financial statements.

Preparations for discontinued use of LIBOR

As announced by the Financial Conduct Authority (FCA) in the UK and by the US Securities and Exchange Commission (SEC) in July 2017, a decision has been made to gradually discontinue use of LIBOR, by the end of 2021. Further to this decision, diverse teams have been set up around the world, in order to determine interest rate benchmarks.
Discontinuation of the use of LIBOR and transition to alternative interest rate benchmarks should have wide-ranging implications for the Bank, including economic, operating and accounting implications.
The Bank has started reviewing the expected impact of discontinued publication of LIBOR information, including review of potential alternatives for each of the aforementioned currencies, potential financial implications due to the transition to using the aforementioned alternative interest rate benchmarks and the required preparations in both business and risk management aspects.
The Bank is reviewing interest rate alternatives that may replace LIBOR. However, at this stage and due to absence of directives with regard to implementation of the transition, it is impossible to assess the impact on the Bank due to discontinued use of LIBOR.

The following table lists Bank contracts impacted by LIBOR interest rates with regard to contracts scheduled to continue beyond 2021:

	As of December 31, 2019
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	5,586
Deposits from the public	103
Net derivatives (par value)	746

Major risks and Bank preparations there for
Discontinued use of LIBOR and transition to alternative interest rate benchmarks pose various risks for the Bank; the Bank has identified such risks through, *inter alia*, mapping of all relevant contracts and exposures.
As of the report issue date, the Bank has started preparing to manage and mitigate the risks identified with regard to discontinued use of LIBOR. As part of such preparations, the Bank has set up a steering committee and a custom team tasked, inter alia, with development of work processes to identify the risks, to review the impact of each risk and to monitor these risks and associated impact. Updates were provided to management and to the Board of Directors. Note that the Bank has already informed its clients of the potential discontinuation of LIBOR at end of 2021.
Expected accounting implications
Discontinued use of LIBOR and transition to alternative interest rate benchmarks are expected to have diverse accounting implications in multiple areas, including the following:

- Hedge accounting – a review would be required of terms and effectiveness of accounting hedges, and documentation would need to be revised due to transfer to an alternative interest benchmark. Key expected impact is with regard to hedging of interest rate risk.
- Debt modifications – debt modifications that do not make reference to a fallback may require amendment and review as to whether such modifications would be accounted for as de-recognition of the existing contracts and initial recognition of the new contracts, with potential effect on the statement of profit and loss, or alternatively as continuation of the existing contracts, by updating the effective interest rate.
- Discount rates – transition to alternative interest rate benchmarks may result in changes to discount rates used as input in various models for valuation of diverse assets and liabilities, such as: financial instruments, leases, derivatives, impairment of non-financial assets.
- Fair value ranking – some of the alternative interest rate benchmarks, such as SOFR (Secured Overnight Financing Rate) have been recently published and therefore have no active market using them. Therefore, it is anticipated that contracts making reference to these alternative interest rate benchmarks would be classified at Level 2 or 3 of the fair value ranking.

Note, in this regard, that in October 2018, the US Financial Accounting Standards Board ("FASB") issued standards update ASU 2018-16, with regard to adding SOFR to the list of interest rate benchmarks in the USA valid for use in accounting hedging. Moreover, in September 2019, FASB issued a proposed amendment with regard to relief due to the impact of interest rate benchmark reform on financial reporting, including *inter alia* relief with regard to changes in contracts and in hedge accounting. According to FASB, final publication is expected in the first quarter of 2020.

Share buy-back by banking corporations

On February 28, 2019, the Supervisor of Banks issued an update to Proper Conduct of Banking Business Directive 332 concerning "Share buy-back by banking corporations". This update rescinds the previous prohibition on share buy-back by banking corporations. However, the Supervisor of Banks applied stricter requirements to buy-back by banking corporations, compared to statutory requirements applicable to corporations in Israel. These include, *inter alia*, the following restrictions:

- A banking corporation is required to obtain prior consent of the Supervisor of Banks for the buy-back, based on a purchase plan presented to the Supervisor. The Supervisor's approval would be for a limited duration (typically for one year).
- The maximum buy-back volume for each plan would be capped at 3% of the banking corporation's issued and paid-in share capital.
- The actual buy-back would not be carried out by the banking corporation, but rather by an independent external entity, such as a stock exchange member, in conformity with provisions of the "safe haven protection", as issued by ISA. These provisions are designed to separate the actual buy-back implementation from the banking corporation.
- Prohibition on banking corporation and any corporation controlled thereby to extend financing for purchase of securities issued by the banking corporation, other than financing extended in conjunction with employee stock purchase plan, to be disclosed to the Supervisor of Banks. Notwithstanding this prohibition, financing secured by securities issued by the banking corporation may be extended subject to certain restrictions.

Changes to this directive has no material impact on the Bank's financial statements.

Online banking

On May 7, 2019, the Supervisor of Banks issued a circular revising Proper Conduct of Banking Business Directive 367 concerning "Online banking".
This revision to the Directive allows a banking corporation to set identification and authentication measures in conformity with their risk management, and to simplify identification and authentication processes for clients wishing to conduct remote transactions using digital means.
This revision expands the definition of online banking services to include fax service.
The effective start date of this revision is on the publication date thereof, except for the sections concerning fax service, which would become effective on January 1, 2020.
The Bank applies the sections in effect and is preparing to apply the sections concerning fax service on time. Application of this circular has no material impact on the Bank's financial statements.

Providing professional call center service

On June 12, 2019, the Supervisor of Banks issued a new Proper Conduct of Banking Business Directive 426 concerning "Providing professional call center service".
This directive regulates the obligation of banking corporations, set forth in Amendment 29 of the Banking Act (Customer Service), whereby professional human response is to be provided no later than 6 minutes after the call start.
This directive prescribes mandatory queuing priority to be given to customers aged 75 and over, and specifies requirements for monitoring and control of response patterns to customers at the call center.
This directive is effective as from the effective start date of the Amendment to the Act, on July 25, 2019, except for section 7 with regard to queuing priority for those aged 75 and over, which would become effective as from January 1, 2020.
On August 18, 2019, the Supervisor of Banks issued a circular regarding mandatory reporting to the Supervisor (840), adding mandatory reporting to the Supervisor with regard to "Providing professional call center service".
The start date for reporting pursuant to this directive is as from reporting as of December 31, 2019.
The Bank is applying these directives. Application of this circular has no material impact on the Bank's financial statements.

Reduced commissions for small and micro businesses

On August 4, 2019, the Supervisor of Banks announced that as from August 1, 2019 and annually on March 1, banks would conduct a cost-effectiveness test for small businesses (with annual turnover of up to NIS 5 million) and for sole proprietors, and would enroll them in the most cost-effective track for them.
In conformity with directives of the Supervisor of Banks, small businesses and sole proprietors were proactively enrolled by the Bank, as from August 1, 2019, in the basic or extended service track, according to activity in their account.

Application of this circular has no material impact on the Bank's financial statements.

Online transfer of client financial operations between banks

On December 16, 2019, the Supervisor of Banks issued a circular regarding online transfer of client financial operations between banks, stipulating the Proper Conduct of Banking Business Directive 448 on this matter.

The Directive governs the obligation of a banking corporation, in applying Amendment 27 to the Banking Act (Customer Service), adding to the Act a Section 5b1, stipulating that banks must allow clients who wish to do so, to transfer their financial activity from one bank to another online, convenientlly, reliably, securely and at no cost to the client. This Amendment authorizes the Governor of the Bank of Israel to specify rules regarding the types of bank accounts in which financial activity would be subject to the foregoing obligation. The Act further authorizes the Supervisor of Banks to direct a banking corporation to act as set forth above.

The Directive includes rules to be applied by the banks in handling a client request to transfer their financial activity between banks online, including with regard to proper disclosure to be provided to the client throughout the transfer process and the consents to be provided by the client in order to complete the process, the banking services and products to be transferred and routed in conjunction with transfer of client activity, and rules for maintaining continuity of client financial activity during transfer between banks.

The effective start date of this Directive is in March 2021, when Section 5b1 of the Act would become effective (with a possible six-month extension). The Bank is preparing to implement this directive on time.

Application of the circular is not expected to have any material impact on the Bank's financial statements.

Bank's credit rating

On July 11, 2019, S&P GLOBAL RATINGS MAALOT LTD (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook. According to the rating agency: "This rating confirmation reflects the Bank's stronger position within the ilAAA rating group and our assessment of credit stability over the next two years."

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated ilAA+. These subordinated notes qualify as Tier II capital under transitional provisions of Basel III.

Rating of the Bank's subordinated capital notes, which qualify as Tier II equity in conformity with transitional provisions of Basel III, was raised to ilAA-.

The contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated ilAA- with Stable rating outlook.

On August 1, 2019, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") confirmed the Bank's ratings. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. Subordinated notes (Lower Tier II capital) are rated Aa1.il / Stable outlook and subordinated capital notes (Upper Tier II capital) are rated Aa2.il / Stable outlook.

contingent subordinated notes with contractual loss-absorption provisions (CoCo), which qualify as Tier II equity in conformity with provisions of Basel III, are rated Aa3.il / Stable outlook.

On June 30, 2015, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 and raised the outlook from Negative to Stable. This rating has been unchanged since then.

Operating segments – Additional information

On November 3, 2014, the Supervisor of Banks issued an update to the Public Reporting Directives concerning supervisory operating segments. According to the directive, the Bank is required to provide, on its financial statements, disclosure with regard to supervisory operating segments in conformity with a uniform, comparable layout specified by the Supervisor of Banks; attribution to supervisory operating segments is typically determined by the client's turnover (annual sales or annual revenues).
The disclosure outline for supervisory operating segments includes the following segments: Individuals, micro and small businesses, medium businesses, large businesses, institutional entities and financial management. The Bank's overseas operations should be presented separately.

Supervisory operating segments

Supervisory operating segments include operating segments for individuals and operating segments for business clients other than individuals (including institutional investors and financial management of the Bank).
Individuals are defined as persons with no indebtedness to the Bank or whose indebtedness is classified as indebtedness of "individuals – housing loans and others", in conformity with definitions of credit risk classification by economic sector.

Below is brief description of supervisory operating segments:
Households – individuals, other than private banking clients, as noted below.
Private banking – individuals who manage a financial asset portfolio in excess of NIS 3 million.
Small and micro businesses – businesses with turnover amounting up to NIS 50 million.
Medium businesses – businesses with turnover higher than NIS 50 million and lower than NIS 250 million.
Large businesses – businesses with turnover higher than NIS 250 million
Institutional investors – the segment primarily includes provident funds, pension funds, study funds, mutual funds, ETFs, insurance companies and stock exchange members who manage client portfolios, as defined by the Supervisor of Banks.
Financial management – includes trading operations, asset and liability management and non-banking investments.
Overseas operations – the aforementioned operating segments are divided into operations in Israel and operations overseas; operations overseas are presented separately and are divided into operations of individuals and business operations only.
Financial information in the Report by the Board of Directors and Management is included in conformity with definitions of supervisory operating segments.
In addition, the financial statements include – in Note 29 to the financial statements – disclosure with regard to "Operating segments in conformity with the management approach".
An operating segment in conformity with the management approach is a Bank component with operations which may derive revenues and incur expenses which meet the following criteria:

- Its operating results are regularly reviewed for the purpose of decision making about resource allocation and for performance evaluation.
- Separate financial information is available with regard to it.

In fact, the supervisory operating segments and "Operating segments in conformity with the management approach" are correlated. However, there are some differences in client attribution to segments and in how decisions are made. Therefore, at this stage, the financial statements also include reporting of operating results in conformity with "the management approach", as noted above.

A summary of these differences are as follows:

- The Bank's operating segments by the "management approach" are based on client attribution to the organizational structure responsible in the past period. However, client attribution to supervisory operating segments is based on uniform definitions specified by the Supervisor of Banks, as noted above.
- There is a strong correlation between attributes specified by management for client attribution to the responsible division and the supervisory definitions.
- However, according to "the management approach", in some cases the final client attribution may be based on other parameters, such as: specialization of a certain unit in activity types of clients or past experience working with the client, which result in business and service-related advantages to client attribution to the specific division or being part of the same borrower group.

- Other differences are reflected in the Bank's definition of Private Banking, how institutional investors are handled, business operations attributed to the Financial Management Division and other differences arising from the aforementioned definitions.
- The difference in definitions is reflected in particular in these segments:
  - Individual clients with a financial asset portfolio at the Bank of less than NIS 3 million, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, were classified to the household segment in the disclosure about supervisory operating segments.
  - Micro and small businesses, classified to the private banking segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the business segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Business clients, classified to the business segment or to the commercial segment in the disclosure about operating segments in conformity with the management approach, based on their attribution to the organizational unit in charge, were classified to the micro and small businesses segment in the disclosure about supervisory operating segments, in conformity with the aforementioned definitions.
  - Institutional investors classified to the business segment or to the financial management segment in the disclosure about operating segments in conformity with the management approach, were classified to the institutional investor segment in the disclosure about supervisory operating segments.
  - Business and individual clients at overseas branches classified into the various operating segments in conformity with the management approach, are classified into the overseas operations segment in the disclosure of supervisory operating segments.

Exceptions for classification of business clients by turnover

According to the Bank of Israel Q&A File, the Bank classified business clients to operating segments other than by turnover, in the following cases:

- When the Bank has no information about the revenues of a business client, the client is classified to the appropriate supervisory operating segment based on the client's total financial assets with the Bank. Such classification would be in accordance with the aforementioned categories for revenues, with total financial assets multiplied by 10 for the purpose of such classification.
- When the Bank is of the opinion that the volume of revenues of a business client are not indicative of their total operations and the client's total assets on the balance sheet exceed NIS 100 million, the Bank classifies such client to the Large Businesses segment. Such classification is used, for example, in the real estate sector. When total assets on the balance sheet amount to less than NIS 100 million and the revenues are not indicative, as noted above, the client is typically classified as follows:
  Small and micro businesses – total assets on client balance sheet amount up to NIS 50 million.
  Medium businesses – businesses where total assets on the client balance sheet amount to between NIS 50 million and NIS 215 million.
  Large business es– businesses where total assets on the client balance sheet exceeds NIS 215 million.

The principles used in assigning balances, revenues and expenses to clients in the system are as follows:

- Credit interest revenues and deposit interest expenses are directly attributed to the client. For credit, expense set at original cost of capital raised (transfer cost) is attributed to clients, against an inter-segment credit to the Financial Management segment. Each segment is also charged any excess premium inherent in the cost of raising qualified equity instruments for capital adequacy. This is based on the capital attributed for segment operations. For deposits, revenue set at the original cost of capital raised is attributed to clients, against an inter-segment debit to the Financial Management segment. Transfer prices for loans and deposits are similar. Each of the segments is credited for capital attributed to its operations against a debit to the Financial Management segment. Capital consumption is measured by the average risk-free assets managed by the segment.
- When calculating risk assets attributed to each segment, any off-balance sheet credit exposures are "converted" to credit equivalent using coefficients specified in directives on measurement of capital adequacy.
- For derivative instrument operations, profits are attributed to the client at the spread incorporated in the price of the derivative instrument quoted to the client. Gains arising from changes to fair value of derivatives is attributed to Financial Management.

- Gains and losses from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Expenses with respect to credit losses are directly attributed to clients for whom these expenses were recorded.
- Commissions and other revenues are specifically attributed to clients.
- Payroll expenses, building maintenance and other expenses specifically attributed to Bank branches are attributed to branch clients using loading factors which reflect the client operations and the number of transactions in their account. Later on, an additional (inter-segment) settlement takes place, which attributes some of the direct expenses of the branch to clients in non-retail operating segments.
  Intersegment settlement reflects the fact that branches also serve non-retail clients. This settlement is presented under inter-segment expenses / revenues in the Note.
- Payroll expenses of headquarters staff, maintenance and other expenses not specifically related to branches, are loaded on clients based on appropriate load bases which take into account the ratio of the expense for the segment.
- Certain headquarters expenses may sometimes be attributed to a specific operating segment and may sometimes be attributed based on the current estimate of resources allocated to each operating segment.
- When headquarters expenses may not be attributed, they are assigned by weighted business and IT transactions, as noted above In this regard, IT expenses directly associated with specific operating segments are attributed to these segments and other IT expenses are assigned to operating segments based on headcount.
- Provision for tax on operating profit is attributed to clients, is pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to clients.
- Fixed assets are attributed based on appropriate ratios.

Household segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products.

Banking and finance

Most of the services are provided within this framework
- **Credit and debitory accounts:** The credit limits for debitory account activity are determined according to the client's needs, his income level and Bank judgment, based on factors including economic models. In accordance with Proper Conduct of Banking Business Directive 325, clients are not allowed to exceed their determined credit limit.
- **Investments:** Providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans:** General-purpose loans which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Financing automobile purchasing:** Operations providing loans for purchasing new automobiles from importers, where the Bank cooperates with multiple auto importers.

Mortgages

Major services related to mortgages:

Loans out of Bank funds – Loans out of Bank funds and at its risk, are extended for purchase / construction / expansion / renovation of real estate, as well as general-purpose loans secured by a lien on a residential apartment. The loans are issued for long terms of up to 30 years, considering the loan type and borrower repayment capacity.
The Bank extends credit in different linkage segments and offers a "combined mortgage" – a loan composition that combines various linkage segments and interest types. The combined mortgage enables the Bank to manage risk while maintaining profitability and allowing clients to diversify risk.
In view of the downward trend in Bank of Israel interest and the low interest rate, the share of loans bearing fixed interest in the CPI-linked and non-linked track increased.

Services in conjunction with the Ministry of Construction and Housing Assistance Program – Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Construction and Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans and contingent grants. In this area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Construction and Housing eligible participants, such as issuance of eligibility certificates. The decision as to which bank to apply for their eligibility is up to clients who take out a mortgage. Interest on loans extended as part of assistance programs is set by the Housing Loan Act.
In addition to ordinary loans in conjunction with the Assistance Program, there is an arrangement for providing loans, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans") as well as special assistance provided to those buying an apartment under the "Buyer price" program.
Contracting by the Bank and the State for extending loans as part of assistance programs, including the consideration payable to the Bank, is governed by two agreements dated 2004 and 2008. These agreements are extended annually.
Bank revenues from all loans to eligible borrowers under State responsibility in 2018 amounted to NIS 33 million, compared to NIS 36 million in 2017 and to NIS 41 million in 2016.

Insurance marketing (insurance incidental to mortgages)
The vast majority of borrowers are insured by life insurance policies related to the loan, and the properties serving as collateral are insured by property insurance.
In accordance with directives of the Supervisor of Insurance and of the Supervisor of Banks, life insurance and home insurance incidental to housing loans are marketed by an insurance agency wholly-owned by the Bank (Tefahot Insurance Agency (1989) Ltd.), whose operations are separate from those of the Bank, and is restricted to exclusively engage in home insurance, including water damage, and in life insurance incidental to loans granted by the Bank.
Some borrowers choose to obtain insurance coverage through the Bank's insurance agency while others make other insurance arrangements.
In order to maintain the required separation between mortgage and insurance operations, clients are required, in order to purchase insurance from the Bank's insurance agency, to directly contact the insurance agency, also by using special phones connected directly to the insurance agency, which have been placed in Bank branches.
Bank revenues from insurance incidental to mortgages (in NIS millions):

	2019	2018	2017
Life insurance	107	103	96
Property insurance	17	16	15
Total revenues from sale of insurance	**124**	**119**	**111**

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities held by clients (receiving interest, dividends, bonuses etc.) The Bank also provides mutual fund distribution services and provident fund operating services. The Bank also has a subsidiary, Etgar Investment Portfolio Management Company of Mizrahi Tefahot Group Ltd., engaged in management of securities investment portfolios and providing investment advice to Bank clients and to clients of other banks.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with clients in the household segment, the clients a range of credit cards are offered. The Bank offers its clients a range of credit cards, acting in this area with credit card companies Isracard, CAL and MAX. The Bank offers its clients credit cards that are issued by these companies, according to the client's request. The Bank also has several products in the credit card sector:
"**The Card**": A Mizrahi-Tefahot credit card which also serves as the Bank's own client loyalty club. The Card provides unique promotions and activity focused on consumer and banking benefits.
For more information about the agreement with CAL group, *inter alia*, with regard to issuance of the branded credit card, see Note 26.C.13 to the financial statements.

"**Tefahot Credit Card**": The product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the client's repayment ability and the asset already pledged to the Bank, through which the client can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason.

Unique services provided by the Bank to segment clients

The key unique service offered by the Bank is Hybrid Banking, which allows clients a multi-channel environment, spearheaded by easy, direct access to a personal banker using a range of readily available technologies. As part of the Hybrid Banking campaign, the call center became a banking center, composed of 11 clusters and a team handling business clients. Later on, branch teams have been formed – each of which is assigned to 8-9 branches in various regions. These teams are an integral part of the branches to which they are assigned. Accordingly, Bank clients can reach their banker at the branch, or one of the branch team members, by using various communication channels during 12 hours of business, from 8am to 8pm. Thereafter, service is available by phone, 24 hours a day. Moreover, under the household segment, the Bank offers its clients services which express the advantages of the combination of products offered by the Bank to its clients as described above. The Bank offers various benefits in current accounts and credit of clients who take out mortgages, in order to encourage the mortgage clients to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to clients with current accounts in the Bank, in order to encourage these clients to take out mortgages through the Bank. The applicable benefits have also been applied to Bank Yahav clients, based on their activity and attributes.
The unique services that the Bank offers its clients in the household segment include retail banking products and mortgage products, as provided below:
"Priority Account": Personalized banking assistance.
"Executive Account": The unique "Executive Account" brand offers premium service to individuals on account management, banking value propositions, financial benefits and non-banking services. Clients may use professional advisors for financial, pension and mortgage advisory services.
"Interest-free Overdraft": Set-off of debit and credit balances of a customer during the month; this service is provided to select clients.
Benefits to mortgage holders: Unique benefits offered to specific groups of clients who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the client's meeting other prescribed conditions during that month.
Retirement advisory service: The Bank offers a retirement advisory service to Bank clients and to clients of other banks, both salaried and self-employed, based on an advisory model supported by a computer system developed by the Bank. This advisory service is provided by qualified pension advisors, providing an objective advisory service.

Major markets and distribution channels
Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through direct and digital channels.
The Bank has mortgage marketers operating across Israel, based on geography. The role of these marketers is to identify target audiences in their geographic territory, to increase the exposure of such audiences to Bank products and services and to maximize the marketing potential of such audiences. Marketers give the Bank an edge in the market while making the client the focal point, in line with the Bank's strategy in recent years.
Marketers operate in four major areas:
- Direct activity with real estate players – to obtain potential clients.
- Activity with end clients – proactive contract with potential mortgage and checking account clients.
- Synergetic activity with individual clients – to realize the potential synergy of mortgage clients.
- Synergetic activity with business clients and MM clients – businesses, plants, Employee Unions etc.

Bank branches – the Group operates 198 business centers, branches, affiliates and representative offices across the country, including 53 Yahav branches (of which 6 branches offer partial service). In conformity with the Bank's growth strategy, the expansion of the branch network is being reviewed, primarily in business-rich environments and in towns of two distinct demographics where the Bank seeks growth – the Arab segment and the Jewish Orthodox segment.

Direct channels: In conformity with the Bank's unique Hybrid Banking concept, which links direct channels and the client's personal banker, the Bank operates these main direct channels:

- Banking center: The branch team at the banking center provides backup to branch bankers, assisting with transactions and providing information to Bank clients, as part of the integrated Hybrid service offered to clients. This service is provided during extended hours, from 8am to 8pm.
  The banking center provides sale of instant loan services and credit cards as well as client preservation for non-bank credit cards.
- Mortgage center: This center is at the core of the mortgage segment, providing clients with a range of activities related to mortgages, including filing applications and providing advice on housing loans, receiving payments for existing loans and making arrangements and payments for loans in arrears.
  The Hybrid Banking service for mortgages is provided at all Bank branches.
- Sales center: Intended to support the selling capabilities of Bank branches, as part of marketing campaigns to recruit clients, who are referred directly to the sales center, or by means of outgoing sales calls to potential clients. In addition, the sales center handles sales of Mizrahi Tefahot credit cards, general-purpose loans, refinancing of mortgages from other banks for Bank clients, reinforcing client loyalty and client preservation.
- Investment center: This center provides rapid, professional response to capital market clients for investment transactions and advice, from 7am to midnight, along with training of investment advisors to be assigned to branches. The center also recruits new clients for savings, expanding savings activity for existing clients, while focusing on maximizing performance of investment campaigns. The center operates an affiliate of the trading room, providing Bank clients with service concerning foreign currency and foreign and Israeli securities.
- On line service – allows clients to receive banking information and execute transactions in your account for a range of banking products available to Bank clients at a reduced cost. This service is available 24 hours a day.
  Bank clients can write directly to their banker through digital channels, including convenient transfer of documents between client and banker at the branch.
- Account management app – this year, the Bank launched an advanced app featuring login using fingerprint or facial recognition, allowing the client to view information and to conduct various transactions, at any time and from anywhere. The new app features new, advanced transactions and a new, user-friendly interface.
- "Tefahot to Home" app: The Bank offers an advanced app for clients interested in obtaining a mortgage. This app provides: assistance in creating a financing plan to buy your home, comprehensive, current information about different neighborhoods, including recent transactions, data about apartment prices, rental yields, social benchmarks, education quality etc., an option for clients to photograph and document apartments, a user-friendly mortgage calculator and a service offering correspondence with a mortgage banker.
- Chat service: The Bank allows current and potential clients with regard to investments to chat online with bankers at the Bank.
- Notification Box service: Receiving Bank notifications of account activity in a personal notification box via the Bank's website.
- Cell phone service: Disseminating banking and financial information through cell phones.
- IVR service: This service, available 24 hours a day, is provided to clients who authenticate using their personal password to obtain computer-based information in response to frequently-asked queries.
- Automated machines – the Bank provides various direct services to clients through service stations and ATMs. These services primarily include cash withdrawal and deposit, check book ordering and check deposit, loan origination and obtaining information.

Business Strategy

Service strategy at the Bank is based on the understanding that personal, human contact with a banker offering a high level of professional service is at the core of client needs. The Bank's branch network is a key component in creating that personal contact with the banker – and must be supported by a current, efficient digital technology environment.

The Bank sees the importance of further development of the household segment and intends to maintain and establish its leadership position in the retail sector. The key goals in the household segment and the resultant business strategy are presented below:

- Increasing household market share by broadening the client base, mainly among mortgage clients, as a platform for achieving growth in market share and revenues.
- Retaining a market leadership position in the mortgage market, while focusing on areas with high profitability, by providing valuable proposals to clients, based on the synergy between the mortgage, commercial and financial activities.

- Expanding activity in the branch network and converting all the branches into sales units in the household segment, for traditional banking activity and mortgage activity, and for cross-selling to clients.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's clients.
- Increasing the Bank's market share in the Arab segment, the Jewish Orthodox segment and among retirees.

This information constitutes forward-looking information, as defined in the Securities Law, 1968, based on assumptions, facts and data (hereinafter jointly: "assumptions") brought before the Bank’s Board of Directors. These assumptions may not materialize due to factors which are under the Bank's control.

Competition in the segment and changes to it

Banking and Finance, credit cards and the capital market

The number of competitors in the household segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the clients.
In 2019, branch closures and elimination of teller positions at branches of some banks continued, although more moderately than in previous years, with clients referred to digital solutions.
In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to clients, not through a bank – This trend accelerated in recent years, due to several significant agreements signed by credit card companies and major retail chains.
In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.
Along with the Increased Competition and Reduced Concentration in Israeli Banking Act, enacted in January 2017, there are several legislative and regulatory efforts under way, which should result in increased competition in this segment, including operation of the credit information database, launched in April 2019, the project for arranging account relocation between banks and a project for arranging a system for sharing banking information by definition of a standard Open Banking API.

Mortgages

Most of the mortgage activity in Israel is conducted through ten banks operating in this field. For dozens of years, the Bank has been the leader in the mortgage sector, in terms of the volume of loans issued and the balance of the loans portfolio.
The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgage sector is investing resources in constant improvement of its professional standard and the service it provides to clients, emphasizing a personal connection and multiple channels.

Private Banking Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The private banking center offers its clients full banking services to their clients, primarily private banking. The products and services offered to clients of this segment are as follows:

- **Banking and finance** – A wide range of banking and finance products are offered to this segment's clients, in addition to ordinary banking services, while formulating an investment strategy suitable for each client, tailored to his character and special needs, as well as an array of advanced investment products.
- **Capital market** - this product includes client operations in the capital market, including buying, selling and custodial services of various securities, and provision of services with respect to securities (receipt of interest, dividends, bonus etc.) This also includes mutual fund distribution services.
- **Credit cards** – the Bank offers to segment clients a range of exclusive credit cards issued by Israeli credit card companies, including special loyalty clubs for businesses.

Major markets and distribution channels

The markets addressed by this segment are clients with high financial wealth (both Israelis and foreign residents).

Competition in the segment and changes to it

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.
In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.
In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the client, in the organization of professional conferences for the segment's select clients, in introduction of specialized and unique products to the segment's clients, and in efforts to identify and attract new clients on a regular basis.

Micro and Small Business Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Below is a description of the notable products in the small business segment and the primary services offered within the scope of these products.

Banking and finance

Within the scope of this product, the Bank provides the following services:
Management of checking account facilities: The facilities are determined according to the client's needs, turnover and judgment of the Bank.
Loans for various purposes: Business loans, loans against the discounting of checking, credit vouchers etc.
Import / export activities: Foreign currency operations, adaptation of credit facilities to the nature of the client's activities using technological means, such as: EDI (Electronic Data Inter-charge) online.
Investments: Diverse operations related to investments, such as deposits of various types and for various terms.

Capital market

This product includes client activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes mutual fund distribution services and provident fund operating services.

Credit cards

The Bank offers to segment clients a range of credit cards issued by Israeli credit card companies.

Loans for small businesses, guaranteed by the State

In May 2016, Bank Mizrahi Tefahot launched its financial partnership with HaPhoenix and with Altshuler Shacham, selected as one of the winning bidders in a tender to provide loans to small and medium businesses, guaranteed by the State, by providing loans in a range of tracks under this heading. The Bank may also provide loans guaranteed by the State in conjunction with a custom fund for improved energy efficiency.

Major markets and distribution channels

The main marketing and distribution factors in the segment are the Bank's branches and direct channels. There is no dependence on outside marketing channels. For details of these marketing and distribution factors, see description of the household segment.

Business Strategy

Increasing focus and expanding operations in business segments, including the micro and small business segment is at the heart of the Bank's business strategy. This is done while constantly assessing risk and controls at the client, segment and economy levels.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity vis-à-vis clients, while segmenting the clients by occupation, size of operation and individual needs.
- Maximize potential profitability for each client by adopting a comprehensive view of client activity, creating a comprehensive relationship based on credit products and marketing of other products – depending on client attributes.
- Expand operations in State-guaranteed foundations.
- Expand geographic deployment of services provided to segment clients.

Competition in the segment and changes to it

Competition in the small business segment is primarily within the banking system. However, over the past years, public action was taken to reinforce the market share of non-bank credit providers (such as institutional investors, non-bank credit cards and other financing companies) in this area. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the client, providing personal service and comprehensive professional solutions for the full range of client financial needs.

Medium business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The medium business segment primarily includes medium-sized private and public companies (Middle Market), with turnover between NIS 30 and 120 million.

This segment operates across all economic sectors, primarily industry, commerce and services, construction and real estate.

In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 50 million and under NIS 250 million.

Clients in this segment are primarily served by the Bank's Business Division, primarily by the Business Sector, operating three business centers nation-wide, with additional service provided by the Bank's business centers, business branches and extensive branch network.

Each center has the professional resources required to address all client needs. These centers operate in coordination with the Bank's branch network, which handles operating aspects of client activity. Thus, clients enjoy personal, professional service which provides a response to all their banking needs, as well as benefit from the extensive branch network.
Segment clients primarily operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector. These clients, too, enjoy service at the branch convenient to them, with regard to operating aspects as well as the specialized, professional service of the construction and real estate sector.
Clients in this segment use a range of banking services, associated with a relatively high ratio of required collateral compared to Business Banking segment clients.
Clients are mostly active on the local market. However, clients also conduct foreign trade transactions (import / export) of significant volume.

Products and services

Segment clients are offered customized products and services, in the banking and finance sector. Within this framework, the Bank issues different kinds of credit, both loans and current credit for working capital purposes: foreign trade services – importing, exporting, documentary credit; bank guarantees, etc.; transactions in foreign currency, including trading in derivative instruments, factoring services and investment in deposits and in securities.

Major markets and distribution channels

The segment primarily engages in marketing and distribution using three business hubs operating under the Business Division, as well as business centers and Bank branches throughout Israel. Client relations management is conducted by special professionals at the business centers, who are in charge of this and are in constant contact with clients. New client recruitment is carried out in close co-operation with Bank branches operating in the Retail Division.
Operations in this segment include development of marketing and business operations based on understanding client needs and customizing comprehensive banking solutions to these needs; providing professional, rapid and efficient service; offering a range of products and solutions customized for client needs with controlled management of risk arising from segment operations, including by specifying financial covenants to monitor clients' financial robustness.
Clients may also use the direct banking channels and customary banking channels.

Business Strategy

The Bank's business strategy emphasizes the significant expansion of the client base and growth in the activities of the medium business segment.
The Bank intends to continue significantly expanding operations in this segment, primarily by recruiting new clients and expanding banking services to current clients and to clients for which the Bank is a secondary bank.

Competition in the segment and changes to it

Segment clients conduct their financial activity primarily within the banking system, so that competition for this client segment is significant, since all banks and non-bank financing companies compete for this target audience.

There is also non-material competition in factoring and by credit card companies.
The Bank considers expansion of this segment's business to be an important major objective and therefore invests resources in handling these companies by providing comprehensive, professional solutions for client needs, maintaining a personal relationship and providing fast, efficient service.

Large business segment

For more information about the supervisory definition and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Brief description of segment attributes (using the "management approach")

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with turnover exceeding NIS 120 million.
In general, as from 2019, new clients are classified in conformity with the supervisory approach – those with annual turnover over NIS 250 million.

The major sectors served are: industry, commerce, construction and real estate.
This segment includes market-leading clients with large-scale operations, some of which are multi-nationals or companies with local operations which address overseas markets.
Segment clients are served under responsibility of the Bank's Business Division, primarily by the Large Corporation Sector.
Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.
All clients receive additional (operating) service from the Bank's extensive branch network in Israel and overseas.
In its activities in this segment, the Bank emphasizes expansion of the current client base and improved profitability through expansion of activity in financing areas with very high profitability relative to capital, such as trading room transactions, including transactions in derivatives and other products provided to clients by the trading room.

Products and services

Segment clients are offered a range of banking and finance products, including: Different types of credit – on call, short-term, intermediate-term and long-term loans, different types of guarantees; financing through organizing or participating in syndications, financing of infrastructure projects, mergers and acquisitions; trading in derivative instruments; foreign trade activity (financing for credit insurance, importing, exporting and documentary credit) and factoring. These services are supported by a specialized sector at the Bank, which can customize for each client the relevant product for their business and operating attributes.
Below is a description of the notable products in the business banking segment and the primary services offered within the scope of these products.

Credit to large corporations in Israel and overseas

The Bank provides banking services to multi-national clients based in Israel.
In this context, the Bank provides foreign currency, foreign trade and factoring services as well as service at the Bank's overseas branches.

Products related to real estate

In this sector, the Bank offers loans to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.
The main services provided to clients of the real estate sector are:

- **Credit for construction** – in this sector, the Bank provides credit, in particular short- and medium-term loans, used to finance land acquisition and investment in construction, as well as various types of bank guarantees.
- **Financing for construction projects** - construction project financing is a unique service, provided by the Bank exclusively to clients in this sector. Within this framework, the client is offered a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes allotment of credit facilities for land acquisition, construction loans, financial guarantees, performance guarantees and guarantees to home buyers in projects. The Bank issues construction financing mainly by the closed financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.
- **Purchase groups** – a purchase group is a collection of individuals, gathered for the purpose of jointly acquiring land and buying construction services on said land. Alternatively, existing land owners join forces to jointly construct, by ordering construction services.

The Bank provides dedicated financing for projects of this type, and assists them from preliminary stages of forming the group, through completion of construction.

Arranging and leading syndications – The Bank sees an objective in expansion of its business in initiating, leading, organizing and managing syndication transactions – to help turn the Bank into a major player in the business credit market. To this end, the Bank has established a department specialized in leading and participating in syndication transactions. By leading and organizing syndication transactions, the Bank provides a solution for businesses requiring significant credit while maintaining risk within the Bank's risk appetite.

Major markets and distribution channels

The main marketing and distribution parties in this segment are the managers and client managers in the Business Banking Division, supported by the Bank's branches and business centers in Israel and overseas.

In order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporate Sector of the Bank's Business Division, divided into departments and teams having specific industry specialization. The teams work in cooperation with professional Bank departments involved in syndication, factoring, foreign trade, capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Operations in this segment include providing fast and effective professional services that offers a comprehensive solution adapted for all of the client's banking needs. This is done while by a variety of innovative financial products and solutions.

These operations are backed by a strong capacity for analysis of client needs and their financial standing, as well as identifying risk associated with client relationships due, *inter alia*, to anticipated changes in the economy and in the client sector.

Business Strategy

The Bank's business strategy for the large business segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business client, leveraging credit products and offering other products to establish a comprehensive client relationship.
- Segmentation of business clients, economic sector and other attributes that require specialization, such as legal complexity, *inter alia*, in combination projects and in urban renewal projects (eviction-construction schemes and National Zoning Plan 38), as well as unique operating attributes in the high-tech sector. This is designed to optimally specify their business needs and to provide them with an appropriate professional solution.
- Emphasis on profitability and return on uses.

The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients..

Note that macro-economic change poses significant challenges to credit management, at the Bank in general and in the Business Banking segment in particular, with some segment clients exposed, directly or indirectly, to extensive financial and economic operations in Israel and overseas, as well as to capital raising capacity on financial markets. Therefore, the Bank allocates significant resources to enhancing means for testing and control of exposure, aimed at tightening supervision of the credit portfolio.

Competition in the segment and changes to it

Competition in the business banking segment is with large and mid-sized banks in Israel, and occasionally with overseas banks, and for some services – the entire capital market. In recent years, institutional investors and insurance companies have expanded their business with such clients, by focusing on providing significant long-term credit.

Alternatives for the products and services offered by the Bank to clients of the Business Banking segment include raising capital and debt through public and private offerings. The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the client's needs, occasionally in co-operation within consortia with other institutions.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As well as customizing complex financial solutions in response to client needs.

As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business client and adapting it to the client's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to competition for corporate financing, the competition for providing banking services to construction and real estate clients has seen non-banking entities enter into this area, as well. These entities have started providing assistance to projects on their own, without cooperation with any banks.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the clients’ needs, readily available and fast service, and maintaining close and personal ties with clients. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

Institutional investor segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The Bank has agreements in place to provide operating services to provident fund management companies, some of which are associated with the sale of provident funds previously owned by the Bank. As for mutual funds, the Bank has agreements in place to provide services to mutual fund management companies.
The segment also provides comprehensive service to management companies of provident funds and mutual funds.
Banking services also include credit of various types and transactions involving derivative instruments.

Major markets and distribution channels

The key marketing and distribution agents for this segment are managers and account managers at the Business Banking Division, the Finance Division and the Planning and Operations Division, in order to provide an optimal response to segment client needs, the servicing of major business banking clients in this segment was placed under the Corporation Sector of the Bank's Business Division, the Commercial Sector of the Finance Division and the Provident Fund Operations Sector of the Planning and Operations Division, teams work in cooperation with professional Bank departments involved in capital market, trading room operations etc. – in order to provide a comprehensive solution for client needs.

Business Strategy

The Bank's business strategy for this segment is designed to increase the number of clients and to expand business with existing clients. This is to be done while maximizing the economic potential of the capital by focusing on activities having high profitability relative to the capital needed for them,
The risk in realizing the strategy stated above is mainly a reduction in the volume of activity with certain clients, from which the Bank's profit does not reflect the required return, or a relatively high risk associated with doing business with these clients.. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable clients and expansion of activity with them, while utilizing the Bank's capital resources.

Competition in the segment and changes to it

With regard to providing execution services on the Tel Aviv Stock Exchange to institutional investors, there is significant competition between local banks and stock exchange members.
As for transactions involving derivatives, there is also competition with foreign banks with which some institutional investors have opened direct accounts.

Financial Management Segment

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

The trading room provides trading services to Bank clients in OTC (mostly: foreign currency, interest, options) and in brokerage of foreign and local securities, with local and overseas entities as counter-parties.
OTC trading – the transactions which may be conducted through the trading room: buy / sell foreign currency, options and interest derivatives. The Bank is licensed for market making in USD/NIS and in Israeli Government debentures.
Securities trading – trading securities to provide a solution for Bank clients' activity on the local market and on various world markets. The Trading Department consists of two parts – trading of Israeli securities and trading of foreign securities; both provide execution services for equities, debentures, options and negotiable futures and mutual funds.

Major markets and distribution channels

The trading room provides services for global currencies and securities, primarily in developed nations. The trading room includes a Client Marketing Unit, which provides distribution services for trading room products.

Business Strategy

Asset and liability management operations have the key objective of active management of exposure to market risk and of the debenture portfolio, aimed at optimal management of financing profitability, while maintaining appropriate, controlled exposure to market- and liquidity risk, which reflects the Bank's risk appetite, subject to limits specified by decisions of the Board of Directors and management.
The main activity in the debenture portfolio is efficient management of excess Bank liquidity in NIS and in foreign currency, compared to an alternative, risk-free investment. The policy on excess liquidity management is based on requirements for liquidity risk management, in conformity with Proper Conduct of Banking Business Directive 342 and Proper Conduct of Banking Business Directive 221 – liquidity coverage ratio. (For more information about the liquidity model and restrictions imposed by management and by the Board of Directors, see chapter "Risks overview" of the Report of the Board of Directors and Management and the Detailed Risks Management Report on the Bank website). Threshold criteria were also prescribed for nostro debenture activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase their liquidity . Debenture operations are subject to compliance with credit limits specified by the Bank for countries, banks and companies – with the bulk of these operations involving risk exposure to the State of Israel.
As for management of market risk exposure, the Bank actively manages the negotiable portfolio in order to generate gain at the specified risk level. The bank portfolio is regularly managed and monitored in order to improve interest revenues, subject to the risk appetite. The volume of activity and risk must meet the market risk exposure limits prescribed by the Board of Directors and management. For more information about risk limitations and management of market risk exposure, see the Detailed Risks Management Report on the Bank website.
The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity ratio targets and capital ratio targets, as per decisions of the Board of Directors. This would be achieved by raising deposits with different linkage bases and for different terms, and by issuing subordinated notes and contingent subordinated notes (Tier II capital). For more information see chapter "Developments in financing sources" and chapter "Developments in capital structure" of the Report of the Board of Directors and Management.
One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter "Developments in capital structure" of the Report of the Board of Directors and Management.
The segment includes the Bank’s trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivatives. The trading room also serves major local and foreign clients trading in securities in stock exchanges in Israel and overseas. The Bank strives to position itself as a leader in the OTC market in Israel, while maintaining the risk level specified in Bank policy and adapting operations to local and global regulation. Furthermore, the Bank constantly strives to expand its operations by expanding the client base and intensifying business activity and client relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.
A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. In addition, professionalism of staff in this area and technology systems in support of the various activities, identification of needs of other units as well as co-operation on between different Bank units.
Management of the financial segment and its various components requires highly professional skills, supported by appropriate IT systems and by advanced models for management of transactions and risk. These are all guided by the policies which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to different financial products and in exposure to clients whose financial robustness may be particularly sensitive. For more details of Bank exposure to foreign financial institutions, see chapter "Risks Overview" of the Report of the Board of Directors and Management and the chapter "Credit risk" in the detailed Risks Report on the Bank website.

Competition in the segment and changes to it

The financial management segment includes operations of the trading room. This area faces a high level of competition with the primary competitors: Israel's top four bank groups, as well as foreign banks.

Operating results of overseas operations

For more information about the supervisory definition, concise description of segment attributes (under the management approach) and differences between the management approach and the supervisory definition, see chapter "Supervisory operating segments" of the Report of the Board of Directors and Management.

Products and services

Details of the affiliates and their business are as follows:

Swiss subsidiary – UMB (Switzerland) Ltd. – specializes in private banking services and in extending loans for purchase of real estate in Israel. The subsidiary operates through one branch and is owned by the wholly-owned Bank holding company incorporated in Holland – UMOHC B.V. (hereinafter: ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.
Bank's overseas branches – Overseas branches offer their customers banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch** – The branch is primarily engaged in commercial banking, participating in syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.
- **London Branch** – The branch is engaged mainly in business banking, including participation in loan syndicates, financing of foreign trade, credit, receiving deposits, foreign currency trade and providing personal banking services, excluding advisory service on securities. The branch's clients are local, Israeli and international clients.

International private banking branches in Israel – The Bank operates four special branches, located in Jerusalem, Tel Aviv, Netanya and Ashdod, serving foreign resident and new immigrant clients. These branches provide full banking services to their clients, primarily private banking. The branches are under supervision by supervisory entities and relevant authorities in Israel and report to the Private Banking and International Operations sector.

Major markets and distribution channels

The major markets are local clients, mostly from the Jewish community, located in countries where the Bank's overseas affiliates do business, as well as clients resident in Israel whose financial and business needs include banking services provided overseas.
Major distribution channels include participation in professional conferences in countries where the affiliates are located, and advertising in the local Jewish community.

Business Strategy

The Bank's overseas affiliates operate in a competitive environment of local and international banks operating in the same country, but are focused on providing banking services on a more limited scale, compared to local and international banks. Competition is focused on service quality, response time and maximizing the client-Bank relationship. Each international operations affiliate has a unique target audience. Critical success factors are based on providing fast, personal service at an international level. Service provided to clients is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.
In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong client relationships, organizing professional events for select clients and efforts to locate and recruit new clients on a day-to-day basis.

The Bank strives to develop business by existing affiliates and to create strategic alliances with leading financial institutions in international banking and jointly work with them. The Bank also reviews options for offering services appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

International operations involve several unique risks factors:

- Operation under specific statutory and regulatory regimes of each country.
- Risk associated with challenges to controlling remote affiliates from the head office.
- Business risks (credit and market risks) are impacted by local factors, which may differ from the environment and factors in Israel.

Each overseas affiliate operates subject to local laws and regulations, and is regularly assisted by local legal counsel who specialize in banking operations applicable for each affiliate. The Bank has also established and maintains a supervisory and control process over operations of its affiliates, through relevant Risk Owners at the Bank in Israel, as well as using external professional consultants on behalf of the Bank in Israel.

Competition in the segment and changes to it

In recent years, competition with affiliates of Israeli banks overseas has diminished. Furthermore, global regulatory changes have resulted in a change in business focus and changes to client preferences.

Mizrahi-Tefahot Bank
Appendixes to annual financial statements

2019

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Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1]

For the year ended December 31

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	2019			2018			2017		
	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate	Average balance[2]	Interest revenues	Revenue rate
			In %			In %			In %
Interest-bearing assets									
Loans to the public[3]									
In Israel	193,048	[7]7,063	3.66	182,098	[7]6,839	3.76	171,527	[7]5,840	3.40
Outside of Israel	3,228	230	7.13	3,358	210	6.25	3,031	149	4.92
Total	**196,276**	**7,293**	**3.72**	**185,456**	**7,049**	**3.80**	**174,558**	**5,989**	**3.43**
Loans to the Government									
In Israel	142	2	1.41	181	3	1.66	204	4	1.96
Outside of Israel	399	31	7.77	304	22	7.24	140	7	5.00
Total	**541**	**33**	**6.10**	**485**	**25**	**5.15**	**344**	**11**	**3.20**
Deposits with banks									
In Israel	899	12	1.33	1,188	5	0.42	828	4	0.48
Outside of Israel	231	4	1.73	228	4	1.75	319	4	1.25
Total	**1,130**	**16**	**1.42**	**1,416**	**9**	**0.64**	**1,147**	**8**	**0.70**
Deposits with central banks									
In Israel	38,137	79	0.21	35,985	28	0.08	35,294	30	0.09
Outside of Israel	4,892	124	2.53	3,837	74	1.93	4,065	44	1.08
Total	**43,029**	**203**	**0.47**	**39,822**	**102**	**0.26**	**39,359**	**74**	**0.19**
Securities loaned or purchased in resale agreements									
In Israel	74	–	–	96	–	–	56	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**74**	**–**	**–**	**96**	**–**	**–**	**56**	**–**	**–**
Debentures held to maturity and available for sale[4]									
In Israel	8,779	148	1.69	8,761	149	1.70	9,367	119	1.27
Outside of Israel	576	17	2.95	876	22	2.51	1,047	18	1.72
Total	**9,355**	**165**	**1.76**	**9,637**	**171**	**1.77**	**10,414**	**137**	**1.32**
Debentures held for trading[5]									
In Israel	277	1	0.36	104	3	2.88	105	3	2.86
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**277**	**1**	**0.36**	**104**	**3**	**2.88**	**105**	**3**	**2.86**
Total interest-bearing assets	**250,682**	**7,711**	**3.08**	**237,016**	**7,359**	**3.10**	**225,983**	**6,222**	**2.75**
Receivables for credit card operations	3,765			3,462			3,224		
Other non-interest bearing assets[6]	6,034			4,650			5,213		
Total assets	**260,481**			**245,128**			**234,420**		
Total interest-bearing assets attributable to operations outside of Israel	**9,326**	**406**	**4.35**	**8,603**	**332**	**3.86**	**8,602**	**222**	**2.58**

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] - continued

For the year ended December 31

Reported amounts (NIS in millions)

B. Average balances and interest rates – liabilities and equity

	2019			2018			2017		
	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate	Average balance[2]	Interest expenses	Revenue rate
			In %			In %			In %
Interest-bearing liabilities									
Deposits from the public									
In Israel									
On-call	25,910	42	0.16	22,069	39	0.18	20,473	21	0.10
Term deposits	121,309	1,653	1.36	116,221	1,506	1.30	113,991	1,193	1.05
Outside of Israel									
On-call	520	–	–	582	–	–	577	–	–
Term deposits	4,753	92	1.94	4,679	83	1.77	4,525	47	1.04
Total	**152,492**	**1,787**	**1.17**	**143,551**	**1,628**	**1.13**	**139,566**	**1,261**	**0.90**
Deposits from the Government									
In Israel	37	1	2.70	48	2	4.17	56	2	3.57
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**37**	**1**	**2.70**	**48**	**2**	**4.17**	**56**	**2**	**3.57**
Deposits from banks									
In Israel	987	8	0.81	1,167	11	0.94	1,536	11	0.72
Outside of Israel	2	–	–	1	–	–	2	–	–
Total	**989**	**8**	**0.81**	**1,168**	**11**	**0.94**	**1,538**	**11**	**0.72**
Securities loaned or sold in conjunction with repurchase agreements									
In Israel	–	–	–	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes									
In Israel	30,114	573	1.90	30,080	793	2.64	28,260	599	2.12
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**30,114**	**573**	**1.90**	**30,080**	**793**	**2.64**	**28,260**	**599**	**2.12**
Other liabilities									
In Israel	256	2	0.78	127	3	2.36	86	2	2.33
Outside of Israel	–	–	–	–	–	–	–	–	–
Total	**256**	**2**	**0.78**	**127**	**3**	**2.36**	**86**	**2**	**2.33**
Total interest-bearing liabilities	**183,888**	**2,371**	**1.29**	**174,974**	**2,437**	**1.39**	**169,506**	**1,875**	**1.11**
Non-interest bearing deposits from the public	50,835			45,735			41,778		
Payables for credit card transactions	3,765			3,462			3,224		
Other non-interest bearing liabilities[8]	5,700			5,909			6,064		
Total liabilities	**244,188**			**230,080**			**220,572**		
Total equity resources	**16,293**			**15,048**			**13,848**		
Total liabilities and equity resources	**260,481**			**245,128**			**234,420**		
Interest margin			**1.79**			**1.71**			**1.65**
Net return[9] on interest-bearing assets									
In Israel	241,356	5,026	2.08	228,413	4,673	2.05	217,381	4,172	1.92
Outside of Israel	9,326	314	3.37	8,603	249	2.89	8,602	175	2.03
Total	**250,682**	**5,340**	**2.13**	**237,016**	**4,922**	**2.08**	**225,983**	**4,347**	**1.92**
Total interest-bearing liabilities attributable to operations outside of Israel	**5,275**	**92**	**1.74**	**5,262**	**83**	**1.58**	**5,104**	**47**	**0.92**

See remarks below.

Appendix 1 – Revenue and Expense Rates – of the Bank and its Subsidiaries[1] - continued

For the year ended December 31

Reported amounts (NIS in millions)

C. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	2019			2018			2017		
	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	Revenue (expense) rate	Average balance[2]	Revenues (expenses)	(Revenue) rate
			In %			In %			In %
Israeli currency – non-linked									
Total interest-bearing assets	171,451	5,036	2.94	161,959	4,476	2.76	153,835	4,114	2.67
Total interest-bearing liabilities	121,477	(1,054)	(0.87)	116,841	(1,002)	(0.86)	109,668	(791)	(0.72)
Interest margin			**2.07**			**1.90**			**1.95**
Israeli currency – linked to the CPI									
Total interest-bearing assets	56,522	1,822	3.22	52,560	2,094	3.98	50,996	1,542	3.02
Total interest-bearing liabilities	37,324	(715)	(1.92)	35,920	(985)	(2.74)	37,578	(821)	(2.18)
Interest margin			**1.30**			**1.24**			**0.84**
Foreign currency (including Israeli currency linked to foreign currency)									
Total interest-bearing assets	13,383	447	3.34	13,894	457	3.29	12,550	344	2.74
Total interest-bearing liabilities	19,812	(510)	(2.57)	16,951	(367)	(2.17)	17,156	(216)	(1.26)
Interest margin			**0.77**			**1.12**			**1.48**
Total – operations in Israel									
Total interest-bearing assets	241,356	7,305	3.03	228,413	7,027	3.08	217,381	6,000	2.76
Total interest-bearing liabilities	178,613	(2,279)	(1.28)	169,712	(2,354)	(1.39)	164,402	(1,828)	(1.11)
Interest margin			**1.75**			**1.69**			**1.65**

See remarks below.

Appendix 1 – Revenue and expense rates of the Bank and of its subsidiaries[1]
For the year ended December 31
Reported amounts (NIS in millions)

D. Analysis of changes in interest revenues and expenses

	2019 compared to 2018			2018 compared to 2017		
	Increase (decrease) due to change[10]			Increase (decrease) due to change[10]		
	Quantity	Price	Net change	Quantity	Price	Net change
Interest-bearing assets						
Loans to the public						
In Israel	401	(177)	224	397	602	999
Outside of Israel	(9)	29	20	20	41	61
Total	**392**	**(148)**	**244**	**417**	**643**	**1,060**
Other interest-bearing assets						
In Israel	10	44	54	2	26	28
Outside of Israel	25	29	54	(8)	57	49
Total	**35**	**73**	**108**	**(6)**	**83**	**77**
Total interest revenues	**427**	**(75)**	**352**	**411**	**726**	**1,137**
Interest-bearing liabilities						
Deposits from the public						
In Israel	103	47	150	43	288	331
Outside of Israel	–	9	9	3	33	36
Total	**103**	**56**	**159**	**46**	**321**	**367**
Other interest-bearing liabilities						
In Israel	(1)	(224)	(225)	38	157	195
Outside of Israel	–	–	–	–	–	–
Total	**(1)**	**(224)**	**(225)**	**38**	**157**	**195**
Total interest expenses	**102**	**(168)**	**(66)**	**84**	**478**	**562**

(1) Information in these tables is after effect of hedging l derivative instruments.
(2) Based on balances at start of the months (in Israeli currency, non-linked segment – based on daily balances).
(3) Before deduction of average balance sheet balance of provisions for credit losses. Includes impaired debt not accruing interest revenues.
(4) From the average balance of debentures available for sale, for the one-year periods ended Tuesday, December 31, 2019, 2018 and 2017, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 8 million, NIS (82) million and NIS (17) million, respectively.
(5) From the average balance of debentures held for trading, for the one-year periods ended Tuesday, December 31, 2019, 2018 and 2017, we added (deducted) the average balance of unrealized gain (loss) from adjustment to fair value of debentures held for trading, amounting to NIS 6 million, NIS (2) million and NIS (1) million, respectively.
(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.
(7) Commissions amounting to NIS 339, 270 and 228 million were included in interest revenues for the one year periods ended December 31, 2019, 2018 and -2017, respectively.
(8) Includes derivative instruments.
(9) Net return – net interest revenues divided by total interest-bearing assets.
(10) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity. The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

Appendix 2 – Multi-period information

Consolidated Statement of Profit and Loss – Multi-period information

For the years ended December 31, 2015-2019

Reported amounts (NIS in millions)

	2019	2018	2017	2016	2015
Interest revenues	7,711	7,359	6,222	5,311	4,906
Interest expenses	2,371	2,437	1,875	1,533	1,372
Interest revenues, net	5,340	4,922	4,347	3,778	3,534
Expenses with respect to credit losses	364	310	192	200	211
Interest revenues, net after expenses with respect to credit losses	**4,976**	**4,612**	**4,155**	**3,578**	**3,323**
Non-interest revenues					
Non-interest financing revenues	357	445	136	295	358
Commissions	1,535	1,475	1,423	1,433	1,426
Other revenues	74	47	94	134	74
Total non-interest revenues	**1,966**	**1,967**	**1,653**	**1,862**	**1,858**
Operating and other expenses					
Payroll and associated expenses	2,562	2,407	2,271	2,035	1,912
Maintenance and depreciation of buildings and equipment	770	747	742	693	692
Other expenses	656	1,230	598	571	622
Total operating and other expenses	**3,988**	**4,384**	**3,611**	**3,299**	**3,226**
Pre-tax profit	2,954	2,195	2,197	2,141	1,955
Provision for taxes on profit	1,029	922	806	833	761
After-tax profit	**1,925**	**1,273**	**1,391**	**1,308**	**1,194**
Share in profit (loss) of associate companies, after tax	–	1	–	–	–
Net profit:					
Before attribution to non-controlling interests	1,925	1,274	1,391	1,308	1,194
Attributable to non-controlling interests	(83)	(68)	(44)	(42)	(60)
Attributable to shareholders of the Bank	**1,842**	**1,206**	**1,347**	**1,266**	**1,134**
Earnings per share[(1)] (in NIS)					
Basic earnings per share:					
Total net profit attributable to shareholders of the Bank	**7.86**	**5.17**	**5.80**	**5.46**	**4.90**
Diluted earnings per share:					
Total net profit attributable to shareholders of the Bank	**7.83**	**5.15**	**5.76**	**5.45**	**4.89**

(1) Share of NIS 0.1 par value.

Appendix 2 – Multi-period information – Continued
Consolidated Balance Sheet – Multi-period information
As of December 31, 2015-2019
Reported amounts (NIS in millions)

	2019	2018	2017	2016	2015
Assets					
Cash and deposits with banks	51,672	45,162	41,130	41,725	30,489
Securities	10,113	11,081	10,133	10,262	11,845
Securities loaned or purchased in resale agreements	120	26	76	9	71
Loans to the public	206,401	195,956	182,602	172,779	160,604
Provision for credit losses	(1,693)	(1,575)	(1,484)	(1,438)	(1,400)
Loans to the public, net	204,708	194,381	181,118	171,341	159,204
Loans to Governments	656	630	456	330	316
Investments in associated companies	32	32	32	34	36
Buildings and equipment	1,457	1,424	1,403	1,585	1,583
Intangible assets and goodwill	87	87	87	87	87
Assets with respect to derivative instruments	2,578	3,240	3,421	3,584	3,527
Other assets	1,821	1,810	1,716	1,498	2,000
Total assets	**273,244**	**257,873**	**239,572**	**230,455**	**209,158**
Liabilities and Equity					
Deposits from the public	210,984	199,492	183,573	178,252	162,380
Deposits from banks	714	625	1,125	1,537	1,166
Deposits from the Government	29	42	51	50	58
Debentures and subordinated notes	33,460	30,616	29,923	27,034	23,719
Liabilities with respect to derivative instruments	2,686	3,661	3,082	3,566	3,634
Other liabilities	8,566	8,047	7,491	6,692	5,786
Total liabilities	**256,439**	**242,483**	**225,245**	**217,131**	**196,743**
Shareholders' equity attributable to shareholders of the Bank	16,033	14,681	13,685	12,714	11,847
Non-controlling interests	772	709	642	610	568
Total equity	**16,805**	**15,390**	**14,327**	**13,324**	**12,415**
Total liabilities and equity	**273,244**	**257,873**	**239,572**	**230,455**	**209,158**

Appendix 3 – Multi-quarter information

Consolidated Statement of Profit and Loss by Quarter – for 2019

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Interest revenues	1,846	1,532	2,647	1,686
Interest expenses	494	318	1,104	455
Interest revenues, net	1,352	1,214	1,543	1,231
Expenses with respect to credit losses	119	70	99	76
Interest revenues, net after expenses with respect to credit losses	**1,233**	**1,144**	**1,444**	**1,155**
Non-interest revenues				
Non-interest financing revenues	64	147	89	57
Commissions	392	387	373	383
Other revenues	13	13	22	26
Total non-interest revenues	**469**	**547**	**484**	**466**
Operating and other expenses				
Payroll and associated expenses	628	650	648	636
Maintenance and depreciation of buildings and equipment	192	193	194	191
Other expenses	173	155	169	159
Total operating and other expenses	**993**	**998**	**1,011**	**986**
Pre-tax profit	709	693	917	635
Provision for taxes on profit	247	251	318	213
After-tax profit	**462**	**442**	**599**	**422**
Share in net profits of associated companies, after tax	–	–	–	–
Net profit:				
Before attribution to non-controlling interests	462	442	599	422
Attributable to non-controlling interests	(22)	(20)	(23)	(18)
Attributable to shareholders of the Bank	**440**	**422**	**576**	**404**
Earnings per share[(1)] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**1.88**	**1.80**	**2.46**	**1.73**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**1.87**	**1.79**	**2.45**	**1.72**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – Continued

Consolidated Statement of Profit and Loss by Quarter – for 2018

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Interest revenues	1,841	1,832	2,237	1,449
Interest expenses	581	596	892	368
Interest revenues, net	1,260	1,236	1,345	1,081
Expenses with respect to credit losses	77	61	90	82
Interest revenues, net after expenses with respect to credit losses	**1,183**	**1,175**	**1,255**	**999**
Non-interest revenues				
Non-interest financing revenues	121	105	129	90
Commissions	384	366	363	362
Other revenues	12	12	12	11
Total non-interest revenues	**517**	**483**	**504**	**463**
Operating and other expenses				
Payroll and associated expenses	683	598	557	569
Maintenance and depreciation of buildings and equipment	186	186	186	189
Other expenses	342	152	582	154
Total operating and other expenses	**1,211**	**936**	**1,325**	**912**
Pre-tax profit	489	722	434	550
Provision for taxes on profit	268	250	212	192
After-tax profit	**221**	**472**	**222**	**358**
Share in net profit (loss) of associated companies, after tax	–	–	1	–
Net profit:				
Before attribution to non-controlling interests	221	472	223	358
Attributable to non-controlling interests	(19)	(18)	(16)	(15)
Attributable to shareholders of the Bank	**202**	**454**	**207**	**343**
Earnings per share[1] (in NIS)				
Basic earnings per share				
Total net profit attributable to shareholders of the Bank	**0.87**	**1.95**	**0.89**	**1.47**
Diluted earnings per share				
Total net profit attributable to shareholders of the Bank	**0.86**	**1.94**	**0.88**	**1.46**

(1) Share of NIS 0.1 par value.

Appendix 3 – Multi-quarter information – Continued
Consolidated balance sheet as of the end of each quarter in 2019
Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Assets				
Cash and deposits with banks	51,672	47,125	48,700	48,396
Securities	10,113	10,566	8,816	9,130
Securities loaned or purchased in resale agreements	120	64	59	42
Loans to the public	206,401	204,225	202,342	197,857
Provision for credit losses	(1,693)	(1,647)	(1,614)	(1,586)
Loans to the public, net	204,708	202,578	200,728	196,271
Loans to the Government	656	589	620	640
Investments in associated companies	32	32	32	32
Buildings and equipment	1,457	1,384	1,375	1,387
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivative instruments	2,578	2,717	2,117	2,341
Other assets	1,821	1,859	1,689	1,685
Total assets	**273,244**	**267,001**	**264,223**	**260,011**
Liabilities and Equity				
Deposits from the public	210,984	207,832	205,188	204,777
Deposits from banks	714	673	554	619
Deposits from the Government	29	34	36	43
Debentures and subordinated notes	33,460	30,442	31,596	27,721
Liabilities with respect to derivative instruments	2,686	2,920	2,276	2,527
Other liabilities	8,566	8,586	8,091	8,479
Total liabilities	**256,439**	**250,487**	**247,741**	**244,166**
Equity attributable to equity holders of the Bank	16,033	15,755	15,740	15,121
Non-controlling interests	772	759	742	724
Total equity	**16,805**	**16,514**	**16,482**	**15,845**
Total liabilities and equity	**273,244**	**267,001**	**264,223**	**260,011**

Appendix 3 – Multi-quarter information – Continued

Consolidated balance sheet as of the end of each quarter in 2018

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Assets				
Cash and deposits with banks	45,162	42,423	42,380	43,156
Securities	11,081	10,093	9,926	9,057
Securities loaned or purchased in resale agreements	26	115	22	46
Loans to the public	195,956	191,348	188,589	185,127
Provision for credit losses	(1,575)	(1,552)	(1,534)	(1,499)
Loans to the public, net	194,381	189,796	187,055	183,628
Loans to the Government	630	569	604	493
Investments in associated companies	32	32	32	32
Buildings and equipment	1,424	1,360	1,364	1,378
Intangible assets and goodwill	87	87	87	87
Assets with respect to derivative instruments	3,240	2,604	3,453	3,153
Other assets	1,810	1,752	1,670	1,775
Total assets	**257,873**	**248,831**	**246,593**	**242,805**
Liabilities and Equity				
Deposits from the public	199,492	192,943	189,900	187,066
Deposits from banks	625	655	875	885
Deposits from the Government	42	44	47	52
Debentures and subordinated notes	30,616	29,769	30,034	29,864
Liabilities with respect to derivative instruments	3,661	2,836	3,364	2,660
Other liabilities	8,047	7,451	7,713	7,730
Total liabilities	**242,483**	**233,698**	**231,933**	**228,257**
Equity attributable to equity holders of the Bank	14,681	14,441	13,986	13,890
Non-controlling interests	709	692	674	658
Total equity	**15,390**	**15,133**	**14,660**	**14,548**
Total liabilities and equity	**257,873**	**248,831**	**246,593**	**242,805**

Appendix 4 – Additional information

Subsidiaries in which the Bank holds less than 50% of means of control

Had the Bank not consolidated the financial statements of Bank Yahav, the consolidated financial statements (excluding Bank Yahav) would have been similar to the Bank's (solo) financial statements as presented in Note 36 to the financial statements, except for the following material changes:

Balance sheet highlights (as of December 31, 2019)

- The balance of investment in associated companies would have been lower by NIS 1.7 billion.
- The balance of deposits from the public would have been lower by NIS 29.6 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 29.6 billion.

Profit and loss highlights (for 2019)

- Total non-interest revenues would have been higher by NIS 141 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 92 million.

Balance sheet highlights (as of December 31, 2018)

- The balance of investment in associated companies would have been lower by NIS 1.7 billion.
- The balance of deposits from the public would have been lower by NIS 27.9 billion.
- The balance of debentures and subordinated notes would have been higher by NIS 26.8 billion.

Profit and loss highlights (for 2018)

- Total non-interest revenues would have been higher by NIS 169 million.
- The share of net profit of associated companies, after tax effect, would have been lower by NIS 12 million.

Glossary and index of terms included on the annual financial statements

Below is a summary of terms included on the financial statements and and index for these terms

Terms with regard to risks management at the Bank and to capital adequacy

B	**Basel – Basel II / Basel III** – Framework for assessment of capital adequacy and risks management, issued by the Basel Committee on Bank Supervision.
C	**CVA - Credit Valuation Adjustment** – CVA is the component of the fair value of a derivative, which accounts for the credit risk of the counter-party to the transaction. CVA risk is the risk of loss due to mark-to-market with respect to expected counter-party risk for OTC derivatives. This means – loss due to impairment of fair value of derivatives, due to an increase in counter-party credit risk (such as: lower rating).
	Counter-party credit risk – The risk that the other party to a transaction would be in default before final settlement of cash flows in the transaction.
E	**EVE – Economic Value of Equity** – The economic value approach to analysis and estimation of the effect of changes in interest rates on the fair value of assets, liabilities and off-balance sheet positions of the Bank.
I	**ICAAP** – **Internal Capital Adequacy Assessment Process** by the Bank. This process includes, *inter alia*, setting capital targets, capital planning processes and review of capital status under various stress scenarios. This process is part of Pillar 2 of the Basel II directive.
L	**Loan To Value Ratio (LTV)** – The ratio between the approved facility when extended and the asset value.
M	**Minimum capital ratio** – This ratio reflects the minimum supervisory capital requirements which the Bank is required to maintain in conformity with Proper Conduct of Banking Business Directive 201.
P	**Pillar 2** – The second pillar of the Basel II project, refers to the Supervisory Review Process. This part consists of the following basic principles: The Bank shall conduct the ICAAP process, as defined above. The Supervisor shall conduct a process to assess the ICAAP process conducted by the Bank, to review the Bank's capacity to monitor and achieve supervisory capital ratios. The Bank is expected to operate above the specified minimum capital ratios.
	Pillar 3 – The third pillar of the Basel II project, designed to promote market discipline by developing a set of disclosure requirements, which would allow market participants to assess the capital, risk exposure and risk assessment processes – and use these to assess the Bank's capital adequacy.
R	**Risks document –** A document which concisely presents the Bank's risk profile, in order to allow the Board of Directors to monitor action taken by management and to ensure that such action is in line with the risk appetite and with the risks management framework approved by the Board of Directors. The Risks Document is compiled and presented to the Board of Directors quarterly.
	Risk assets – These consist of credit risk, operational risk and market risk, calculated using the standard approach as stated in Proper Conduct of Banking Business Directives 201-211.
S	**Standard approach –** An approach used to calculate the required capital with respect to credit risk, market risk or operational risk. Calculation of capital allocation is based on a formula, which is based on supervisory assessment components which have been specified by the Supervisor of Banks.
	Supervisory capital (total capital) – Supervisory capital consists of two tiers: Tier I capital, which includes Tier I shareholders' equity and additional Tier I capital. Tier II equity: As defined in Proper Conduct of Banking Business Directive 202 "Measurement and capital adequacy – supervisory capital".
	Subordinated notes – Notes whose rights are subordinated to claims by other Bank creditors, except for other obligations of the same type.
	Stress tests – A title for various methods used to assess the financial standing of a banking corporation under a n extreme scenario.
V	**VaR** – A model used to estimate overall exposure to diverse market risk factors. The VaR (Value at Risk) obtained by the model is a statistical estimate of the maximum expected loss for the Bank due to materialization of market risks factors in a given time period at a pre-determined statistical confidence level.

Glossary and index of terms included on the annual financial statements

As of December 31, 2019

Terms with regard to banking and finance

A	**Average effective duration** – The average term to maturity of debentures. Measured in years, by weighting principal and interest payments for the debenture over its term to final maturity. The average effective duration of a debenture reflects the financial instrument's sensitivity to changes in interest rates. Average effective duration is calculated as the ratio between the weighted average debenture payouts to its price.
	Active market – A market where transactions involving an asset or liability take place regularly and in sufficient volume, so as to regularly provide information about pricing of assets and liabilities.
D	**Debentures** – Securities which are obligations by the issuer to pay to the debenture holder the principal issued plus interest, on specified dates or upon realization of a specified condition.
	Debt whose collection is contingent on collateral – Impaired debt whose repayment is expected through realization of collateral provided to secure such debt.
	Debt under restructuring – Problematic debt under restructuring is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part).
	Debt under special supervision – Debt under special supervision is debt with potential weaknesses, which require special attention by Bank management. Should these weaknesses not be addressed, the likelihood of debt repayment may deteriorate.
	Derivatives – A financial instrument or contract whose value changes in response to changes in the price of the underlying asset (a financial instrument, physical asset, index, credit rating or other underlying asset), requires a small or minimal initial investment, compared to other contract types, and is expected to be settled on a future date.
F	**Financial instrument** – A contract that creates a financial asset for one entity and a financial liability or capital instrument for another entity.
I	**Indebtedness** – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
	Inferior debt – Inferior debt is debt insufficiently secured by collateral or by debtor repayment capacity, and for which the Bank may incur a loss if faults are not corrected, including debt over NIS 700 thousand which is 60-89 days in arrears.
	Impaired debt – Debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of problematic debt would be classified as impaired debt, unless prior to and following such restructuring, a provision for credit losses by extent of arrears was made with respect to the debt pursuant to the appendix to Proper Conduct of Banking Business Directive 314 on problematic debt in housing loans.
O	**OTC – Over the Counter** – Transaction involving financial instruments which is conducted over the counter and not on a stock exchange.
	Off-balance sheet credit – Contracting for providing credit and guarantees (excluding derivative instruments).
P	**Problematic debt** – Debt classified under one of the following negative classifications: special supervision, inferior or impaired.
R	**Recorded debt balance** – The debt balance, including recognized accrued interest, premium or discount yet to be amortized, net deferred commissions or net deferred costs charged to the debt balance and yet to amortized, net of the debt amount subject to accounting write-off.
S	**Syndication** – A loan extended jointly by a group of lenders.

Terms with regard to regulatory directives

E	**EMIR - European Market Infrastructure Regulation** – EU regulations adopted in order to increase stability, transparency and efficiency of derivative markets.
F	**FATCA - Foreign Accounts Tax Compliance Act** – The US Foreign Accounts Tax Compliance Act stipulates mandatory reporting to the US tax authority (IRS) of accounts held by US persons with foreign financial institutions (outside the USA).
L	**LCR – Liquidity Coverage Ratio** – Defined as the ratio of High Quality Liquid Assets and net cash outflow for the next 30 days, under a stress scenario. This ratio is a benchmark for the Bank's capacity to fulfill its liquidity needs for the coming month.

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