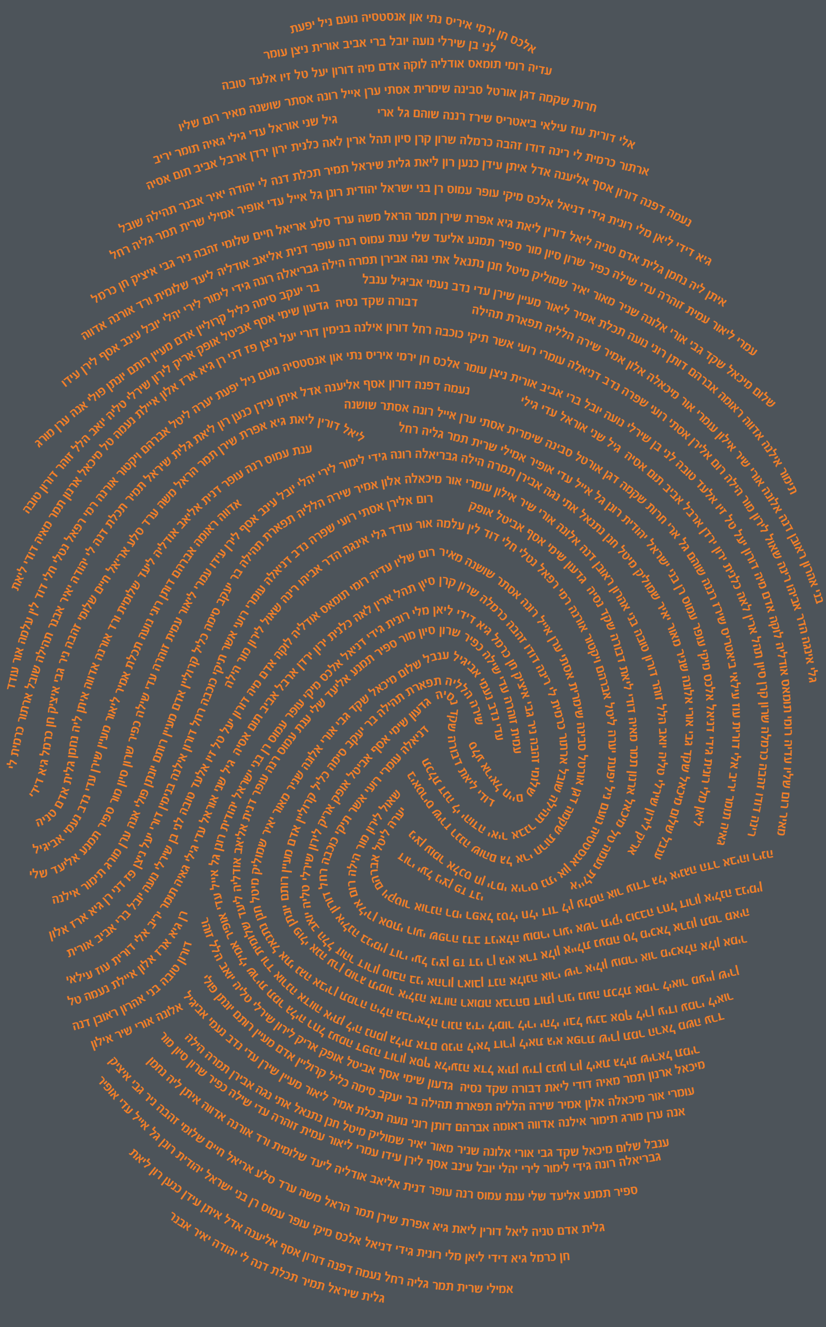
CONDENSED CONSSOLIDATED FINANCIAL REPORTS 3

AS AT 30.09.2020

מזרחי טפחות

MIZRAHI TEFAHOT



To see in each person **his personal imprint**

The Israel Securities Authority's MAGNA website also includes the following reports: A detailed risk management report and additional supervisory information regarding supervisory capital instruments issued by the Bank. In conformity with the Supervisor of Banks' directives, these condensed financial statements of interim periods, including XBRL format, a detailed risk management report and additional supervisory information, as stated, are also available on the Bank website at www.mizrahi-tefahot.co.il/en ▶ financial reports.

Mizrahi-Tefahot Bank

Quarterly Condensed Financial Statements
As of September 30, 2020

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This translation of the financial statement is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

Mizrahi-Tefahot Bank

Report of the Board of Directors and management

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List of tables (charts) included in the Condensed Report of the Board of Directors and Management

Condensed Report of the Board of Directors and Management to Financial Statements as of September 30, 2020

Introduction

The Board of Directors of Mizrahi Tefahot Bank Ltd., at its meeting held on November 23, 2020, resolved to approve and publish the Report of the Board of Directors and Management, the Risks Report and Other Supervisory Disclosures and the condensed consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its subsidiaries as of September 30, 2020.

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 condensed 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 as of December 31, 2019 and Note 1 to these condensed financial statements).

In conformity with the reporting structure stipulated by the Supervisor of Banks, additional information to these 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).
- Details of equity instruments issued by the Bank
- Financial statements in XBRL file.

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 major developments in the Bank Group, its operating segments for the first nine months of 2020, performance, risk to which the Bank is exposed as well as targets and strategy. This chapter should be read, as needed, in conjunction with the chapter "Overview, targets and strategy" in the 2019 audited annual financial statements.
On September 30, 2020, the transaction between the controlling shareholders of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares and the share purchase from the remaining shareholders was completed.
As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet. The Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on initial estimate of their value (PPA Provisional). Since the initial consolidation date is September 30, 2020, consolidation of these financial statements had no effect on profit and loss for the third quarter and for the first nine months of this year.
The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. The Bank's shareholder equity as of September 30, 2020 increased by the consideration amount with respect to this transaction.
The net amount recognized upon the acquisition date with respect to provisional fair value of identifiable assets acquired and liabilities assumed in the business combination exceeds the consideration provided. The difference, based on the aforementioned provisional estimate, amounts to NIS 1.3 billion. This amount, including deduction of net loss of NIS 77 million from sale of Union Bank's diamonds operations, and would later include deduction of the net expense to be recognized by Union Bank with respect to retirement expenses for some Union Bank employees, would be recognized as revenues on the statement of profit and loss over 5 years as from the acquisition date.
For more information see chapter "Significant developments in management of Bank business" below and Note 17 to the financial statements.

Condensed financial information and key performance indicators for the Bank Group

	2020			2019			
	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	1,464	1,323	1,347	1,352	1,214	1,543	1,231
Non-interest financing revenues	54	76	64	64	147	89	57
Commissions and other revenues	407	399	529	405	400	395	409
Total revenues	**1,925**	**1,798**	**1,940**	**1,821**	**1,761**	**2,027**	**1,697**
Expenses with respect to credit losses	317	270	345	119	70	99	76
Operating and other expenses	977	950	1,017	993	998	1,011	986
Of which: Payroll and associated expenses	619	596	644	628	650	648	636
Pre-tax profit	631	578	578	709	693	917	635
Provision for taxes on profit	222	196	200	247	251	318	213
Net profit[(1)]	**387**	**360**	**357**	**440**	**422**	**576**	**404**

	First nine months		All of
	2020	2019	2019
	NIS in millions		
Statement of profit and loss – highlights			
Interest revenues, net	4,134	3,988	5,340
Non-interest financing revenues	194	293	357
Commissions and other revenues	1,335	1,204	1,609
Total revenues	**5,663**	**5,485**	**7,306**
Expenses with respect to credit losses	932	245	364
Operating and other expenses	2,944	2,995	3,988
Of which: Payroll and associated expenses	1,859	1,934	2,562
Pre-tax profit	1,787	2,245	2,954
Provision for taxes on profit	618	782	1,029
Net profit[(1)]	**1,104**	**1,402**	**1,842**

(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.

Group net profit in the third quarter of 2020 amounted to NIS 387 million, compared to NIS 422 million in the corresponding period last year – a decrease by 8.3%. This reflects annualized return on equity of 9.5%, compared to 11.1% in the corresponding period last year.

Net profit for the Group in the first nine months of 2020 amounted to NIS 1,104 million, compared to NIS 1,402 million in the corresponding period last year – a decrease by 21.3%. This reflects a 9.0% annualized return on equity, compared to 12.4% in the corresponding period last year and 11.9% for all of 2019.

The following major factors affected Group profit in the first nine months and in the third quarter of 2020 over the corresponding period last year:

- Results of the Bank Group in the reported period were impacted, *inter alia*, by the Corona Virus crisis, which resulted in increase in expenses with respect to credit losses, by effect of the CPI and by negative impact of lower interest rates in the USA and in Israel.
- Expenses with respect to credit losses in the first nine months of 2020 amounted to NIS 932 million, compared to NIS 245 million in the corresponding period last year. The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, both with respect to debt in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and applies to all credit exposures at the Bank. In the third quarter of 2020, the risk associated with continued payment delays granted to clients was revised, including in cases where a further delay was granted. In conformity with Public Reporting Regulations and in view of supervisory expectation, and for the sake of being conservative, a layer with respect to these developments was added to calculation of the qualitative component of provisions for credit losses, primarily with respect to mortgage repayment delays. This is despite the decrease in mortgages in arrears to 1.2% as of September 30, 2020, compared to 1.4% as of December 31, 2019. The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see below in chapter "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.
- The (known) CPI decreased by 0.6% in the first nine months of 2020, compared to an increase by 0.5% in the corresponding period last year. The difference in CPI deducted NIS 217 million from financing revenues of the Bank between the corresponding periods.

  In the third quarter of 2020, the CPI increased by 0.1%, compared to a decrease by 0.7% in the corresponding period last year.
- Total financing revenues from current operations increased in the first nine months of 2020 by 2.0% compared to the corresponding period last year, and in the third quarter of 2020 increased by 0.2% compared to the corresponding period last year, due to the negative effect of the lower interest rates in the USA and in Israel.

  For more information see under "Analysis of Development in financing revenues from current operations" below.
- Other revenues in the first nine months of 2020 included revenues amounting to NIS 82 million, included in the first quarter of 2020, with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" below.

	September 30, 2020		June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
								As of
								NIS in millions
	Including Union Bank	Excluding Union Bank						
Balance sheet – key items								
Balance sheet total	347,050	300,884	291,560	284,731	273,244	267,001	264,223	260,011
Loans to the public, net	241,765	216,777	214,450	210,230	204,708	202,578	200,728	196,271
Cash and deposits with banks	77,738	67,457	61,532	56,385	51,672	47,125	48,700	48,396
Securities	18,258	9,233	8,440	8,709	10,113	10,566	8,816	9,130
Buildings and equipment	1,646	1,433	1,433	1,437	1,457	1,384	1,375	1,387
Deposits from the public	276,156	239,403	231,784	223,189	210,984	207,832	205,188	204,777
Debentures and subordinated notes	32,995	29,217	29,689	30,237	33,460	30,442	31,596	27,721
Deposits from banks	2,786	2,667	946	924	714	673	554	619
Shareholders' equity[(1)]	18,272	17,065	16,653	16,371	16,033	15,755	15,740	15,121

As from September 30, 2020, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on initial estimate prepared as of the reporting date (PPA Provisional). For more information see chapter "Significant developments in management of Bank business" below and Note 17 to the financial statements.

Below are developments in balance sheet items as of September 30, 2020, including consolidation of the financial statements of Union Bank, as noted above:

- Total assets for the Bank as of September 30, 2020 amounted to NIS 347.1 billion – of which NIS 46.2 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, total assets as of September 30, 2020 amounted to NIS 300.9 billion – an increase by NIS 33.9 billion or 12.7% compared to September 30, 2019.
- Net loans to the public as of September 30, 2020 amounted to NIS 241.8 billion, of which NIS 25.0 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, loans to the public, net as of September 30, 2020 amounted to NIS 216.8 billion – an increase by NIS 14.2 billion or 7.0% compared to September 30, 2019. This increase was due, *inter alia*, to loans amounting to NIS 4.7 billion provided to businesses, from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them, and to increase in housing loans. Conversely, loans to households decreased by NIS 0.9 billion compared to September 30, 2019.
- Deposits from the public as of September 30, 2020 amounted to NIS 276.2 billion – of which NIS 36.8 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, deposits from the public as of September 30, 2020 amounted to NIS 239.4 billion – an increase by NIS 31.6 billion or 15.2% compared to September 30, 2019. The increase is due, *inter alia*, to significant diversion of client assets from the capital market to Bank deposits, as well as to proactive deposit recruitment activity by the Bank.
- Shareholder equity as of September 30, 2020 amounted to NIS 18.3 billion – an increase by NIS 2.5 billion or 16.0% compared to September 30, 2019. The increase in shareholder equity is due, *inter alia*, to the Union Bank acquisition transaction, whereby the Bank acquired 100% of Union Bank shares in exchange for issuing Bank shares amounting to NIS 1.2 billion. For more information see chapter "Significant Events in the Bank Group's Business" and chapter "Capital adequacy and leverage" below.

(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)

	2020			2019			
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Key performance benchmarks							
Net profit return on equity(1)(2)	9.5	9.0	9.1	11.5	11.1	15.8	11.3
Net profit return on risk assets(1)(2)(3)	0.89	0.85	0.86	1.09	1.06	1.48	1.06
Return on average assets(2)	0.52	0.50	0.51	0.65	0.64	0.88	0.63
Deposits from the public to loans to the public, net	114.2	108.1	106.2	103.1	102.6	102.2	104.3
Ratio of Tier I capital to risk components	9.98	9.96	9.89	10.14	10.13	10.23	10.12
Leverage ratio(4)	5.23	5.36	5.40	5.55	5.62	5.67	5.54
(Quarterly) liquidity coverage ratio(5)	128	122	117	121	122	118	120
Ratio of revenues to average assets(2)	2.62	2.52	2.81	2.72	2.68	3.13	2.65
Operating expenses to total revenues(6) (Cost-Income Ratio)	50.8	52.8	52.4	54.5	56.7	49.9	58.1
Basic earnings per share (in NIS)	1.65	1.53	1.52	1.88	1.80	2.46	1.73
Key credit quality benchmarks – including Union Bank							
Ratio of balance of provision for credit losses to total loans to the public	1.09(9)	0.96	0.91	0.82	0.81	0.80	0.80
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.20	1.34	1.41	1.36	1.29	1.28	1.25
Key credit quality benchmarks – excluding Union Bank							
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.59	0.50	0.66	0.23	0.14	0.20	0.15
Ratio of net accounting write-offs to average loans to the public(2)	0.13	0.15	0.16	0.12	0.07	0.13	0.14
Ratio of balance of provision for credit losses to total loans to the public	1.06						
Ratio of impaired debts or debts in arrears 90 days or longer to loans to the public	1.21						
Additional information							
Share price (in NIS) at end of the quarter	60.74	64.62	66.23	92.00	86.40	82.00	74.60
Dividends per share (in Agorot)(7)	–	–	75	72	167(8)	–	–
Ratio of net interest revenues to average assets(2)	1.99	1.85	1.95	2.02	1.84	2.38	1.92
Ratio of commissions to average assets(2)	0.54	0.52	0.61	0.58	0.58	0.57	0.59

	First nine months		All of
	2020	2019	2019
Key performance benchmarks			
Net profit return on equity(1)(2)	9.0	12.4	11.9
Net profit return on risk assets(1)(2)(3)	0.87	1.20	1.17
Return on average assets(2)	0.51	0.71	0.70
Ratio of revenues to average assets(2)	2.63	2.80	2.76
Operating expenses to total revenues(6) (Cost-Income Ratio)	52.0	54.6	54.6
Basic earnings per share (in NIS)	4.69	5.99	7.86
Key credit quality benchmarks – excluding Union Bank			
Expenses with respect to credit losses to loans to the public, net for the period(2)	0.57	0.16	0.18
Ratio of net accounting write-offs to average loans to the public(2)	0.15	0.11	0.11
Additional information			
Dividends per share (in Agorot)(7)	75	167	178
Ratio of net interest revenues to average assets(2)	1.92	2.03	2.02
Ratio of commissions to average assets(2)	0.56	0.58	0.58

Financial ratios indicate:

- Net profit return in the third quarter of 2020 was 9.5%, compared to 11.1% in the corresponding period last year, and in the first nine months of this year – 9.0%, compared to 12.4% in the corresponding period last year. Return on capital was mostly affected by the significant increase in credit loss expenses due to the Corona Virus crisis and the lower interest rates in the USA and in Israel, effect of change in the Consumer Price Index and, on the other hand, increase in loans, deposits and commissions.
- The ratio of deposits from the public to loans to the public, net was 114.2%, compared to 103.1% at the end of 2019, due to consolidation of Union Bank's financial statements. Other than consolidation of Union Bank's financial statements, the increase in deposits was due, inter alia, to significant diversion of client assets from the capital market to deposits. The increase in loans was due, inter alia, to loans amounting to NIS 4.7 billion provided to businesses from State-guaranteed funds, and to the growing need of Bank clients, mostly business clients, due to the Corona Virus crisis, to utilize existing credit facilities available to them.
- Ratio of Tier I capital to risk components as of September 30, 2020 was at 9.98%, compared to the minimum rate which the Bank is required to achieve: 8.71%. This ratio was affected, inter alia, by the increase in loans extended to clients, in line with supervisory expectation in Proper Conduct of Bank Businesses Directive 250, dated March 31, 2020, with regard to Bank operations during the crisis and relief provided as a result of the crisis, for the minimum capital requirement of banking corporations. For more information see chapter "Significant Events in the Bank Group's Business" below.
- The cost-income ratio in the first nine months of 2020 reached 52.0%, primarily due to maintaining similar expenses.
- As of September 30, 2020, the ratio of impaired debt or debt in arrears 90 days or longer, out of total loans to the public was 1.20%. Excluding the effect of Union Bank, this ratio was 1.21%, compared to 1.29% at the end of the corresponding period last year and 1.34% at the end of the second quarter of 2020. The change in the current quarter was affected, inter alia, by increase in loans and by repayment delays approved for clients. Note that the financial statements include a group-based provision for credit losses in conformity with a qualitative model, inter alia, with respect to risk associated with repayment delays approved for clients. For more information see chapter "Material developments in revenues, expenses and other comprehensive income" below.

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) Calculated on annualized basis.

(3) Net profit to average risk assets.

(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) 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.

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

(7) The rate of dividends is calculated based on the actual amount of dividends actually distributed in the reported period.

(8) In the second quarter of 2019, a dividend was declared with respect to earnings in the first half of 2019.

(9) The calculated provision amount includes estimated credit losses at Union Bank, included in the balance of loans to the public at Union Bank, as presented on the consolidated balance sheet.

Major risks

The Bank's risks mapping process produced a listing of the following major risks: Credit risk (and credit concentration), market risk, interest risk (and, in particular, interest risk in the bank portfolio), liquidity risk, operational risk, including information security and cyber risk, IT risk and legal risk, compliance and regulatory risk, cross-border and AML risk, reputational risk and strategic-business risk. The Bank regularly reviews the risk mapping, so as to ensure that it covers all of its business operations, market conditions and regulatory requirements.
For further details see chapter "Major risks" of the 2019 Report of the Board of Directors and Management.
For more information about developments in risks, including the effect of the Corona Virus crisis and acquisition of Union Bank, see chapter "Risks overview" below and the Risks Management Report on the Bank website.
See below for estimated potential effect of the various risk factors on the Bank Group in chapter "Risks overview".

Business goals and strategy

Initial consolidation of Union Bank

After closing of the Union Bank acquisition transaction, financial data for Union Bank are included, for the first time, on the Bank's financial statements. The Union Bank acquisition is a significant step forward for Mizrahi-Tefahot Group in various areas of its operations, while improving the mix of sources and uses and increasing its competitiveness. According to banking system data as of June 30, 2020, the consolidated Bank's total share of lending and deposit operations in the banking system is 2.5% higher, reaching 22% of loans to the public and 18.6% of deposits from the public – beyond the targets of the Bank's strategic plan for end of 2021. Union Bank's lending operations in the various segments diversifies the Bank's lending mix, in conformity with the Bank's strategic targets, in particular with regard to the business lending segment, where the Bank's market share on consolidated basis increased to 12%. Housing loans as percentage of the Bank's total loan portfolio, after acquisition of Union Bank, decreased by 3% to 63%, with a similar increase in the commercial portfolio, of which a 1% increase in loans to individuals. In individual deposits, the consolidated Bank's market share increased to over 20%.

Further to the Bank Board of Directors directing management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of achievement of the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the uncertainty associated there with, and in view of closing of the acquisition of all shares of Union Bank of Israel Ltd., the Board of Directors shall discuss the new strategic plan in late 2020. This date may be revised further down the road, in conformity with economic developments.

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 about the Bank's business goals and strategy for 2017-2021, see chapter "Business goals and strategy" of the 2019 Report of the Board of Directors and Management.
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 September 30, 2020, the transaction between the controlling shareholders of Union Bank and the Bank closed. whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank shares. The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. For more information about share issuance in conjunction with acquisition of Union Bank, including additional cash payment amounting to NIS 16 million, see chapter "Significant developments in management of Bank business" below and Note 17 to the 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.

Developments in financing sources

Group financing sources include deposits from the public and from other banks, issuance of types of obligatory notes 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.

Deposits from the public for the Group as of September 30, 2020 amounted to NIS 276.2 billion.

Excluding Union Bank, deposits from the public as of September 30, 2020 amounted to NIS 239.4 billion, compared to NIS 211.0 billion at end of 2019: an increase by 13.5%. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in the first nine months of 2020 by 14.4%; deposits in the CPI-linked segment increased by 0.4%; and deposits denominated in or linked to foreign currency increased by 14.6%. For more information see chapter "Analysis of development of assets, liabilities, capital and capital adequacy" below.

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.

Union Bank raises sources through Union Issuance Ltd., a wholly-owned and wholly-controlled subsidiary of Union Bank, engaged in issuance of obligatory notes and depositing the proceeds there from at Union Bank.

Tefahot Issuance has a shelf prospectus issued on August 4, 2019 (dated August 5, 2019) for issuance of obligatory notes.

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

In the first nine months of 2020, the Bank conducted no issuances.

On June 30, 2020, Tefahot Issuance issued a new series of CPI-linked debentures (Series 52) of NIS 413 million par value, for consideration amounting to NIS 403 million, as well as CPI-linked debentures by way of expansion of an existing series (Series 46) of NIS 1,197 million par value, for consideration amounting to NIS 1,300 million.

As of the date of these financial statements, total debentures and subordinated notes amounted to NIS 33.1 billion (excluding Union Bank: NIS 29.2 billion), compared to NIS 33.5 billion as of December 31, 2019.

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 September 30, 2020, amounted to NIS 4.1 billion (of which: NIS 0.5 billion in subordinated CoCo notes at Union Bank), compared to NIS 3.6 billion as of December 31, 2019.

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 September 30, 2020, amounted to NIS 2.1 billion (all at the Bank), compared to NIS 2.0 billion as of December 31, 2019.

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 September 30, 2020, amounted to NIS 4.1 billion (of which: NIS 3.3 billion in subordinated notes at Union Bank), compared to NIS 1.2 billion as of December 31, 2019.

Significant developments in management of business operations

Corona Virus pandemic

The Corona Virus crisis currently affecting the entire world, including Israel, has real economic and financial implications, both real and financial, which affect the banking system. For more information about Bank operations, see chapter "Trends, phenomenons and material changes" below.

Exchange tender offer for acquisition of Union Bank of Israel Ltd.

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 Union Bank of Israel Ltd. (hereinafter: "Union Bank"), who jointly hold 47.63% of Union Bank's issued and paid-up share capital, to acquire the shares of Union Bank 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 Bank shareholder who holds (through Trustees) 27.12% of Union Bank's issued and paid-in share capital (hereinafter: "the Other Shareholder"). Later on, Union Bank, the Other Shareholder and the Bank signed multiple addendums to the merger 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); an appeal was filed in September 2018. On November 28, 2019, the verdict in this appeal was received, 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. On January 8, 2020, the Supervisor issued their decision with regard to the aforementioned conditions ("the original decision on merger conditions").

Further to original decision on merger conditions, on July 14, 2020 the Bank and Peninsula Group Ltd. signed an agreement (hereinafter: "Peninsula" and "the Peninsula agreement" or "the Peninsula transaction") whereby, subject to closing of the transaction subject of the merger agreement and approval by the Supervisor ("the suspensive conditions of Peninsula transaction") and after control over Union Bank would be transferred to the Bank, Union and Peninsula would sign an agreement regarding sale of the sold operations.

On July 27, 2020, the revised decision by the Supervisor (hereinafter: "the revised decision by the Supervisor") was received, including certain revisions to the original decision on merger conditions, which were discussed by the parties to the merger agreement and the Supervisor, in order for the Peninsula Transaction to comply with conditions set forth in the Supervisor's decision. The revised decision by the Supervisor would allow, *inter alia*, for closing of the transaction for sale of the credit portfolio concurrently with closing of the merger. Furthermore, on said date, the Supervisor's approval was received for the identity of the buyer of the credit portfolio and the content of the sold operations of credit to the diamond sector.

On August 30, 2020, the Bank issued an exchange tender offer for Union Bank shares; the acceptance date for this offer was postponed on September 10, 2020 and on September 16, 2020; its terms and conditions were revised on September 17, 2020; the acceptance date for the tender offer was September 23, 2020 and it was concluded on September 30, 2020. In conjunction with the tender offer, the Bank acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank, in exchange for the following: (1) Share issuance by the Bank, where for each Union Bank ordinary shares of NIS 0.01 par value acquired by the Bank, the Bank issued 0.2699694 Bank ordinary shares of NIS 0.1 par value, for total issuance of NIS 19,865,165 par value Bank shares; (2) Cash payment by the Bank amounting to NIS 16 million ("the cash consideration"); (3) Furthermore, a receipt amounting to NIS 37.24 million made by the Other Shareholder was paid in cash; as the Bank was informed, this is payment which the Other Shareholder committed to pay to the controlling shareholder of Union Bank pursuant to agreements between them and as allocated among them, which the controlling shareholder of Union Bank announced their intention to share with public shareholders of Union Bank (other than the Other Shareholder) pro rata to their holding stakes in Union Bank shares ("the additional receipt"). Note that in conformity with the foregoing, each Union Bank share of NIS 0.01 par value entitled Union Bank shareholders to NIS 1.8513449 with respect to the cash consideration and the additional receipts, except for shares of the controlling shareholders and shares of the Other Shareholder. As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank's consolidated balance sheet includes Union Bank's balance sheet.

In conjunction with the tender offer, Shlomo Eliyahu Holdings Ltd. And Eliyahu 1959 Ltd. (Companies controlled by Mr. Shlomo Eliyahu, hereinafter: "Eliyahu") received allocation of shares that constitute 2.1% of the issued and paid-in share capital of the Bank. As the Bank was informed on October 29, 2020, the holdings of Eliyahu would be counted jointly with holdings of companies controlled by Migdal Holdings Insurance and Finance Ltd. (hereinafter: "Migdal Holdings") (Mr. Shlomo Eliyahu is the controlling shareholder of Migdal Holdings) and after share allocation by the Bank in conjunction with the tender offer, the holding of Bank shares by Eliyahu and by companies controlled by Migdal Holdings exceed 5% of the issued and paid-in share capital of the Bank. Note that further to the tender offer report, on September 21, 2020 the Bank received notice from the Supervisor of Banks, whereby subject to conditions set forth in said notice, the Bank of Israel would not initiate nor recommend any enforcement measures against any specific shareholder of Union Bank who, due to accepting the tender offer, would immediately thereafter hold means of control over the Bank that are subject to a permit from the Governor of the Bank of Israel.

On September 13, the Bank received a letter from the Anti-Trust Authority, whereby the Authority is conducting a review of the circumstances of a decrease in financing provided for diamond operations of Union Bank clients who are subject to the Peninsula Transaction (hereinafter: "diamond financing portfolio"). The Bank was informed by Union Bank that credit for the diamond industry is managed by Union Bank in the normal course of business and that Union Bank operates in conformity with the resolution by the Anti-Trust Supervisor with regard to the merger conditions, with regard to sale of the credit portfolio.

On September 30, 2020, the closing date for the tender offer, Union Bank and Peninsula signed an agreement to sell the diamond financing portfolio, and the aforementioned sale closed. Pursuant to the aforementioned sale agreement, Peninsula paid to Union Bank consideration based on the amount of the diamond financing portfolio (other than loans to clients classified by Union Bank as impaired debts, which were sold to Peninsula for no consideration). As a result of this sale on September 30, 2020, Union Bank recognized a loss amounting to NIS 117 million (NIS 77 million after tax) with respect to sale of the diamond financing portfolio.

For more information about the agreement with Union Bank shareholders and addendums to the agreement, 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, report dated June 25, 2018, reference no. 2018-01-060643, report dated August 5, 2018, reference no. 2018-01-072859, report dated July 8, 2019, reference no. 2019-01-070000, report dated November 25, 2019, reference no. 2019-01-101892, report dated November 28, 2019, reference no. 2019-01-103980, report dated December 30, 2019, reference no. 2019-01-115755, report dated January 1, 2020, reference no. 2020-01-000351, report dated January 8, 2020, reference no. 2020-01-003750, report dated January 27, 2020, reference no. 2020-01-010362, report dated July 14, 2020, reference no. 2020-01-067528), report dated July 14, 2020 (reference no. 2020-01-074859), report dated July 27, 2020 (reference no. 2020-01-073024), report dated July 27, 2020 (reference no. 2020-01-079680, report dated August 30, 2020, reference no. 2020-01-086407, report dated September 1, 2020, reference no. 2020-01-087430, report dated September 10, 2020, reference no. 2020-01-091030, report dated September 16, 2020, reference no. 2020-01-093247, report dated September 17, 2020, reference no. 2020-01-102456, report dated September 21, 2020, reference no. 2020-01-094324, report dated September 21, 2020, reference no. 2020-01-094330), report dated September 23, 2020 (reference no. 2020-01-095263), report dated September 29, 2020 (reference no. 2020-01-096784), report dated September 15, 2020 (reference no. 2020-01-092182, report dated October 1, 2020, reference no. 2020-01-097936, report dated October 29, 2020, reference no. 2020-01-108700, report dated October 29, 2020, reference no. 2020-01-108688, and report dated October 29, 2020, reference 2020-01-108694).

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.

Labor dispute at Union Bank

On August 3, 2017, the New General Labor Union gave notice to Union Bank of a labor dispute called with regard to the clerks sector at Union Bank and with regard to the manager and authorized signatory sector at Union Bank, and notice of a general strike called in conformity with the Labor Dispute Resolution Act, 1957, with the effective date listed in said notice being August 20, 2017 and thereafter; these notices apply to 800 clerks and to 250 managers and authorized signatories at Union Bank employed subject to a special collective bargaining agreement. The causes of this dispute, in conformity with notices given by the Labor Union, are avoidance of negotiations to sign a collective bargaining agreement with regard to employees' rights due to anticipated re-organization at Union Bank. Demands by the employee representation to ensure the continued employment and to preserve the rights of employees, as customary in the banking system in case of transfer of ownership of a bank, including their terms of employment and other arrangements. Their pay, employment security and remuneration due to implications of the anticipated move and action lacking good faith in labor relations. Further to this notice, on November 12, 2017 the New General Labor Union gave notice of a labor dispute and strike called at Union Systems Ltd. (hereinafter: "Union Systems"). Causes of this dispute include, *inter alia*, avoidance of negotiations to sign a collective bargaining agreement to ensure employees' rights due to anticipated re-organization at Union Bank and demands by the employee representation to ensure the continued employment and to preserve the rights of employees. as customary in the banking system in case of transfer of ownership of a bank. Union Systems is a wholly-controlled subsidiary of Union Bank engaged in providing IT services to Union Bank and to subsidiaries thereof, with 55 employees for which this dispute is applicable. In recent weeks, negotiations have been on-going with employee unions of Union Bank, so as to agree on a collective bargaining agreement with regard to retirement and hiring of the employees by the Bank.

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 launched, in the first quarter of 2019, a project to replace the Bank's capital market core system based on a new platform. The project is making progress and is in the detailed design stage.

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

Union Bank

For more information about signing an addendum to the agreement between Union Bank and Bank Leumi, dated May 12, 2020, whereby the parties agreed, *inter alia*, that the agreement would be extended through December 31, 2022 with optional further extensions, subject to fulfillment of conditions as agreed by Union Bank and Bank Leumi – see chapter "Risks overview" below.

Developments in international geographic deployment

In view of the Corona Virus crisis, overseas affiliates operate in restricted scope of work, so as to continue to provide the services required by clients. Branches closely monitor the clients at risk.

The affiliates are in contact with local regulators and operate in conformity with guidelines issued by the latter.

As part of the review of the Bank's overall international presence, the Bank is considering sale of its subsidiary United Mizrahi Bank (Switzerland) Ltd.

Other matters

Appointment of Bank President & CEO

On September 16, 2020, Mr. Moshe Larry started their term in office as President & CEO of the Bank, after Mr. Eldad Fresher concluded their term in office. On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Larry as President & CEO of the Bank.
For more information see Immediate Reports dated February 19, 2020, reference no. 2020-01-017268, report dated February 24, 2020, reference: 2020-01-018846, report dated June 8, 2020, reference: 2020-01-058554, report dated June 8, 2020, reference: 2020-01-058935, report dated June 8, 2020, reference: 2020-01-058938, report dated June 8, 2020, reference: 2020-01-058941, and report dated July 2, 2020, reference: 2020-01-062650).

Appointments to Bank management

On September 16, 2020, Mr. Adi Shachaf started their term in office as Manager, Finance Division after Mr. Moshe Larry concluded their term in office and were appointed Bank President & CEO. On August 24, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Adi Shachaf as Manager, Finance Division.

For more information see report dated July 20, 2020 (reference no. 2020-01-070051, and report dated August 24, 2020, reference no. 2020-01-083179).

Amendment of Bylaws

On October 15, 2020, the General Meeting of Bank shareholders approved amendment of Bank Bylaws 142 and 144 with regard to officer indemnification and insurance. This amendment explicitly specifies (for the sake of clarity) that the Bank may contract for insurance and may indemnify for expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, in conformity with Section D of Chapter 4 of Part 9 of the Corporations Act, 1999 as amended from time to time.

Amendment of letter of waiver and commitment to indemnification

On October 15, 2020, the General Meeting of Bank shareholders approved an amendment of letter of waiver and commitment to indemnification by the Bank for Board member and other officers, including the Bank's President & CEO and controlling shareholders of the Bank and relatives thereof, as well as employees who serve from time to time, including those who have served in the past or would be appointed in future. The amendment stipulates that the commitment to indemnify shall also apply to expenses, including reasonable litigation expenses and legal fees, even with regard to a proceeding seeking to impose a monetary sanction, as set forth in the aforementioned amendment to the

Bylaws. The amendment further stipulates that the letter of commitment and anything related there to are subject exclusively to laws of the State of Israel and the Tel Aviv Yafo District Court shall have sole jurisdiction over any such matter. The list of events in the addendum to the letter of commitment was also revised. Pursuant to a resolution by the Audit Committee dated August 17, 2020, the resolution to approve the amended letter of commitment, with regard to its applicability to parties other than controlling shareholders and relatives thereof, would be brought for re-approval as required by law within 9 years after October 15, 2020.
For more information see report dated August 27, 2020 (reference no. 2020-01-085165, report dated August 27, 2020, reference no. 2020-01-085147, report dated October 15, 2020, reference no. 2020-01-103765, report dated October 15, 2020, reference no. 2020-01-103756, report dated October 18, 2020, reference no. 2020-01-104347).

Corporate social responsibility

On July 21, 2020, the Ma'aleh rating was published, and the Bank received the highest rating – Platinum+.

On August 2, 2020, the Bank issued its 2019 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

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Note 10.B.(2-4) to the financial statements.

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 standing, including analysis of revenues, expenses and profit. 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 Union Bank shareholders and acquisition of all Union Bank shares

For more information about an addendum to the agreement with Union Bank shareholders and closing of the acquisition of all Union Bank shares, see chapter "Significant developments in management of business operations" above.

Effect of the Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity, significant increase in the unemployment rate and sharp volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

In March and April, the Bank operated in reduced format, with management and employees in agreement about utilization of paid leave. In the third quarter, the Bank continued to operate in split critical units and to work in capsules at banking centers and branches, in conformity with Ministry of Health directives and using remote work infrastructure in as much as possible. The Bank regularly provides detailed work instructions with regard to maintaining social distancing and proper hygiene and distributes equipment to improve protection, both personal protective equipment (masks, disinfectant) and barriers and separation means to reduce exposure among employees and to clients. The Bank’s Board of Directors, Board committees and Bank management conduct more frequent discussions in order to respond to matters related to this crisis and to constantly review the implications thereof.

Business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk. During this period, the Bank of Israel issued a range of relief measures and directives in Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)". The Bank applies these relief measures and directives and acts to provide appropriate business response for Bank clients in various areas at this time, with constant review of the implications of such activities for risk management.

Furthermore, the Government has issued guidelines for an economic plan to help the economy, and has launched a fund to provide loans to small and large businesses impacted by the Corona Virus crisis.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy. Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions. Action taken by the Bank includes approval of a delay in current repayments, by up to 4 months, for mortgage clients who needed this due to temporary hardship resulting from the crisis, including further delay extensions granted as required: A further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. Delays and revised repayment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term.

Total housing loans subject to repayment delays reached a peak in May 2020, amounting to NIS 45.2 billion. The Bank allows borrowers to extend the delay period through 2020, or to apply for a delay by up to 6 months in case of an initial application, in conformity with the Bank of Israel outline. As of October 31, 2020, out of total loans subject to dalay, NIS 21.9 billion resumed repayment and NIS 23.3 billion were granted further delay. Of all current delays, NIS 3.3 billion in loan repayments are to be resumed by end of 2020, unless a further delay is applied for. NIS 17.7 billion in loan repayments are to be resumed in January 2021 and the remaining NIS 2.3 billion in loan repayments are to be resumed in February 2021 and thereafter. Note that for 60% of the balance of loans for which a repayment delay was applied for and currently due for payments to be resumed, no further delay was applied for and the clients resumed making payments. Of the loans where payments were resumed, only NIS 0.2 billion are in arrears - similar to the overall rate of arrears in the entire portfolio, at 1.2%.

As for commercial loans, total loans subject to repayment delays as of October 31, 2020 amounted to NIS 2.7 billion, of which NIS 1.3 billion for longer than 6 months. This is out of total repayment delays originally approved for loans amounting in total to NIS 7.1 billion. Of the originally-approved delays, clients with loan balance amounting to NIS 4.4 billion have resumed making payments.

Loans provided by the Bank from the State-guaranteed fund includes a State guarantee for 85% of each loan, with an aggregate total of 15% of the entire portfolio, against a deposit made by the client equal to 5% of the loan amount. These loans bear interest at the Prime lending rate + 1.5%. During the first year, no principal repayment is due for such loans, and interest is paid by the State. This fund also launched a special track for businesses at high risk ("enhanced track"), with state guarantee for 60% of the portfolio and loan terms identical to those in the general track of this fund. Concurrently, on April 30, 2020, a fund for large businesses was launched, which is guaranteed by the State at 75% per loan and up to 12% in total guarantee.

As of September 30, 2020, the Bank extended loans amounting to NIS 4.7 billion from State-guaranteed funds (as of June 30, 2020: NIS 3.5 billion). Against the loans extended, in conformity with the Bank of Israel outline, the Bank participated and obtained a special-purpose monetary loan from the Bank of Israel whose balance as of September 30, 2020 amounted to NIS 1.8 billion, for 3 years bearing fixed interest at 0.1%.

For more information about group-based provision for credit losses recognized with respect to loans subject to repayment delay, in conformity with the risk attributes thereof, see below.

For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk". For more information about Bank activities to assist clients, in view of the Corona Virus crisis, see below.

Concurrently with actions taken by the Bank to continue providing service to its clients, special emphasis was placed on potential implications of this crisis on risk management at the Bank. Credit risk is closely monitored by forums headed by the Bank President & CEO and by the Credit Risk Officer, with bi-weekly assessments conducted by the divisions, individual monitoring of economic sectors with significant exposure to the crisis and constant monitoring of key benchmarks and specific clients with special sensitivity to implications of this crisis. For all other risks, regular management continues, with emphasis placed on potential other implications of this crisis, if any. Furthermore, normal operations of units and systems related to financial reporting continued, as did controls over disclosure and internal control over financial reporting. For more information about measures and processes applied by the Bank to monitor and manage the various risks, in view of the effect of this crisis, see chapter "Risk Management" below.

The Bank addressed the Corona Virus crisis by providing on-going response to operational requirements, involving costs for technology procurement, upgrade to the remote access system, security, splitting of units and logistics cost for procurement of protective equipment and disinfectant, which had no significant impact on Bank expenses.

Provision for credit losses

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the increase in group-based provision.

In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth.

On April 21, 2020, the Supervisor of Banks issued a circular listing highlights for the financial statements. This circular emphasizes, *inter alia*, that banking corporations should ensure that their public reports reflect the major effects of the Corona Virus crisis, and that provisions for credit losses were made in conservative and cautious fashion. According to the circular, the Supervisor of Banks is aware that under the current circumstances, there is a high degree of uncertainty, which requires banking corporations to exercise significant judgment, and stipulates that qualitative adjustments in calculating the provision should be revised, and amounts of the provision for credit losses should be increased. Over time, as the Bank has more available information, the estimated effects would be revised accordingly. In order to calculate provisions for credit losses, the Bank is required to utilize reliable external sources and the most current macro-economic forecasts as anchor points.

Therefore, the calculation of qualitative adjustments whose results are included on these financial statements, the Bank accounted for various indicators, which affected the model based on the indicator growth rate. Indicators include, *inter alia*, the rate of decrease in borrower ratings in various sectors, the rate of increase in total loans under special terms and conditions for the Corona Virus crisis (delayed payments, loans guaranteed by the State) and the increase in unemployment rate and decrease in growth, in conformity with the Bank of Israel forecast. Moreover, economic sectors were rated based on the severity of impact due to the Corona Virus crisis, and for each sector, an increment was included for the specific sector risk.

The qualitative component of the Group-based provision for the third quarter of 2020 was calculated based on the Bank's methodology, as applied in previous quarters, based on current macro-economic data published by the Bank of Israel in October 2020: unemployment rate at 20.2% and expected negative growth rate for 2020 at 6.5%, assuming recurring waves of morbidity and weak control over morbidity development. The provision also reflects developments in the third quarter of 2020, including potential for increased risk associated with the Bank's loan portfolio. The new parameters were accounted for in determination of the provision, in conformity with provisions of Appendix J to the Public Reporting Regulations, which require the Bank "to take into account all known relevant factors, both internal and external, which may impact the likelihood of debt collection" and whereby the method for calculation of the provision for credit losses should be "consistently applied but, when appropriate, should be revised with respect to new factors that affect the likelihood of collection". The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. The provision rate, based on the model, would continue to be revised regularly, in conformity with the various indicators. In case of further deterioration, this rate should grow; and in case of improvement, the provision rate should decline accordingly.

In the housing sector, the provision is calculated by "extent of arrears", as determined by the Supervisor of Banks, and also includes a group-based provision for credit losses which, in conformity with the directives, would be at least 0.35% of the outstanding balance of such loans, as of the report date. For the sake of being conservative, and in view of the extent of loans for which delay of current payments has been approved, the provision includes an additional qualitative component, calculated based on the PD and LGD calculation for the balance of loans for which delay of current payments has been approved, which are in the low rating groups of the Bank's housing loan portfolio. In the third quarter of 2020, the provision also reflected developments in the third quarter of 2020, that include potential for increased risk associated with continued payment delays granted to clients was revised, including in cases where a further delay was granted. The new parameters were accounted for in determination of the provision, in conformity with Public Reporting Regulations and in view of supervisory expectation. The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. The provision rate, based on the model, would continue to be regularly revised and adapted to future developments.

Expenses with respect to credit losses in the first nine months and in the third quarter of 2020, amounted to NIS 932 million and NIS 317 million, respectively, compared with NIS 245 million and NIS 70 million in the corresponding periods last year – an increase by NIS 687 million and NIS 247 million. The increase is primarily due to the reasons listed above. For more information about the provision for credit losses included on these financial statements, see below under "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.

The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators.

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.

Adoption of recommendations of the independent claim committee to review Bank Group business with US clients with regard to taxation

On March 27, 2019, the Bank Board of Directors resolved to establish an independent committee (hereinafter: "the Committee") to review certain aspects arising from the DPA (hereinafter: "the Agreement") signed by the Bank and the US Department of Justice with regard to Bank Group business with is US clients in 2002-2012.

On March 31, 2020, the Bank Board of Directors adopted the Committee's recommendations with regard to not bringing legal proceedings against officers and others at the Bank, and with regard to not drawing personal conclusions with regard to events subject of the Agreement, and to sign a settlement agreement, amounting to USD 23 million, with insurers that have issued a Board member and officer liability insurance policy, subject to approval by the Tel Aviv-Yafo District Court. This amount was recognized as revenues in the first quarter of 2020. On September 8, 2020, a motion was filed with the Tel Aviv District Court, seeking approval for a settlement agreement signed by the plaintiff in a pending case, by the Bank and by UMB (Switzerland) Ltd. and by Mizrahi Tefahot Trust Company Ltd., by insurers that have issued to the Bank a Board member and officer liability insurance policy ("the insurers") and by other defendants in this proceeding (officers and employees). Pursuant to the settlement agreement, the insurers shall pay the Bank a final amount of USD 23 million ("the settlement amount") to settle any claims and potential causes against Board members and officers with respected to Bank Group business with its US clients from taxation aspects. The settlement agreement is subject to approval by the Court. Subject to such approval being given and to payment of the settlement amount, the legal fee of up to NIS 4.9 million (including VAT) would be paid out of the settlement amount.

On May 18, 2020, the Bank's Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning review of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors has adopted most of these recommendations with slight changes.

For more information see Note 10.B.4 to the financial statements.

Alloacation of stock options to the Bank's previous President & CEO, Bank officers and other managers at the Bank and its subsidiaries t

On June 22, 2020, the Bank's Board of Directors approved, after approval by the Bank's Remuneration Committee, an option allotment to the Bank President &CEO, to Bank officers and to other managers at the Bank and at its subsidiaries. See Note 16 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

For more information about trends in recent years in the banking sector in Israel and overseas, see chapter "Explanation and analysis of results and business standing" of the Report of the Board of Directors and Management for 2019.

Developments in the Israeli economy and in the global economy in the third quarter and in the first nine months of 2020

Israeli economy

Real Developments

The global Corona Virus outbreak started in early 2020, with governments around the world and in Israel applying lock-down and social distancing measures in an effort to stop the spread of the virus. This resulted in a global economic crisis, reflected in shut down of large swaths of the global and local economy, with the number of employees placed on furlough sky rocketing.

This crisis has impacted the supply side, due to impact to the manufacturing chain of many goods and services and impact to global trade, but also resulted in decrease on the demand side, due to restrictions imposed on business activity. In an attempt to mitigate the intensity of this crisis, governments world-wide applied fiscal measures in compensating businesses and employees impacted by this crisis and in extending credit to the business sector. Most central banks have sharply reduced monetary interest rates, have applied monetary expansion measures and provided liquidity to the markets.

In Israel, GDP in the first nine months of 2020 declined by an annualized 5.0%, compared to 3.4% growth in 2019 and 3.5% in 2018. The GDP growth rate was primarily affected by: sharp decrease in private consumption (primarily consumption of services), decrease in investment in fixed assets and decrease in exports of services, due to the decrease in exports of tourism services. Exports of goods increased, primarily due to growth in exports of industrial products.

As from the end of April, the Government of Israel announced relief in restrictions on business activity. In June, morbidity started to increase which resulted in early July in the Government re-imposing restrictions in early July and imposing a second lock-down in mid-September for the duration of the new year holiday period. The Bank of Israel Composite Index decreased in the first nine months of this year at an annualized rate of 5.2%, compared to an increase of 3.2% and 3.7% in 2019 and 2018, respectively.

The broad unemployment rate, consisting of the un-employed, those employed but away from work due to the Corona Virus and those out of employment due to termination or to closure of their place of employment – rose sharply to over 30% in April. In subsequent months, with gradual return to work, the broader unemployment rate stabilized around 11%-12% but, due to the second lock-down being imposed, the broad unemployment rate rose once again, to 18.0% in the second half of October.

According to forecast by the Bank of Israel Research Division, GDP in Israel should decrease by 5.0%-6.5% in 2020 and should grow by 1.0%-6.5% in 2021, depending on the success in containing the pandemic outbreak. The broad unemployment rate should range between 7.8%-13.9% at the end of 2021. The Research Division assumes that in mid-2021 an effective vaccine for the virus, or an effective drug treatment, would be discovered and would allow for almost complete return to normal operation.

Inflation and exchange rates

In the first ten months of 2020, the Consumer Price Index declined by 0.4%, compared to a 1.0% rise in the corresponding period last year. The CPI was mostly affected by lower prices of clothing and footwear, transportation and communications, which moderated the overall CPI by 0.7%. Conversely, higher prices of fruits and vegetables contributed 0.3% to the overall CPI figure.

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

	September 30, 2020	December 31, 2019	Change in %
Exchange rate of:			
USD (in NIS)	3.441	3.456	(0.4)
EUR (in NIS)	4.026	3.878	3.8

On November 17, 2020, the USD/NIS exchange rate was 3.356 – a 2.5% revaluation compared to September 30, 2020. The EUR/NIS exchange rate on this date was 3.985 – a revaluation of 1.0% since September 30, 2020.

Monetary policy

In order to support market liquidity and to ease lending in the economy, the Bank of Israel reduced the monetary interest rate in April 2020, from 0.25% to 0.1%. The Bank of Israel also applied multiple monetary tools, including the following: A plan to purchase Government debentures valued at NIS 85 billion, providing liquidity to the currency market through USD/NIS swap auctions and taking steps to increase credit supply through, *inter alia*, reduced capital requirements for banks. The Bank of Israel also launched a monetary tool for extending long-term loans to the banking system, provided that such loans would be provided to micro and small businesses, as well as a program to purchase corporate debentures in the secondary market, valued at NIS 15 billion.

Fiscal policy

In the first ten months of 2020, the government budget recorded a NIS 122.7 billion cumulative deficit, compared to a NIS 37.8 billion cumulative budget deficit in the corresponding period last year. The deficit rate for the 12 months ended in October, as percentage of GDP, was at 10.1% in 2019, compared to 3.7% in 2019 and 2.9% in 2018. In the first ten months of 2020, expenditure by Government ministries increased by 17.3% compared to the corresponding period last year, and tax collection decreased by a nominal 2.8% compared to the corresponding period last year. The Ministry of Finance announced an economic plan to support the economy, intended to ensure that appropriate healthcare and civilian assistance is provided, support for economic development, maintaining business continuity and providing social security for households. As of October, out of the plan total value of NIS 139 billion, 64% was actually executed.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first nine months of 2020 demand for new apartments (apartments sold and apartments constructed not for sale, original data) was 38.0 apartments, increase by 2.2% over the corresponding period last year and an increase by 24.8% over the corresponding period in 2018. In the first nine months of 2020, housing loans given to the public amounted to NIS 57.3 billion, compared to NIS 51.1 billion in the corresponding period last year and NIS 44.1 billion in the corresponding period in 2018 – an increase by 12% and 30%, respectively.

According to data from the Central Bureau of Statistics, owned housing prices, in terms of nine months ended September 2020, increased by 2.4%, further to an increase by 3.4% in 2019 and an increase by 1.7% in the corresponding period last year.

Capital market

Trading in global equity markets in the third quarter of 2020 was mostly positive, spearheaded by stock exchanges in the USA. On the equity market in Israel, key benchmarks were mixed.

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

	2020			2019			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Tel-Aviv 35	(2.6)	1.0	(21.0)	4.2	1.1	3.6	5.4
Tel-Aviv 125	1.5	3.8	(21.0)	5.5	3.2	4.7	6.4
Tel-Aviv 90	11.8	8.6	(21.6)	8.9	9.2	7.1	10.2

Average daily trading volume in equities and convertible securities in the third quarter and in the first nine months of this year was NIS 1.7 billion and NIS 1.9 billion, compared to NIS 1.4 billion and NIS 1.3 billion in the corresponding periods last year, and average daily trading volume of NIS 1.3 billion in 2019.

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

	2020			2019			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
General debentures	1.1	2.9	(4.5)	1.0	2.6	1.7	3.2
CPI-indexed Government debentures	(1.4)	4.0	(3.0)	0.9	3.5	2.1	3.5
Non-linked Government debentures	(0.4)	3.0	(1.1)	0.9	3.5	1.4	2.3
Tel Bond 20	3.0	0.5	(7.1)	(0.1)	2.0	1.9	4.3
Tel Bond 40	2.0	2.3	(6.5)	2.1	1.1	2.1	3.2

Global economy

The US economy decreased in the first nine months of 2020 at an annualized 5.8%, compared to 2.3% growth for all of 2019. This is due to the Corona Virus pandemic and restrictions imposed on business activity. The Purchasing Manager Indexes declined to historical lows in April, for both service and industrial sectors, but have since recovered to indicate expansion. The US economy lost many jobs in April, but in subsequent months showed some recovery, with the unemployment rate as of October being at 6.9%. The Federal Reserve lowered interest rates in March, by two emergency steps, from 1.5%-1.75% to 0.0%-0.25%, in order to support the US economy. The Fed also announced that it would use all available tools and would continue to purchase debentures "at any price necessary" to safeguard market function. In early November 2020, the US presidential election took place and Joe Biden was elected president, to succeed Donald Trump. The new president would be sworn in on January 20, 2021. However, it would appear that the senate majority would remain republican, which would make it hard for the new president to carry out wide-ranging reforms.

The Euro Zone economy decreased in the first nine months of 2020 by an annualized 10.0%, compared to 1.2% growth for all of 2019. The Purchasing Manager Indexes declined to historical lows in April, in view of the Corona Virus outbreak across the continent, but have since recovered to a significant extent, recovering in July to indicate expansion. However, in September the index in service sectors once again pointed to a decrease, due to higher morbidity and renewed restrictions on activity in many countries. The ECB maintained interest rates un-changed (at -0.5%), but launched an emergency plan to purchase debentures valued at EUR 1.35 trillion, expanded the loan program for banks and reduced capital requirements for banks. On the fiscal side, EU countries announced a bail-out fund established, valued at EUR 750 billion. 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.

China's economy grew in the first nine months of 2020 by 0.7% compared to the corresponding period in the previous year, following 6.1% growth in 2019. The Industrial Output Index decreased in the first quarter of this year, but resumed growth in the second quarter, as restrictions on activity were eased. The Retail Trade Index also declined in the first quarter, but has improved somewhat since then and resumed its growth since August. Purchasing Manager Indexes declined sharply in February of this year, as lock-down was imposed in Hubei Province, but recovered significantly in March, indicating a rapid return of activity to a growth trajectory.

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

	2020			2019			
CPI	**Third Quarter**	**Second Quarter**	**First Quarter**	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Dow Jones	7.6	23.3	(23.2)	6.0	1.2	2.6	11.2
S&P 500	8.5	25.5	(20.0)	8.5	1.2	3.8	13.1
NASDAQ 100	12.4	35.7	(10.5)	12.7	1.0	4.0	16.6
DAX	3.7	29.0	(25.0)	9.6	0.2	7.6	9.2
FTSE 100	(4.9)	13.9	(24.8)	6.7	(0.2)	2.0	8.2
CAC	(2.7)	17.3	(26.5)	0.5	2.5	3.5	13.1
Nikkei	4.0	22.8	(20.0)	5.0	2.3	0.3	6.0

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 process, 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 risks, which may materialize over the longer term and subject to uncertainty with regard to their nature and impact on the Bank. Of these risks, one may note the following: information security and cyber risk, IT risk and reputation risk. As noted, the risks mapping is regularly reviewed to ensure that it encompasses all business operations at the Bank, market conditions and regulatory requirements.
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, including effect of the Corona Virus crisis and acquisition of Union Bank, see chapter "Risks Overview" as well as the Risks Report for the second quarter of 2020 and for 2019, available on the Bank website:
www.mizrahi-tefahot.co.il >> about the bank >> investor relations >> financial statements.

Independent Auditors' review report

The Independent Auditor has drawn attention in their review report to Note 10.B.3. with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Changes to critical accounting policies and to critical accounting estimates

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 10 years ended on the report date, and accounts for the effect of deterioration in macro-economic conditions and market activity due to the Corona Virus crisis, on borrowers at the Bank.
For more information see chapter "Significant Events in the Bank Group's Business" above.

For more information about provisional accounting treatment based on initial estimated valuation of Union Bank assets and liabilities, following the closing of the transaction whereby the Bank acquired Union Bank shares, see chapter "Policies and critical accounting estimates" below.

Material developments in revenues, expenses and other comprehensive income

Group net profit in the third quarter of 2020 amounted to NIS 387 million, compared to NIS 422 million in the corresponding period last year – a decrease by 8.3%. This reflects annualized return on equity of 9.5%, compared to 11.1% in the corresponding period last year.
Net profit for the Group in the first nine months of 2020 amounted to NIS 1,104 million, compared to NIS 1,402 million in the corresponding period last year – a decrease by 21.3%. This reflects a 9.0% annualized return on equity, compared to 12.4% in the corresponding period last year and 11.9% for all of 2019.
As noted above, as from September 30, 2020 the Bank consolidates the financial statements of Union Bank. The consolidation of these financial statements had no effect on the statements of profit and loss for the first nine months and for the third quarter of this year. For more information see chapter "Significant developments in management of Bank business" above and Note 17 to the financial statements.

Analysis of developments in revenues, expenses and other comprehensive income

Net interest revenues and non-interest financing revenues(1) in the third quarter of 2020 amounted to NIS 1,518 million, as described below, compared to NIS 1,361 million in the corresponding period last year, an increase by 11.5%.
Net interest revenues and non-interest financing revenues (1) in the first nine months of 2020 amounted to NIS 4,328 million, as described below, compared to NIS 4,281 million in the corresponding period last year, an increase by 1.1%.
Net interest revenues and non-interest financing revenues(1) from current operations in the third quarter of 2020 amounted to NIS 1,375 million, as described below, compared to NIS 1,372 million in the corresponding period last year, an increase by 0.2%.
Net interest revenues and non-interest financing revenues(1) from current operations in the first nine months of 2020 amounted to NIS 4,159 million, as described below, compared to NIS 4,078 million in the corresponding period last year, an increase by 2.0%.

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

	2020			2019				Change in %
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Third quarter of 2020 to third quarter of 2019
Interest revenues, net	1,464	1,323	1,347	1,352	1,214	1,543	1,231	
Non-interest financing revenues(1)	54	76	64	64	147	89	57	
Total financing revenues	**1,518**	**1,399**	**1,411**	**1,416**	**1,361**	**1,632**	**1,288**	**11.5**
Less:								
Effect of CPI	18	(40)	(83)	(36)	(81)	235	(42)	
Revenues from collection of interest on problematic debts	11	9	7	17	6	9	12	
Gains from realized debentures and available-for-sale securities and gains from debentures held for trading, net	14	54	28	3	30	1	12	
Effect of accounting treatment of derivatives at fair value and others(2)	100	8	43	44	34	30	(43)	
Total effects from other than current operations	**143**	**31**	**(5)**	**28**	**(11)**	**275**	**(61)**	
Total financing revenues from current operations	**1,375**	**1,368**	**1,416**	**1,388**	**1,372**	**1,357**	**1,349**	**0.2**

	First nine months		
	2020	2019	Change in %
Total financing revenues	**4,328**	**4,281**	**1.1**
Total effects from other than current operations	**169**	**203**	
Total financing revenues from current operations	**4,159**	**4,078**	**2.0**

Financing revenues from current operations increased in the third quarter of 2020 by 0.2% compared to the corresponding period last year, despite a decrease in the Bank of Israel interest rate to 0.1% in early April and the decrease in the US Federal Reserve interest rate, on two occasions in March, to 0.00%-0.25%.
Financing revenues from current operations increased in the first nine months of this year by 2.0% compared to the corresponding period last year, despite the negative effect of the lower interest rates in the USA and in Israel.

(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.

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

	Third Quarter			
Operating segment	**2020**	**2019**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	482	429	53	12.4
Households – other	309	339	(30)	(8.8)
Private banking	19	21	(2)	(9.5)
Total – individuals	**810**	**789**	**21**	**2.7**
Business operations:				
Small and micro businesses	285	295	(10)	(3.4)
Medium businesses	71	75	(4)	(5.3)
Large businesses	140	130	10	7.7
Institutional investors	19	25	(6)	(24.0)
Total – business operations	**515**	**525**	**(10)**	**(1.9)**
Financial management	142	(7)	149	–
Total activity in Israel	**1,467**	**1,307**	**160**	**12.2**
Overseas operations	51	54	(3)	(5.6)
Total	**1,518**	**1,361**	**157**	**11.5**

	First nine months			
Operating segment	**2020**	**2019**	**Change amount**	**Change rate (In %)**
Individuals:				
Households – housing loans	1,405	1,247	158	12.7
Households – other	963	1,011	(48)	(4.7)
Private banking	60	65	(5)	(7.7)
Total – individuals	**2,428**	**2,323**	**105**	**4.5**
Business operations:				
Small and micro businesses	860	862	(2)	(0.2)
Medium businesses	218	218	–	–
Large businesses	406	393	13	3.3
Institutional investors	74	87	(13)	(14.9)
Total – business operations	**1,558**	**1,560**	**(2)**	**(0.1)**
Financial management	196	230	(34)	(14.8)
Total activity in Israel	**4,182**	**4,113**	**69**	**1.7**
Overseas operations	146	168	(22)	(13.1)
Total	**4,328**	**4,281**	**47**	**1.1**

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.

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

	Third Quarter			First nine months		
Linkage segment	**2020**	**2019**	**Change in %**	**2020**	**2019**	**Change in %**
Israeli currency – non-linked	200,372	175,052	14.5	191,238	169,699	12.7
Israeli currency – linked to the CPI	59,854	56,944	5.1	59,642	56,135	6.2
Foreign currency (including Israeli currency linked to foreign currency)	11,225	12,184	(7.9)	11,099	13,576	(18.2)
Total	**271,451**	**244,180**	**11.2**	**261,979**	**239,410**	**9.4**

Changes to average balances of interest-bearing assets in the NIS-denominated segment are due to uses diverted from the foreign currency segment to the NIS-denominated non-linked segment, as part of asset and liability management at the Bank and due to increase in loans to the public.

The average balances in foreign currency decreased due, *inter alia*, to reduction of the Bank securities portfolio denominated in foreign currency.

Below are interest 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:

	Third Quarter		First nine months	
Linkage segments	**2020**	**2019**	**2020**	**2019**
Israeli currency – non-linked	1.94	2.05	2.02	2.08
Israeli currency – linked to the CPI	1.58	1.44	1.49	1.22
Foreign currency	1.34	1.04	1.13	0.73
Total	**1.83**	**1.72**	**1.80**	**1.75**

(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, the interest rate spread was affected by a decrease in Bank of Israel interest rates, which mostly affected the asset side, while the capacity to reflect the lower interest rate in deposit spreads is limited.

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

In the foreign currency segment, the interest rate spread was affected by the decrease in FED and LIBOR interest rates, which mostly affected the cost of sources, while expenses due to derivatives operations were not included in the interest rate spreads listed above. Including the effect of derivatives, in the first nine months of 2020 the interest rate spread in foreign currency decreased by 0.2% compared to the corresponding period last year, and the overall interest rate spread decreased by 0.02%.

For composition of interest rate 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 quarterly financial statements.

Expenses with respect to credit losses for the Group amounted to NIS 317 million in the third quarter of 2020, or an annualized rate of 0.59% of total loans to the public, net, compared with NIS 70 million in the corresponding period last year – an annualized rate of 0.14% of total loans to the public, net.

Expenses with respect to credit losses for the Group amounted to NIS 932 million in the first nine months of 2020, or an annualized rate of 0.57% of total loans to the public, net, compared with NIS 245 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.

The increase is primarily due to provision for credit losses on group basis due to the Corona Virus crisis, both with respect to debt in which a risk was found of potential impact to the client's repayment capacity, and with respect to an additional provision component ("Qualitative Component"), calculated by a methodology based on qualitative parameters (macro-economic benchmarks, such as unemployment and growth rates in conformity with the Bank of Israel forecast, and internal benchmarks, such as client ratings), and applies to all credit exposures at the Bank. In the third quarter of 2020, the risk associated with continued payment delays granted to clients was revised, including in cases where a further delay was granted. In conformity with Public Reporting Regulations and in view of supervisory expectation, and for the sake of being conservative, a layer with respect to these developments was added to calculation of the qualitative component of provisions for credit losses, primarily with respect to mortgage repayment delays. This is despite the decrease in mortgages in arrears to 1.2% as of September 30, 2020, compared to 1.4% as of December 31, 2019. The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators. For more information about the provision for credit losses included on these financial statements, see below in chapter "Analysis of evolution of revenues and expenses" and in Notes 6 and 13 to the financial statements.

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

	Third Quarter		First nine months	
	2020[1]	2019	2020	2019
Provision for credit losses on individual basis (including accounting write-offs)				
Increased expenses	109	90	387	316
Reduced expenses	(50)	(53)	(124)	(150)
Total individual provision	**59**	**37**	**263**	**166**
Provision for credit losses on Group basis:				
By extent of arrears	7	5	28	10
Other	251	28	641	69
Total expenses with respect to credit losses	**317**	**70**	**932**	**245**
Rate of the expenses with respect to credit losses as percentage of total loans to the public, net excluding Union Bank (annualized)	**0.59%**	**0.14%**	**0.57%**	**0.16%**
Of which: With respect to commercial loans other than housing loans	**0.87%**	**0.33%**	**1.18%**	**0.41%**
Of which: With respect to housing loans	**0.44%**	**0.04%**	**0.26%**	**0.03%**

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

					Rate of expenses with respect to credit losses[1] excluding Union Bank			
	Third Quarter		First nine months		Third Quarter		First nine months	
Operating segment	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Individuals:								
Households – housing loans	154	13	272	32	0.43	0.04	0.26	0.03
Households – other	36	21	120	72	0.70	0.39	0.78	0.45
Private banking	2	1	2	1	5.59	3.76	1.83	1.24
Total – individuals	**192**	**35**	**394**	**105**	**0.47**	**0.09**	**0.32**	**0.09**
Business operations:								
Small and micro businesses	63	44	218	110	1.08	0.85	1.24	0.70
Medium businesses	21	3	100	19	1.13	0.17	1.80	0.36
Large businesses	23	(8)	184	20	0.53	(0.20)	1.40	0.17
Institutional investors	16	(3)	22	(6)	3.61	(1.06)	1.64	(0.71)
Total – business operations	**123**	**36**	**524**	**143**	**0.98**	**0.32**	**1.39**	**0.42**
Financial management	–	1	1	(2)	–	–	–	–
Total activity in Israel	**315**	**72**	**919**	**246**	**0.59**	**0.14**	**0.58**	**0.17**
Overseas operations	2	(2)	13	(1)	0.21	(0.21)	0.46	(0.04)
Total	**317**	**70**	**932**	**245**	**0.59**	**0.14**	**0.57**	**0.16**

(1) Rate of the expenses with respect to credit losses as percentage of total loans to the public, net (annualized) in percent.

Expenses with respect to credit losses include an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the group-based provision. For more information see chapter "Significant Events in the Bank Group's Business" above.
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.
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 Risks Report on the Bank website.

Non-interest revenues amounted to NIS 461 million in the third quarter of 2020, compared with NIS 547 million in the corresponding period last year – a decrease by NIS 86 million. See explanation below.
Non-interest revenues in the first nine months of 2020 amounted to NIS 1,529 million, compared to NIS 1,497 million in the corresponding period last year, an increase by NIS 32 million. See explanation below.

Non-interest financing expenses in the third quarter of 2020 amounted to NIS 54 million, compared to NIS 147 million in the corresponding period last year.

Non-interest financing revenues in the first nine months of 2020 amounted to NIS 194 million, compared to NIS 293 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 instruments, 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 in the third quarter of 2020 amounted to NIS 399 million, compared to NIS 387 million in the corresponding period last year – an increase by 3.1%.

Commission revenues amounted to NIS 1,199 million in the first nine months of 2020, compared with NIS 1,143 million in the corresponding period last year – a year-over-year increase of 4.9%.

Other revenues in the third quarter of 2020, amounted to NIS 8 million compared with NIS 13 million in the corresponding period last year – a decrease by NIS 5 million.

Other revenues in the first nine months of 2020, amounted to NIS 136 million compared with NIS 61 million in the corresponding period last year – an increase by NIS 75 million.

Other revenues in the first nine months of 2020 included revenues amounting to NIS 82 million, included in the first quarter of 2020, with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Significant Events in the Bank Group's Business" above.

Furthermore, for the first nine months of 2020, this includes capital gains amounting to NIS 17 million, from realization of assets in conjunction with asset reorganization and improvements to the Bank's branch network, compared to NIS 26 million in the corresponding period last year.

Operating and other expenses amounted to NIS 977 million in the third quarter of 2020, compared with NIS 998 million in the corresponding period last year – a decrease by 2.1%.

Operating and other expenses amounted to NIS 2,944 million in the first nine months of 2020, compared with NIS 2,995 million in the corresponding period last year – a decrease by 1.7%.

See details by operating expense component below.

Payroll and associated expenses amounted to NIS 619 million in the third quarter of 2020, compared with NIS 650 million in the corresponding period last year – a decrease by 4.8%.

Payroll and associated expenses amounted to NIS 1,859 million in the first nine months of 2020, compared with NIS 1,934 million in the corresponding period last year – a decrease by 3.9%.

The decrease in payroll expenses is primarily due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 208 million in the third quarter of 2020, compared with NIS 193 million in the corresponding period last year – an increase by 7.8%.

Maintenance and depreciation expenses for buildings and equipment amounted to NIS 621 million in the first nine months of 2020, compared with NIS 578 million in the corresponding period last year – an increase by 7.4%.

The increase in maintenance expenses is primarily due to increase in rent expenses, further to application of the new standard on leases, to increase in security expenses due to the Corona Virus pandemic and to increase in depreciation expenses with respect to technology investments. For more information about application of the standard concerning leases, see Note 1 to the financial statements.

Other expenses in the third quarter of 2020 amounted to NIS 150 million, compared to NIS 155 million in the corresponding period last year – a decrease by 3.2%.

Other expenses amounted to NIS 464 million in the first nine months of 2020, compared with NIS 483 million in the corresponding period last year – a decrease by 3.9%.

The decrease in other expenses is primarily due to decrease in legal expenses and in actuarial components charged in conformity with accounting principles to Other Expenses, due to changes in interest rate curves.

Cost-Income ratio information(1) (in %):

	2020			2019			
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Cost-income ratio	50.8	52.8	(2)52.4	54.5	56.7	49.9	58.1

	First nine months		All of
	2020	2019	2019
Cost-income ratio	52.0	54.6	54.6

(1) Total operating and other expenses to total operating and financing revenues and expenses with respect to credit losses.
(2) The cost-income ratio net of revenues from agreement with insurers – 54.7%.

Pre-tax profit for the Group in the third quarter of 2020 amounted to NIS 631 million, compared to NIS 693 million in the corresponding period last year, a decrease by NIS 62 million. **See detailed explanation above.**

Pre-tax profit for the Group in the first nine months of 2020 amounted to NIS 1,787 million, compared to NIS 2,245 million in the corresponding period last year, a decrease by NIS 458 million. See detailed explanation above.

The provision rate for taxes on profit in the third quarter of 2020 was 35.2% – compared to 36.2% in the corresponding period last year.

The rate of provision for taxes on profit in the first nine months of 2020 was 34.6% – compared to 34.8% in the corresponding period last year.

The rate of provision for taxes on profit was affected, inter alia, by disallowed expenses for tax purposes with respect to the Bank's employee stock option plans.

Bank share of after-tax profit of associated companies – in the third quarter and in the first nine months of 2020 there was no profit with respect to associated companies, similar to the corresponding periods last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the third quarter of 2020 amounted to NIS 22 million, compared to NIS 20 million in the corresponding period last year.

The share of the non-controlling interests in net results of subsidiaries attributable to Bank Yahav in the first nine months of 2020 amounted to NIS 65 million, compared to NIS 61 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the third quarter of 2020 amounted to NIS 387 million, compared to NIS 422 million in the corresponding period last year.

Net profit attributable to shareholders of the Bank in the first nine months of 2020 amounted to NIS 1,104 million, compared to NIS 1,402 million in the corresponding period last year.

Shareholder equity of the Bank includes an increase by NIS 16 million and NIS 42 million in the third quarter and in the first nine months of this year, respectively, primarily due to adjustments with respect to employee benefits and to adjustments with respect to presentation of debentures available for sale at fair value ("Other comprehensive income attributable to shareholders of the Bank"), compared to decrease by NIS 34 million and a increase by NIS 28 million in the corresponding periods last year. For more information see Note 4 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(4) at the end of the quarter (in %):

	2020			2019			
	Third Quarter	Second quarter of	First Quarter	Fourth Quarter	Third Quarter	Second quarter of	First Quarter
Net return on equity	9.5	9.0	(5)9.1	11.5	11.1	15.8	11.3
Ratio of Tier I capital to risk components at end of quarter	9.98	9.96	9.89	10.14	10.13	10.23	10.12
(Quarterly) liquidity coverage ratio	128	122	117	121	122	118	120
Leverage ratio at end of quarter	5.23	5.36	5.40	5.55	5.62	5.67	5.54

	First nine months		All of
	2020	2019	2019
Net return on equity	9.0	12.4	11.9

(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) Net profit return on equity, excluding revenues from agreement with insurers: 7.7%.

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

	Third Quarter		First nine months		All of
	2020	2019	2020	2019	2019
Basic earnings per share	1.65	1.80	4.69	5.99	7.86
Diluted earnings per share	1.65	1.79	4.69	5.96	7.83
Dividends per share (in Agorot)	–	167	75	167	178

(1) For more information about the resolution by the Bank Board of Directors to avoid dividend distributions, see chapter "Dividends" below.

For more information about the resolution by the Bank Board of Directors to avoid dividend distributions, for as long as the interim directive to reduce the minimum capital ratios the Bank is required to maintain is in effect, see chapter "Dividends" below.

Analysis of developments in assets, liabilities, equity and capital adequacy

Assets and liabilities

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

					Change in % excluding Union Bank, compared to	
			September 30,	December 31,	September 30,	December 31,
	2020		2019	2019	2019	2019
	Including Union Bank	Excluding Union Bank				
Balance sheet total	347,050	300,884	267,001	273,244	12.7	10.1
Cash and deposits with banks	77,738	67,457	47,125	51,672	43.1	30.5
Loans to the public, net	241,765	216,777	202,578	204,708	7.0	5.9
Securities	18,258	9,233	10,566	10,113	(12.6)	(8.7)
Buildings and equipment	1,646	1,433	1,384	1,457	3.5	(1.6)
Deposits from the public	276,156	239,403	207,832	210,984	15.2	13.5
Deposits from banks	2,786	2,667	673	714	296.3	273.5
Debentures and subordinated notes	32,995	29,217	30,442	33,460	(4.0)	(12.7)
Shareholders' equity	18,272	17,065	15,755	16,033	8.3	6.4

Cash and Deposits with Banks – Cash and deposits with banks amounted to NIS 77.7 billion, of which NIS 10.3 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, cash and deposits with banks – the balance of cash and deposits with banks increased in the first nine months of 2020 by NIS 15.8 billion. The increase in this 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 September 30, 2020 accounted for 70%. Excluding the effect of Union Bank, loans to the public, net – loans to the public, net accounted for 72% of total assets, compared to 75% at the end of 2019. In the first nine months of 2020, loans to the public, net excluding Union Bank increased by NIS 12.1 billion, or 5.9%.

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 Risks Report on the Bank website.

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

					Change in % over	
			September 30,	December 31,	September 30,	December 31,
		2020	2019	2019	2019	2019
	Including Union Bank	Excluding Union Bank				
Israeli currency						
Non-linked	166,916	147,471	135,345	137,223	9.0	7.5
CPI-linked	63,675	58,826	56,627	57,272	3.9	2.7
Foreign currency and foreign currency linked	11,087	10,480	10,606	10,213	(1.2)	2.6
Non-monetary	(1)87	–	–	–	–	–
Total	**241,765**	**216,777**	**202,578**	**204,708**	**7.0**	**5.9**

(1) Share loaning transactions, included in conformity with Public Reporting Regulations under Loans to the Public.

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

					Change in % excluding Union Bank, compared to	
			September 30,	December 31,	September 30,	December 31,
	2020	2020	2019	2019	2019	2019
	Including Union Bank	Excluding Union Bank				
Individuals:						
Households – housing loans	152,362	142,155	132,371	134,637	7.4	5.6
Households – other	25,358	20,536	21,310	21,632	(3.6)	(5.1)
Private banking	168	146	108	224	35.2	(34.8)
Total – individuals	**177,888**	**162,837**	**153,789**	**156,493**	**5.9**	**4.1**
Business operations:						
Small and micro businesses	27,911	23,436	20,830	20,857	12.5	12.4
Medium businesses	9,410	7,441	7,041	7,063	5.7	5.4
Large businesses	20,950	17,512	16,007	15,152	9.4	15.6
Institutional investors	1,852	1,797	1,129	1,563	–	15.0
Total – business operations	**60,123**	**50,186**	**45,007**	**44,635**	**11.5**	**12.4**
Overseas operations	3,754	3,754	3,782	3,580	(0.7)	4.9
Total	**241,765**	**216,777**	**202,578**	**204,708**	**7.0**	**5.9**

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.

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 loss:

Reported amounts												As of September 30, 2020
(NIS in millions)	Including Union Bank				Excluding Union Bank				Union Bank data			
	Credit risk[1]				Credit risk[1]				Credit risk[1]			
	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total	Commercial	Housing	Individual	Total
1. Credit risk at performing credit rating[2]												
Balance sheet credit risk	62,138	151,333	23,708	237,179	52,574	141,169	18,880	212,623	9,564	10,164	4,828	24,556
Off balance sheet credit risk[3]	49,433	13,276	13,691	76,400	43,528	12,429	12,290	68,247	5,905	847	1,401	8,153
Total credit risk at performing credit rating	**111,571**	**164,609**	**37,399**	**313,579**	**96,102**	**153,598**	**31,170**	**280,870**	**15,469**	**11,011**	**6,229**	**32,709**
2. Credit risk other than at performing credit rating												
A. Non-Problematic[4]	4,407	827	305	5,539	4,407	827	305	5,539	–	–	–	–
B. Total problematic	2,781	1,364	239	4,384	2,310	1,321	207	3,838	471	43	32	546
Special supervision[5]	858	1,232	70	2,160	680	1,232	55	1,967	178	–	15	193
Inferior	393	42	73	508	367	–	64	431	26	42	9	77
Impaired	1,530	90	96	1,716	1,263	89	88	1,440	267	1	8	276
Total credit risk other than at performing credit rating	**7,188**	**2,191**	**544**	**9,923**	**6,717**	**2,148**	**512**	**9,377**	**471**	**43**	**32**	**546**
Of which: Balance sheet credit risk	5,586	2,191	517	8,294	5,228	2,148	486	7,862	358	43	31	432
Of which: Off balance sheet credit risk[3]	1,602	–	27	1,629	1,489	–	26	1,515	113	–	1	114
Of which: Non-impaired debts in arrears 90 days or longer[5]	40	1,245	40	1,325	32	1,220	18	1,270	8	25	22	55
Total credit risk, including risk to the public[6]	**118,759**	**166,800**	**37,943**	**323,502**	**102,819**	**155,746**	**31,682**	**290,247**	**15,940**	**11,054**	**6,261**	**33,255**
Non-performing assets[7]	**1,351**	**92**	**67**	**1,510**	**1,171**	**89**	**55**	**1,315**	**180**	**3**	**12**	**195**

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 loss: – continued:

Reported amounts	**As of September 30, 2019**				**As of December 31, 2019**			
(NIS in millions)	**Credit risk[1]**				**Credit risk[1]**			
	Commercial	**Housing**	**Individual**	**Total**	**Commercial**	**Housing**	**Individual**	**Total**
1. Credit risk at performing credit rating[2]								
Balance sheet credit risk	48,273	131,023	19,910	199,206	48,582	133,145	19,993	201,720
Off balance sheet credit risk[3]	34,458	11,386	11,119	56,963	38,035	13,348	11,301	62,684
Total credit risk at performing credit rating	**82,731**	**142,409**	**31,029**	**256,169**	**86,617**	**146,493**	**31,294**	**264,404**
2. Credit risk other than at performing credit rating								
A. Non-Problematic[4]	2,354	772	396	3,522	1,520	899	403	2,822
B. Total problematic	2,008	1,421	225	3,654	2,113	1,532	234	3,879
Special supervision[5]	768	1,369	108	2,245	716	1,476	117	2,309
Inferior	110	–	33	143	212	–	30	242
Impaired	1,130	52	84	1,266	1,185	56	87	1,328
Total credit risk other than at performing credit rating	**4,362**	**2,193**	**621**	**7,176**	**3,633**	**2,431**	**637**	**6,701**
Of which: Balance sheet credit risk	3,327	2,193	596	6,116	2,845	2,431	633	5,909
Of which: Off balance sheet credit risk[3]	1,035	–	25	1,060	788	–	4	792
Of which: Non-impaired debts in arrears 90 days or longer[5]	37	1,369	21	1,427	37	1,476	24	1,537
Total credit risk, including risk to the public[6]	**87,093**	**144,602**	**31,650**	**263,345**	**90,250**	**148,924**	**31,931**	**271,105**
Non-performing assets[7]	**1,050**	**52**	**54**	**1,156**	**1,119**	**56**	**55**	**1,230**

(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) Credit risk whose credit rating as of the report date matches the credit rating for new credit performance, in conformity with Bank policies.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits.
(4) Credit in good standing at a low rating, for which Bank policy includes specific restrictions on extending such credit.
(5) 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.
(6) On- and off-balance sheet credit risk, including with respect to derivatives. Includes: Debts, debentures, securities loaned or purchased in resale agreements.

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, derivatives 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 un-utilized credit facilities. Total Group credit risk as of September 30, 2020 amounted to NIS 324 billion. As of September 30, 2020, total credit risk to the public excluding Union Bank amounted to NIS 289 billion, compared to NIS 271 billion as of December 31, 2019 – an increase by 6.6%.

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". See Notes 6 and 13 to the financial statements for further information.

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

					Change in % excluding Union Bank, compared to	
		September 30,		December 31,	September 30,	December 31,
	2020	2020	2019	2019	2019	2019
	Including Union Bank	Excluding Union Bank				
Off balance sheet financial instruments other than derivatives[(1)]:						
Un-utilized debitory account and other credit facilities in accounts available on demand	19,933	19,095	15,436	14,734	23.7	29.6
Guarantees to home buyers	12,162	10,976	11,130	10,672	(1.4)	2.8
Irrevocable commitments for loans approved but not yet granted	27,612	22,836	18,970	22,466	20.4	1.6
Un-utilized revolving credit card facilities	10,112	8,901	7,983	8,160	11.5	9.1
Commitments to issue guarantees	11,089	9,792	8,243	9,993	18.8	(2.0)
Guarantees and other commitments	9,365	8,589	7,952	8,613	8.0	(0.3)
Loan guarantees	3,257	2,996	2,506	2,898	19.6	3.4
Documentary credit	274	255	202	206	26.2	23.8
Financial derivatives[(2)]:						
Total par value of derivative financial instruments	297,865	231,408	243,177	265,277	(4.8)	(12.8)
(On-balance sheet) assets with respect to derivatives	3,238	2,336	2,717	2,578	(14.0)	(9.4)
(On-balance sheet) liabilities with respect to derivatives	3,545	2,415	2,920	2,686	(17.3)	(10.1)

(1) Contractual balances or their stated amounts at the end of the period, before effect of provision for credit losses. See Note 11 to the financial statements for additional information.

(2) Includes forward transactions, swaps, options and credit derivatives.

For more information about on-balance sheet and off-balance sheet credit risk, see chapter "Risks" below and the Risks Report on the Bank website.

Securities – Investments in securities amounted to NIS 18.3 billion, of which NIS 9.0 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, investments in securities increased in the first nine months of 2020 by NIS 0.9 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)	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value	Carrying amount
			September 30, 2020 (including Union Bank)			Excluding Union Bank
Debentures held to maturity	3,996	3,996	62	(1)	4,057	3,996
Debentures available for sale	12,424	12,402	(2)27	(2)(5)	12,424	4,845
Investment in shares not held for trading	380	347	(3)33	–	380	138
Securities held for trading	1,458	1,459	–	(3)(1)	1,458	254
Total securities	**18,258**	**18,204**	**122**	**(7)**	**18,319**	**9,233**
					September 30, 2019	
Debentures held to maturity	4,043	4,043	65	(1)	4,107	
Debentures available for sale	5,989	5,945	(2)53	(2)(9)	5,989	
Investment in shares not held for trading	157	111	(3)46	–	157	
Debentures held for trading	377	376	(3)1	–	377	
Total securities	**10,566**	**10,475**	**165**	**(10)**	**10,630**	
					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	149	104	(3)45	–	149	
Debentures held for trading	768	770	–	(3)(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) 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.

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

	September 30, 2020		September 30, 2019	December 31, 2019	Change in % over September 30, 2019	Change in % over December 31, 2019
	Including Union Bank	Excluding Union Bank				
Israeli currency						
Non-linked	10,561	4,848	4,501	5,038	7.7	(3.8)
CPI-linked	2,089	949	619	607	53.3	56.3
Foreign currency and foreign currency linked	5,206	3,298	5,289	4,319	(37.6)	(23.6)
Non-monetary items	402	138	157	149	(12.1)	(7.4)
Total	**18,258**	**9,233**	**10,566**	**10,113**	**(12.6)**	**(8.7)**

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

	Carrying amount as of			
	September 30, 2020		September 30, 2019	December 31, 2019
	Including Union Bank	Excluding Union Bank		
Government debentures:				
Government of Israel	14,634	7,399	7,404	7,821
Government of USA	1,168	1,168	2,679	1,781
Total government debentures	**15,802**	**8,567**	**10,083**	**9,602**
Debentures of financial institutions in Israel	**652**	**386**	**–**	**–**
Debentures of banks and financial institutions in foreign countries:				
South Korea	109	109	–	108
USA	59	–	(1)70	(1)70
Switzerland	20	–	–	–
Germany	10	–	44	44
Other	47	–	(1)212	(1)140
Total debentures of banks in developed nations	**245**	**109**	**326**	**362**
Corporate debentures (composition by sector):				
Rental real estate	463	–	–	–
Supply of electricity, gas, steam and AC	169	32	–	–
Mining and excavation	79	–	–	–
Industry – chemical industry	76	–	–	–
Construction	58	–	–	–
Automobile trading	51	–	–	–
Public and community services	26	1	–	–
Other	187	–	–	–
Total corporate debentures	**1,109**	**33**	**–**	**–**
Asset-backed corporate debentures (ABS) (by economic sector):				
Mining and excavation	35	–	–	–
Others	15	–	–	–
Total asset-backed corporate debentures (ABS)	**50**	**–**	**–**	**–**
Investment in shares not held for trading	**380**	**138**	**157**	**149**
Of which: Shares for which no fair value is available(2)	207	51	57	49
Shares and other securities held for trading	**20**	**–**	**–**	**–**
Total securities	**18,258**	**9,233**	**10,566**	**10,113**

(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 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 5 to the financial statements.

Buildings and equipment – The balance of buildings and equipment as of September 30, 2020 amounted to NIS 1.6 billion, of which NIS 0.2 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, buildings and equipment decreased in the first nine months of 2020 by NIS 24 million. The decrease in buildings and equipment is due to current change with respect to depreciation and to new investments, primarily in technology.

Deposits from the public – As of September 30, 2020, deposits from the public accounted for 80% of total assets on consolidated basis. This rate remains un-changed excluding the effect of Union Bank, compared to 77% as of December 31, 2019. In the first nine months of 2020, deposits from the public excluding Union Bank increased by NIS 28.4 billion, or 13.5% (increase by 15.2% over the corresponding period last year).

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

	2020 Including Union Bank	2020 Excluding Union Bank	September 30, 2019	December 31, 2019	Change in % over September 30, 2019	Change in % over December 31, 2019
Israeli currency						
Non-linked	210,232	181,268	153,246	158,980	18.3	14.0
CPI-linked	15,602	14,930	15,119	14,345	(1.3)	4.1
Foreign currency and foreign currency linked	50,235	43,205	39,467	37,659	9.5	14.7
Non-monetary	87	–	–	–	–	–
Total	**276,156**	**239,403**	**207,832**	**210,984**	**15.2**	**13.5**

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

	2020 Including Union Bank	2020 Excluding Union Bank	September 30, 2019	December 31, 2019	Change in % excluding Union Bank, compared to September 30, 2019	Change in % excluding Union Bank, compared to December 31, 2019
Individuals:						
Households – other	112,646	100,059	86,049	86,076	16.3	16.2
Private banking	21,093	17,088	14,464	14,839	18.1	15.2
Total – individuals	**133,739**	**117,147**	**100,513**	**100,915**	**16.5**	**16.1**
Business operations:						
Small and micro businesses	42,767	36,118	26,016	26,725	38.8	35.1
Medium businesses	13,037	10,426	8,394	8,935	24.2	16.7
Large businesses	37,864	29,624	25,276	25,155	17.2	17.8
Institutional investors	43,872	41,211	42,802	45,330	(3.7)	(9.1)
Total – business operations	**137,540**	**117,379**	**102,488**	**106,145**	**14.5**	**10.6**
Overseas operations	4,877	4,877	4,831	3,924	1.0	24.3
Total	**276,156**	**239,403**	**207,832**	**210,984**	**15.2**	**13.5**

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.

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

	2020 Including Union Bank	2020 Excluding Union Bank	September 30, 2019	December 31, 2019
Maximum deposit				
Up to 1	92,455	81,135	73,306	72,152
Over 1 to 10	72,047	60,570	49,878	50,875
Over 10 to 100	40,451	33,616	28,264	29,582
Over 100 to 500	31,596	24,976	21,459	22,193
Above 500	39,607	39,106	34,925	36,182
Total	**276,156**	**239,403**	**207,832**	**210,984**

For more information about composition of deposits from the public, see Note 7 to the financial statements.

Deposits from banks – Deposits from banks as of September 30, 2020 amounted to NIS 2.8 billion – of which NIS 0.1 billion with respect to consolidation of Union Bank financial statements. Excluding the effect of Union Bank, deposits from banks amounted to NIS 2.7 billion, compared to NIS 0.7 billion as of December 31, 2019. The increase in deposits from banks is primarily due to a monetary loan amounting to NIS 1.8 billion received from the Bank of Israel in conjunction with the Bank of Israel plan for providing long-term loans to increase credit supply to micro and small businesses.

Debentures and subordinated notes – The balance of debentures and subordinated notes as of September 30, 2020 amounted to NIS 33.0 billion, of which NIS 3.8 billion with respect to consolidation of Union Bank's financial statements. Excluding the effect of Union Bank, the balance of debentures and subordinated notes amounted to NIS 29.2 billion, a decrease by NIS 4.2 billion compared to the balance as of December 31, 2019. See also chapter "Developments in financing sources" above.

Capital, capital adequacy and leverage

Shareholder equity attributable to shareholders of the Bank – Shareholder equity attributable to equity holders of the Bank as of September 30, 2020 amounted to NIS 18.3 billion, compared to NIS 16.0 billion and NIS 15.8 billion as of December 31, 2019 and as of September 30, 2019. The increase in shareholder equity is due, *inter alia*, to the Union Bank acquisition transaction, whereby the Bank acquired 100% of Union Bank shares in exchange for issuing Bank shares amounting to NIS 1.2 billion.

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

	September 30,		December 31,
	2020	2019	2019
Share capital and premium(1)(5)	3,445	2,218	2,232
Capital reserve from benefit from share-based payment transactions	75	63	70
Total cumulative other loss(2)(3)	(290)	(318)	(332)
Retained earnings (4)	15,042	13,792	14,063
Total	**18,272**	**15,755**	**16,033**

(1) For more information about share issuance, see condensed statement of changes to shareholders' equity.
(2) For more information about other comprehensive income (loss), see Note 4 to the financial statements.
(3) Includes actuarial liability with respect to employees' retirement program, see Notes 22 and 25 to the 2019 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.
(5) Includes shares issued in conjunction with acquisition of Union Bank. For more information see Notes 17.B. and 9.F.

The ratio of shareholder equity to total assets for the Group as of September 30, 2019 was 5.26%, compared to 5.87% as of December 31, 2019 and 5.90% as of September 30, 2019.

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 September 30, 2020, 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).

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 0.05%. Change in risk assets by NIS 1 billion would result in a change in Tier I capital adequacy ratio of 0.05%.

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 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.

On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. On April 27, 2020, a further update was issued, whereby the additional capital requirement of 1% of the outstanding balance of housing loans would not apply to housing loans to be provided during this crisis period. Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of September 30, 2020, would be at least 8.71%, and the total capital ratio would be at least 12.21% (with additional safety margins as appropriate). For more information including with regard to extension of relief measures through March 31, 2021, see Note 9 to the financial statements.

For details of initial consolidation of Union Bank and deferred credit balance included on the consolidated balance sheet, see Note 17.B. to the financial statements.

For details of the balance included in the Bank's regulatory capital for calculation of the ratio of capital to risk elements, see Note 9.F. to the financial statements.

Below is information about supervisory capital and risk assets on the consolidated report (NIS in millions):

	2020 Including Union Bank	2020 Excluding Union Bank	As of September 30, 2019	As of December 31, 2019
Capital for purpose of calculating the capital ratio				
Tier I shareholders' equity	19,708	17,432	16,244	16,520
Tier I capital	19,708	17,432	16,244	16,520
Tier II capital	6,780	6,218	5,799	6,090
Total capital	**26,488**	**23,650**	**22,043**	**22,610**
Weighted risk asset balances				
Credit risk	182,832	160,760	148,494	150,878
Market risks	2,022	1,629	1,778	1,791
Operational risk	12,648	10,933	10,034	10,189
Total weighted risk asset balances	**197,502**	**173,322**	**160,306**	**162,858**

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

	As of September 30, 2020		As of September 30, 2019	As of December 31, 2019
	Including Union Bank	Excluding Union Bank		
1. Consolidated data (in percent)				
Ratio of Tier I capital to risk components	9.98	10.06	10.13	10.14
Ratio of total capital to risk components	13.41	13.65	13.75	13.88
Minimum Tier I capital ratio required by Supervisor of Banks	8.71	8.76	9.83	9.83
Total minimum capital ratio required by the directives of the Supervisor of Banks	12.21	12.26	13.33	13.33
2. Significant subsidiaries (in percent)				
Bank Yahav for Government Employees Ltd. and its subsidiaries				
Ratio of Tier I capital to risk components	9.38		9.55	9.51
Ratio of total capital to risk components	12.78		13.34	13.22
Minimum Tier I capital ratio required by Supervisor of Banks	8.00		9.00	9.00
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.50		12.50	12.50
Union Bank of Israel Ltd.				
Ratio of Tier I capital to risk components	10.01			
Ratio of total capital to risk components	13.30			
Minimum Tier I capital ratio required by Supervisor of Banks	8.42			
Total minimum capital ratio required by the directives of the Supervisor of Banks	11.92			

For more information about the Board of Directors resolutions with regard to capital to risk components ratio and to dividend distribution policy, see Note 24 to the 2019 financial statements and the chapter "Analysis of composition of assets, liabilities, capital and capital adequacy" (Dividend distribution policy) below under reference to dividend policy.

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

	As of September 30, 2020				As of September 30, 2019		As of December 31, 2019	
Exposure group	**Weighted risk asset balances**	**Capital requi-rement(1)**	**Weighted risk asset balances**	**Capital requi-rement(1)**	**Weighted risk asset balances**	**Capital requi-rement(2)**	**Weighted risk asset balances**	**Capital requi-rement(3)**
	Including Union Bank		**Excluding Union Bank**					
Sovereign debts	101	12	101	12	215	29	90	12
Public sector entity debts	352	43	261	32	216	29	208	28
Banking corporation debts	1,255	153	1,000	123	707	94	517	69
Corporate debts	55,645	6,794	47,932	5,876	43,615	5,814	44,210	5,893
Debts secured by commercial real estate	6,960	850	3,986	489	3,496	466	4,101	547
Retail exposure to individuals	18,280	2,232	14,454	1,772	15,175(4)	2,023(4)	15,372	2,049
Loans to small businesses	10,154	1,240	9,510	1,166	8,320(4)	1,109(4)	8,309	1,108
Residential mortgages	81,655	9,970	76,946	9,434	70,789	9,436	72,671	9,687
Other assets	7,894	964	6,158	755	5,495	732	5,016	669
Total	**182,296**	**22,258**	**160,348**	**19,659**	**148,028**	**19,732**	**150,494**	**20,062**

(1) The capital requirement was calculated at 12.21% of risk asset balances. The capital requirement with respect to balance excluding Union Bank was calculated at 12.26%. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 9.E. to the financial statements.
(2) The capital requirement was calculated at 13.33% of risk asset balances.
(3) The capital requirement was calculated at 13.33% of risk asset balances.
(4) Reclassified.

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

	As of September 30, 2020				As of September 30, 2019		As of December 31, 2019	
	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(1)	Weighted risk asset balances	Capital requirement(2)	Weighted risk asset balances	Capital requirement(3)
	Including Union Bank		Excluding Union Bank					
Market risk	2,022	247	1,629	200	1,778	236	1,791	239
CVA risk with respect to derivatives(4)	536	65	412	51	466	62	384	51
Operational Risk(5)	12,648	1,544	10,933	1,340	10,034	1,338	10,189	1,358
Total	**15,206**	**1,856**	**12,974**	**1,591**	**12,278**	**1,636**	**12,364**	**1,648**
Total risk assets	**197,502**	**24,114**	**173,322**	**21,250**	**160,306**	**21,368**	**162,858**	**21,710**

(1) The capital requirement was calculated at 12.21% of risk asset balances. The capital requirement with respect to balance excluding Union Bank was calculated at 12.26%. For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see Note 9 to the financial statements.
(2) The capital requirement was calculated at 13.33% of risk asset balances.
(3) The capital requirement was calculated at 13.33% of risk asset balances.
(4) Credit Value Adjustments – mark to market with respect to credit risk of counter-party, in conformity with Basel III provisions.
(5) 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, to financing transactions for securities and off-balance sheet items.

On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5%, compared to 5% prior to this change, from November 15, 2020 through March 31, 2021.

For more information see Note 9.E. to the financial statements.

Below is the Bank's leverage ratio:

	2020		As of September 30, 2019	As of December 31, 2019
	Including Union Bank	Excluding Union Bank		
1. Consolidated data				
Tier I capital	19,708	17,433	16,244	16,520
Total exposure	376,614	328,359	288,965	297,779
				In %
Leverage ratio	5.23	5.31	5.62	5.55
Minimum leverage ratio required by the Supervisor of Banks	5.00	5.00	5.00	5.00
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and its subsidiaries				
Leverage ratio	5.04		5.42	5.56
Minimum leverage ratio required by the Supervisor of Banks	4.70		4.70	4.70
Union Bank of Israel Ltd.				
Leverage ratio	5.03			
Minimum leverage ratio required by the Supervisor of Banks	5.00			

Dividends

Dividend distribution policies

For more information about the Bank's revised dividend policy for 2018-2021, see chapter "Dividends" in the Report of the Board of Directors and Management for 2019.

For more information about the interim directive issued by the Supervisor of Banks with regard to relief for minimum capital ratios which banks are required to maintain, and with regard to expectation that banks would use the excess capital, due to reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, including dividend distribution or share buy-back, see chapter "Significant Events in the Bank Group's Business" above.

Further to the foregoing, on April 13, 2020, the Board of Directors resolved that the Bank would avoid any dividend distributions (including buy-back of Bank shares), for as long as this interim directive is in effect; that is due, *inter alia*, to the position of the Supervisor of Banks as noted above and with due attention to the foregoing, including the uncertainty associated with implications of the Corona Virus crisis for the Bank, as set forth above.

Dividends distribution

Below are details of dividends distributed by the Bank since 2019 (in reported amounts):

Declaration date	Payment date	Dividends per share	Dividends as percent of profit	Total dividends paid
		(Agorot)		(NIS in millions)
August 12, 2019	August 27, 2019	167.21	[(2)]0.40	392.0
November 18, 2019	December 3, 2019	71.89	0.40	168.8
Total dividends distributed in 2019[(1)]				**392.0**
February 24, 2020	March 11, 2020	74.89	0.40	176.0

(1) Total dividends distributed with respect to 2019 earnings – NIS 736.8 million.

(2) 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):

					Change in % over	
			September 30,	December 31,	September 30,	December 31,
	2020		2019	2019	2019	2019
	Including Union Bank	Excluding Union Bank				
Securities[(1)]	439,084	414,251	432,452	452,549	1.5	(3.0)
Assets of provident funds for which the Group provides operating services	93,502	93,502	90,964	93,336	2.8	0.2
Assets held in trust by the Bank Group	58,414	58,414	70,975	68,308	(17.7)	(14.5)
Assets of mutual funds for which the Bank provides operating services	26,399	11,701	12,883	13,546	(9.2)	(13.6)
Other assets under management[(2)]	14,912	14,912	15,338	15,519	(2.8)	(3.9)

(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) 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.

Financial Information by 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 "other", 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 12 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
- 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 about principles for attribution of balances, revenues and expenses to clients, see Note 12 to the financial statements.

As from September 30, 2020, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on initial estimate prepared as of the reporting date (PPA Provisional). For more information see chapter "Significant developments in management of Bank business" below and Note 17 to the financial statements.
For more information and detailed description of the segments, see chapter "Other Information about the Bank and Management thereof" on the 2019 financial statements.

Financial Information by Supervisory Operating Segments:

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

	Net profit		Share of total net profit (in %)	
	First nine months		First nine months	
	2020	2019	2020	2019
Individuals:				
Households – housing loans	500	552	45.3	39.3
Households – other	8	37	0.7	2.6
Private banking	(1)62	(1)	5.6	–
Total – individuals	**570**	**588**	**51.6**	**41.9**
Business operations:				
Small and micro businesses	265	315	24.0	22.5
Medium businesses	60	113	5.4	8.1
Large businesses	116	220	10.5	15.7
Institutional investors	3	21	0.3	1.5
Total – business operations	**444**	**669**	**40.2**	**47.8**
Financial management	29	59	2.6	4.2
Total activity in Israel	**1,043**	**1,316**	**94.4**	**93.9**
Overseas operations	61	86	5.6	6.1
Total	**1,104**	**1,402**	**100.0**	**100.0**

(1) Includes revenues of NIS 82 million (NIS 54 million after tax) with respect to indemnification from insurers. For more information see chapter "Overview, targets and strategy".

For more information about operating results in conformity with the management approach, see Note 12 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.

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.

Operating results in the household segment

	For the nine months ended September 30					
	2020			2019		
	NIS in millions					
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	963	1,405	2,368	1,011	1,247	2,258
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	420	111	531	389	119	508
Total revenues	**1,383**	**1,516**	**2,899**	**1,400**	**1,366**	**2,766**
Expenses with respect to credit losses	120	272	392	72	32	104
Operating and other expenses	1,200	479	1,679	1,221	487	1,708
Profit before provision for taxes	63	765	828	107	847	954
Provision for taxes	22	265	287	37	295	332
After-tax profit	41	500	541	70	552	622
Net profit:						
Attributable to non-controlling interests	(33)	–	(33)	(33)	–	(33)
Attributable to shareholders of the banking corporation	**8**	**500**	**508**	**37**	**552**	**589**
Balance sheet – key items:						
Loans to the public (ending balance) including Union Bank	25,670	153,298	178,968	21,565	133,042	154,607
Loans to the public (ending balance) excluding Union Bank	20,848	143,091	163,939	21,565	133,042	154,607
Loans to the public, net (ending balance) including Union Bank	25,358	152,362	177,720	21,310	132,371	153,681
Loans to the public, net (ending balance) excluding Union Bank	20,536	142,155	162,691	21,310	132,371	153,681
Deposits from the public (ending balance) including Union Bank	112,646	–	112,646	86,049	–	86,049
Deposits from the public (ending balance) excluding Union Bank	100,059	–	100,059	86,049	–	86,049
Average balance of loans to the public	20,503	139,221	159,724	20,577	129,626	150,203
Average balance of deposits from the public	93,990	–	93,990	84,237	–	84,237
Average balance of risk assets	19,576	80,424	100,000	18,832	73,982	92,814
Credit margins and deposit margins:						
Margin from credit granting operations	620	1,327	1,947	620	1,192	1,812
Margin from activities of receiving deposits	346	–	346	390	–	390
Other	(3)	78	75	1	55	56
Total interest revenues, net	**963**	**1,405**	**2,368**	**1,011**	**1,247**	**2,258**

Contribution of the household segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2020 amounted to NIS 508 million, compared to NIS 589 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 the first nine months of 2020 amounted to NIS 500 million, compared to NIS 552 million in the corresponding period last year. Total interest

revenues, net amounted to NIS 1,405 million, compared to NIS 1,247 million in the corresponding period last year, an increase by 12.7% – primarily due to an increase of NIS 9.6 billion in total loan balance and to increase in lending margins.
In the first nine months of 2020, the Bank recognized expenses with respect to credit losses amounting to NIS 272 million, compared to NIS 32 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis and to an increase by NIS 14 million in the provision with respect to extent of arrears. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 479 million, compared to NIS 487 million in the corresponding period last year, primarily due to decrease in payroll due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.
Contribution of other household operations (other than housing loans) in the first nine months of 2020 amounted to a profit of NIS 8 million, compared to NIS 37 million in the corresponding period last year. Total interest revenues, net amounted to NIS 963 million, compared to NIS 1,011 million in the corresponding period last year. The decrease is primarily due to decrease in financing margin, primarily due to effect of the lower Prime lending rate. Commissions and other revenues amounted to NIS 420 million, compared to NIS 389 million in the corresponding period last year – an increase by 8.0%, primarily due to increase in revenues from commissions on securities and from conversion of foreign currency.
Expenses with respect to credit losses amounted to NIS 120 million, compared to NIS 72 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
Operating expenses amounted to NIS 1,200 million, compared to NIS 1,221 million in the corresponding period last year. The change is primarily due to decrease in payroll expenses, affected by adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

	For the three months ended September 30					
			2020			2019
						NIS in millions
	Other	Housing loans	Total	Other	Housing loans	Total
Profit and profitability						
Total interest revenues, net	309	482	791	339	429	768
Non-interest financing revenues	–	–	–	–	–	–
Commissions and other revenues	138	36	174	134	42	176
Total revenues	**447**	**518**	**965**	**473**	**471**	**944**
Expenses with respect to credit losses	36	154	190	21	13	34
Operating and other expenses	402	159	561	408	163	571
Profit before provision for taxes	9	205	214	44	295	339
Provision for taxes	3	72	75	16	107	123
After-tax profit	6	133	139	28	188	216
Net profit:						
Attributable to non-controlling interests	(10)	–	(10)	(13)	–	(13)
Attributable to shareholders of the banking corporation	**(4)**	**133**	**129**	**15**	**188**	**203**
Balance sheet – key items:						
Loans to the public (ending balance) including Union Bank	25,670	153,298	178,968	21,565	133,042	154,607
Loans to the public (ending balance) excluding Union Bank	20,848	143,091	163,939	21,565	133,042	154,607
Loans to the public, net (ending balance) including Union Bank	25,358	152,362	177,720	21,310	132,371	153,681
Loans to the public, net (ending balance) excluding Union Bank	20,536	142,155	162,691	21,310	132,371	153,681
Deposits from the public (ending balance) including Union Bank	112,646	–	112,646	86,049	–	86,049
Deposits from the public (ending balance) excluding Union Bank	100,059	–	100,059	86,049	–	86,049
Average balance of loans to the public	20,191	141,849	162,040	20,865	131,758	152,623
Average balance of deposits from the public	98,462	–	98,462	85,643	–	85,643
Average balance of risk assets	19,370	81,954	101,324	18,905	75,631	94,536
Credit margins and deposit margins:						
Margin from credit granting operations	201	455	656	209	409	618
Margin from activities of receiving deposits	110	–	110	130	–	130
Other	(2)	27	25	–	20	20
Total interest revenues, net	**309**	**482**	**791**	**339**	**429**	**768**

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.

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.

Operating results of private banking segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	60	65	19	21
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	90	7	2	2
Total revenues	**150**	**72**	**21**	**23**
Expenses with respect to credit losses	2	1	2	1
Operating and other expenses	53	72	13	24
Profit before provision for taxes	95	(1)	6	(2)
Provision for taxes	33	–	2	(1)
Net profit	**62**	**(1)**	**4**	**(1)**
Balance sheet – key items:				
Loans to the public (ending balance) including Union Bank	172	109	172	109
Loans to the public (ending balance) excluding Union Bank	150	109	150	109
Loans to the public, net (ending balance) including Union Bank	168	108	168	108
Loans to the public, net (ending balance) excluding Union Bank	146	108	146	108
Deposits from the public (ending balance) including Union Bank	21,093	14,464	21,093	14,464
Deposits from the public (ending balance) excluding Union Bank	17,088	14,464	17,088	14,464
Average balance of loans to the public	168	89	142	107
Average balance of deposits from the public	15,774	13,791	16,592	14,091
Average balance of risk assets	28	27	30	25
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	60	65	19	21
Other	–	–	–	–
Total interest revenues, net	**60**	**65**	**19**	**21**

Operating results of the private banking segment (in conformity with supervisory definitions) in the first nine months of 2020 amounted to a loss of NIS 62 million, compared to loss of NIS 1 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 60 million, compared to NIS 65 million in the corresponding period last year. The decrease is primarily due to decrease in deposit margin.

Other revenues included revenues amounting to NIS 82 million (NIS 54 million after tax) with respect to an agreement with insurers to conclude derivative proceedings. For more information see chapter "Overview, targets and strategy".

Commissions and other revenues, excluding revenues with respect to the agreement with insurers, amounted to NIS 8 million, compared to NIS 7 million in the corresponding period last year.

Operating expenses amounted to NIS 53 million, compared to NIS 72 million in the corresponding period last year. Operating and other expenses in 2019 include legal expenses. Moreover, in 2020 expenses include improved attribution of expenses to the private banking segment and to the overseas operations segment.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of micro and small business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	860	862	285	295
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	309	289	106	97
Total revenues	**1,169**	**1,151**	**391**	**392**
Expenses with respect to credit losses	218	110	63	44
Operating and other expenses	542	553	180	183
Profit before provision for taxes	409	488	148	165
Provision for taxes	141	170	52	60
After-tax profit	**268**	**318**	**96**	**105**
Net profit attributed to non-controlling interests	(3)	(3)	(1)	(1)
Net profit attributable to shareholders of the banking corporation	**265**	**315**	**95**	**104**
Balance sheet – key items:				
Loans to the public (ending balance) including Union Bank	28,398	21,195	28,398	21,195
Loans to the public (ending balance) excluding Union Bank	23,923	21,195	23,923	21,195
Loans to the public, net (ending balance) including Union Bank	27,911	20,830	27,911	20,830
Loans to the public, net (ending balance) excluding Union Bank	23,436	20,830	23,436	20,830
Deposits from the public (ending balance) including Union Bank	42,767	26,016	42,767	26,016
Deposits from the public (ending balance) excluding Union Bank	36,118	26,016	36,118	26,016
Average balance of loans to the public	22,333	20,176	23,437	20,716
Average balance of deposits from the public	31,567	24,878	35,051	25,778
Average balance of risk assets	21,490	19,332	22,320	19,582
Credit margins and deposit margins:				
Margin from credit granting operations	747	732	249	252
Margin from activities of receiving deposits	92	109	28	36
Other	21	21	8	7
Total interest revenues, net	**860**	**862**	**285**	**295**

Contribution of the small and micro business segment (in conformity with supervisory definitions) to Group profit in the first nine months of 2020 amounted to NIS 265 million, compared to NIS 315 million in the corresponding period last year. Below are key factors affecting the change in segment contribution:

Interest revenues, net amounted to NIS 860 million, compared to NIS 862 million in the corresponding period last year. The decrease is primarily due to decrease in financing margin, primarily due to effect of the lower Prime lending rate, partially offset by increase in average loan and deposit amounts. Commissions and other revenues amounted to NIS 309 million, compared to NIS 289 million in the corresponding period last year – an increase by 6.9%, primarily due to increase in revenues from commissions on securities and from commissions from financing business.

Expenses with respect to credit losses amounted to NIS 218 million, compared to NIS 110 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 542 million, compared to NIS 553 million in the corresponding period last year, a decrease by NIS 11 million, primarily due to decrease in payroll due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of medium business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	218	218	71	75
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	60	67	17	24
Total revenues	**278**	**285**	**88**	**99**
Expenses with respect to credit losses	100	19	21	3
Operating and other expenses	87	92	28	30
Profit before provision for taxes	91	174	39	66
Provision for taxes	31	61	14	24
Net profit	**60**	**113**	**25**	**42**
Balance sheet – key items:				
Loans to the public (ending balance) including Union Bank	9,619	7,153	9,619	7,153
Loans to the public (ending balance) excluding Union Bank	7,650	7,153	7,650	7,153
Loans to the public, net (ending balance) including Union Bank	9,410	7,041	9,410	7,041
Loans to the public, net (ending balance) excluding Union Bank	7,441	7,041	7,441	7,041
Deposits from the public (ending balance) including Union Bank	13,037	8,394	13,037	8,394
Deposits from the public (ending balance) excluding Union Bank	10,426	8,394	10,426	8,394
Average balance of loans to the public	7,553	7,045	7,547	7,269
Average balance of deposits from the public	9,684	8,351	10,256	8,453
Average balance of risk assets	8,500	8,099	8,537	8,463
Credit margins and deposit margins:				
Margin from credit granting operations	185	178	61	63
Margin from activities of receiving deposits	26	35	8	11
Other	7	5	2	1
Total interest revenues, net	**218**	**218**	**71**	**75**

Contribution of the medium business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2020 amounted to NIS 60 million, compared to NIS 113 million in the corresponding period last year.
Interest revenues, net amounted to NIS 218 million, similar to the corresponding period last year.
Commissions and other revenues amounted to NIS 60 million, compared to NIS 67 million in the corresponding period last year – a decrease by 10.4%, primarily due to decrease in commissions from financing business.
Expenses with respect to credit losses amounted to expenses of NIS 100 million, compared to NIS 19 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.
For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Large business segment

The supervisory definition

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

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.

Operating results of large business segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	406	393	140	130
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	98	112	33	42
Total revenues	**504**	**505**	**173**	**172**
Expenses with respect to credit losses	184	20	23	(8)
Operating and other expenses	143	148	49	50
Profit before provision for taxes	177	337	101	130
Provision for taxes	61	117	36	47
Net profit	**116**	**220**	**65**	**83**
Balance sheet – key items:				
Loans to the public (ending balance) including Union Bank	21,267	16,214	21,267	16,214
Loans to the public (ending balance) excluding Union Bank	17,829	16,214	17,829	16,214
Loans to the public, net (ending balance) including Union Bank	20,950	16,007	20,950	16,007
Loans to the public, net (ending balance) excluding Union Bank	17,512	16,007	17,512	16,007
Deposits from the public (ending balance) including Union Bank	37,864	25,276	37,864	25,276
Deposits from the public (ending balance) excluding Union Bank	29,624	25,276	29,624	25,276
Average balance of loans to the public	17,833	16,931	18,729	16,697
Average balance of deposits from the public	28,428	26,638	30,734	25,186
Average balance of risk assets	24,909	22,925	25,459	23,925
Credit margins and deposit margins:				
Margin from credit granting operations	343	325	122	108
Margin from activities of receiving deposits	46	54	13	18
Other	17	14	5	4
Total interest revenues, net	**406**	**393**	**140**	**130**

Contribution of the large business segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2020 amounted to NIS 116 million, compared to NIS 220 million in the corresponding period last year.

Total interest revenues, net amounted to NIS 406 million, compared to NIS 393 million in the corresponding period last year. The increase is primarily due to increase in average loan amounts.

Commissions and other revenues amounted to NIS 98 million, compared to NIS 112 million in the corresponding period last year, a decrease primarily due to commission in a specific transaction recognized in the corresponding period last year.

Expenses with respect to credit losses amounted to expenses of NIS 184 million, compared to NIS 20 million in the corresponding period last year. The increase is primarily due to group-based provision for credit losses with respect to effect of the Corona Virus crisis. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 143 million, compared to NIS 148 million in the corresponding period last year, a decrease by NIS 5 million, primarily due to decrease in payroll due to adjustment of variable remuneration components to Bank return and profit and to effect of a voluntary retirement program.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 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.

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.

Operating results of institutional investor segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	74	87	19	25
Non-interest financing revenues	–	–	–	–
Commissions and other revenues	42	27	15	9
Total revenues	**116**	**114**	**34**	**34**
Expenses (reduction of expenses) with respect to credit losses	22	(6)	16	(3)
Operating and other expenses	90	88	28	29
Profit before provision for taxes	4	32	(10)	8
Provision for taxes	1	11	(4)	3
Net profit	**3**	**21**	**(6)**	**5**
Balance sheet – key items:				
Loans to the public (ending balance) including Union Bank	1,880	1,134	1,880	1,134
Loans to the public (ending balance) excluding Union Bank	1,825	1,134	1,825	1,134
Loans to the public, net (ending balance) including Union Bank	1,852	1,129	1,852	1,129
Loans to the public, net (ending balance) excluding Union Bank	1,797	1,129	1,797	1,129
Deposits from the public (ending balance) including Union Bank	43,872	42,802	43,872	42,802
Deposits from the public (ending balance) excluding Union Bank	41,211	42,802	41,211	42,802
Average balance of loans to the public	1,131	1,058	985	930
Average balance of deposits from the public	41,812	39,116	40,320	38,838
Average balance of risk assets	2,471	2,084	2,487	1,572
Credit margins and deposit margins:				
Margin from credit granting operations	20	14	6	5
Margin from activities of receiving deposits	53	72	13	20
Other	1	1	–	–
Total interest revenues, net	**74**	**87**	**19**	**25**

Contribution of the institutional investor segment (in conformity with the supervisory definitions) to Group profit in the first nine months of 2020 amounted to NIS 3 million, compared to NIS 21 million in the corresponding period last year.

Interest revenues, net, amounted to NIS 74 million, compared to NIS 87 million in the corresponding period last year. The decrease is primarily due to the lower deposit margin, due to the lower Prime lending rate.

Commissions and other revenues amounted to NIS 42 million, compared to NIS 27 million in the corresponding period last year – primarily due to increase in commission revenues from securities.

Expenses with respect to credit losses amounted to an expense of NIS 22 million, compared to a decrease in expenses of NIS 6 million in the corresponding period last year.

Operating expenses amounted to NIS 90 million, compared to NIS 88 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 12 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 derivatives 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 derivatives, 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.

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.

Operating results of the financial management segment

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues (expenses), net	3	(57)	89	(152)
Non-interest financing revenues	193	287	53	145
Commissions and other revenues	182	174	50	42
Total revenues	**378**	**404**	**192**	**35**
Expenses (reduction of expenses) with respect to credit losses	1	(2)	–	1
Operating and other expenses	288	277	93	93
Profit (loss) before provision for taxes	89	129	99	(59)
Provision (reduced provision) for taxes	31	45	35	(22)
After-tax profit (loss)	58	84	64	(37)
Share of banking corporation in earnings of associated companies	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	58	84	64	(37)
Net profit attributed to non-controlling interests	(29)	(25)	(11)	(6)
Net profit (loss) attributable to shareholders of the banking corporation	**29**	**59**	**53**	**(43)**
Balance sheet – key items:				
Average balance of risk assets	7,172	6,772	7,440	7,322
Credit margins and deposit margins:				
Margin from credit granting operations	–	–	–	–
Margin from activities of receiving deposits	–	–	–	–
Other	3	(57)	89	(152)
Total interest revenues, net	**3**	**(57)**	**89**	**(152)**

Contribution of the Financial Management segment (in conformity with the supervisory definitions) in the first nine months of 2020 amounted to NIS 29 million, compared to NIS 59 million in the corresponding period last year.

Financing revenues, net, amounted to NIS 198 million, compared to NIS 230 million in the corresponding period last year. The decrease in financing revenues, net is primarily due to the effect of the lower Consumer Price Index compared to an increase in the corresponding period last year. Conversely, an increase was due to profit from realized debentures and securities and due to effect of accounting treatment of derivatives at fair value. For more information see chapter "Analysis of developments in revenues, expenses and other comprehensive income".
Operating and other expenses amounted to NIS 288 million, compared to NIS 277 million in the corresponding period last year, an increase by NIS 11 million, primarily due to increase in rent expenses, further to application of the new standard with regard to leases, and to higher security expenses due to the Corona Virus outbreak and to higher depreciation expenses for investments in technology. For more information about application of the standard concerning leases, see Note 1 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 12 to the financial statements.

Overseas operations

The supervisory definition

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

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.

Operating results of overseas operations

	For the nine months ended September 30		For the three months ended September 30,	
	2020	2019	2020	2019
	NIS in millions			
Profit and profitability				
Total interest revenues, net	145	162	50	52
Non-interest financing revenues	1	6	1	2
Commissions and other revenues	23	20	10	8
Total revenues	**169**	**188**	**61**	**62**
Expenses with respect to credit losses	13	(1)	2	(2)
Operating and other expenses	62	57	25	18
Profit before provision for taxes	94	132	34	46
Provision for taxes	33	46	12	17
Net profit	**61**	**86**	**22**	**29**
Balance sheet – key items:				
Loans to the public (end balance)	3,788	3,813	3,788	3,813
Loans to the public, net (end balance)	3,754	3,782	3,754	3,782
Deposits from the public (end balance)	4,877	4,831	4,877	4,831
Average balance of loans to the public	3,295	3,213	3,413	2,685
Average balance of deposits from the public	4,737	5,527	4,913	6,041
Average balance of risk assets	4,477	4,166	4,566	4,040
Credit margins and deposit margins:				
Margin from credit granting operations	80	82	27	25
Margin from activities of receiving deposits	7	9	3	3
Other	58	71	20	24
Total interest revenues, net	**145**	**162**	**50**	**52**

Contribution of overseas operations to Group profit in the first half of 2020 amounted to NIS 61 million, compared to NIS 86 million in the corresponding period last year.

Interest revenues, net, amounted to NIS 145 million, compared to NIS 162 million in the corresponding period last year. The decrease in interest revenues for overseas operations is primarily due to the lower Fed interest rates compared to the corresponding period last year.

In the current period, expenses with respect to credit losses amounted to NIS 13 million, compared to a decrease in expense amounting to NIS 1 million in the corresponding period last year. The increase is primarily due to overseas affiliates applying the policy with regard to provision for credit losses, which includes an estimate of the effect of the Corona Virus crisis, which is reflected in the group-based provision. For more information see chapter "Significant Events in the Bank Group's Business" above.

Operating expenses amounted to NIS 62 million, compared to NIS 57 million in the corresponding period last year. In 2020 expenses include improved attribution of expenses to the private banking segment and to the overseas operations segment.

For more details and extensive information about results of this segment and operating results in conformity with management's approach – see Note 12 to the financial statements.

Major Investee companies

The contribution of investees to net operating profit in the first nine months of 2020 amounted to NIS 151 million, compared with NIS 125 million in the corresponding period 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 aforementioned effect of exchange rate differences, the contribution of investees amounted to NIS 145 million, similar to the corresponding period last year – see explanation under "Investees" below.

Union Bank of Israel Ltd. (hereinafter: "Union Bank")

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. See Note 17 to the financial statements for details.

As from this date, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on initial estimate prepared as of the reporting date (PPA Provisional). Since the initial consolidation date is September 30, 2020, consolidation of these financial statements had no effect on profit and loss for the third quarter and for the first nine months of this year.

The effect of consolidation of Union Bank on the financial statements resulted in an increase by NIS 46.2 billion in total assets, an increase by NIS 25.0 billion in total loans to the public, net and an increase by NIS 36.8 billion in total deposits from the public.

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.

The Group's share of Bank Yahav's net profit in the first nine months of 2020 amounted to NIS 65 million, compared to NIS 61 million in the corresponding period last year. Bank Yahav's net profit return on equity in the first nine months of 2020 was 10.9% on annualized basis, compared to 11.4% in the corresponding period last year.

Expenses with respect to credit losses amounted to NIS 20 million in the first nine months of 2020, similar to the corresponding period last year.

Bank Yahav's balance sheet total as of September 30, 2020 amounted to NIS 32,679 million, compared to NIS 27,299 million as of December 31, 2019 – an increase by NIS 5,380 million, or 20%. Net loans to the public as of September 30, 2020 amounted to NIS 10,553 million, compared to NIS 10,880 million as of December 31, 2019 – a decrease by NIS 327 million, or 3%. Net deposits from the public as of September 30, 2020 amounted to NIS 28,673 million, compared to NIS 23,345 million as of December 31, 2019 – an increase by NIS 5,328 million, or 23%.

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. Net profit of Tefahot Insurance Agency in the first nine months of 2020, excluding financing revenues, net from excess cash of the company (hereinafter: "Net profit from current operations") amounted to NIS 52 million, compared to NIS 59 million in the corresponding period last year. Net profit return on equity in the first nine months of 2020 was 5.9%, compared to 7.2% return in the corresponding period last year.

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 the first nine months of 2020 NIS 25 million – compared to NIS 12 million in the corresponding period last year. This includes profit amounting to NIS 21 million in the first nine months of 2020 (NIS 7 million in the corresponding period last year) from operations of Mizrahi Tefahot Trust Company Ltd. (hereinafter: "Trust Company"). The increase in the Trust Company profit is due to indemnification received from insurers.

On November 8, 2020, the General Meetings of shareholders and Board of Directors of the relevant subsidiaries approved the merger of Union Bank Trust Company Ltd. and Mizrahi Tefahot Trust Company Ltd.

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, United Mizrahi Overseas Holding Co. B.V. ("United Mizrahi Overseas Holding Company"), incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first nine months of 2020 amounted to CHF 0.4 million, compared to CHF 1.1 million in the corresponding period last year. Mizrahi Bank Switzerland's balance sheet total as of September 30, 2020 amounted to CHF 121 million, similar to that as of December 31, 2019.

Interest revenues and net interest revenues in the first nine months of 2020 amounted to CHF 1.2 million, compared to CHF 1.7 million in the corresponding period last year. Pre-tax revenues in the first nine months of 2020 amounted to CHF 0.5 million, compared to CHF 1.1 million in the corresponding period last year. Pre-tax income net of exchange rate effects in the first nine months of 2020 amounted to CHF 1.9 million, compared to CHF 3.9 million in the corresponding period last year.

The balance of loans to the public as of September 30, 2020 amounted to CHF 47 million, compared to CHF 52 million as of December 31, 2019. Deposits with banks as of September 30, 2020 amounted to CHF 70 million, compared to CHF

65 million as of December 31, 2019. Deposits from the public as of September 30, 2020 amounted to CHF 82 million, compared to CHF 80 million as of December 31, 2019.
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.

As part of the review of the Bank's overall international presence, the Bank is considering sale of its subsidiary United Mizrahi Bank (Switzerland) Ltd.

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 in the Bank's securities portfolio and under investment in associated companies, where the Bank has a material investment in such entity.

Some 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 Group investments in shares as of September 30, 2020 amounted to NIS 412 million (Bank investments in shares, excluding Union Bank, amounted to NIS 168 million), compared to NIS 189 million and NIS 181 million as of September 30, 2019 and as of December 31, 2019, respectively. Bank net loss from investment in shares in the first nine months of 2020 amounted to NIS 12 million, compared to gain of NIS 62 million in the corresponding period last year. The loss in the first nine months of this year was due to impairment of negotiable securities due to declines in the capital market. This compares to effect of recording gain from shares not held for trading in the corresponding period last year, following adoption of Public Reporting Directives with regard to classification and measurement of financial instruments.
For more information about investment in shares, see Note 5 to the financial statements.

Risks overview

This chapter includes a concise overview and analysis of developments of major risks to which the Bank is exposed. If needed, this chapter should be read in conjunction with the chapter "Risks overview" in the 2019 audited annual financial statements. A detailed Risks Management Report which includes disclosure requirements of Basel Pillar 3 and additional information about risks, provided based on recommendations by the Financial Stability Board (FSB) is provided on the Bank website.

Acquisition of Union Bank

On September 30, 2020, the transaction between the controlling shareholders of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares.

As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet.

For more information see Note 17 to the financial statements and chapter "Significant developments in management of business operations" above.

The merger transaction is a material, large-scale and highly complex project which entails a wide range of risks. The Bank is preparing in extensive work teams with comprehensive management by steering committees and administrations to carry out the merger plan. Risk management is an integral and dynamic part of all work teams, and the Chief Risks Officer reviews and integrates all risks of this project ans the required mitigation to reduce and manage such risk.

Union Bank has a long-standing contract with Bank Leumi for obtaining IT and operating services, which has been extended from time to time. On May 12, 2020, the Board of Directors of Union Bank approved contracting an addendum to the agreement, whereby the parties agreed, *inter alia*, that the agreement would be extended through December 31, 2022 with optional further extensions, subject to fulfillment of conditions as agreed by Union Bank and Bank Leumi.

The Bank is acting to complete the operating merger processes, in conformity with the expiration date of this contract.

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 risks and risks management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to various financial risks, such as: market risk, interest risk in the banking portfolio, liquidity risk, credit risk and non-financial risk, such as. operational risk (including information and cyber security risk and technology risk) as well as compliance and regulatory risk. The risks management and control policies, in various aspects, are designated to support achievement of the Group’s business goals while limiting exposure to such risks.

Risks description

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.

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. The Bank monitors and manages risk in the loan portfolio using various tools, including by development and deployment of internal models for assessment of client credit ratings. 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. Note that Union Bank's nostro portfolio reflects risk that is higher than the Bank's risk appetite. However, at the Bank level on consolidated basis, the impact of this portfolio is not material

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 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 management at the Group is conducted from a comprehensive viewpoint of Bank operations in Israel and at overseas affiliates and in conformity with directives of the Supervisor of Banks with regard to risk management and control, as set forth in Proper Conduct of Banking Business Directives and in particular, in Directive 310 "Risk management" by the Bank of Israel, and in conformity with the framework set forth in Basel Pillar II, including the required changes as Basel III became effective.

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 Bank has a structured process in place for mapping and identification of risks associated with Bank operations, based on a materiality threshold, expressed in terms of percentage of Bank capital. Guidelines for handling of material risks, as identified and mapped, including risk appetite, measurement, management and mitigation of each risk, are included in special policies documents.

Description of 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 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.

The Bank conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario for a 3-year horizon is based on a renewed Corona Virus outbreak in the fourth quarter of 2020 and a shut-down of the economy (to a lesser degree). Results of this scenario, provided to the Bank of Israel in late June, indicate that the Bank is capable of withstanding the impact of the Corona Virus crisis and potential losses that may be incurred under the stress scenario, and to maintain capital ratios that exceed the minimum capital ratios required by the Supervisor of Banks, which were temporarily reduced in conformity with the crisis period (for more information about relief measures with regard to capital requirements, see chapter "Capital, capital adequacy and leverage" above).

In October, the Supervisor of Banks issued a uniform stress scenario for the banking system, stricter than previously issued scenarios, in line with deterioration in the economic impact to the economy due to the Corona Virus crisis. The objective of this scenario is to test resilience of the banking system. The outcome of applying this scenario to Bank data would be submitted to the Bank of Israel in early December 2020.

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.

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	Medium	Manager, Business Division
Risk from quality of borrowers and collateral	Medium	
Risk from industry concentration	Low-medium	
Risk from concentration of borrowers/ borrower groups	Low	
Risk with respect to mortgage portfolio	Low-medium	
Overall effect of market risk(1)	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(2)	Low	Manager, Marketing, Promotion and Business Development Division
Business-strategic risk(3)	Low-medium	President & CEO

(1) Includes options and shares risk mapped at Union Bank.
(2) 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.

This risk assessment includes the Union Bank merger, which we believe does not materially change the Group's overall risk level.
The Corona Virus event may potentially impact the Bank's risk profile. 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.

Since the start of 2020, the Bank's overall risk profile increased due to higher credit risk due to implications of the global Corona Virus pandemic, which started in Israel in late February 2020, and its effect on the Israeli and global economy. However, the impact of this crisis on the quality of the Bank's loan portfolio may not be fully assessed as yet. The Bank regularly reviews the risk benchmarks and adapts them to current business operations as necessary, subject to and in line with the Bank's overall risk appetite for various risks.

In the second quarter of 2020, the risk level in the housing loan portfolio was raised from Low to Low-Medium, due to on-going uncertainty with regard to further development of the crisis. In order to assist clients with a mortgage at the Bank, the Bank, as noted above, has allowed clients to receive a full or partial repayments delay by up to 6 months, and in conformity with the expanded Bank of Israel outline (clients who have already delayed repayments – a further extension through January 31, 2021; clients who have yet to delay repayments – delay of up to 6 months). The delayed payments were re-attributed over the remaining mortgage term. The Bank closely monitors this activity and risk aspects with regard to the following: The grace amount, number of applications, grace period, borrower profile, LTV ratio and so forth. One of the key parameters for risk review is borrower behavior after expiration of the repayment delay.

The Bank continues to monitor development of borrower behavior after expiration of the repayment delay in subsequent months, and the rate of further delay extensions in conformity with the Bank of Israel's revised outline. The Bank also applies the mortgage underwriting process, in conformity with relief granted by the Bank of Israel with regard to review of repayment capacity, considering the pre-crisis income level and expectation of return to employment later on. The Bank of Israel has also allowed clients in the individual segment and in the business segment to delay payments in conformity with outlines regularly updated by the Bank of Israel in conformity with developments. The Bank closely monitors the risk aspects with regard to the following: Number of loans subject to delay, the delay period, the delay amount and other attributes. For more information about loans subject to repayment delay and loans extended from State-guaranteed funds, see chapter "Risks overview – Credit risk" in the Report of the Board of Directors and Management.

The overall effect of credit risk and risk associated with quality of borrowers and collateral increased in the first quarter of 2020 from Low-Medium to Medium and remained Medium in the second quarter of 2020. The higher risk level also applies to the individual segment, but primarily applies to the business segment, especially small and medium businesses, due to various restrictions with regard to social distancing imposed on different sectors in Israel. Material risk factors are the sharp increase in unemployment rate, slow-down in economic activity, and in particular in specific economic sectors (such as: Aviation, fashion, hotels, accommodation and dining services, leisure and culture) which were impacted, and volatility in financial markets affecting the collateral value. These factors may result in more clients facing difficulties over time. The Bank strictly manages and monitors its credit risk and has taken active steps in conformity with the situation, in order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank. As part of these steps, a delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. For quantitative data with regard to Bank activity designed to help clients in view of the Corona Virus crisis, see chapter "Significant events in the Bank Group's business" of the Report of the Board of Directors and Management.

One of the key parameters for risk review is borrower behavior after expiration of the repayment delay. Note that for 60% of the balance of loans for which a repayment delay was applied for and currently due for payments to be resumed, no further delay was applied for and the clients resumed making payments. Of the loans where payments were resumed, only NIS 0.2 billion are in arrears.

Assessment of all risk factors other than the aforementioned credit risk (including the housing loan portfolio) remained unchanged from end of 2019.

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.

Technology risk and cyber and information security risk are material risks for the Bank and the potential damage due to materialization of such risk may be significant, during routine operations and even more so during an emergency. Activity during the crisis was managed in a focused manner, with all efforts marshaled to provide the service required for the Bank, focused on needs that changed along the way, taking most of the steps to reduce potential risk in as much as possible. In actual fact, there were no material events related to technology nor to cyber and information security.

Liquidity risk remained low-medium. In February 2020, the Bank raised its alert level to Elevated Alert, due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets. In early March, the Bank raised its state of alert for liquidity, from Elevated to Yellow (alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods), due to continued spread of the Corona Virus and further sharp declines in stock markets, both globally and in particular in Israel The alert level returned down to Elevated in mid-May, with resumption of routine operations. During all of the third quarter of 2020, the alert level at the Bank was High Alert. During the current period, the Bank closely monitors (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames – liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

Reputation risk remained low; the Bank continues to regularly monitor the situation and no material effect is evident with regard to reputation risk of the Bank.

The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed. The Bank operates pursuant to a five-year strategic plan approved in November 2016, for the years 2017-2021; the targets of this plan were achieved in 2019, hence the Bank Board of Directors has instructed the Bank to prepare for a new strategic plan for 2021-2025. Due to the Corona Virus crisis and the current uncertainty, and due to closing of acquisition of all shares of Union Bank Of Israel Ltd., the Bank Board of Directors would discuss a new strategic plan in late 2020. This date may be revised further down the road, in conformity with economic developments.

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 conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario for a 3-year horizon is based on a renewed Corona Virus outbreak in the fourth quarter of 2020 and a shut-down of the economy (to a lesser degree). Results of this scenario, provided to the Bank of Israel in late June, indicate that the Bank is capable of withstanding the impact of the Corona Virus crisis and potential losses that may be incurred under the stress scenario, and to maintain capital ratios that exceed the minimum capital ratios required by the Supervisor of Banks, which were temporarily reduced in conformity with the crisis period (for more information about relief measures with regard to capital requirements, see chapter "Capital, capital adequacy and leverage" of the Report of the Board of Directors and Management).

In October, the Supervisor of Banks issued a uniform stress scenario for the banking system, stricter than previously issued scenarios, in line with deterioration in the economic impact to the economy due to the Corona Virus crisis. The objective of this scenario is to test resilience of the banking system. The outcome of applying this scenario to Bank data would be submitted to the Bank of Israel in early December 2020.

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.

For more information see the Risks Report for the third quarter of 2020 and the 2019 Risks Report, available on the Bank's website.

Credit risk

Risk description and development

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. This risk is also correlated with other risks, such as: Market and interest risk, liquidity risk, compliance risk and other risks.

The overall effect of credit risk and risk associated with quality of borrowers and collateral increased in the first quarter of 2020 from Low-Medium to Medium, and remained Medium in the two subsequent quarters of 2020 as well; the risk level in the housing loan portfolio increased in the second quarter from Low to Low-Medium due to the on-going uncertainty and also remained Low-Medium in the current quarter.

Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has implications which directly concern credit risk at the Bank. See also chapter "Significant Events in the Bank Group's Business" above.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy.

In order to help clients get through this crisis period and to reduce the likelihood of default, while maintaining the risk management policy of the Bank, the Bank has taken multiple steps. A delay by several months was approved for current payments to mortgage clients who needed this, due to temporary difficulties due to the crisis; delays and updated payment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan as described below. For more information about debt whose terms and conditions were changed in conjunction with addressing the Corona Virus crisis, and total loans extended from the State-guaranteed fund, see chapter "Significant Events in the Bank Group's Business" above.

Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions.

The Bank closely manages and monitors credit risk through, *inter alia*, on-going activity of forums headed by the Bank President & CEO and by the Business Division Manager, and attended by the Risk Control Division and representatives of the business divisions. In addition, regular assessments are conducted by divisions. At these meetings, economic sectors with high exposure to the crisis are individually monitored, as are key benchmarks determined and specific clients who are significantly impacted by the crisis. The business units are regularly in close contact with clients, in order to assess their business standing and the implications of the crisis for these clients, in order to help the business sector face the challenges resulting from this crisis, while maintaining balances and minimizing credit risk.

Analysis of developments in 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 September 30, 2020, the Bank had no borrower group which meets the aforementioned criteria.

For more information about significant exposures to borrower groups, see chapter "Credit Risk" in the 2019 Report of the Board of Directors and Management.

Major borrowers

Below is the sector composition of the top 6 borrowers for the Group as of September 30, 2020 (including Union Bank) (NIS in millions):

Borrower no.	Sector	On-balance sheet credit risk(1)	Off balance sheet credit risk(1)	Total credit risk(1)
1.	Financial services	396	899	1,295
2.	Financial services	17	1,226	1,243
3.	Financial services	527	650	1,177
4.	Construction and real estate	286	630	916
5.	Industry and production	86	738	(2)824
6.	Industry and production	–	791	791

(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.

(2) Of which: NIS 96 million at Union Bank.

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 material 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 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 (including Union Bank) (NIS in millions):

	September 30, 2020				September 30, 2019				December 31, 2019			
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**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Commerce	137	–	137	–	151	–	151	–	153	–	153	–
Information and communications	–	–	–	–	49	26	75	–	–	–	–	–
Total	**137**		**137**		**200**	**26**	**226**		**153**		**153**	

Credit to leveraged companies (including Union Bank) (NIS in millions):

	September 30, 2020				September 30, 2019				December 31, 2019			
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**	**Balance sheet credit risk**	**Off-balance sheet credit risk**	**Total credit risk**	**Individual provision for credit losses**
Mining and excavation(1)	91	–	91	–	–	–	–	–	–	–	–	–
Construction and real estate	347	–	347	–	364	–	364	–	355	–	355	–
Water	–	–	–	–	–	–	–	–	36	40	76	16
Commerce	370	21	391	23	203	72	275	–	412	88	500	22
Transport and storage(1)	223	23	246	–	–	–	–	–	–	–	–	–
Information and communications	–	–	–	–	–	199	199	–	45	86	131	–
Financial services	119	–	119	21	120	–	120	3	124	–	124	3
Business services and other services	97	1	98	–	–	–	–	–	–	–	–	–
Public and community services	154	8	162	–	86	5	91	–	134	8	142	–
Total	**1,304**	**52**	**1,356**	**44**	**773**	**276**	**1,049**	**3**	**1,106**	**222**	**1,328**	**41**

(1) Of which: Credit to leveraged companies at Union Bank amounting to NIS 91 million in mining and excavation and amounting to NIS 89 million in transport and storage.

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
	September 30, 2020	**September 30, 2020**	**September 30, 2019**	**December 31, 2019**
	Including Union Bank	**Excluding Union Bank**		
Problematic credit risk:				
Impaired credit risk	1,716	1,440	1,266	1,328
Inferior credit risk	508	431	143	242
Credit risk under special supervision – housing	1,232	1,232	1,369	1,476
Credit risk under special supervision – other	928	735	876	833
Total problematic credit risk	**4,384**	**3,838**	**3,654**	**3,879**

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

	September 30, 2020		
	Including Union Bank	**Excluding Union Bank**	**Bank Union data**
Ratio of impaired loans to the public to total loans to the public	0.7	0.6	0.9
Ratio of impaired loans to the public to total non-housing loans	1.7	1.7	1.5
Ratio of problematic loans to the public to total non-housing loans	3.1	3.0	3.3
Ratio of housing loans in arrears 90 days or longer to total loans to the public (1)(2)	0.6	0.6	0.2
Ratio of problematic credit risk to total credit risk with respect to the public	1.4	1.3	1.6

	September 30, 2019	**December 31, 2019**
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	1.6	1.7
Ratio of problematic loans to the public to total non-housing loans	2.9	3.0
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	1.4

(1) This non-housing rate is negligible.
(2) Balance of credit in arrears before provision by extent of arrears.

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

Below is current data about Bank activities to assist clients, in view of the Corona Virus crisis (including Union Bank) (NIS in millions):

								As of October 31, 2020
	Debts subject to delayed repayments[(1)]			**Further details of recorded debt balance of debts subject to delayed repayment**				
					Non-problematic debts			
Loans to the public	**Recorded debt balance**	**Number of loans**	**Payment amounts delayed**	**Problematic debts**	**Debts not at performing credit rating**	**Debts at performing credit rating, in arrears 30 days or longer**	**Debts at performing credit rating, not in arrears**	**Total non-problematic debts**
Large businesses	177	12	168	–	–	–	177	177
Medium businesses	105	56	12	4	6	–	95	101
Small businesses	1,716	5,012	295	53	143	12	1,508	1,663
Private individuals	485	10,537	69	11	33	2	439	474
Housing loans	23,342	(2)30,774	884	355	304	17	22,665	22,987
Total as of 10/31/2020	**25,825**	**46,391**	**1,428**	**(3)423**	**486**	**31**	**24,884**	**25,402**
Of which, with respect to acquisition of Union Bank								
Housing loans	616	649	29	13	–	9	594	603
Other	123	1,820	19	15	20	1	87	108

					As of October 31, 2020
	Further details of debts subject to delayed repayment, by repayment delay period[(4)]		**Debt for whihch the payment delay period has expired, as of the report date**		**Credit provided in State funds**
	Non-problematic debts				
Loans to the public	**Debts subject to delay of 3 to 6 months**	**Debts subject to delay of 6 months or longer**	**Recorded debt balance**	**Of which: In arrears 30 days or longer**	**Recorded debt balance**
Large businesses	–	145	967	–	950
Medium businesses	18	78	350	2	557
Small businesses	430	944	2,383	71	3,330
Private individuals	234	114	966	11	–
Housing loans	5,255	14,643	21,943	304	–
Total as of 10/31/2020	**5,937**	**15,925**	**26,608**	**388**	**4,837**
Of which, with respect to acquisition of Union Bank					
Housing loans	282	300	1,294	15	–
Other	73	5	792	28	180

(1) Of which: Delays granted other than in conjunction with a general program amounted to NIS 2,514 million.
(2) Number of Borrowers.
(3) Of which: Impaired debts not accruing interest revenues amounting to NIS 40 million.
(4) The repayment delay period is the cumulative delay period granted to debt since the start of the Corona Virus crisis, excluding any delay to which the borrower is entitled by law.

Below is current data about Bank activities to assist clients, in view of the Corona Virus crisis (NIS in millions) – Continued:

	As of September 30, 2020							
	Debts subject to delayed repayments[(1)]			Further details of recorded debt balance of debts subject to delayed repayment				
					Non-problematic debts			
Loans to the public	**Recorded debt balance**	**Number of loans**	**Payment amounts delayed**	**Problematic debts**	**Debts not at performing credit rating**	**Debts at performing credit rating, in arrears 30 days or longer**	**Debts at performing credit rating, not in arrears**	**Total non-problematic debts**
Large businesses	176	13	170	6	–	–	170	170
Medium businesses	168	63	11	4	–	–	164	164
Small businesses	1,626	4,414	198	46	55	8	1,517	1,580
Private individuals	467	9,906	57	11	32	4	420	456
Housing loans	23,068	[(2)]30,567	889	381	301	32	22,354	22,687
Total as of 9/30/2020	**25,505**	**44,963**	**1,325**	**448[(3)]**	**388**	**44**	**24,625**	**25,057**
Of which, with respect to acquisition of Union Bank								
Housing loans	576	629	24	13	–	9	554	563
Other	197	2,444	20	21	20	1	155	176
Total as of June 30, 2020	**41,033**	**78,267**	**1,397**	**[(3)]587**	**483**	**205**	**39,757**	**40,445**
Total as of 3/31/2020	**31,981**	**54,234**	**668**	**296**	**230**	**66**	**31,390**	**31,685**

	As of September 30, 2020				
	Further details of debts subject to delayed repayment, by repayment delay period[(4)]		Debt for whihch the payment delay period has expired, as of the report date		Credit provided in State funds
	Non-problematic debts				
Loans to the public	**Debts subject to delay of 3 to 6 months**	**Debts subject to delay of 6 months or longer**	**Recorded debt balance**	**Of which: In arrears 30 days or longer**	**Recorded debt balance**
Large businesses	–	146	962	–	935
Medium businesses	24	73	285	3	545
Small businesses	556	790	2,336	76	3,205
Private individuals	253	91	943	8	–
Housing loans	7,255	13,733	21,639	262	–
Total as of 9/30/2020	**8,088**	**14,833**	**26,165**	**349**	**4,685**
Of which, with respect to acquisition of Union Bank					
Housing loans	263	281	1,334	15	–
Other	120	5	718	28	179
Total as of June 30, 2020	**39,247**	**170**	**3,552**	**1**	**3,459**
Total as of 3/31/2020	**29,690**	**20**	**–**	**–**	**–**

(1) Of which: Delays granted other than in conjunction with a general program amounted to NIS 1,414 million (as of June 30, 2020: NIS 4,326 million).
(2) Number of Borrowers.
(3) Of which: Impaired debts not accruing interest revenues amounting to NIS 37 million (as of June 30, 2020: NIS 13 million).
(4) The repayment delay period is the cumulative delay period granted to debt since the start of the Corona Virus crisis, excluding any delay to which the borrower is entitled by law.

The Bank has applied a wide range of measures to provide an immediate response to needs arising from the situation, from operational response to clients to adjustments made to the credit underwriting and credit risk policy. Further to the communication from the Supervisor of Banks, dated April 2, 2020, the Bank and the entire banking system acted to support businesses and households in getting through this crisis, by continuing to extend credit to borrowers across all segments, while maintaining responsible credit underwriting procedures but without unneeded stricter underwriting conditions. Action taken by the Bank includes approval of a delay in current repayments, by up to 4 months, for mortgage clients who needed this due to temporary hardship resulting from the crisis, including further delay extensions granted as required: A further delay through 2020 for clients who had already delayed repayments, and a delay by up to 6 months for clients who have not yet delayed any repayments. Delays and revised repayment schedules were also approved for individual and commercial clients who face temporary difficulties; loans guaranteed by the State were extended as part of the Government plan. The Bank also prepared to make arrangements with clients who wish to resume making regular mortgage payments, including allowing partial monthly payment or extension of the loan term.

Total housing loans subject to repayment delays reached a peak in May 2020, amounting to NIS 45.2 billion. The Bank allows borrowers to extend the delay period through 2020, or to apply for a delay by up to 6 months in case of an initial application, in conformity with the Bank of Israel outline. As of October 31, 2020, out of total loans subject to dalay, NIS 21.9 billion resumed repayment and NIS 23.3 billion were granted further delay. Of all current delays, NIS 3.3 billion in loan repayments are to be resumed by end of 2020, unless a further delay is applied for. NIS 17.7 billion in loan repayments are to be resumed in January 2021 and the remaining NIS 2.3 billion in loan repayments are to be resumed in February 2021 and thereafter. Note that for 60% of the balance of loans for which a repayment delay was applied for and currently due for payments to be resumed, no further delay was applied for and the clients resumed making payments. Of the loans where payments were resumed, only NIS 0.2 billion are in arrears - similar to the overall rate of arrears in the entire portfolio, at 1.2%.

As for commercial loans, total loans subject to repayment delays as of October 31, 2020 amounted to NIS 2.7 billion, of which NIS 1.3 billion for longer than 6 months. This is out of total repayment delays originally approved for loans amounting in total to NIS 7.1 billion. Of the originally-approved delays, clients with loan balance amounting to NIS 4.4 billion have resumed making payments.

Analysis of change to impaired debts

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

Movement in impaired debts with respect to loans to the public	**For the nine months ended September 30, 2020**			**For the nine months ended September 30, 2019**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of impaired debts at start of the period	1,132	142	1,274	964	137	1,101	964	137	1,101
Debts classified as impaired during the period	414	64	478	398	41	439	706	101	807
Debts re-classified as non-impaired during the period	(35)	(3)	(38)	(31)	(1)	(32)	(83)	(19)	(102)
Impaired debts written off	(138)	(17)	(155)	(100)	(18)	(118)	(117)	(20)	(137)
Impaired debts repaid	(258)	(16)	(274)	(240)	(24)	(264)	(412)	(72)	(484)
Other changes	72	6	78	71	1	72	74	15	89
Initial consolidation of Union Bank	221	9	230	–	–	–	–	–	–
Balance of impaired debts at end of the period	**1,408**	**185**	**1,593**	**1,062**	**136**	**1,198**	**1,132**	**142**	**1,274**

Of which: Movement in problematic debts under restructuring	**For the nine months ended September 30, 2020**			**For the nine months ended September 30, 2019**			**For the year ended December 31, 2019**		
	Commercial	**Individual**	**Total**	**Commercial**	**Individual**	**Total**	**Commercial**	**Individual**	**Total**
Balance of problematic debts under restructuring at start of period	266	65	331	290	58	348	290	58	348
Re-structuring made during the period	137	26	163	64	27	91	62	45	107
Debt reclassified as non-impaired due to subsequent restructuring	(4)	(10)	(14)	(6)	(1)	(7)	(6)	(1)	(7)
Debts under restructuring written off	(46)	(12)	(58)	(12)	(14)	(26)	(19)	(17)	(36)
Debts under restructuring repaid	(42)	(7)	(49)	(68)	(7)	(75)	(75)	(20)	(95)
Other changes	36	6	42	21	2	23	14	–	14
Initial consolidation of Union Bank	127	8	135	–	–	–	–	–	–
Balance of problematic debts under restructuring at end of period	**474**	**76**	**550**	**289**	**65**	**354**	**266**	**65**	**331**

For more information about problematic credit risk, see Notes 6 and 13 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 three months ended September 30, 2020					
	Provision for credit losses					
	Loans to the public				Banks and governments	Total
	Commercial	Housing	Individual – other	Total		
Balance of provision for credit losses at start of period	1,160	783	314	2,257	2	2,259
Expenses with respect to credit losses	125	154	38	317	–	317
Net accounting write-offs	(52)	(1)	(17)	(70)	–	(70)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
	For the three months ended September 30, 2019					
Balance of provision for credit losses at start of period	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
	For the nine months ended September 30, 2020					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	537	272	122	931	1	932
Net accounting write-offs	(169)	(10)	(60)	(239)	–	(239)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
	For the nine months ended September 30, 2019					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**

For more information about provision for credit losses see Notes 6 and 13 to the financial statements.

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

	September 30, 2020	September 30, 2019	December 31, 2019
Ratio of provision for credit losses to total loans to the public	1.0	0.9	0.9
Ratio of provision for credit losses to total credit risk with respect to the public	0.8	0.7	0.7
Excluding Union Bank			
Ratio of provision for credit losses to total loans to the public	1.1		
Ratio of provision for credit losses to total credit risk with respect to the public	0.9		
Union Bank data			
Ratio of provision for credit losses to total loans to the public	1.5		
Ratio of provision for credit losses to total credit risk with respect to the public	1.1		
	Nine months(1)		
	2020(3)	**2019**	**2019**
Ratio of expenses with respect to credit losses to average balance of loans to the public, gross	0.6	0.2	0.2
Ratio of net write-offs to average balance of loans to the public, gross	0.1	0.1	0.1
Ratio of expenses with respect to credit losses to average balance of loans to the public, net	0.6	0.2	0.2
Of which: With respect to commercial loans other than housing loans(2)	1.2	0.4	0.5
Ratio of net write-offs to average balance of loans to the public, net	0.2	0.1	0.1

(1) Calculated on annualized basis.
(2) The rate with respect to housing loans is negligible.
(3) Excluding Bang Union data initially consolidated in the third quarter of 2020.

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. This 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 lower interest rates. For more information about credit risk management following the Corona Virus crisis, see chapter "Credit risks" and chapter "Explanation and analysis of results and business standing".

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

	As of September 30, 2020		As of September 30, 2019	As of December 31, 2019
	Including Union Bank	Excluding Union Bank		
Debts				
Checking balances	1,899	1,662	1,979	2,133
Utilized credit card balances	4,115	3,637	4,129	3,973
Auto loans – adjustable interest	1,959	517	738	671
Auto loans – fixed interest	2,663	926	854	926
Other loans and credit – variable interest	12,174	12,174	12,198	12,515
Other loans and credit – fixed interest	1,208	243	208	258
Total debt (on-balance sheet credit)	**24,018**	**19,159**	**20,106**	**20,476**
Un-utilized facilities, guarantees and other commitments				
Checking accounts – un-utilized facilities	5,131	4,684	4,266	4,172
Credit cards – un-utilized facilities	8,113	7,179	6,521	6,627
Guarantees	204	177	228	187
Other liabilities	38	38	23	33
Total un-utilized facilities, guarantees and other commitments (off-balance sheet credit)	**13,486**	**12,078**	**11,038**	**11,019**
Total credit risk to individuals	**37,504**	**31,237**	**31,144**	**31,495**
Of which:				
Bullet / balloon loans[(3)]	413	332	452	469
Financial asset portfolio and other collateral against credit risk[(4)]				
Financial assets portfolio:				
Deposits	3,684	3,646	3,668	3,723
Securities	237	191	211	219
Other monetary assets	296	296	343	328
Other collateral[(5)]	4,000	741	918	880
Total financial assets portfolio and other collateral against credit risk	**8,217**	**4,874**	**5,140**	**5,150**

(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 increase is primarily due to liens on vehicles.

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

Loan ceiling and credit risk (NIS in thousands)		As of September 30, 2020 Including Union Bank Total credit risk	As of September 30, 2020 Excluding Union Bank Number of Borrowers	Excluding Union Bank Total credit risk	As of September 30, 2019 Number of Borrowers	As of September 30, 2019 Total credit risk	As of December 31, 2019 Number of Borrowers	As of December 31, 2019 Total credit risk
	Up to 10	2,138	296,411	650	299,661	629	288,830	632
Above 10	Up to 20	1,706	91,118	1,312	88,946	1,279	89,176	1,280
Above 20	Up to 40	4,165	121,105	3,482	118,172	3,398	118,756	3,409
Above 40	Up to 80	8,488	126,295	7,170	123,935	7,045	124,993	7,100
Above 80	Up to 150	10,372	81,565	8,749	82,331	8,849	82,664	8,860
Above 150	Up to 300	8,736	39,976	8,092	40,779	8,263	41,128	8,324
Above 300		1,899	3,959	1,782	3,681	1,681	3,999	1,890
Total		**37,504**	**760,429**	**31,237**	**757,505**	**31,144**	**749,546**	**31,495**

(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 September 30, 2020 Including Union Bank NIS in millions	Including Union Bank In %	Excluding Union Bank NIS in millions	Excluding Union Bank In %	As of September 30, 2019 NIS in millions	In %	As of December 31, 2019 NIS in millions	In %
Accounts with no fixed income for the account[(2)]	5,549	23.1	1,932	10.1	1,384	6.9	1,601	7.8
Less than NIS 10 thousand.	4,628	19.3	4,414	23.0	4,651	23.1	5,402	26.4
Between NIS 10 thousand and NIS 20 thousand	7,697	32.0	7,361	38.4	7,394	36.8	7,768	37.9
Over NIS 20 thousand	6,144	25.6	5,452	28.5	6,677	33.2	5,705	27.9
Total	**24,018**	**100**	**19,159**	**100**	**20,106**	**100**	**20,476**	**100**

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

Primarily with respect to loans extended in conjunction with assignment of vehicle portfolios and loans extended by Union Leasing. Due to the nature of account management, this revenue is not reflected in the current account.

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

Term to maturity	As of September 30, 2020 Consolidated NIS in millions	Consolidated In %	Excluding Union Bank NIS in millions	Excluding Union Bank In %	As of September 30, 2019 NIS in millions	In %	As of December 31, 2019 NIS in millions	In %
Up to 1 year	3,714	20.6	3,497	25.2	3,552	25.4	3,669	25.5
Over 1 year to 3 years	5,601	31.1	4,568	33	4,691	33.5	4,805	33.4
Over 3 years to 5 years	4,035	22.4	2,577	18.6	2,568	18.3	2,640	18.4
Over 5 years to 7 years	2,849	15.8	1,483	10.7	1,499	10.7	1,513	10.5
Over 7 years[(2)]	1,805	10.1	1,735	12.5	1,688	12.1	1,743	12.2
Total	**18,004**	**100**	**13,860**	**100**	**13,998**	**100**	**14,370**	**100**

(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.

Below is information about problematic credit risk before provision for credit losses (NIS in millions):

	As of September 30, 2020						As of September 30, 2019			As of December 31, 2019		
	Credit risk[1]						Credit risk[1]			Credit risk[1]		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
	Including Union Bank			Excluding Union Bank								
Balance of problematic credit risk	235	4	239	203	4	207	223	2	225	231	3	234
Problematic credit risk rate[2]	0.98%	0.03%	0.64%	1.06%	0.03%	0.66%	1.11%	0.02%	0.72%	1.13%	0.03%	0.74%

(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)

	First nine months			2019
	2020		2019	
	Including Union Bank	Excluding Union Bank		
Expenses with respect to credit losses as percentage of total loans to the public to individuals	0.68%	0.85%	0.48%	0.49%

Data for credit risk to individuals show that:

- Total debts by individuals (on-balance sheet credit) increased by 19.5% compared to September 30, 2019 and by 17.3% compared to December 31, 2019, primarily due to acquisition of Union Bank in the current quarter. (Excluding Union Bank, decrease by 4.7% compared to September 30, 2019 and by 6.4% compared to December 31, 2019).

  Composition of debts owed to individuals as of September 30, 2020 (including Union Bank) is as follows:
  Checking accounts – 7.9%
  Credit cards 17.1%
  Auto loans – 19.2%
  Other loans and credit 55.7%

- The change in composition in the first nine months of 2020 is primarily reflected in increase in car loans at the expense of other loans and credit, due to the large vehicle assignment portfolio acquired from Union Bank.

- Of all debts (on-balance sheet credit) as of September 30, 2020, 34% is secured by financial assets and other collateral in the client's account (excluding Union Bank: 25%, similar to rates as of September 30, 2019 and as of December 31, 2019).

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.

Immediately prior to the Corona Virus crisis, this sector posted high sales and significant demand. Due to the crisis, total sales of residential apartments declined slightly and planning procedures have slowed down. Rental real estate properties saw a decrease in demand. However, this sector was classified as critical for the economy and therefore, work on construction sites continues, although not to the same extent as in normal times.

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

							September 30, 2020
	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)]	Including	Impaired	Other problematic[(4)]	Balance sheet credit risk	Off-balance sheet credit risk
Secured by real estate in Israel:							
Housing	10,367	15,609	25,976	29	12	96	42
Commercial and industrial	6,166	1,079	7,245	78	355	64	4
Total secured by real estate in Israel	**16,533**	**16,688**	**33,221**	**107**	**367**	**160**	**46**
Not secured by real estate in Israel	2,732	3,658	6,390	115	47	46	18
Initial consolidation of Union Bank	3,216	3,199	6,415	61	7	14	–
Total for construction and real estate economic sector in Israel	**22,481**	**23,545**	**46,026**	**283**	**421**	**220**	**64**
Of which: Designated for project assistance	9,211	14,342	23,553	22	5	94	45

							September 30, 2019
Secured by real estate in Israel:							
Housing	9,685	14,393	24,078	93	–	75	34
Commercial and industrial	5,613	1,255	6,868	53	383	44	2
Total secured by real estate in Israel	**15,298**	**15,648**	**30,946**	**146**	**383**	**119**	**36**
Not secured by real estate in Israel	2,407	2,712	5,119	129	51	40	8
Total for construction and real estate economic sector in Israel	**17,705**	**18,360**	**36,065**	**275**	**434**	**159**	**44**
Of which: Designated for project assistance	8,977	13,055	22,032	72	21	75	31

							December 31, 2019
Secured by real estate in Israel:							
Housing	9,538	16,332	25,870	30	51	74	34
Commercial and industrial	6,118	1,171	7,289	80	362	47	2
Total secured by real estate in Israel	**15,656**	**17,503**	**33,159**	**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	**17,760**	**20,501**	**38,261**	**227**	**468**	**159**	**54**
Of which: Designated for project assistance	8,606	14,224	22,830	13	61	73	35

(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):

	September 30, 2020			September 30, 2019			December 31, 2019		
	Credit risk(1)			Credit risk(1)			Credit risk(1)		
	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including	On balance sheet	Off balance sheet	Including
Real estate collateral in Israel									
Real estate yet to be completely constructed:									
Raw land	4,260	667	4,927	5,374	1,957	7,331	3,858	539	4,397
Real estate under construction	6,910	15,216	22,126	5,793	12,668	18,461	6,986	15,557	22,543
Real estate completely constructed	5,363	805	6,168	4,131	1,023	5,154	4,812	1,407	6,219
Total credit secured by real estate in Israel	**16,533**	**16,688**	**33,221**	**15,298**	**15,648**	**30,946**	**15,656**	**17,503**	**33,159**
Not secured by real estate in Israel	2,732	3,658	6,390	2,407	2,712	5,119	2,104	2,998	5,102
Initial consolidation of Union Bank	3,216	3,199	6,415	–	–	–	–	–	–
Total credit risk for construction and real estate	**22,481**	**23,545**	**46,026**	**17,705**	**18,360**	**36,065**	**17,760**	**20,501**	**38,261**

(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 borrower indebtedness.

Credit risk data for the construction and real estate clients sector as of September 30, 2020 show that 41.0% of the on-balance sheet credit risk and 60.9% 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 September 30, 2020, as presented below (Credit Risk by Economic Sector) is 14.5%. (Excluding Union Bank: 13.9%).
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 10.3% (excluding liabilities, including contingent liabilities to extend credit or to provide guarantees and amounts of Sales Act guarantees for which the Bank has obtained an insurance policy).

Credit risk by economic sector

As of September 30, 2020

Reported amounts (NIS in millions)

Including Union Bank

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts[2]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,168	1,139	19	10	1,168	897	10	8	3	1	10
Mining and excavation	904	839	5	60	904	378	60	48	22	1	25
Industry and production	13,795	12,817	387	590	13,701	7,948	590	367	54	17	206
Of which: Diamonds	1,649	1,420	86	143	1,648	1,094	143	95	5	–	26
Construction and real estate – construction[7]	39,215	37,372	1,571	272	39,194	16,699	272	207	70	27	237
Construction and real estate – real estate operations	6,811	6,126	253	432	6,794	5,757	432	76	15	1	47
Electricity and water delivery	4,163	4,117	35	11	3,923	2,130	11	–	4	1	13
Commerce	15,298	13,824	1,006	468	15,173	11,521	468	387	96	61	244
Hotels, dining and food services	2,067	1,699	197	171	2,067	1,634	171	68	31	7	55
Transport and storage	2,754	2,361	131	262	2,709	1,667	262	32	48	6	63
Information and communications	2,055	1,949	90	16	2,048	1,220	16	12	19	11	19
Financial services	16,743	16,535	59	149	15,009	7,115	149	148	72	3	156
Other business services	5,847	5,370	323	155	5,842	3,974	155	65	58	29	100
Public and community services	3,319	2,998	296	25	3,315	2,693	25	18	6	4	18
Total commercial	**114,139**	**107,146**	**4,372**	**2,621**	**111,847**	**63,633**	**2,621**	**1,436**	**498**	**169**	**1,193**
Private individuals – housing loans	166,531	164,340	827	1,364	166,531	153,255	1,364	90	272	10	935
Private individuals – other	37,833	37,290	304	239	37,504	24,018	239	96	122	60	339
Total public – activity in Israel	**318,503**	**308,776**	**5,503**	**4,224**	**315,882**	**240,906**	**4,224**	**1,622**	**892**	**239**	**2,467**
Banks in Israel	1,856	1,856	–	–	937	474	–	–	–	–	–
Government of Israel	14,822	14,822	–	–	16	16	–	–	–	–	–
Total activity in Israel	**335,181**	**325,454**	**5,503**	**4,224**	**316,835**	**241,396**	**4,224**	**1,622**	**892**	**239**	**2,467**
Borrower activity overseas											
Total public – activity overseas	4,999	4,803	36	160	4,885	3,186	160	94	39	–	81
Overseas banks	15,329	15,329	–	–	14,409	13,547	–	–	1	–	2
Overseas governments	1,768	1,768	–	–	600	600	–	–	–	–	–
Total activity overseas	**22,096**	**21,900**	**36**	**160**	**19,894**	**17,333**	**160**	**94**	**40**	**–**	**83**
Total	**357,277**	**347,354**	**5,539**	**4,384**	**336,729**	**258,729**	**4,384**	**1,716**	**932**	**239**	**2,550**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 258,729; debentures – 17,858; securities borrowed or acquired in conjunction with resale agreements – 172; Assets with respect to derivatives – 3,238; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 77,280.

(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 2,004 million and off-balance sheet credit risk amounting to NIS 2,405 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,828 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit risk by economic sector

As of September 30, 2020

Reported amounts (NIS in millions)

Excluding Union Bank

	Total credit risk[(1)]				Off balance sheet debts[(2)] and credit risk (other than derivatives)[(3)]						
		Of which:							Credit losses[(4)]		
	Total	Credit performance rating[(4)]	Credit in good standing other than at performing credit rating[(5)]	Problematic[(6)]	Total	Debts[(2)]	Problematic[(6)]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	1,002	973	19	10	1,002	751	10	8	3	1	10
Mining and excavation	628	563	5	60	628	262	60	48	22	1	25
Industry and production	11,917	11,074	387	456	11,823	6,764	456	282	54	17	198
Of which: Diamonds	1,649	1,420	86	143	1,648	1,094	143	95	5	–	26
Construction and real estate – construction[(7)]	34,458	32,663	1,571	224	34,437	14,604	224	165	70	27	226
Construction and real estate – real estate operations	5,153	4,481	253	419	5,136	4,636	419	64	15	1	44
Electricity and water delivery	3,538	3,492	35	11	3,298	1,873	11	–	4	1	12
Commerce	12,331	10,939	1,006	386	12,206	9,327	386	316	96	61	239
Hotels, dining and food services	1,814	1,519	197	98	1,814	1,422	98	44	31	7	53
Transport and storage	2,410	2,111	131	168	2,365	1,394	168	25	48	6	60
Information and communications	1,613	1,507	90	16	1,606	974	16	12	19	11	18
Financial services	14,154	13,969	59	126	12,420	5,688	126	125	72	3	151
Other business services	5,356	4,881	323	152	5,351	3,706	152	63	58	29	99
Public and community services	2,841	2,521	296	24	2,837	2,310	24	17	6	4	17
Total commercial	**97,215**	**90,693**	**4,372**	**2,150**	**94,923**	**53,711**	**2,150**	**1,169**	**498**	**169**	**1,152**
Private individuals – housing loans	155,477	153,329	827	1,321	155,477	143,048	1,321	89	272	10	935
Private individuals – other	31,566	31,055	304	207	31,237	19,159	207	88	122	60	335
Total public – activity in Israel	**284,258**	**275,077**	**5,503**	**3,678**	**281,637**	**215,918**	**3,678**	**1,346**	**892**	**239**	**2,422**
Banks in Israel	1,240	1,240	–	–	321	276	–	–	–	–	–
Government of Israel	7,531	7,531	–	–	16	16	–	–	–	–	–
Total activity in Israel	**293,029**	**283,848**	**5,503**	**3,678**	**281,974**	**216,210**	**3,678**	**1,346**	**892**	**239**	**2,422**
Borrower activity overseas											
Total public – activity overseas	4,676	4,480	36	160	4,562	3,186	160	94	39	–	81
Overseas banks	13,999	13,999	–	–	13,079	13,013	–	–	1	–	2
Overseas governments	1,768	1,768	–	–	600	600	–	–	–	–	–
Total activity overseas	**20,443**	**20,247**	**36**	**160**	**18,241**	**16,799**	**160**	**94**	**40**		**83**
Total	**313,472**	**304,095**	**5,539**	**3,838**	**300,215**	**233,009**	**3,838**	**1,440**	**932**	**239**	**2,505**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[(2)] – 233,009; debentures – 9,095; securities borrowed or acquired in conjunction with resale agreements – 116; Assets with respect to derivatives – 2,336; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 68,915.

(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 1,997 million and off-balance sheet credit risk amounting to NIS 2,396 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,327 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

Credit Risk by Economic Sector – Consolidated – continued

As of September 30, 2019

Reported amounts (NIS in millions)

	Total credit risk[(1)]				Off balance sheet debts[(2)] and credit risk (other than derivatives)[(3)]						
		Of which:							Credit losses[(3)]		
	Total	Credit performance rating[(4)]	Credit in good standing other than at performing credit rating[(5)]	Problematic[(6)]	Total	Debts[(2)]	Problematic[(6)]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	886	845	24	17	886	663	17	7	1	–	9
Mining and excavation	608	608	–	–	588	385	–	–	1	1	4
Industry and production[(8)]	10,843	10,029	347	467	10,725	6,602	467	335	52	25	155
Of which: Diamonds	1,718	1,574	60	84	1,716	1,151	84	83	2	4	24
Construction and real estate – construction[(7)]	31,775	30,789	688	298	31,756	13,839	298	242	(8)	(16)	173
Construction and real estate – real estate operations[(8)]	4,290	3,806	73	411	4,274	3,842	411	33	(26)	(1)	30
Electricity and water delivery[(8)]	2,982	2,809	155	18	2,462	1,602	18	3	–	–	10
Commerce	11,210	10,378	473	359	11,024	8,626	359	218	59	49	190
Hotels, dining and food services[(8)]	1,404	1,252	101	51	1,404	1,052	51	31	6	7	27
Transport and storage	1,829	1,766	27	36	1,823	1,229	36	15	9	4	15
Information and communications	1,190	1,080	99	11	1,178	563	11	5	–	2	7
Financial services	9,346	9,207	3	136	7,909	4,063	136	133	27	2	94
Other business services	4,784	4,552	135	97	4,770	3,397	97	55	25	15	61
Public and community services	2,601	2,391	172	38	2,583	2,126	38	30	3	4	14
Total commercial	**83,748**	**79,512**	**2,297**	**1,939**	**81,382**	**47,989**	**1,939**	**1,107**	**149**	**92**	**789**
Private individuals – housing loans[(8)]	144,333	142,140	772	1,421	144,333	132,947	1,421	52	32	5	670
Private individuals – other	31,281	30,660	396	225	31,144	20,106	225	84	73	70	266
Total public – activity in Israel	**259,362**	**252,312**	**3,465**	**3,585**	**256,859**	**201,042**	**3,585**	**1,243**	**254**	**167**	**1,725**
Banks in Israel	978	978	–	–	143	95	–	–	–	–	–
Government of Israel	7,468	7,468	–	–	–	–	–	–	–	–	–
Total activity in Israel	**267,808**	**260,758**	**3,465**	**3,585**	**257,002**	**201,137**	**3,585**	**1,243**	**254**	**167**	**1,725**
Borrower activity overseas											
Total public – activity overseas[(8)]	3,983	3,856	57	69	3,925	3,183	69	23	(7)	–	28
Overseas banks	9,017	9,017	–	–	7,327	7,284	–	–	(2)	–	2
Overseas governments	3,267	3,267	–	–	588	588	–	–	–	–	–
Total activity overseas	**16,267**	**16,140**	**57**	**69**	**11,840**	**11,055**	**69**	**23**	**(9)**	**–**	**30**
Total	**284,075**	**276,898**	**3,522**	**3,654**	**268,842**	**212,192**	**3,654**	**1,266**	**245**	**167**	**1,755**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[(2)] – 212,192; debentures – 10,409; securities borrowed or acquired in conjunction with resale agreements – 64; Assets with respect to derivatives – 2,717; and Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower indebtedness limits – 58,693.

(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 2,363 million, provided to certain purchase groups in the process of construction and includes off-balance sheet credit risk amounting to NIS 5,224 million for which insurance has been acquired to cover the Sales Act guarantee portfolio from international re-insurers.

(8) Reclassified.

Credit Risk by Economic Sector – Consolidated – continued

As of December 31, 2019

Reported amounts (NIS in millions)

	Total credit risk[1]				Off balance sheet debts[2] and credit risk (other than derivatives)[3]						
		Of which:							Credit losses[4]		
	Total	Credit performance rating[4]	Credit in good standing other than at performing credit rating[5]	Problematic[6]	Total	Debts[2]	Problematic[6]	Impaired	Expenses with respect to credit losses	Net accounting write-offs	Balance of provision for credit losses
Borrower activity in Israel											
Public – commercial											
Agriculture, forestry and fishing	895	868	12	15	895	673	15	7	1	1	8
Mining and excavation	539	539	–	–	519	351	–	–	–	–	4
Industry and production[8]	10,832	10,195	239	398	10,726	6,401	398	280	58	25	162
Of which: Diamonds	1,693	1,528	60	105	1,693	1,129	105	95	(6)	(3)	21
Construction and real estate – construction[7]	33,320	32,567	483	270	33,318	13,417	270	165	9	(9)	183
Construction and real estate – real estate operations[8]	4,941	4,433	83	425	4,936	4,339	425	62	(24)	1	30
Electricity and water delivery[8]	2,833	2,768	49	16	2,387	1,612	16	3	–	1	9
Commerce	10,715	9,994	264	457	10,575	8,180	457	331	87	63	204
Hotels, dining and food services[8]	1,415	1,312	55	48	1,414	1,082	48	28	11	10	29
Transport and storage	1,888	1,821	26	41	1,881	1,233	41	22	15	7	18
Information and communications	1,282	1,161	94	27	1,272	643	27	22	(2)	(3)	10
Financial services	9,845	9,661	–	144	7,791	4,033	144	135	15	2	82
Other business services	4,991	4,829	53	109	4,981	3,444	109	68	40	21	70
Public and community services	2,632	2,439	157	36	2,620	2,117	36	25	4	4	15
Total commercial	**86,128**	**82,587**	**1,515**	**1,986**	**83,315**	**47,525**	**1,986**	**1,148**	**214**	**123**	**824**
Private individuals – housing loans[8]	148,626	146,195	899	1,532	148,626	135,278	1,532	56	44	14	673
Private individuals – other	31,802	31,165	403	234	31,495	20,476	234	87	101	91	273
Total public – activity in Israel	**266,556**	**259,947**	**2,817**	**3,752**	**263,436**	**203,279**	**3,752**	**1,291**	**359**	**228**	**1,770**
Banks in Israel	657	657	–	–	151	110	–	–	–	–	–
Government of Israel	7,941	7,941	–	–	–	–	–	–	–	–	–
Total activity in Israel	**275,154**	**268,545**	**2,817**	**3,752**	**263,587**	**203,389**	**3,752**	**1,291**	**359**	**228**	**1,770**
Borrower activity overseas											
Total public – activity overseas[8]	4,549	4,457	5	127	4,493	3,122	127	37	8	–	42
Overseas banks	8,881	8,881	–	–	7,155	7,150	–	–	(3)	–	1
Overseas governments	2,437	2,437	–	–	656	656	–	–	–	–	–
Total activity overseas	**15,867**	**15,775**	**5**	**127**	**12,304**	**10,928**	**127**	**37**	**5**	**–**	**43**
Total	**291,021**	**284,320**	**2,822**	**3,879**	**275,891**	**214,317**	**3,879**	**1,328**	**364**	**228**	**1,813**

(1) On- and off-balance sheet credit risk, including with respect to derivatives (NIS in millions): Debts[2] – 214,317; debentures – 9,964; securities borrowed or acquired in conjunction with resale agreements – 120; Assets with respect to derivatives – 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.

(8) Reclassified.

Exposure to Foreign Countries – Consolidated[1]

Reported amounts (NIS in millions)

Country	September 30, 2020				September 30, 2019			December 31, 2019		
										Exposure
	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	Excluding Union Bank	On balance sheet[2]	Off-balance sheet[2][3][4]	Total	On balance sheet[2]	Off-balance sheet[2][3][4]	Total
USA	15,447	570	16,017	15,395	10,898	406	11,304	10,030	556	10,586
France	1,532	2,072	3,604	3,604	1,429	2,137	3,566	1,418	2,226	3,644
Germany	91	2,510	2,601	2,601	204	2,807	3,011	132	2,922	3,054
UK	2,379	739	3,118	2,305	2,478	883	3,361	2,041	1,115	3,156
Other	3,389	1,482	4,871	3,758	2,818	1,297	4,115	2,415	1,000	3,415
Total exposure to foreign countries	**22,838**	**7,373**	**30,211**	**27,663**	**17,827**	**7,530**	**25,357**	**16,036**	**7,819**	**23,855**
Of which: Total exposure to Greece, Portugal, Spain, Italy	49	46	95	74	57	31	88	42	33	75
Of which: Total exposure to LDC countries	548	102	650	476	423	91	514	409	83	492
Of which: Total exposure to foreign countries facing liquidity issues[5]	–	–	–	–	–	–	–	–	–	–

(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 6,001 million, primarily 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 September 30, 2019: NIS 5,575 million; as of December 31, 2019: NIS 5,842 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 9 to the financial statements.

(5) As of September 30, 2020, September 30, 2019 and December 31, 2019, the Bank had no exposure to foreign countries facing liquidity issues where the balance sheet exposure with respect to such countries exceeds the reporting threshold specified in Addendum 7, Chapter 651 of Public Reporting Regulations.

Credit exposure to foreign financial institutions

Bank exposure data

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

	On-balance sheet credit risk[(3)]		Off balance sheet credit risk[(4)]	Current credit exposure		Current credit exposure
External credit rating	Before offset of deposits with respect to master netting agreements[(5)]	After offset of deposits with respect to master netting agreements[(6)]		Before offset of deposits with respect to master netting agreements	After offset of deposits with respect to master netting agreements[(5)]	Excluding Union Bank, after offset of deposits with respect to master netting agreements
						September 30, 2020[(7)]
AAA to AA-	981	921	5,819	6,800	6,740	6,660
A+ to A-	1,238	1,238	304	1,542	1,542	384
BBB+ to BBB-	118	118	5	123	123	8
BB+ to B-	74	74	26	100	100	26
Lower than B-	–	–	–	–	–	–
Unrated	24	24	–	24	24	24
Total credit exposure to foreign financial institutions	**2,435**	**2,375**	**6,154**	**8,589**	**8,529**	**7,102**
					September 30, 2019	
AAA to AA-	1,035	992	5,345	6,380	6,337	
A+ to A-	224	101	277	501	378	
BBB+ to BBB-	23	13	6	29	19	
BB+ to B-	–	–	26	26	26	
Lower than B-	–	–	–	–	–	
Unrated	8	8	–	8	8	
Total credit exposure to foreign financial institutions	**1,290**	**1,114**	**5,654**	**6,944**	**6,768**	
					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**	

Due to potential implications of the economic crisis resulting from the Corona Virus pandemic for the condition of many financial institutions world-wide, credit spread volatility in the first half of 2020 increased during the crisis period. Many financial institutions had their rating outlook lowered, with some ratings lowered as well. In the third quarter of 2020, financial markets seem to have stabilized, although the financial system is still asssociated with increased risk. During this period and in line with developments, the Bank closely monitored all exposure frameworks of the Bank, analysis and review of relevant risks by various parameters, and in line with the level of business activity with counter-parties, the Bank revised the various exposure frameworks (right-sizing).
As of September 30, 2020, September 30, 2019 and December 31, 2019 there was no problematic 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 6,001 million as of September 30, 2020 (as of September 30, 2019: NIS 5,575 million; as of December 31, 2019: NIS 5,842 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.
(7) Including Union Bank data.

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 derivatives vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 11.B. 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 derivatives. 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 three of the leading international rating agencies are used – based on financial information for the institution under review, based on their policy. 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.

Housing credit risk and development

In conjunction with credit risks management, the Bank takes various actions to manage, control and mitigate risks associated with provision of housing loans. Due to the on-going uncertainty, the Bank increased the risk level in this portfolio from Low to Low-Medium. Nevertheless, 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 September 2020) was 53.1% 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.

Corona Virus pandemic

Due to the Corona Virus outbreak, the Bank is preparing to provide a response with regard to mortgage execution and management. Activities were implemented with due consideration to directives of the Bank of Israel (including relief provided for), so as to support and assist our clients during the crisis, while monitoring risk and adjusting credit policy.

The Bank closely monitors the developments and implications of the Corona Virus outbreak on its clients, with attention paid to factors that may affect the risk level in the mortgage portfolio. Criteria for loan approval have been adapted to accommodate clients on furlough, taking into account their pre-crisis income, in conformity with Bank of Israel directives. In order to assist clients with a loan at the Bank, the Bank has allowed clients to receive a full or partial repayments delay, in conformity with updates to the Bank of Israel outline (clients who have already delayed repayments – a further extension through December 31, 2020; clients who have yet to delay repayments – delay of up to 6 months). The Bank closely monitors this activity with regard to the following: Delayed amount, number of applications, repayments delay period, borrower profile, LTV ratio and so forth.

Volume of mortgages granted by the household segment, excluding Union Bank data, is as follows:

	Loans granted (NIS in millions)		
	First nine months		**Rate of change**
	2020	**2019**	**In %**
Mortgages issued (for housing and any purpose)			
From the Bank's funds	19,190	17,634	8.8
From funds of the Finance Ministry			
Directed loans	259	276	(6.2)
Standing loans and grants	88	65	35.4
Total new loans	**19,537**	**17,975**	**8.7**
Refinanced loans	4,005	2,394	67.3
Total loans originated	**23,542**	**20,369**	**15.6**
Number of borrowers (includes refinanced loans)	37,851	34,235	10.6

Below are details of various risk attributes of the housing loan portfolio[(1)] as of September 30, 2020 (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 excluding Union Bank	Union Bank	Total
Up to 60%	Up to 35%	2,717	9,423	12,269	27,915	21,208	8,107	81,639		
	50%-35%	329	792	1,056	3,645	5,129	1,789	12,740		
	80%-50%	–	2	1	8	968	612	1,591		
	Over 80%	–	–	1	–	73	90	164	7,811	103,945
75%-60%	Up to 35%	1,976	6,112	6,614	13,710	10,372	2,101	40,885		
	50%-35%	196	497	438	1,487	1,740	531	4,889		
	80%-50%	–	–	–	2	229	166	397		
	Over 80%	–	–	–	–	3	26	29	2,295	48,495
Over 75%	Up to 35%	34	99	139	210	538	994	2,014		
	50%-35%	1	5	8	17	118	298	447		
	80%-50%	–	–	–	1	12	94	107		
	Over 80%	–	–	–	–	3	17	20	101	2,689
Total		**5,253**	**16,930**	**20,526**	**46,995**	**40,393**	**14,825**	**144,922**	**10,207**	**155,129**
Of which (excluding Union Bank data):										
Loans granted with original amount over NIS 2 million		483	1,315	1,383	2,827	1,941	431	8,380		
Percentage of total housing loans		9.2%	7.8%	6.7%	6.0%	4.8%	2.9%	5.8%		
Loans bearing variable interest:										
Non-linked, at prime lending rate		1,530	5,191	6,133	13,173	11,918	6,157	44,102		
CPI-linked[(3)]		6	9	40	49	1,066	2,917	4,087		
In foreign currency[(3)]		133	340	664	1,273	1,149	545	4,104		
Total		**1,669**	**5,540**	**6,837**	**14,495**	**14,133**	**9,619**	**52,293**		
Non-linked loans at prime lending rate, as percentage of total housing loans		29.1%	30.7%	29.9%	28.0%	29.5%	41.5%	30.4%		
CPI-linked loans bearing variable interest as percentage of total housing loans		0.1%	0.1%	0.2%	0.1%	2.6%	19.7%	2.8%		
Loans with LTV over 75% as percentage of total housing loans		0.7%	0.6%	0.7%	0.5%	1.7%	9.5%	1.8%		

(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 September 30, 2020).

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 Group's mortgage portfolio as of September 30, 2020 was 53.2% (53.1% excluding Union Bank), compared to 52.5% on September 30, 2019 and to 52.7% on December 31, 2019. Out of the total loan portfolio of the Bank, amounting to NIS 155.1 billion (NIS 144.9 billion excluding Union Bank), some 98.3% were granted with an original LTV ratio under 75% (98.2% excluding Union Bank), 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 lower than the historical LTV ratio. Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 0.3 billion, or only 0.2% of the total housing loan portfolio.

Note, in this regard, that the Bank's average LTV ratio as of September 30, 2020, 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%. For loans originated one to 5 years ago – by 6%; for loans originated over 5 years ago – by 19%; for all loans in total – by 11%.

The percentage of loans granted with a high LTV ratio (over 75%) out of total housing loan portfolio of the Bank to 0.7% for loans granted 1-2 years ago, 0.6% for loans granted 3-12 months ago and 0.7% for loans granted in the third quarter of 2020.

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 25.8% (25.6% excluding Union Bank). Some 85.9% 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%). Some 12.5% of the mortgage portfolio was granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 39.2%). Some 1.4% 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 0.1% was granted to borrowers with a repayment ratio over 80% (the average repayment ratio for these borrowers is 92.1%).

At Union Bank, most of the housing loan portfolio has a repayment ratio lower than 35%.

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 14 billion (NIS 12.9 billion excluding Union Bank), or only 8.9% 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 9.2 billion (NIS 8.4 billion excluding Union Bank) on September 30, 2020, or only 5.8% 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 September 30, 2020 (NIS in millions):

	Including Union Bank							
	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	22	14	19	197	252	35	296
Of which: Balance of provision for interest(3)	–	–	–	1	108	109	7	116
Recorded debt balance	495	737	186	128	142	1,193	73	1,761
Balance of provision for credit losses (4)	–	–	26	57	103	186	38	224
Debt balance, net	**495**	**737**	**160**	**71**	**39**	**1,007**	**35**	**1,537**

	Excluding Union Bank							
	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	21	13	19	195	248	35	292
Of which: Balance of provision for interest(3)	–	–	–	1	107	108	7	115
Recorded debt balance	473	712	171	127	141	1,151	73	1,697
Balance of provision for credit losses (4)	–	–	26	57	103	186	38	224
Debt balance, net	**473**	**712**	**145**	**70**	**38**	**965**	**35**	**1,473**

(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.

For more information about housing credit risk, see also the 2019 Risks Report available on the Bank website.

Operational risk

Risk description and development

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.
Throughout the Corona Virus outbreak and in the third quarter of 2020, operational risk remained Medium. The Bank maintained a low level of losses with respect to operating failure events, and in actual fact, no material operating events occurred. The risk level reflects the potential damage that may be caused by materialization of operational risks. Activity continued to improve monitoring, management and control of operational risks, with emphasis on upgrading the IT system for management of risks surveys and further activity to identify, analyze and enhance awareness of the various operational risks.
During the crisis period, changes and relief measures were approved for operating procedures, especially with regard to online banking, suitable for operations during emergency. In May, most of the relief measures were eliminated upon return to normal operation.

Business continuity

The Bank applies Proper Conduct of Banking Business Directive 355 concerning "Management of business continuity".
In March, as part of addressing the Corona Virus crisis, the Bank raised the alert level, convened an expanded situation room to determine work guidelines and established a Corona Virus forum to manage current operations under these conditions, including the relevant parties for such operations. Several measures were applied to address this event, including the following: Splitting Bank units in order to maintain operating continuity of critical services and some employees transitioned to working remotely, using the Bank's technology infrastructure.
Since April, the Bank has been operating "under the Corona Virus shadow" while maintaining business and operational continuity. The Bank continues to work in split critical units and to work in capsules at banking centers and branches, including strict adherence to detailed work instructions with regard to social distancing and hygiene. The Bank regularly monitors cases of morbidity or infection at branches and at headquarters units and the date of return to work; as needed, the Bank uses remote work infrastructure by a rapid, structured process. During the third quarter, the Bank completed expansion of its internal and external VC systems, so as to improve communication with entities external to the Bank as well; consequently, the Bank deployed a system for chat management and screen sharing.
With regard to suppliers and service providers, the Bank has mapped the critical suppliers for IT, logistics and security and has assessed their capacity to continue providing service even under the current restrictions.
Concurrently, the Bank continued to implement the work plan and drill plan with regard to business continuity, including further updates to the business continuity plan and conducting technology drills.
As for Group-wide control, the Bank conducts a structured process to monitor operations of Bank Yahav and Union Bank under routine Corona Virus conditions, including daily report received of employees who are sick / in isolation and any unusual events. Similar monitoring is in place for operations of the Bank's overseas affiliates.
Note that the Bank has conducted a comprehensive process to learn lessons from the Corona Virus crisis (first wave) and to prepare for the second wave, which has occurred. This comprehensive process and the conclusions drawn have been discussed by the Bank Board of Directors and have been submitted to the Bank of Israel, and the latter has provided systemic comments on this matter. The Bank regularly acts to improve its state of preparedness and to ensure appropriate business continuity.
For more information see chapter "Significant Events in the Bank Group's Business" above.

Information security and cyber security

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.

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 third quarter of 2020, 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.

During the Corona Virus crisis, the Bank's information security team operates fully and continuously, improving and bolstering defense capabilities and mechanisms, in conformity with expansion of threats and challenging needs which the Bank is required to face.

We should note that the Corona Virus pandemic has elevated cyber risk across the world, both due to increase in working remotely, which provided more attack vectors for organizations and due to increased fraud attempts in the shadow of the outbreak. Bank operations during this period retained the risk level at the Bank unchanged.

Information technology risk

IT risk – risk arising from failure of the Bank's IT systems as a result of deficient availability and performance of these systems, incorrect performance and lack of support by the systems for the Bank's business needs.

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.

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

Moreover, in the fourth quarter of 2019 the Bank launched a project to replace the CRM system, which would take place gradually over 3 years.

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.

The risk level during the first nine months of 2020 and throughout the Corona Virus crisis remained unchanged. The Technology Division operated in providing full support for regular operations at the Bank and for technology needs required for Bank operations during emergency routine operations. There were no material events and/or malfunctions during this period.

For more information about contracting between Union Bank and Bank Leumi with regard to Union Bank's IT systems, see "Description of effects of Union Bank acquisition" at the top of chapter "Risks overview".

Legal risk

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

Legal risk includes absence of potential for legal enforcement of an agreement and includes, but is not 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 and provides current legal advice to the Bank and its various units.

In the third quarter of 2020, the level of legal risk remained low-medium.

Review of legal risk level in the first nine months of 2020 included, *inter alia*, a review of potential implications of the Corona Virus crisis on legal risk, which found that in general, there was no impact on the level of legal risk and the quality of management of said risk.

For more information about operational risk, see also the 2019 Risks Report available on the Bank website.

Market risk and interest risk

Risk description and development

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 rate 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.
The market risk in the negotiable portfolio is minimal, in line with Bank policy. The Bank structure, which is weighted towards the mortgage portfolio, produces long-term uses for which the Bank requires sources. The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, in the first quarter of 2020, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios. Consequently, the risk measured under lower interest scenarios decreased.
Note that Union Bank's nostro portfolio reflects risk that is higher than the Bank's risk appetite. However, at the Bank level on consolidated basis, the impact of this portfolio is not material.
Assessment of Bank exposure to interest risks in the third quarter of 2020 remained at Low-Medium, see explanation below.
Due to the Corona Virus outbreak in Israel, the third quarter of 2020 saw an increase in zero coupon NIS interest rate curves, across the entire NIS and CPI-linked curve. During this quarter, inflationary expectations continued to decline due to expected decline in demand. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.
Risk values measured in the normal course of business and under stress scenarios were slightly higher compared to the second quarter of this year, primarily due to current banking operations in the mortgage segment, and range at levels lower than the specified risk appetite.

Below is the VaR for the Bank Group in the reported period (excluding Union Bank) (NIS in millions):

	First nine months		All of
	2020	2019	2019
At end of period	746	508	484
Maximum value during period	(JUN) 1,055	(JUN) 626	(JUN) 626
Minimum value during period	(JAN) 443	(MAR) 431	(MAR) 431

The increase in VaR was mostly due to severe fluctuations in interest rate curves during the Corona Virus crisis.
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):

						September 30, 2020
						Change in fair value
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	EUR	Other	Total
	Including Union Bank					
2% increase	(181)	(1,506)	233	38	13	(1,403)
Decrease by 2%	(182)	1,289	(233)	(14)	(19)	841
						September 30, 2020
	Excluding Union Bank					
2% increase	(4)	(1,453)	242	65	13	(1,137)
Decrease by 2%	(356)	1,237	(242)	(41)	(19)	579
						September 30, 2019
2% increase	488	(1,545)	209	76	13	(759)
Decrease by 2%	(1,660)	1,080	(235)	(49)	(14)	(878)
						December 31, 2019
2% increase	55	(1,304)	372	67	12	(798)
Decrease by 2%	(1,211)	799	(401)	(40)	(12)	(865)

(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. Analysis of interest risk in Bank portfolio.
The Bank regularly reviews the risk estimation methodology, in line with global common practice. Thus, measurement methods were slightly revised to also include future receipts with respect to early repayment commission expected under the various scenarios.
Further to these changes, the exposure to lower interest rates, under the lower interest rate scenario, decreased.

Quantitative information about interest risk – Sensitivity analysis

Net adjusted fair value(1) of financial instruments of the Bank and its subsidiaries thereof:

	As of September 30, 2020					
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
	Including Union Bank			Excluding Union Bank		
Net adjusted fair value(1)	13,198	391	13,589	11,183	429	11,612
Of which: Banking portfolio	(5,285)	16,689	11,404	(6,303)	16,676	10,373

	As of September 30, 2019			As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Net adjusted fair value(1)	13,587	83	13,670	13,202	295	13,497
Of which: Banking portfolio	(6,338)	18,915	12,577	(2,411)	14,562	12,151

Impact of change scenarios in interest rates on net adjusted fair value(1) of the Bank and its subsidiaries:

	As of September 30, 2020					
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes	Including Union Bank			Excluding Union Bank		
Concurrent 1% increase	174	145	319	278	148	426
Of which: Banking portfolio	160	163	323	264	163	427
Concurrent 1% decrease	(171)	(163)	(334)	(247)	(166)	(413)
Of which: Banking portfolio	(163)	(185)	(348)	(163)	(185)	(348)
Non-concurrent changes						
Steeper(3)	(409)	(19)	(428)	(371)	(34)	(405)
Shallower(4)	766	64	830	852	74	926
Short-term interest increase	124	112	236	446	128	574
Short-term interest decrease	419	(116)	303	89	(132)	(43)

	As of September 30, 2019			As of December 31, 2019		
	NIS	Foreign currency(2)	Total	NIS	Foreign currency(2)	Total
Concurrent changes						
Concurrent 1% increase	355	155	510	148	211	359
Of which: Banking portfolio	341	171	512	141	233	374
Concurrent 1% decrease	(299)	(168)	(467)	(715)	(200)	(915)
Of which: Banking portfolio	(285)	(183)	(468)	(709)	(242)	(951)
Non-concurrent changes						
Steeper(3)	(208)	13	(195)	(304)	(60)	(364)
Shallower(4)	353	33	386	35	111	146
Short-term interest increase	428	115	543	347	180	527
Short-term interest decrease	(396)	(221)	(617)	(545)	(183)	(728)

(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.
Moreover, the measurement method was revised in the first quarter of 2020, as noted above, to include future receipts with respect to early repayment commissions expected to be received under the different scenarios.

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 807 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 15 to the financial statements for additional information.
For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2019.

Impact of change scenarios in interest rates on net interest revenues and non-interest financing revenues(1):

	As of September 30, 2020					
	Interest revenues	Non-interest financing revenues(3)	Total	Interest revenues	Non-interest financing revenues(3)	Total
Concurrent changes(2)	Including Union Bank			Excluding Union Bank		
Concurrent 1% increase	1,073	154	1,227	965	110	1,075
Of which: Banking portfolio	1,075	147	1,222	967	103	1,070
Concurrent 1% decrease	178	(166)	12	228	(113)	115
Of which: Banking portfolio	178	(158)	20	228	(105)	123

	As of September 30, 2019			As of December 31, 2019		
	Interest revenues	Non-interest financing revenues(3)	Total	Interest revenues	Non-interest financing revenues(3)	Total
Concurrent changes(2)						
Concurrent 1% increase	572	423	995	667	246	913
Of which: Banking portfolio	686	377	1,063	668	168	836
Concurrent 1% decrease	(72)	(423)	(495)	(346)	(243)	(589)
Of which: Banking portfolio	(186)	(377)	(563)	(347)	(177)	(524)

(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 further details of assumptions used in calculation of the fair value of financial instruments, see Note 15 to the financial statements.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 33 to the financial statements as of December 31, 2019.

Analysis of CPI and exchange rate exposures

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 September 30, 2020, capital increase (erosion)[3] (NIS in millions):

			Scenarios		Historical stress scenario[1]	
	10% increase	5% increase	Decrease by 5%	Decrease by 10%	Maximum increase	Maximum decrease
CPI[2]	1,764.3	883.4	(921.7)	(1,843.3)	186.8	(165.4)
Dollar	31.6	15.9	(9.5)	(19.5)	11.9	(8.3)
Pound Sterling	0.1	0.1	–	–	–	–
Yen	2.2	0.7	(0.2)	0.5	0.8	(0.2)
EUR	0.7	0.4	2.2	9.8	(0.1)	2.5
Swiss Franc	–	–	0.1	0.2	–	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 571 million and NIS (593) million, respectively.
(3) Including Union Bank.

The Corona Virus crisis resulted in actual inflation being lower than anticipated. The Bank continued to strictly manage its CPI-linked position, based on creating a daily linkage balance sheet and establishing a forecast position under various scenarios.

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

Share price risk

For more information about share price risk, see chapter "Market risk" on the Risks Report.

For information about equity investments in the bank portfolio, see Note 5 to these financial statements and Notes 12 and 15.A to the 2019 financial statements.

Liquidity and financing risk

Risk description and development

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.

Liquidity risk is managed subject to the limitations of the Board of Directors and 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.

There were no deviations from the Board of Directors' limitations recorded in the first nine months of 2020.

In February 2020, the Bank raised its alert level with regard to liquidity risk to "High Alert". The decision to raise the alert level was due to concern with regard to the Corona Virus outbreak and the sharp declines in stock markets. In early March, the Bank raised its state of alert for liquidity, from Elevated to Yellow (alert level including operating measures designed to ensure that the Bank maintains appropriate liquidity during crisis periods), due to further sharp declines in stock markets, both globally and in particular in Israel, and due to the integrated benchmark for monitoring financial markets (a benchmark developed by the Bank for identifying and 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) reaching record levels. The alert level returned down to Elevated in mid-May, with resumption of routine operations.

During all of the third quarter of 2002, the alert level at the Bank was High Alert.

During the current period, the Bank closely monitors (at daily level) qualitative and quantitative indicators (both internal and external) and conducts daily reviews of multiple stress scenarios for various time frames. Liquidity is appropriate across all these scenarios and the Bank is in compliance with all internal limitations.

According to the liquidity planning for the short term and for longer terms, the Bank is expected to further maintain appropriate liquidity ratios, with due consideration to its known operations and to expected operations including assumptions appropriate for crisis situations.

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 about liquidity risk, see also the 2019 Risks Report available on the Bank website.

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.

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 the first nine months of 2020, the Bank continued diversifying its financing sources and reducing concentration risk. In the third quarter of 2020, concentration risk for financing sources remained low.

For more information about financing sources, see chapter "Developments in financing sources" above.

For more information about financing risk, see also the 2019 Risks Report available 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%. 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 in 2020 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 is in addition to liquidity risk management using internal models, as stipulated by Directive 342.

The average liquidity coverage ratio (consolidated, excluding data for Union Bank(1)) for the third quarter of 2020 was 128%. As noted above, in this period there were no recorded deviations from these restrictions.

As of September 30, 2020, the balance of the three largest depositor groups at the Bank Group amounted to NIS 9.8 billion.

Soliciting sources and Bank liquidity status – In the first nine months of 2020, there was an increase in the Bank's balance of deposits from the public. Deposits from the public for the Group as of September 30, 2020 amounted to NIS 276.2 billion.

Excluding Union Bank, deposits from the public amounted to NIS 239.4 billion, compared to NIS 211.0 billion at end of 2019: an increase by 13.5%. In the non-linked segment, total deposits from the public amounted to NIS 181.9 billion, an increase by 14.4% compared to end of 2019. In the CPI-linked sector, deposits from the public amounted to NIS 14.4 billion, an increase by 0.4% compared to end of 2019, and in the foreign currency sector – to NIS 43.1 billion, an increase by 14.6% compared to end of 2019.

For more information about liquidity coverage ratio, see also the Risks Report available on the Bank website.

(1) Data for Union Bank was consolidated with Group data as from September 30, 2020 and would be fully included in data for the average liquidity coverage ratio for the fourth quarter of 2020.

Other risks

Compliance and regulatory risk

Risk description and development

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.

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.

Compliance risk remained unchanged in the first nine months of 2020 and is defined as low-medium.

This risk assessment is due, *inter alia*, to addressing of risks classified as high and to further enhancement of controls and training delivery and improvement in efficiency of work processes in this area, while incorporating technology improvements. In the current quarter, the Bank took action to implement the applicable directives by the various regulators in the wake of the Corona Virus pandemic. The Bank also applies regular controls, in order to monitor compliance risk that may materialize during this period.

The Bank has internal enforcement programs for securities and for anti-trust law.

For more information about compliance and regulation risk, see also the 2019 Risks Report available on the Bank website.

Cross-border risk

Risk description and development

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 to the Bank's overseas affiliates, in activity with foreign-resident clients.

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.

The Bank has near-zero appetite for cross-border risk.

Cross-border risk remained unchanged in the first nine months of 2020 and is defined as low-medium. The Bank manages this risk by revising procedures, automating work processes, delivering training, concentrating activity of foreign residents in specialized branches and specification of work routines in processes required tor reporting under both FATCA and CRS. In the third quarter of this year, the Bank has provided reports to the Tax Authority, in conformity with regulations for applying the FACTA agrreement and the information exchange agreement in conformity with CRS.

For more information about cross-border risk, see also the 2019 Risks Report available on the Bank website.

AML and terror financing risk

Risk description and development

AML and terror financing risk is the risk of financial loss (including due to legal 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.

The Bank has near-zero risk appetite with regard to AML risk.

AML risk remained unchanged in the first nine months of 2020 and is defined as low-medium. This risk assessment is due, inter alia, to continued intensive training and deployment activity, along with risk-focused controls, improvement of documents and classifications 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 to the AML Authority, is operating in branches on regular basis and enables close control over the banking activity. In the third quarter of this year, the Bank provided to the Bank of Israel its semi-annual report of compliance risk, in the new format pursuant to Reporting Regulation 825.

For more information about AML risk and terrorism financing, see the 2019 Risks Management Report available on the Bank website.

Reputation risk

Risk description and development

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.

The Bank monitors and reviews the impact of the Corona Virus pandemic, globally and in Israel, on business activity as a whole and on reputation risk in particular, with regard to negative perception of the Bank specifically, and as part of the overall perception of the banking system.

Bank management believes that at this stage, the reputational risk level has not changed materially. The Bank continues to regularly monitor this matter.

For more information about reputation risk, see also the 2019 Risks Report available on the Bank website.

Business-strategic risk

Risk description and development

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.

The Bank operates in conformity with a five-year strategic plan, 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.

Implications of the impact on economic activity due to the Corona Virus crisis for business operations of the Bank, including higher credit risk and provision for credit losses and potentially lower net interest revenues for the Bank, due to the lower interest rates of the Bank of Israel and of the Federal Reserve Bank in the USA. The Bank applies measures to address the crisis and its implications. For more information about implications of the Corona Virus pandemic and steps taken by the Bank, see chapter "Significant events in the Bank Group's business".

The Bank regularly reviews the implications of this crisis on business-strategic risk. At this stage and due to the current uncertainty, the full impact of the crisis on Bank operations may not be assessed.

Further to the Bank Board of Directors directing management to prepare for preparation of a new strategic plan for 2021-2025, to be submitted for approval by the Board of Directors in the third quarter of 2020, in view of achievement of the target of the current strategic plan on the 2019 financial statements, in view of the Corona Virus crisis and the uncertainty associated there with, and in view of closing of the acquisition of all shares of Union Bank, the Board of Directors is scheduled to discuss the new strategic plan in late 2020. This date may be revised further down the road, in conformity with economic developments.

For more information about strategic-business risk, see also the 2019 Risks Report available on the Bank website.

For more information about environmental risk, see chapter "Risks Overview" of the 2019 Report of the Board of Directors and Management.

Policies and critical accounting estimates, controls and procedures

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 2019 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.

Provision for credit losses

Sensitivity of provisions for credit losses to changes in economic conditions is due to a significant number of connections and mutual effects: Effect on certain clients who cannot meet their obligations, and consequently subject to a specific provision; effect on certain clients who are facing difficulties that require classification as inferior or under special supervision, and consequently the group-based provision with respect there to has increased; effect on the additional qualitative component of the group-based provision, through parameters of growth and unemployment that are part of the model; additional effect on the additional qualitative component, through other parameters affected by unemployment and growth, such as the number of Watchlists and average rating of clients.

In June, the Bank conducted a system-wide stress scenario – a uniform stress scenario delivered by the Supervisor of Banks to the banking system. The stress scenario for a 3-year horizon is based on a renewed Corona Virus outbreak in the fourth quarter of 2020 and a shut-down of the economy (to a lesser degree). The scenario takes into account the effect of future changes in the state of the economy and in evolution of the Corona Virus pandemic on Bank activity, including the provision for credit losses.

The stress scenario assumes, inter alia, 45% negative growth in 2020, standard unemployment rate peaking at 11%, 15% decline in housing prices, up to 5% currency devaluation, 25% decline in the equity benchmark (at the peak of the scenario) and so on. Results of this scenario indicate that the provision for credit losses for 2020 under the stress scenario may reach NIS 1.5 billion, and in 2021 – NIS 1.6 billion, an annualized provision rate of 0.70% and 0.74% of total loans, respectively, compared to 0.57% on the financial statements for the first nine months of 2020. Note that in October, the Supervisor of Banks issued a uniform stress scenario for the banking system, stricter than previously issued scenarios, in line with deterioration in the economic impact to the economy due to the Corona Virus crisis. The objective of this scenario is to test resilience of the banking system. The outcome of applying this scenario to Bank data would be submitted to the Bank of Israel in early December 2020.

Data for loans to the public on the consolidated financial statements include loans to the public at Union Bank, based on initial estimation of the value thereof. The initial estimation of the value of loans to the public includes estimated credit losses, based on the provision for credit losses at Union Bank. The estimated credit losses at Union Bank were affected by higher unemployment and by changes to other macro-economic indicators, which resulted in increase in estimated credit losses (group-based provision at Union Bank) amounting to NIS 48 million, of which NIS 35 million with respect to effect of the higher unemployment rate.

Business combinations

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. Pursuant to provisions of ASC 805, the Bank is required to conduct a Purchase Price Allocation (PPA) for assets and liabilities of Union Bank, within 12 months after the acquisition date. These financial statements include a provisional accounting treatment based on initial estimated valuation of Union Bank assets and liabilities, to be revised on subsequent financial statements. In order to determine the fair value of Union Bank assets and liabilities, the Bank used assumptions, assessments and estimates. Due to the short time elapsed from the acquisition date to the issue date of these financial statements, carrying amounts on Union Bank books were used as a conservative initial estimate for provisional attribution of the purchase cost (PPA Provisional) upon initial consolidation. The net amount recognized upon the acquisition date with respect to provisional value of identifiable assets acquired and liabilities assumed in the business combination exceeds the consideration provided. The difference of NIS 1.3 billion was recognized on the Bank's consolidated financial statements as "Deferred credit balance from acquisition of Union Bank", under Other Liabilities. The deferred credit balance was decreased by the net loss of NIS 77 million, recognized upon sale of Union Bank's diamond operations. This amount would also be decreased by the net expense to be recognized by Union Bank with respect to retirement expenses for some Union Bank employees, as agreed in the acquisition transaction. The remaining deferred credit balance would be recognized as revenues on the statement of profit and loss over 5 years as from the acquisition date.

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 about accounting policies on critical matters, see chapter "Policies and critical accounting estimates" of the 2019 Report of the Board of Directors and Management.

For more information about changes to critical accounting policies and critical accounting estimates with regard to the group-based provision for credit losses and with respect to the Corona Virus crisis, see chapter "Changes to critical accounting policies and to critical accounting estimates" above.

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.

Evaluation of controls and procedures with regard to disclosure

Further to adjustment of controls and procedures with regard to disclosure concerning the change in layout of the financial statements, made in 2019, in the first nine months of 2020 additional adjustments were made with regard to quarterly financial statements. Bank 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 as of September 30, 2020. Based on this evaluation, the Bank President & CEO and the Chief Accountant of the Bank concluded that at the end of the period ended September 30, 2020, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Changes to internal controls

In the third quarter of 2020, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting, except for adjustment of controls with respect to initial consolidation of Union Bank.

Moshe Vidman	Moshe Lari
Chairman of the Board of Directors	President & CEO

Approval date:
Ramat Gan
November 23, 2020

Certification

I, MOSHE LARRY, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2020 ("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 quarterly 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 presented 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 this 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 and Balance Sheet Committees 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.

Moshe Lari

President & CEO

November 23, 2020

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Certification

I, MENAHEM AVIV, certify that:

1. I have reviewed the quarterly report of Bank Mizrahi Tefahot Ltd. ("the Bank") for the quarter ended September 30, 2020 (“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 quarterly 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 presented 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 this 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 and Balance Sheet Committees 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

November 23, 2020

(1) As defined in Public Reporting Directives with regard to "Report of the Board of Directors and Management".

Deloitte.

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Limited

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. and subsidiaries thereof ("the Bank"), consisting of the condensed consolidated interim balance sheet as of September 30, 2020, the condensed consolidated interim statements of profit and loss, comprehensive income, changes to shareholder equity and cash flows for the nine-month and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 5.19% of total consolidated assets as of September 30, 2020, and whose net interest revenues before expenses with respect to credit losses included in the consolidated statements of profit and loss constitute 8.52% and 7.70% of total consolidated net interest revenues before expenses with respect to credit losses, respectively, for the nine-month and three-month periods then ended. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors. We have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard (Israel) no. 2410 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial information has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to Note 10.B.3 with regard to lawsuits filed against the Bank and its subsidiary, including requests to recognize them as class actions

Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.
Certified Public Accountants
A Firm in the Deloitte Global Network

Tel Aviv, November 23, 2020

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Mizrahi-Tefahot Bank

Condensed Financial Statements as of September 30, 2020

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Condensed consolidated statements of profit and loss

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019	For the year ended December 31, 2019
			(unaudited)		(unaudited)	(audited)
Interest revenues	2	1,952	1,532	5,378	5,865	7,711
Interest expenses	2	488	318	1,244	1,877	2,371
Interest revenues, net		1,464	1,214	4,134	3,988	5,340
Expenses with respect to credit losses	6.13	317	70	932	245	364
Interest revenues, net after expenses with respect to credit losses		**1,147**	**1,144**	**3,202**	**3,743**	**4,976**
Non-interest revenues						
Non-interest financing revenues	3	54	147	194	293	357
Commissions		399	387	1,199	1,143	1,535
Other revenues		8	13	136	61	74
Total non-interest revenues		**461**	**547**	**1,529**	**1,497**	**1,966**
Operating and other expenses						
Payroll and associated expenses		619	650	1,859	1,934	2,562
Maintenance and depreciation of buildings and equipment		208	193	621	578	770
Other expenses		150	155	464	483	656
Total operating and other expenses		**977**	**998**	**2,944**	**2,995**	**3,988**
Pre-tax profit		631	693	1,787	2,245	2,954
Provision for taxes on profit		222	251	618	782	1,029
After-tax profit		**409**	**442**	**1,169**	**1,463**	**1,925**
Share of profits of associated companies, after tax effect		–	–	–	–	–
Net profit:						
Before attribution to non-controlling interests		409	442	1,169	1,463	1,925
Attributable to non-controlling interests		(22)	(20)	(65)	(61)	(83)
Attributable to shareholders of the Bank		**387**	**422**	**1,104**	**1,402**	**1,842**

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

M. Vidman

Moshe Vidman

Chairman of the Board of Directors

Lari Moshe

Moshe Lari

President & CEO

Menahem Aviv

Vice-president, Chief Accountant

Approval date:
Ramat Gan, November 23, 2020

Condensed consolidated statement of profit and loss – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2020	**2019**	**2020**	**2019**	**2019**
				(unaudited)	**(audited)**
Diluted earnings per share[1] (in NIS)					
Basic earnings					
Net profit attributable to shareholders of the Bank	1.65	1.80	4.69	5.99	7.86
Weighted average number of ordinary shares used to calculate basic earnings (thousands of shares)	235,071	234,438	235,172	234,126	234,268
Diluted earnings					
Net profit attributable to shareholders of the Bank	1.65	1.79	4.69	5.96	7.83
Weighted average number of ordinary shares used to calculate diluted earnings (thousands of shares)	235,126	235,262	235,597	235,060	235,124

(1) Share of NIS 0.1 par value.

Condensed consolidated statements of comprehensive income

Reported amounts (NIS in millions)

	Note	For the three months ended September 30, 2020	For the three months ended September 30, 2019	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019	For the year ended December 31, 2019
		(unaudited)		(unaudited)		(audited)
Net profit:						
Before attribution to non-controlling interests		409	442	1,169	1,463	1,925
Attributable to non-controlling interests		(22)	(20)	(65)	(61)	(83)
Net profit attributable to shareholders of the Bank		**387**	**422**	**1,104**	**1,402**	**1,842**
Other comprehensive income (loss) before taxes	4					
Adjustments for presentation of available-for-sale securities at fair value, net		(6)	5	(33)	133	144
Adjustments from translation of financial statements of investments in associated companies(1)		–	–	–	–	–
Net gains (losses) with respect to cash flows hedging		–	5	17	6	6
Adjustments of liabilities with respect to employees' benefits(2)		32	(66)	84	(106)	(152)
Total other comprehensive income (loss), before tax		**26**	**(56)**	**68**	**33**	**(2)**
Related tax effect		(10)	19	(24)	(11)	1
Other comprehensive income (loss) after taxes(3)						
Other comprehensive income (loss), before attribution to non-controlling interests		16	(37)	44	22	(1)
Less other comprehensive income (loss) attributed to non-controlling interests		–	(3)	2	(6)	(15)
Other comprehensive income (loss) attributable to equity holders of the Bank, after taxes		**16**	**(34)**	**42**	**28**	**14**
Comprehensive income:						
Before attribution to non-controlling interests		425	405	1,213	1,485	1,924
Attributable to non-controlling interests		(22)	(17)	(67)	(55)	(68)
Comprehensive income attributable to shareholders of the Bank		**403**	**388**	**1,146**	**1,430**	**1,856**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(2) 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.
(3) For more information see Note 4 to the financial statements – Cumulative Other Comprehensive Income (Loss).

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

Condensed consolidated balance sheets

Reported amounts (NIS in millions)

		As of September 30,		As of December 31,
		2020[(1)]	2019	2,019
	Note		(unaudited)	(audited)
Assets				
Cash and deposits with banks		77,738	47,125	51,672
Securities[(2)(3)]	5	18,258	10,566	10,113
Securities loaned or purchased in resale agreements		172	64	120
Loans to the public	6.13	244,092	204,225	206,401
Provision for credit losses	6.13	(2,327)	(1,647)	(1,693)
Loans to the public, net	6.13	241,765	202,578	204,708
Loans to Governments		616	589	656
Investments in associated companies		30	32	32
Buildings and equipment		1,646	1,384	1,457
Intangible assets and goodwill		87	87	87
Assets with respect to derivative instruments	11	3,238	2,717	2,578
Other assets		3,500	1,859	1,821
Total assets		**347,050**	**267,001**	**273,244**
Liabilities and Equity				
Deposits from the public	7	276,156	207,832	210,984
Deposits from banks		2,786	673	714
Deposits from the Government		41	34	29
Debentures and subordinated notes		32,995	30,442	33,460
Liabilities with respect to derivative instruments	11	3,545	2,920	2,686
Other liabilities[(4)]		12,416	8,586	8,566
Total liabilities		**327,939**	**250,487**	**256,439**
Shareholders' equity attributable to shareholders of the Bank		18,272	15,755	16,033
Non-controlling interests		839	759	772
Total equity		**19,111**	**16,514**	**16,805**
Total liabilities and equity		**347,050**	**267,001**	**273,244**

(1) For conso balance sheet data excluding Union Bank, see Note 17 below.
(2) Of which: NIS 14,055 million at fair value on consolidated basis (September 30, 2019 – NIS 6,466 million; December 31, 2019 – NIS 6,032 million).
(3) For more information with regard to securities pledged or provided as collateral to lenders, see Note 5 to the financial statements.
(4) Of which: Provision for credit losses with respect to off balance sheet credit instruments amounting to NIS 221 million (on September 30, 2019 – NIS 106 million, on December 31, 2019 – NIS 119 million).

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

Condensed Statements of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[3]	Retained earnings[4]	Total shareholder equity	Non-controlling interests	Total equity
	For the three months ended September 30, 2020 (unaudited)							
Balance as of June 30, 2020	2,238	66	2,304	(306)	14,655	16,653	817	17,470
Net profit for the period	–	–	–	–	387	387	22	409
Benefit from share-based payment transactions	–	9	9	–	–	9	–	9
Realization of share-based payment transactions[2]	–	–	–	–	–	–	–	–
Shares issued[6]	1,207	–	1,207	–	–	1,207	–	1,207
Other comprehensive income (loss), net, after tax	–	–	–	16	–	16	–	16
Balance as of September 30, 2020	**3,445**	**75**	**3,520**	**(290)**	**15,042**	**18,272**	**839**	**19,111**
	For the three months ended September 30, 2019 (unaudited)							
Balance as of June 30, 2019	2,218	44	2,262	(284)	13,762	15,740	742	16,482
Net profit for the period	–	–	–	–	422	422	20	442
Dividends paid[5]	–	–	–	–	(392)	(392)	–	(392)
Benefit from share-based payment transactions	–	19	19	–	–	19	–	19
Realization of share-based payment transactions[2]	–	–	–	–	–	–	–	–
Other comprehensive income (loss), net, after tax	–	–	–	(34)	–	(34)	(3)	(37)
Balance as of September 30, 2019	**2,218**	**63**	**2,281**	**(318)**	**13,792**	**15,755**	**759**	**16,514**

(1) Share premium generated prior to March 31, 1986.
(2) In the third quarter of 2020, 5,794 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan. In the third quarter of 2019, 21,465 ordinary NIS 0.1 par value shares were issued for exercise of options pursuant to the Employee Stock Option Plan.
(3) For details see Note 4 – Cumulative Other Comprehensive Income.
(4) For more information about various limitations on distributions of dividends, see Note 24 to the 2019 financial statements.
(5) On August 27, 2019, the Bank paid dividends amounting to NIS 392 million, in conformity with a decision by the Bank Board of Directors.
(6) Includes shares issued in conjunction with acquisition of Union Bank. For more information, see Notes 17.B and 9.F.

Condensed Statements of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and capital reserves	Cumulative other comprehensive income (loss)[2]	Retained earnings[3]	Total shareholder equity	Non-controlling interests	Total equity
				For the nine months ended September 30, 2020 (unaudited)				
Balance as of December 31, 2019	2,232	70	2,302	(332)	14,063	16,033	772	16,805
Cumulative effect of initial application of US GAAP[4]	–	–	–	–	51	51	–	51
Adjusted balance as of January 1, 2020 after initial application	2,232	70	2,302	(332)	14,114	16,084	772	16,856
Net profit for the period	–	–	–	–	1,104	1,104	65	1,169
Dividends paid[5]	–	–	–	–	(176)	(176)	–	(176)
Benefit from share-based payment transactions	–	11	11	–	–	11	–	11
Realization of share-based payment transactions[6]	6	(6)	–	–	–	–	–	–
Shares issued[7]	1,207	–	1,207	–	–	1,207	–	1,207
Other comprehensive income (loss), net, after tax	–	–	–	42	–	42	2	44
Balance as of September 30, 2020	**3,445**	**75**	**3,520**	**(290)**	**15,042**	**18,272**	**839**	**19,111**
				For the nine months ended September 30, 2019 (unaudited)				
Balance as of December 31, 2018	2,197	48	2,245	(346)	12,782	14,681	709	15,390
Net profit for the period	–	–	–	–	1,402	1,402	61	1,463
Dividends paid[5]	–	–	–	–	(392)	(392)	–	(392)
Benefit from share-based payment transactions	–	36	36	–	–	36	–	36
Realization of share-based payment transactions[2]	21	(21)	–	–	–	–	–	–
Dividends attributable to non-controlling interest in subsidiary	–	–	–	–	–	–	(5)	(5)
Other comprehensive income (loss), net, after tax	–	–	–	28	–	28	(6)	22
Balance as of September 30, 2019	**2,218**	**63**	**2,281**	**(318)**	**13,792**	**15,755**	**759**	**16,514**
				For the year ended December 31, 2019 (audited)				
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[5]	–	–	–	–	(561)	(561)	–	(561)
Benefit from share-based payment transactions	–	57	57	–	–	57	–	57
Realization of share-based payment transactions[6]	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 details see Note 4 – Cumulative Other Comprehensive Income.
(3) For more information about various limitations on distributions of dividends, see Note 24 to the 2019 financial statements.
(4) Cumulative effect of initial application of generally accepted accounting principles for banks in the USA with regard to leases (ASU-2016-02) and updates there to. See also Note 1.C.1.
(5) On August 27, 2019, December 3, 2019 and March 11, 2020, the Bank paid dividends amounting to NIS 392, 169 and 176 million, respectively, in conformity with a decision by the Bank/s Board of Directors.
(6) In the first nine months of 2020, the Bank issued 256,802 ordinary NIS 0.1 par value shares for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 17,840 ordinary shares of NIS 0.1 par value each. In the first nine months of 2019, the Bank issued 1,016,690 ordinary NIS 0.1 par value shares for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 85,880 ordinary shares of NIS 0.1 par value each. In 2019, the Bank issued 1,472,307 ordinary shares of NIS 0.1 par value each for exercise of options pursuant to the Employee Stock Option Plan, and issued to the Bank President & CEO 85,880 ordinary shares of NIS 0.1 par value each.
(7) Includes shares issued in conjunction with acquisition of Union Bank. For more information, see Notes 17.B and 9.F.

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

Condensed statements of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit	409	442	1,169	1,463	1,925
Adjustments					
Depreciation of buildings and equipment (including impairment)	61	62	197	185	245
Expenses with respect to credit losses	317	70	932	245	364
Gain from sale of securities available for sale	(16)	(22)	(94)	(32)	(35)
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	1	(7)	(32)	(11)	(11)
Realized and unrealized loss (gain) from adjustments to fair value of shares not held for trading	(6)	(30)	13	(46)	(47)
Gain from sale of buildings and equipment	–	–	(17)	(26)	(26)
Impairment of assets held for sale	–	–	–	–	–
Impairment of shares not held for trading	–	–	–	–	6
Expenses arising from share-based payment transactions	9	19	11	36	57
Deferred taxes, net	(215)	7	(193)	17	79
Change in employees’ provisions and liabilities	4	4	27	27	57
Adjustments with respect to exchange rate differentials	(92)	79	14	222	232
Accrual differences included with investment and financing operations	(162)	(12)	(305)	425	566
Net change in current assets					
Assets with respect to derivative instruments	(136)	(596)	259	528	668
Securities held for trading	78	43	546	(78)	(469)
Other assets, net	137	(145)	(766)	(53)	(67)
Net change in current liabilities					
Liabilities with respect to derivative instruments	(483)	644	(271)	(741)	(975)
Other liabilities	502	410	736	372	274
Net cash provided by current operations	**408**	**968**	**2,226**	**2,533**	**2,843**

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

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
		(unaudited)		(unaudited)	(audited)
Cash flows provided by investment activities					
Net change in deposits with banks	(445)	116	711	266	(1,643)
Net change in loans to the public	(2,551)	(1,714)	(12,647)	(8,428)	(10,480)
Net change in loans to Governments	13	69	40	79	12
Net change in securities loaned or acquired in resale agreements	(65)	(5)	4	(38)	(94)
Acquisition of debentures held to maturity	(25)	(1,342)	(945)	(1,642)	(1,662)
Proceeds from redemption of securities held to maturity	7	–	877	1,422	1,452
Acquisition of securities available for sale	(1,234)	(1,958)	(3,135)	(4,798)	(5,517)
Proceeds from sale of securities available for sale	497	684	3,413	3,400	3,517
Proceeds from redemption of securities available for sale	–	705	319	1,877	3,265
Proceeds from sale of loan portfolios	–	–	40	577	577
Acquisition of Union Bank	10,280	–	10,280	–	–
Purchase of loan portfolios – public	(93)	(206)	(394)	(585)	(782)
Purchase of loan portfolios – Government	–	(38)	–	(38)	(38)
Acquisition of buildings and equipment	(64)	(70)	(188)	(168)	(300)
Proceeds from sale of buildings and equipment	4	1	32	53	57
Proceeds from realized investment in associated companies	–	–	2	–	–
Net cash provided by investment activities	**6,324**	**(3,758)**	**(1,591)**	**(8,023)**	**(11,636)**
Cash flows provided by financing operations					
Net change in deposits from the public	7,619	2,644	28,419	8,340	11,492
Net change in deposits from banks	1,721	119	1,953	48	89
Net change in deposits from Government	7	(2)	12	(8)	(13)
Issuance of debentures and subordinated notes	–	–	1,610	3,700	6,634
Redemption of debentures and subordinated notes	(411)	(927)	(5,663)	(3,742)	(3,744)
Dividends paid to shareholders	–	(392)	(176)	(392)	(561)
Dividends paid to external shareholders in subsidiaries	–	–	–	(5)	(5)
Net cash provided by financing operations	**8,936**	**1,442**	**26,155**	**7,941**	**13,892**
Increase in cash	15,668	(1,348)	26,790	2,451	5,099
Cash balance at beginning of the period	60,464	48,237	49,448	44,581	44,581
Effect of changes in exchange rate on cash balances	92	(79)	(14)	(222)	(232)
Cash balance at end of the period	**76,224**	**46,810**	**76,224**	**46,810**	**49,448**
Interest and taxes paid / received					
Interest received	1,938	2,104	5,966	6,504	6,872
Interest paid	516	949	1,465	2,238	2,369
Dividends received	–	–	2	16	17
Income taxes received	–	–	62	178	178
Income taxes paid	261	305	817	876	1,135
Appendix A – Non-cash Transactions					
Acquisition of buildings and equipment	1	(3)	5	–	–
Sales of buildings and equipment	1	5	–	(5)	5
Shares issued in conjunction with acquisition of Union Bank	(1,207)	–	(1,207)	–	–

Condensed statements of cash flows – Continued

Reported amounts (NIS in millions)

Appendix B – Initial consolidation of Union Bank

	For the three months ended September 30,	For the nine months ended September 30,
		2020
		(unaudited)
Assets and liabilities acquired and cash paid, as of the consolidation date:		
Cash acquired	10,296	10,296
Assets (other than cash)	35,903	35,903
Liabilities	43,715	43,715
Identified assets and liabilities	**2,484**	**2,484**
Deferred credit balance from acquisition	(1,261)	(1,261)
Total acquisition cost	**1,223**	**1,223**
Less non-cash consideration paid	1,207	1,207
Consideration paid in cash	**16**	**16**
Less cash acquired	10,296	10,296
Net cash flow provided by consolidation of Union Bank	**(10,280)**	**(10,280)**

Note 1 – Reporting Principles and Accounting Policies

A. Overview

On November 23, 2020, the Bank's Board of Directors authorized publication of these condensed financial statements as of September 30, 2020.
The condensed financial statements are prepared in accordance with Israeli GAAP for financial reporting for interim periods and in accordance with directives of the Supervisor of Banks, and do not include all information required in annual financial statements. These condensed financial statements should be read in conjunction with the audited financial statements as of December 31, 2019.
As noted in the annual report, for most topics, the Supervisor of Banks' directives are based on generally acceptable accounting practices of 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 of US banks.
In accordance with directives of the Supervisor of Banks, the condensed financial statements are issued on a consolidated basis only.
The Group accounting policies in these condensed consolidated quarterly financial statements are consistent with the policies applied in the annual financial statements, except as noted below.

B. Use of estimates

As stated in Note 1.D.6)D. In the 2019 financial statements, 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. In conformity with instructions of the Supervisor of Banks, the range of years continues to grow, pending new instructions. Consequently, the range of years was increased to 10 years in 2020. For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see Note D.3. below.

C. Business combinations

On September 30, 2020, the transaction whereby the Bank acquired the shares of Union Bank closed. For more information, see Note 17 below.
Achieving control over operations and entities that constitute a business is treated in conformity with provisions of ASC 805-10. The consideration for a business combination is measured at the aggregate fair value of assets given, liabilities incurred and equity instruments issued by the Group in consideration for achieving control over the acquired entity. Transaction costs directly related to the business combination are charged to the statement of profit and loss when incurred.
Identified assets and liabilities of the acquired entity that meet conditions for recognition pursuant to ASC 805 of the codification with regard to business combinations, are recognized at their fair value upon the acquisition date, except for some asset types that are measured in conformity with provisions of relevant standards.
Goodwill arising from a business combination is measured at the excess acquisition cost over net fair value of identified assets, liabilities and contingent liabilities of the consolidated entity recognized upon the acquisition date. If, following re-assessment, total Group interest in the net fair value of identified assets, liabilities and contingent liabilities recognized exceeds the cost of the business combination, then the excess is recognized as deferred credit balance on the balance sheet, to be amortized to profit profit and loss over a 5-year period.
In conformity with confirmation by the Supervisor of Banks, the expense expected to be recognized by Union Bank with respect to a retirement agreement would be deducted from the aforementioned deferred credit balance.

D. Initial application of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from reporting periods starting on January 1, 2020 (unless otherwise noted), the Bank applies the following new accounting standards and directives:

1. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases;
2. Updated standard 2017-04 in the codification with regard to impairment of goodwill;
3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis;

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. Reporting by banking corporations and credit card issuers in Israel, in conformity with generally accepted accounting principles in the USA with regard to leases

On July 1, 2018, the Supervisor of Banks issued a circular concerning reporting by banking corporations and credit card issuers in Israel, in conformity with US GAAP regarding leases. This circular adopts generally accepted accounting principles for banks in the USA with regard to leases, including the presentation, measurement and disclosure rules specified in topic 842 of the codification regarding leases.

Highlights of the changes to accounting treatment on the financial statements due to application of the circular include the following: Lease of assets for terms longer than 12 months would be recognized on the balance sheet, even if the lease is classified as an operational lease; for operational lease transactions, an asset would be recognized on the balance sheet, reflecting the corporation's right to use the leased asset ("right-to-use asset") against recognition of a liability to make lease payments, whose amount equals the present value of future lease payments; transactions where a banking corporation sells and leases back an asset may, in certain cases, be deemed sale transactions for accounting purposes, subject to fulfillment of certain conditions listed in topic 842 of the codification; with regard to capital adequacy, risk assets with respect to leases recognized on the balance sheet would be weighted at 100% with regard to the minimum capital adequacy ratio.

The new provisions are applied as from January 1, 2020 by way of adjusted retroactive application, with the cumulative effect charged to retained earnings upon the initial application date with no re-statement of comparative figures.

As allowed by transitional provisions of the standard, the Bank has elected to apply the following transitional relief measures:

- Preserve estimates with regard to identification of the existence of a lease and its classification f as an operational or financial lease, with respect to all agreements in place as of the initial application date, and to preserve the assessment of qualification for capitalization of initial direct costs, which have been determined prior to the initial application date, in conformity with the provisions of the current standard.
- Use of hindsight to determine the lease term for leases that include optional extension or termination and to assess impairment of right-to-use assets.

Application of the new provisions resulted in an increase by NIS 591 million in Other Assets and in an identical increase in Other Liabilities with respect to leases as of January 1, 2020, and in an increase by NIS 51 million in Retained Earnings as of January 1, 2020, due to the cumulative effect of recognition of deferred gain from sale and lease-back transactions. Application of these provisions has no material impact on the Bank's statement of profit and loss.

Application of the new provisions had no material effect on capital adequacy ratios and on the leverage ratio of the Bank.

2. Updated standard 2017-04 in the codification with regard to impairment of goodwill

In January 2017, FASB issued an update regarding simplified accounting treatment of impairment of goodwill, which amends provisions of Topic 350 of the codification regarding "Intangible assets – goodwill and others" (hereinafter: "the Amendment").

In conformity with the Amendment, *inter alia*, the requirement to apply the two-stage test for review of impairment of goodwill was eliminated. Thus, calculation of the implied fair value of goodwill is no longer required, but rather 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.

The new provisions were applied as from January 1, 2020 by way of prospective application.

Application of these directives had no material impact on the financial statements.

3. Supervisory highlights regarding the accounting treatment of debt and public reporting in view of the Corona Virus crisis

On April 21, 2020, the Bank of Israel issued a letter regarding "Corona Virus crisis – supervisory highlights regarding the accounting treatment of debts and public reporting".

In this letter and in view of the Corona Virus crisis, the Supervisor of Banks adopted directives and relief measures provided by US supervisory authorities.

Note 1 – Reporting Principles and Accounting Policies – continued

In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should review all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provisions for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.

The key provisions are as follows:

A. In conformity with the letter from the Supervisor of Banks and given current circumstances and the high level of uncertainty, banks are required to exercise considerable judgment in assessing credit losses. In this regard, Bank management should review all available information and should determine the best estimate, making revisions to qualitative adjustments in calculation of the provision, and increasing the amounts included in the provision for credit losses. This is so as to ensure that provisions for credit losses are sufficient to cover, in conservative and careful fashion, the current estimate of expected credit losses in the Bank's loan portfolio, including the impact of the Corona Virus crisis. Over time, as the Bank has more information available with regard to the likelihood of collection from borrowers, the estimated impact should be adjusted for such additional information.
B. As for treatment of debts with changes made to terms and conditions, it was decided that debt should not be classified under restructuring of problematic debt when short-term changes are made to payments due to the Corona Virus crisis, to borrowers who were not previously in arrears.
C. As for determination of the state of arrears, debt which previously were not in arrears of up to 30 days and for which such delay was granted, would not be deemed loans in arrears during the period of such delay. Moreover, in case of such delay in payments for debt that was in arrears prior to such delay, the state of arrears should be frozen during the delay in payment (unless such debt was classified as impaired, or was subject to accounting write-off).
D. During the period of such short-term arrangements, these loans would generally not be reported as non-accruing impaired loans. Should new information be gathered pointing to a decrease in likelihood of repayment of any specific loan, or non-payment of any specific loan, the Bank should act in conformity with Public Reporting Directives on this matter.
E. As for housing loans where a minimum provision should be calculated by extent of arrears, such short-term delay of principal or interest payments for a loan that did not constitute problematic debt prior to such delay, generally should not be classified as debt under restructuring.

Pursuant to the Supervisor of Banks' directive dated June 16, 2020, the Bank continues to operate in conformity with the aforementioned guidance. The Bank is also required to expand disclosure in the Board of Directors' report regarding, *inter alia*, the connection between changes to the provision for credit losses and other credit quality benchmarks and internal assumptions made by the Bank, as well as with regard to debt whose terms and conditions were changed in conjunction with addressing the Corona Virus crisis.

On October 11, 2020, the Supervisor of Banks issued a document regarding supervisory highlights for further changes to loan terms and conditions which, *inter alia*, instructs banks to continue operating pursuant to the directives issued in April 2020, with careful management of credit risk; banking corporations are required to review any further change to loans on aggregate, so as to determine whether such change constitutes re-structuring of troubled debt and to act in accordance with common practices for prudent risk management.

On March 31, 2020, a circular was issued regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus Crisis (Interim Directive)". In conformity with this circular, the minimum capital ratios which banks are required to maintain were reduced by one percentage point for the effective duration of the Interim Directive. In order to allow banks to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the the banking corporation immediately prior to the Interim Directive, whichever is lower.

On April 27, 2020, an update to the Interim Directive dated March 31, 2020 was issued, whereby housing loans to be extended during the crisis would not be subject to the additional capital requirement of 1% of the outstanding balance of housing loans.

On September 16, 2020, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended for a further 6 months, through March 31, 2021.

Note 1 – Reporting Principles and Accounting Policies – continued

On November 15, 2020, a further update to the Directive was issued. According to this circular, the minimum required leverage ratio was revised to 5.5% for banking corporations whose total assets on their consolidated balance sheet account for 25% or more of the total for the banking system, and 4.5% for all other banking corporations.

The Bank applies the relief measures provided in the directives, and their effect is included in the financial statements as of September 30, 2020.

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
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.
Updated standard with regard to changes to disclosure requirements of defined benefit plans ASU 2018-14	August 2,018	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.
Updated standard with regard to changes to disclosure requirements of fair value measurement ASU 2018-13	August 2,018	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 unobserved 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.

Note 1 – Reporting Principles and Accounting Policies – continued

E. New accounting standards and new directives by the Supervisor of Banks prior to their implementation – Continued

Standard / update topic	Issue date	Start date	Issued by	Standard summary	Effect on the Bank's financial statements
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.
Discontinued use of LIBOR	July 2017	Gradually through December 31, 2021	FCA (the Financial Conduct Authority in the UK) and the SEC (U.S. Securities and Exchange Commission)	A decision has been made to gradually discontinue use of LIBOR. Further to this decision, diverse teams have been set up around the world, in order to determine alternative interest rate benchmarks.	Wide-ranging implications are expected for the Bank, including economic, operating and accounting implications, that would require review of terms and effectiveness of accounting hedges, review of the treatment of revised debt agreements 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 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.
Updated standard regarding relief due to the impact of interest rate benchmark reform on financial reporting ASU 2020-04	March 2020	May be applied as from the financial statements for the first quarter of 2020, subject to specific scope provisions stated in the standard	US Financial Accounting Standards Board ("FASB")	In conformity with the interest rate benchmark reform, inter-bank interest rates (IBOR rates) would be discontinued and replaced by alternative interest rate benchmarks that may be observed or that are based on actual transactions, thus less sensitive to manipulation. The update stipulates, *inter alia*, the treatment of Contract modifications Hedge accounting Debentures held to maturity	The Bank is reviewing the effect of the revisions on its financial statements.

Note 2 – Interest revenues and expenses

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	**2019**	**2020**	**2019**	**2019**
		(unaudited)		**(unaudited)**	**(audited)**
A. Interest revenues[1]					
From loans to the public	1,911	1,421	5,220	5,537	7,293
From loans to Governments	5	8	17	25	33
From deposits with the Bank of Israel and from cash	14	51	72	161	203
From deposits with banks	2	4	6	14	16
From securities loaned or acquired in resale agreements[2]	–	–	–	–	–
From debentures	20	48	63	128	166
Total interest revenues	**1,952**	**1,532**	**5,378**	**5,865**	**7,711**
B. Interest expenses (revenues)					
On deposits from the public	343	331	984	1,387	1,787
On deposits from governments	3	–	3	–	1
On deposits from banks	1	3	5	9	8
On debentures and subordinated notes	141	(16)	251	478	573
On other liabilities	–	–	1	3	2
Total interest expenses	**488**	**318**	**1,244**	**1,877**	**2,371**
Total interest revenues, net	**1,464**	**1,214**	**4,134**	**3,988**	**5,340**
C. Details of net effect of hedging derivative instruments on interest revenues[3]	1	(7)	18	(40)	22
D. Details of interest revenues on accrual basis from debentures					
Held to maturity	8	4	15	31	35
Available for sale	11	44	44	94	130
Held for trading	1	–	4	3	1
Total included under interest revenues	**20**	**48**	**63**	**128**	**166**

(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

Note 3 – Non-interest financing revenues

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
		(unaudited)		(unaudited)	(audited)
A. Non-interest financing revenues (expenses) with respect to non-trading purposes					
1. From activity in derivative instruments					
Net revenues (expenses) with respect to ALM derivative instruments[(1)]	(183)	(351)	365	(1,074)	(1,151)
Total from activity in derivative instruments	**(183)**	**(351)**	**365**	**(1,074)**	**(1,151)**
2. From investment in debentures					
Gains from sale of debentures available for sale[(2)]	16	22	94	32	35
Total from investment in debentures	**16**	**22**	**94**	**32**	**35**
3. Exchange rate differences, net	**144**	**446**	**(376)**	**1,166**	**1,267**
4. Gains from investment in shares					
Gains from sale of shares not held for trading	–	–	–	–	2
Provision for impairment of shares not held for trading	–	–	–	–	(6)
Dividends from shares not held for trading	–	–	2	16	17
Unrealized gains / losses[(4)]	6	30	(13)	46	45
Total from investment in shares	**6**	**30**	**(11)**	**62**	**58**
5. Net gains with respect to loans sold	**–**	**–**	**–**	**–**	**–**
Total non-interest financing revenues with respect to non-trading purposes	**(17)**	**147**	**72**	**186**	**209**
B. Non-interest financing revenues (expenses) with respect to trading operations[(3)]					
Net revenues with respect to other derivative instruments	72	(7)	90	96	137
Realized gains (losses) from adjustment to fair value of debentures held for trading, net	3	8	32	11	13
Unrealized gains (losses) from adjustment to fair value of debentures held for trading, net	(4)	(1)	–	–	(2)
Total from trading operations[(5)]	**71**	**–**	**122**	**107**	**148**
Details of non-interest financing revenues (expenses) with respect to trading operations, by risk exposure					
Interest exposure	3	(2)	(27)	40	59
Foreign currency exposure	68	2	149	67	92
Exposure to shares	–	–	–	–	(3)
Exposure to commodities and others	–	–	–	–	–
Total	**71**	**–**	**122**	**107**	**148**

(1) Derivative instruments which constitute part of the Bank's asset and liability management system, which were not designated as hedges.
(2) Reclassified from Cumulative Other Comprehensive Income.
(3) Includes exchange rate differentials resulting from trading operations.
(4) 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.
(5) For interest revenues from investments in debentures held for trading, see Note 2.D.

Note 4 – 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 securities at fair value	Translation adjustments[(1)]	Net gains (losses) from cash flow hedges	Adjustments with respect to employee benefits[(2)]	Total	Other compre-hensive income attributed to non-controlling interests	Other compre-Hensive income (loss) attributable to share-holders of the Bank
	For the three months ended September 30, 2020 (unaudited)						
Balance as of June 30, 2020	18	(1)	19	(373)	(337)	(31)	(306)
Net change in the period	(4)	–	–	20	16	–	16
Balance as of September 30, 2020	**14**	**(1)**	**19**	**(353)**	**(321)**	**(31)**	**(290)**
	For the three months ended September 30, 2019 (unaudited)						
Balance as of June 30, 2019	26	(1)	5	(335)	(305)	(21)	(284)
Net change in the period	3	–	3	(43)	(37)	(3)	(34)
Balance as of September 30, 2019	**29**	**(1)**	**8**	**(378)**	**(342)**	**(24)**	**(318)**
	For the nine months ended September 30, 2020 (unaudited)						
Balance as of December 31, 2019	36	(1)	8	(408)	(365)	(33)	(332)
Net change in the period	(22)	–	11	55	44	2	42
Balance as of September 30, 2020	**14**	**(1)**	**19**	**(353)**	**(321)**	**(31)**	**(290)**
	For the nine months ended September 30, 2019 (unaudited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	87	–	4	(69)	22	(6)	28
Balance as of September 30, 2019	**29**	**(1)**	**8**	**(378)**	**(342)**	**(24)**	**(318)**
	For the year ended December 31, 2019 (audited)						
Balance as of December 31, 2018	(58)	(1)	4	(309)	(364)	(18)	(346)
Net change in the period	94	–	4	(99)	(1)	(15)	14
Balance as of December 31, 2019	**36**	**(1)**	**8**	**(408)**	**(365)**	**(33)**	**(332)**

(1) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(2) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 4 – 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 three months ended September 30					
	2020			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
						(unaudited)
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 unrealized gains (losses) from adjustments to fair value	10	(3)	7	27	(10)	17
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(16)	5	(11)	(22)	8	(14)
Net change in the period	**(6)**	**2**	**(4)**	**5**	**(2)**	**3**
Translation adjustments						
Adjustments from translation of financial statements(2)	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges						
Net losses from cash flow hedges	–	–	–	5	(2)	3
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**5**	**(2)**	**3**
Employees' benefits						
Net actuarial gain (loss) for the period(4)	21	(7)	14	(75)	26	(49)
Net losses reclassified to the statement of profit and loss	11	(5)	6	9	(3)	6
Net change in the period	**32**	**(12)**	**20**	**(66)**	**23**	**(43)**
Total net change in the period	**26**	**(10)**	**16**	**(56)**	**19**	**(37)**
Total net change in the period attributable to non-controlling interests	**–**	**–**	**–**	**(5)**	**2**	**(3)**
Total net change in the period attributable to shareholders of the Bank	**26**	**(10)**	**16**	**(51)**	**17**	**(34)**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 4 – Cumulative other comprehensive income (loss) – continued

Reported amounts (NIS in millions)

C. Changes in items of cumulative other comprehensive income (loss) before and after tax effect (Continued)

	For the nine months ended September 30,						For the year ended December 31,		
	2020			2019			2019		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	(unaudited)						(audited)		
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 unrealized gains (losses) from adjustments to fair value	61	(21)	40	165	(57)	108	179	(62)	117
Losses (gains) with respect to available-for-sale securities reclassified to the statement of profit and loss(1)	(94)	32	(62)	(32)	11	(21)	(35)	12	(23)
Net change in the period	**(33)**	**11**	**(22)**	**133**	**(46)**	**87**	**144**	**(50)**	**94**
Translation adjustments									
Adjustments from translation of financial statements(2)	–	–	–	–	–	–	–	–	–
Net change in the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows hedges									
Net losses from cash flow hedges	17	(6)	11	6	(2)	4	6	(2)	4
Net (gains) losses with respect to cash flow hedges reclassified to the statement of profit and loss(3)	–	–	–	–	–	–	–	–	–
Net change in the period	**17**	**(6)**	**11**	**6**	**(2)**	**4**	**6**	**(2)**	**4**
Employees' benefits									
Net actuarial gain (loss) for the period(4)	54	(18)	36	(133)	46	(87)	(188)	65	(123)
Net losses reclassified to the statement of profit and loss	30	(11)	19	27	(9)	18	36	(12)	24
Net change in the period	**84**	**(29)**	**55**	**(106)**	**37**	**(69)**	**(152)**	**53**	**(99)**
Total net change in the period	**68**	**(24)**	**44**	**33**	**(11)**	**22**	**(2)**	**1**	**(1)**
Total net change in the period attributable to non-controlling interests	**3**	**(1)**	**2**	**(9)**	**3**	**(6)**	**(24)**	**9**	**(15)**
Total net change in the period attributable to shareholders of the Bank	**65**	**(23)**	**42**	**42**	**(14)**	**28**	**22**	**(8)**	**14**

(1) Pre-tax amount included in the statement of profit and loss under "Non-interest financing revenues". For details, see Note 3.A.2.
(2) Translation adjustments of financial statements of associated companies whose functional currency differs from that of the Bank.
(3) Pre-tax amount included in the statement of profit and loss under "Interest revenues". For details, see Note 3.A.1.
(4) Primarily consists of the effect of changes in interest rates on the actuarial liability, as well as deduction of the capital reserve from the streamlining program.

Note 5 – Securities

September 30, 2020 (unaudited)

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)	Carrying amount excluding Union Bank
(1) Debentures held to maturity						
of Government of Israel	3,577	3,577	57	(1)	3,633	3,577
Of financial institutions in Israel	386	386	5	–	391	386
Of others in Israel	33	33	–	–	33	33
Total debentures held to maturity	**3,996**	**3,996**	**62**	**(1)**	**4,057**	**3,996**

	Carrying amount	Amortized cost	Cumulative other comprehensive income: Gains	Cumulative other comprehensive income: Losses	Fair value(1)	Carrying amount excluding Union Bank
(2) Debentures available for sale						
Of the Government of Israel(2)	9,674	9,657	22	(5)	9,674	3,568
Of foreign governments (2)(3)	1,168	1,163	5	–	1,168	1,168
Of financial institutions in Israel	264	264	–	–	264	–
Of foreign financial institutions	245	245	–	–	245	109
Asset-backed (ABS)	50	50	–	–	50	–
Of others in Israel	742	742	–	–	742	–
Of others overseas	281	281	–	–	281	–
Total debentures available for sale	**12,424**	**12,402**	**(4)27**	**(4)(5)**	**12,424**	**4,845**

	Carrying amount	Cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value(1)	Carrying amount excluding Union Bank
(3) Investment in shares not held for trading	**380**	**347**	**33(5)**	**–**	**380**	**138**
Of which: Shares for which no fair value is available(6)	207	207	–	–	207	51
Total securities not held for trading	**16,800**	**16,745**	**122**	**(6)**	**16,861**	**8,979**

Note 5 – Securities – Continued

September 30, 2020 (unaudited)

Reported amounts (NIS in millions):

	Carrying amount	Amortized cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[(1)]	Carrying amount excluding Union Bank
(4) Securities held for trading						
of Government of Israel	1,383	1,384	–	(1)	1,383	254
Of financial institutions in Israel	2	2	–	–	2	–
Of others in Israel	24	24	–	–	24	–
Of others overseas	29	29	–	–	29	–
Total debentures held for trading	**1,438**	**1,439**	**–**	**(1)**	**1,438**	**254**
Shares and other securities	**20**	**20**	**–**	**–**	**20**	**–**
Total securities held for trading	**1,458**	**1,459**	**–**	**(1)[(5)]**	**1,458**	**254**
Total securities	**18,258**	**18,204**	**122**	**(7)**	**18,319**	**9,233**

(4) Additional information about debentures		
Recorded debt balance of		
Impaired debentures not accruing interest revenues	40	–
	40	**–**

(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 860 million (NIS 571 million excluding Union Bank) and securities provided as collateral to lenders, amounting to NIS 160 million.

(3) US government debentures.

(4) Included in shareholders' equity in "adjustments on presentation of debentures available for sale at fair value".

(5) Charged to statement of profit and loss but not yet realized.

(6) 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.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the security.

Note 5 – Securities – Continued

September 30, 2019 (unaudited)

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	4,043	4,043	65	(1)	4,107
Total debentures held to maturity	**4,043**	**4,043**	**65**	**(1)**	**4,107**

	Carrying amount	Amortized cost	Cumulative other comprehensive income: Gains	Cumulative other comprehensive income: Losses	Fair value[1]
(2) Debentures available for sale					
Of the Government of Israel[2]	2,984	2,937	49	(2)	2,984
Of foreign governments [2][3]	2,679	2,685	1	(7)	2,679
Of foreign financial institutions[4]	326	323	3	–	326
Total debentures available for sale	**5,989**	**5,945**	**[5]53**	**[5](9)**	**5,989**

	Carrying amount	Cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(3) Investment in shares not held for trading	**157**	**111**	**[6]46**	**–**	**157**
Of which: Shares for which no fair value is available[7]	57	57	–	–	57
Total securities not held for trading	**10,189**	**10,099**	**164**	**(10)**	**10,253**

	Carrying amount	Amortized cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value[1]
(5) Debentures held for trading					
of Government of Israel	377	376	1	–	377
Total debentures held for trading	**377**	**376**	**[6]1**	**–**	**377**
Total securities	**10,566**	**10,475**	**165**	**(10)**	**10,630**

(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 642 million and securities provided as collateral to lenders, amounting to NIS 89 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.

Remarks:

– For more information about operations involving investments in debentures – see Notes 2.D, 3.A.2 and 3.B to the financial statements. For more information about investments in shares – see Note 3.A.4 to the financial statements.

– The distinction between Israeli and foreign debentures was made in conformity with the country of residence of the entity which issued the security.

Note 5 – Securities – Continued

As of December 31, 2019 (audited)

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 – Gains**	**Cumulative other comprehensive income – Losses**	**Fair value[1]**
(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**	**Unrecognized gains from adjustments to fair value**	**Unrecognized 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**	**Unrecognized gains from adjustments to fair value**	**Unrecognized 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.

(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 security.

Note 5 – Securities – Continued

Reported amounts (NIS in millions):

(6) Fair value and unrealized losses, by time period and impairment rate, of debentures available for sale and held to maturity, which include unrealized loss:

	Less than 12 months				12 months or more			
	Fair value(1)	Unrealized losses 20%-0%	Unrealized losses 40%-20%	Total	Fair value(1)	Unrealized losses 20%-0%	Unrealized losses 40%-20%	Total
	As of September 30, 2020 (unaudited)							
Debentures held to maturity								
of Government of Israel	(4)599	1	–	1	–	–	–	–
Total – debentures held to maturity	**599**	**1**	**–**	**1**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	761	4	–	4	10	1	–	1
Of foreign governments(2)	29	(3)–	–	–	–	–	–	–
Of foreign financial institutions	76	(3)–	–	–	–	–	–	–
Total debentures available for sale	**866**	**4**	**–**	**4**	**10**	**1**	**–**	**1**
	As of September 30, 2019 (unaudited)							
Debentures held to maturity								
of Government of Israel	(4)224	1	–	1	–	–	–	–
Total – debentures held to maturity	**224**	**1**	**–**	**1**	**–**	**–**	**–**	**–**
Debentures available for sale								
of Government of Israel	126	1	–	1	10	1	–	1
Of foreign governments(2)	189	1	–	1	985	6	–	6
Total debentures available for sale	**315**	**2**	**–**	**2**	**995**	**7**	**–**	**7**
	As of December 31, 2019 (audited)							
Debentures available for sale								
of Government of Israel	124	(3)–	–	–	10	1	–	1
Of foreign governments(2)	14	(3)–	–	–	979	3	–	3
Total debentures available for sale	**138**	**–**	**–**	**–**	**989**	**4**	**–**	**4**

(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) Balance lower than NIS 1 million,
(4) Amortized cost.

(7) Further information about mortgage-backed and asset-backed debentures available for sale

	Carrying amount	Amortized cost	Cumulative other comprehensive income – Gains	Cumulative other comprehensive income – Losses	Fair value	Carrying amount excluding Union Bank
	As of September 30, 2020 (unaudited)					
Asset-backed debentures(1)	50	50	–	–	50	–
Total asset-backed debentures available for sale	**50**	**50**	**–**	**–**	**50**	**–**

(1) Of which:
NIS 27 million of non-negotiable debentures rated AA (rated in 2020), backed by cash flow from sale of petroleum.
NIS 7 million of non-negotiable debentures rated A (rated in 2020), backed by cash flow from loans.
NIS 5 million of non-negotiable debentures rated A (rated in 2020), backed by cash flow from loans for purchase of automobiles and by automobiles.
NIS 4 million of non-negotiable debentures rated A+ (rated in 2020), backed by cash flow from sale of petroleum.
NIS 2 million of negotiable debentures rated AA (rated in 2020), backed by cash flow from sale of petroleum.
NIS 2 million of non-negotiable debentures rated AA (rated in 2019), backed by cash flow from loans for purchase of automobiles and by automobiles.
NIS 2 million of non-negotiable debentures rated AAA (rated in 2020), backed by cash flow from propery tax payments.
NIS 1 million of non-negotiable debentures rated AA (rated in 2020), backed by cash flow from debentures issued by an infrastructure company.

As of September 30, 2019 and December 31, 2019, there was no balance of asset-backed or mortgage-backed securities.

Note 6 – Credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Debts[1], loans to the public and balance of provision for credit losses

Including Union Bank

	September 30, 2020 (unaudited)					
	Loans to the public[4]					
	Commercial	**Housing**	**Individual – other**	**Total**	**Banks and governments**	**Total**
Recorded debt balance of debts [1]						
reviewed on individual basis	56,115	89	746	56,950	14,637	71,587
reviewed on group basis	10,336	153,427	23,379	187,142	–	187,142
Of which: By extent of arrears	1,838	153,427	–	155,265	–	155,265
Total debts	**66,451**	**153,516[2]**	**24,125**	**244,092**	**14,637**	**258,729**
Of which:						
Impaired debts under restructuring	474	–	76	550	–	550
Other impaired debts	934	90	19	1,043	–	1,043
Total impaired debts	**1,408**	**90**	**95**	**1,593**	**–**	**1,593**
Debts in arrears 90 days or longer	35	1,262	28	1,325	–	1,325
Other problematic debts	1,106	12	112	1,230	–	1,230
Total problematic debts	**2,549**	**1,364**	**235**	**4,148**	**–**	**4,148**
Provision for credit losses with respect to debts[1][4]						
reviewed on individual basis	932	1	33	966	2	968
reviewed on group basis	143	935	283	1,361	–	1,361
Of which: Provision by extent of arrears[3]	9	935	–	944	–	944
Total provision for credit losses	**1,075**	**936**	**316**	**2,327**	**2**	**2,329**
Of which: With respect to impaired debts	**282**	**1**	**22**	**305**	**–**	**305**

(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 8,843 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 9 million, and calculated on group basis amounting to NIS 720 million.

(4) The provision amount includes estimated credit losses at Union Bank, included in the balance of loans to the public at Union Bank, as presented on the consolidated balance sheet.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

A. Debts[(1)], loans to the public and balance of provision for credit losses – Continued

Excluding Union Bank

	September 30, 2020 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [(1)]						
reviewed on individual basis	46,777	89	666	47,532	13,905	61,437
reviewed on group basis	9,752	143,220	18,600	171,572	–	171,572
Of which: By extent of arrears	1,831	143,220	–	145,051	–	145,051
Total debts	**56,529**	**[(2)]143,309**	**19,266**	**219,104**	**13,905**	**233,009**
Of which:						
Impaired debts under restructuring	347	–	68	415	–	415
Other impaired debts	840	89	19	948	–	948
Total impaired debts	**1,187**	**89**	**87**	**1,363**	**–**	**1,363**
Debts in arrears 90 days or longer	32	1,220	18	1,270	–	1,270
Other problematic debts	920	12	98	1,030	–	1,030
Total problematic debts	**2,139**	**1,321**	**203**	**3,663**	**–**	**3,663**
Provision for credit losses with respect to debts [(1)]						
reviewed on individual basis	932	1	33	966	2	968
reviewed on group basis	143	935	283	1,361	–	1,361
Of which: Provision by extent of arrears[(3)]	9	935	–	944	–	944
Total provision for credit losses	**1,075**	**936**	**316**	**2,327**	**2**	**2,329**
Of which: With respect to impaired debts	**282**	**1**	**22**	**305**	**–**	**305**

Union Bank data

	September 30, 2020 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[(1)]						
reviewed on individual basis	9,338	–	80	9,418	732	10,150
reviewed on group basis	584	10,207	4,779	15,570	–	15,570
Of which: By extent of arrears	7	10,207	–	10,214	–	10,214
Total debts	**9,922**	**[(4)]10,207**	**4,859**	**24,988**	**732**	**25,720**
Of which:						
Impaired debts under restructuring	127	–	8	135	–	135
Other impaired debts	94	1	–	95	–	95
Total impaired debts	**221**	**1**	**8**	**230**	**–**	**230**
Debts in arrears 90 days or longer	3	42	10	55	–	55
Other problematic debts	186	–	14	200	–	200
Total problematic debts	**410**	**43**	**32**	**485**	**–**	**485**
Credit losses at Union Bank, included in the balance of loans to the public at Union Bank, as presented on the consolidated balance sheet.	154	62	116	332	–	332

(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 8,843 million.
(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 9 million, and calculated on group basis amounting to NIS 720 million.
(4) Includes general-purpose loans secured by a lien on a residential apartment, amounting to NIS 341 million.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

A. Debts[1], loans to the public and balance of provision for credit losses – Continued

	September 30, 2019 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts[1]						
reviewed on individual basis	41,633	52	739	42,424	7,967	50,391
reviewed on group basis	8,903	133,259	19,639	161,801	–	161,801
Of which: By extent of arrears	1,563	133,259	–	134,822	–	134,822
Total debts	**50,536**	**[2]133,311**	**20,378**	**204,225**	**7,967**	**212,192**
Of which:						
Impaired debts under restructuring	289	–	65	354	–	354
Other impaired debts	773	52	19	844	–	844
Total impaired debts	**1,062**	**52**	**84**	**1,198**	**–**	**1,198**
Debts in arrears 90 days or longer	37	1,369	21	1,427	–	1,427
Other problematic debts	764	–	118	882	–	882
Total problematic debts	**1,863**	**1,421**	**223**	**3,507**	**–**	**3,507**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	606	2	28	636	2	638
reviewed on group basis	114	669	228	1,011	–	1,011
Of which: Provision by extent of arrears[3]	6	669	–	675	–	675
Total provision for credit losses	**720**	**671**	**256**	**1,647**	**2**	**1,649**
Of which: With respect to impaired debts	**171**	**2**	**20**	**193**	**–**	**193**

(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 7,507 million.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 19 million, and calculated on group basis amounting to NIS 467 million.

Note 6 – Credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions):

A. Debts[(1)], loans to the public and balance of provision for credit losses – Continued

	As of December 31, 2019 (audited)					
	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**

(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.

(3) Includes balance of provision beyond that required by extent of arrears, calculated on individual basis amounting to NIS 18 million, and calculated on group basis amounting to NIS 475 million. For more information see Note 1.D.6 to the financial statements as of December 31, 2019.

Note 6 – 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

	Provision for credit losses – Loans to the public – Commercial	Housing	Individual – other	Total	Banks and governments	Total
For the three months ended September 30, 2020 (unaudited)						
Balance of provision for credit losses at start of period	1,160	783	314	2,257	2	2,259
Expenses with respect to credit losses	125	154	38	317	–	317
Accounting write-offs[1]	(59)	(1)	(39)	(99)	–	(99)
Collection of debts written off for accounting purposes in previous years[1]	7	–	22	29	–	29
Net accounting write-offs	(52)	(1)	(17)	(70)	–	(70)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
Of which: With respect to off balance sheet credit instruments	**198**	**–**	**23**	**221**	**–**	**221**
For the three months ended September 30, 2019 (unaudited)						
Balance of provision for credit losses at start of period	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Accounting write-offs[1]	(45)	(2)	(35)	(82)	–	(82)
Collection of debts written off for accounting purposes in previous years[1]	34	–	14	48	–	48
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**
For the nine months ended September 30, 2020 (unaudited)						
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	537	272	122	931	1	932
Accounting write-offs[1]	(234)	(11)	(115)	(360)	–	(360)
Collection of debts written off for accounting purposes in previous years[1]	65	1	55	121	–	121
Net accounting write-offs	(169)	(10)	(60)	(239)	–	(239)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
Of which: With respect to off balance sheet credit instruments	**198**	**–**	**23**	**221**	**–**	**221**
For the nine months ended September 30, 2019 (unaudited)						
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Accounting write-offs[1]	(170)	(6)	(116)	(292)	–	(292)
Collection of debts written off for accounting purposes in previous years[1]	78	1	46	125	–	125
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**

(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 7 – Deposits from the Public

Reported amounts (NIS in millions):

A. Deposit types by location and depositor type

	September 30,			December 31,
	2020		2019	2019
			(unaudited)	(audited)
	Including Union Bank	Excluding Union Bank		
In Israel				
On-call				
Non interest-bearing	85,850	68,983	52,528	52,930
Interest-bearing	36,954	31,465	26,024	28,977
Total on-call	**122,804**	**100,448**	**78,552**	**81,907**
Term deposits	148,475	134,078	124,449	125,153
Total deposits in Israel(1)	**271,279**	**234,526**	**203,001**	**207,060**
Outside of Israel				
On-call				
Non interest-bearing	853	853	485	529
Interest-bearing	2	2	4	3
Total on-call	**855**	**855**	**489**	**532**
Term deposits	4,022	4,022	4,342	3,392
Total deposits overseas	**4,877**	**4,877**	**4,831**	**3,924**
Total deposits from the public	**276,156**	**239,403**	**207,832**	**210,984**
(1) Includes:				
Deposits from individuals	**133,739**	**117,147**	**100,513**	**100,915**
Deposits from institutional investors	**43,872**	**41,211**	**42,802**	**45,330**
Deposits from corporations and others	**93,668**	**76,168**	**59,686**	**60,815**

B. Deposits from the public by size

	September 30,			December 31,
	2020		2019	2019
			(unaudited)	(audited)
	Including Union Bank	Excluding Union Bank		
Maximum deposit				
Up to 1	92,455	81,135	73,306	72,152
Over 1 to 10	72,047	60,570	49,878	50,875
Over 10 to 100	40,451	33,616	28,264	29,582
Over 100 to 500	31,596	24,976	21,459	22,193
Above 500	39,607	39,106	34,925	36,182
Total	**276,156**	**239,403**	**207,832**	**210,984**

Note 8 – Employees' Rights

Description of benefits

1. Employment terms of the vast majority of Group employees and managers are determined by provisions of collective bargaining agreements. Pension liabilities to these employees, except for Bank Yahav employees, are covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities for those employees by law. For more information about various benefits to Bank employees and managers, see Note 22 to the financial statements as of December 31, 2019.

2. Remuneration policy for Bank officers

   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"). For more information see Note 22.A.3. to the 2019 financial statements.

   On November 16, 2020, the Bank issued a notice convening a General Meeting of shareholders, to be held on December 24, 2020 with an agenda including, *inter alia*, revision of the officer remuneration policy with regard to officer liability insurance.

3. Remuneration policy for all Bank employees other than officers

   In February 2020, the Bank Board of Directors approved, after receiving the recommendation from the Remuneration Committee, a revised remuneration policy for 2020-2022 for all Bank employees, other than officers who are subject to the revised remuneration policy for Bank officers, as noted above. For more information see Note 22.A.5. to the 2019 financial statements.

4. Terms of office of the Bank President & CEO

   On October 15, 2020, 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. Moshe Larry as Bank President & CEO.

   The Bank President & CEO would be entitled to gross monthly salary of NIS 230,000. This salary is fully linked to changes in the Consumer Price Index ("Salary"). Notwithstanding the foregoing, in case of decrease in the CPI, the Salary would not be reduced accordingly. The Bank provides to the Bank President & CEO a budget of 15.83% for Bank contributions towards provident, pension and severance pay funds, to be transferred in whole or in part and as the case may be, to one or more provident funds as selected by the Bank President & CEO and in conformity with the cumulative conditions set forth in Appendix D to the report convening the General Meeting, dated August 27, 2020.

   The Bank President & CEO is also eligible to employer contributions to a study fund of the former's choice at 7.5% of the Salary.

   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) 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 (hereinafter: "the Executive Remuneration Act") amounted to NIS 3,456 thousand per annum and severance pay and provident funds by law.

   Upon termination of employment, the Bank will pay to the Bank President & CEO an acclimation bonus in exchange for non-competition, equal to six monthly salaries (excluding social benefits), as they were immediately prior to their appointment to Bank President & CEO. He would also be entitled to social benefits with respect to this amount (to be accrued over the first two years in office as Bank President & CEO) (all these amounts jointly: "Acclimation Bonus for the President & CEO").

   The Remuneration Committee and the Board of Directors may award to the Bank President & CEO an additional acclimation bonus amounting to the difference between the Acclimation Bonus for the President & CEO and an amount equal to six salaries, as they may be at that time, plus social benefits with respect there to, all subject to the maximum allowed by the Executive Remuneration Act.

   Furthermore, upon termination of employment, the Bank would pay to the Bank President & CEO a retirement bonus equal to 150% of their monthly salary for December 2016 multiplied by the number of years of service to the Bank through 2016.

Note 8 – Employees' Rights – Continued

The Remuneration Committee and the Board of Directors may, at their own discretion, award to the Bank President & CEO performance-based remuneration – a monetary bonus not to exceed three salaries ("the maximum bonus") or part thereof for part of the bonus year. 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 constitute, in whole or in part, equity-based remuneration. The value of equity-based remuneration to be awarded to the Bank President & CEO for that bonus year (if awarded) would not exceed (on aggregate 100% of the maximum bonus.

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 the Bank's remuneration policy. Such restitution provisions would not apply to half of the acclimation bonus pursuant to terms of employment of the Bank President & CEO, prior to being appointed Bank President & CEO, which constitutes variable remuneration (due to transitional provisions of the Supervisor of Bank's directive with regard to no impact to previously accrued rights).

Either party may announce discontinuation of employment at any time, for any reason and with no need to justify their position to the other party, subject to providing to the other party six months' advance notice.

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.

5. Union Bank

– As of September 30, 2020, most senior executives of Union Bank are employed subject to individual contracts. In January 2020, some Union Bank senior executives were granted pay benefits by way of increased retirement compensation and acclimation bonuses, which are subject to suspensive conditions yet to be fulfilled as of the approval date of the financial statements.
– On July 27, 2020, the General Meeting of Union Bank shareholders, after approval by the Union Bank Board of Directors at its meeting held on June 18, 2020 and after approval by the Union Bank Remuneration Committee dated June 7, 2020, resolved to extend the term agreement with Union Bank's CEO for a further term of two years as from the end of the current term agreement (August 18, 2020) and that Union Bank's CEO would be entitled, upon termination of employment by the Bank, to payment of an additional acclimation bonus equal to four monthly salaries (plus the value of social benefits), where Union Bank's CEO would accrue eligibility to two of these months of acclimation upon approval by the General Meeting of her terms of office and employment, and Union Bank's CEO would accrue eligibility to the other two months of acclimation in January 2021. In total, Union Bank's CEO would be, upon the dates of accruing eligibility as set forth above, entitled to an acclimation bonus equal to six monthly salaries, in conformity with the CEO's terms of employment and subject to limitations and rules set forth in the Remuneration of Officers in Financial Corporations Act (Special Permission and Non-allowance of Expenses for Tax Purposes with Respect to Excessive Remuneration), 2016.
– Labor dispute at Union Bank
  On August 3, 2017, the New General Labor Union gave notice to Union Bank of a labor dispute called with regard to the clerks sector at Union Bank and with regard to the manager and authorized signatory sector at Union Bank, and notice of a general strike called in conformity with the Labor Dispute Resolution Act, 1957, with the effective date listed in said notice being August 20, 2017 and thereafter; these notices apply to 800 clerks and to 250 managers and authorized signatories at Union Bank employed subject to a special collective bargaining agreement. The causes of this dispute, in conformity with notices given by the Labor Union, are avoidance of negotiations to sign a collective bargaining agreement with regard to employees' rights due to anticipated re-organization at Union Bank. Demands by the employee representation to ensure the continued employment and to preserve the rights of employees, as customary in the banking system in case of transfer of ownership of a bank, including their terms of employment and other arrangements. Their pay, employment security and remuneration due to implications of the anticipated move and action lacking good faith in labor relations. Further to this notice, on November 12, 2017 the New General Labor Union gave notice of a labor dispute and strike called at Union Systems Ltd. (hereinafter: "Union Systems"). Causes of this dispute include, inter alia, avoidance of negotiations to sign a collective bargaining agreement to ensure employees' rights due to anticipated re-organization at Union Bank and demands by the

Note 8 – Employees' Rights – Continued

employee representation to ensure the continued employment and to preserve the rights of employees. as customary in the banking system in case of transfer of ownership of a bank. Union Systems is a wholly-controlled subsidiary of Union Bank engaged in providing IT services to Union Bank and to subsidiaries thereof, with 55 employees for which this dispute is applicable. In recent weeks, negotiations have been on-going with employee unions of Union Bank, so as to agree on a collective bargaining agreement with regard to retirement and hiring of the employees by the Bank.

6. Net benefit cost components recognized in profit and loss with respect to defined-benefit and defined-contribution pension plans (NIS in millions):

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
		(unaudited)		(unaudited)	(audited)
Under payroll and associated expenses					
Cost of service[1]	17	12	50	36	51
Under other expenses					
Cost of interest[2]	9	12	27	35	47
Expected return on plan assets[3]	(1)	(1)	(3)	(3)	(4)
Deduction of non-allowed amounts:					
Net actuarial loss[4]	11	9	30	27	36
Total under other expenses	19	20	54	59	79
Total benefit cost, net	**36**	**32**	**104**	**95**	**130**
Total expense with respect to defined-contribution pension	38	38	113	111	146
Total expenses recognized in profit and loss	**74**	**70**	**217**	**206**	**276**

	Forecast	Actual deposits				
	For[6][5]	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2020	2019	2020	2019	2019
			(unaudited)		(unaudited)	(audited)
Deposits	1.8	1.4	1.5	4.8	4.9	6.4

(1) Cost of service is the current accrual of the future employee benefit in the period.
(2) Cost of interest is the amount recognized in the period, set based on the increase in obligation with respect to expected benefit due to passage of time.
(3) Expected return is the expected return on plan assets, determined based on expected long-term rates of return on plan assets and based on the established market value of plan assets.
(4) Deduction of net gain or loss previously recognized in Cumulative Other Comprehensive Income.
(5) Estimated deposits to be paid into defined-benefit pension plans through end of 2020.
(6) Excludes estimated deposits at Union Bank, amounting to NIS 3 million, expected to be paid into defined-benefit pension plans in 2020.

Note 9 – Capital Adequacy, liquidity and leverage

Reported amounts (NIS in millions)

A. Capital adequacy

Calculated in accordance with Proper Conduct of Banking Business Directives 201-211 "Measurement and Capital Adequacy"

	As of September 30, 2020[2] Including Union Bank	2020[2] Excluding Union Bank	As of September 30, 2019	As of December 31, 2019
			(unaudited)	(audited)
1. Consolidated data				
A. Capital for purpose of calculating the capital ratio				
Tier I capital[1]	19,708	17,432	16,244	16,520
Tier I capital[1]	19,708	17,432	16,244	16,520
Tier II capital	6,780	6,218	5,799	6,090
Total capital[1]	**26,488**	**23,650**	**22,043**	**22,610**
B. Weighted risk asset balances				
Credit risk	182,832	160,760	148,494	150,878
Market risks	2,022	1,629	1,778	1,791
Operational risk	12,648	10,933	10,034	10,189
Total weighted risk asset balances[3]	**197,502**	**173,322**	**160,306**	**162,858**
C. Ratio of capital to risk components				
			In %	
Ratio of Tier I capital to risk components	9.98	10.06	10.13	10.14
Ratio of Tier I capital to risk components	9.98	10.06	10.13	10.14
Ratio of total capital to risk components	13.41	13.65	13.75	13.88
Minimum Tier I capital ratio required by Supervisor of Banks[4]	8.71	8.76	9.83	9.83
Total minimum capital ratio required by the Supervisor of Banks[4]	12.21	12.26	13.33	13.33
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and its subsidiaries				
Ratio of Tier I capital to risk components	9.38		9.55	9.51
Ratio of Tier I capital to risk components	9.38		9.55	9.51
Ratio of total capital to risk components	12.78		13.34	13.22
Minimum Tier I capital ratio required by Supervisor of Banks	8.00		9.00	9.00
Total minimum capital ratio required by the Supervisor of Banks	11.50		12.50	12.50
Union Bank of Israel Ltd.				
Ratio of Tier I capital to risk components	10.01			
Ratio of Tier I capital to risk components	10.01			
Ratio of total capital to risk components	13.30			
Minimum Tier I capital ratio required by Supervisor of Banks	8.42			
Total minimum capital ratio required by the Supervisor of Banks	11.92			

(1) These data include adjustments with respect to streamlining programs charged proportionately over 5 years since the start date thereof. For more information, see section 3.A below.

(2) For more information about acquisition of Union Bank, see section F. below.

(3) Of the total weighted balance of risk assets, NIS 64 million was deducted due to adjustments with respect to the streamlining plan (September 30, 2019: NIS 153 million; December 31, 2019: NIS 139 million).

(4) For more information about reduction of minimum capital ratios which banks are required to maintain in the normal course of business, by one percentage point, see section E. below.

An additional capital requirement was added to these ratios at 1% of the housing loan balance as of the report date, excluding housing loans extended during the Corona Virus crisis.

Note 9 – 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 September 30,		As of December 31,
	2020		2019	2019
	Including Union Bank	Excluding Union Bank		
			(unaudited)	(audited)
3. Capital components for calculating the capital ratio (on consolidated data)				
A. Tier I shareholders' equity				
Shareholders' equity	19,111	17,904	16,514	16,805
Differences between shareholders' equity and Tier I capital	(422)	(422)	(310)	(315)
Total Tier I capital before supervisory adjustments and deductions	**18,689**	**17,482**	**16,204**	**16,490**
Supervisory adjustments and deductions:				
Goodwill	(87)	(87)	(87)	(87)
Deferred tax assets	(19)	–		
Supervisory adjustments and other deductions[1]	989	(24)	(15)	(14)
Total supervisory adjustments and deductions, before adjustments with respect to the streamlining plan – Tier I capital	883	(111)	(102)	(101)
Total adjustments with respect to the streamlining program[2]	136	61	142	131
Total Tier I capital after supervisory adjustments and deductions	**19,708**	**17,432**	**16,244**	**16,520**
B. Tier II capital				
Tier II capital: Instruments, before deductions	4,548	4,030	4,244	4,544
Tier II capital: Provisions, before deductions	2,232	2,188	1,555	1,546
Total Tier II capital, before deductions	**6,780**	**6,218**	**5,799**	**6,090**
Deductions:				
Total deductions – Tier II capital	–	–	–	–
Total Tier II capital	**6,780**	**6,218**	**5,799**	**6,090**
Total capital	**26,488**	**23,650**	**22,043**	**22,610**

4. Effect of adjustments to streamlining plan on Tier I capital ratio:

		As of September 30,		As of December 31,
	2020		2019	2019
	Including Union Bank	Excluding Union Bank		
				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	9.91	10.02	10.03	10.05
Effect of adjustments with respect to the streamlining plan	0.07	0.04	0.10	0.09
Ratio of Tier I capital to risk components	9.98	10.06	10.13	10.14

(1) Includes deferred credit balance from acquisition of Union Bank. For more information, see section F. below.

(2) Of which, NIS 132 million with respect to streamlining program concerning employees (NIS 57 million excluding Union Bank) and NIS 4 million with respect to streamlining program concerning real estate (including or excluding Union Bank). As of September 30, 2019: NIS 108 million with respect to streamlining program concerning employees and NIS 34 million with respect to streamlining program concerning real estate). As of December 31, 2019: NIS 102 million with respect to the streamlining plan with regard to employees and NIS 29 million with respect to the streamlining plan concerning real estate.

Note 9 – 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 September 30,			As of December 31,
	2020		2019	2019
	Including Union Bank	Excluding Union Bank		
			(unaudited)	(audited)
			In %	
1. Consolidated data				
Liquidity coverage ratio[1]	128	128	122	121
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100	100
2. Bank data				
Liquidity coverage ratio[1]	128	128	122	122
Minimum liquidity coverage ratio required by the Supervisor of Banks	100	100	100	100
3. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and its subsidiaries				
Liquidity coverage ratio[1]	337		260	208
Minimum liquidity coverage ratio required by the Supervisor of Banks	100		100	100
Union Bank of Israel Ltd.				
Liquidity coverage ratio[1]	148			
Minimum liquidity coverage ratio required by the Supervisor of Banks	100			

(1) In terms of simple average of daily observations during the reported quarter.

C. Leverage ratio

Calculated in conformity with Proper Conduct of Banking Business Directive 218 "Leverage ratio"

	As of September 30,			As of December 31,
	2020[2]		2019	2019
	Including Union Bank	Excluding Union Bank		
			(unaudited)	(audited)
1. Consolidated data				
Tier I capital[1]	19,708	17,432	16,244	16,520
Total exposure	376,614	328,359	288,965	297,779
				In %
Leverage ratio	5.23	5.31	5.62	5.55
Minimum leverage ratio required by the Supervisor of Banks[3]	5.00	5.00	5.00	5.00
2. Significant subsidiaries				
Bank Yahav for Government Employees Ltd. and its subsidiaries				
Leverage ratio	5.04	–	5.42	5.56
Minimum leverage ratio required by the Supervisor of Banks	4.70	–	4.70	4.70
Union Bank of Israel Ltd.				
Leverage ratio	5.03	–		
Minimum leverage ratio required by the Supervisor of Banks	5.00	–		

(1) For effect of adjustments with respect to the streamlining program, see sections A.3, A.4 above.
(2) For more information about acquisition of Union Bank, see section F. below.
(3) Banking corporations are required to achieve the minimum leverage ratio required by the Supervisor of Banks as from January 1, 2018.

Note 9 – Capital adequacy, liquidity and leverage – Continued

Reported amounts (NIS in millions)

D. The Bank applies the capital adequacy directives based on the Basel directives, as issued by the Supervisor of Banks in Proper Conduct of Banking Business Directives 201-222 and in the Q&A file.
Basel III directives became effective on January 1, 2014. These directives are applied progressively in line with transition provisions specified in Proper Conduct of Banking Business Directive 299 "Measurement and capital adequacy – supervisory capital – transitional provisions".
Pursuant to the transitional provisions, 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, 2020, the cap for instruments qualifying as supervisory capital is at 20%.

E. On March 31, 2020, Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)" was issued, whereby the Supervisor of Banks reduced the minimum capital ratios to be maintained by banks in the normal course of business, by one percentage point, for as long as this interim directive is in effect. This was based on the expectation that banks would use their excess capital, due to the reduced capital requirements, to support economic activity in the market, to increase loans and to provide support for households and for the business segment, rather than for other purposes, such as dividend distribution or share buy-back, for as long as this interim directive is in effect. On April 27, 2020, a further update to Directive 250 was issued, whereby the additional capital requirement of 1% of the outstanding balance of housing loans would not apply to housing loans to be provided during this crisis period.
On September 16, 2020, a further update to the directive was issued, whereby validity of relief provided for in the Interim Directive was extended for a further 6 months, through March 31, 2021, and in order to allow the Bank to return to the minimum capital ratios upon expiration of the Interim Directive, this relief would continue to apply for a further 24 months, provided that capital ratios would be no lower than the capital ratios upon expiration of the Interim Directive, or the minimum capital ratios applicable to the banking corporation immediately prior to the Interim Directive, whichever is lower.
Consequently, the Bank's minimum ratio of Tier I capital to risk assets, including the additional capital requirement of 1% of the balance of housing loans, as of September 30, 2020, would be at least 8.71%, and the total capital ratio would be at least 12.21% (with additional safety margins as appropriate).
On November 15, 2020, the Supervisor of Banks issued a circular regarding "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", updating Proper Conduct of Banking Business Directive 250, whereby the leverage ratio shall be at least 4.5%, compared to 5% prior to this change. The Directive is effective from the issue date thereof through March 31, 2021. After expiration of the Directive, the relief shall remain in effect for a further 24 months, provided that the leverage ratio would be no less than the leverage ratio upon expiration of the Directive, or the minimum leverage ratio applicable to the banking corporation prior to the Interim Directive, whichever is lower.

F. On September 30, 2020, the transaction between the controlling shareholders of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and Bank Mizrahi-Tefahot closed, whereby shares of Union Bank held by the controlling shareholders were acquired in exchange for issue of Bank Mizrahi-Tefahot shares. As from this date, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank.
The number of shares issued in consideration, according to the agreement, is 19,865,165 and their value as of the transaction date amounted to NIS 1,207 million. Accordingly, the Bank's shareholder equity as of September 30, 2020 increased by this amount.
As from September 30, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, as well as a credit balance of NIS 1.3 billion with respect to deferred credit balance from acquisition of Union Bank, to be recognized in future on the statement of profit and loss. The adjustments are based on initial estimated valuation of assets and liabilities of Union Bank prepared as of the reporting date **(PPA Provisional).** This estimate will be revised on subsequent financial statements. For more information see Note 17.B. below.
The deferred credit balance from acquisition of Union Bank included on these financial statements should be revised upon completing the PPA work, including with respect to adjustment of assets and liabilities of Union Bank to the fair value thereof, with respect to intangible assets to be measured and recognized on the consolidated balance sheet at fair value and with respect to employee rights. Due to the short time elapsed from the acquisition date to the issue date of these financial statements, due to the uncertainty with regard to adjustments that would be required to the credit balance and in conformity with approval from the Supervisor of Banks, a deferred credit balance of only NIS 1,030 million is included under Tier I capital and in the Bank's total capital, for conservative calculation of the ratio of capital to risk elements.
For more information see Note 17.B. to the financial statements.
For more information about the Supervisor of Banks' directives regarding capital adequacy, see Note 25 to the 2019 financial statements.

Note 10 – Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

A. Other liabilities and special commitments

		September 30,			December 31,
		2020		2019	2019
				(unaudited)	(audited)
		Including Union Bank	Excluding Union Bank		
1.	Computerization and software service contracts	277	277	392	366
2.	Acquisition and renovation of buildings	25	22	23	17
3.	Long-term rental and lease contracts – rent for buildings, equipment and vehicles(1)(2)(3):				
	First year	231	209	148	208
	Second year	222	202	217	197
	Third year	212	192	204	187
	Fourth year	205	186	194	182
	Fifth year	196	182	188	174
	Sixth year and thereafter	1,617	1,549	1,649	1,510
	Total rent for buildings and equipment	**2,683**	**2,520**	**2,600**	**2,458**

4. Credit sales operations

The following table provides a summary of credit sales operations at the Bank:

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2020	2019	2020	2019	2019
	(unaudited)		(unaudited)		(audited)
Carrying amount of credit sold	(4)300	–	(4)340	571	571
Consideration received in cash	(4)183	–	(4)223	577	577
Consideration received in securities	–	–	–	–	–
Total consideration	(4)183	–	(4)223	577	577
Total net gain with respect to credit sold	(4)-	–	(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. With regard to application of the standard re leases **(ASC 842)**, the expected lease term is the definitive lease term (unless exercise of any potential extension is highly likely), or 15 years after the most recent refurbishment, whichever is longer.

(4) For more information about sale of Union Bank's diamond operations, see Note 17 to the financial statements.

Note 10 – Contingent Liabilities and Special Commitments – continued

B. Contingent liabilities and other commitments

1. For details of other contingent liabilities and commitments by the Bank group, see Note 26 to the 2019 financial statements. Below is a description of material changes relative to the Note provided in the 2019 annual report.

2. 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 (for claims brought against the Bank) 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 material claims, including motions for class action status and claims where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2019 financial statements:

   A) 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 of Israel Ltd., Bank Discount of 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. In accordance with a procedural arrangement agreed by the parties, the deadline for completing the verbal arguments was delayed to May 31, 2021.

   B) 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.

   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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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. As ruled by the Court, on May 17, 2020 the Bank filed its response to the plaintiff's response to the Bank's response to the motion for approval. A further pre-trial hearing is scheduled for January 19, 2021.

C.) 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 started a mediation process. 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. Due to the Corona Virus crisis, the mediation process was extended and has yet to be concluded. On September 30, 2020, a mediation meeting took place (after previous ones were scheduled and then cancelled due to the Corona Virus crisis) and dates were agreed for providing the text of the settlement agreement and for parties to comment on it.

D.) 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).
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 plaintiff seeks 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 2019, the plaintiff's attorney informed the Court of their intention to replace the expert opinion filed with the motion, 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 that was approved. According to this 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. On March 16, 2020, the plaintiff filed a motion for document discovery.

Note 10 – Contingent Liabilities and Special Commitments – continued

On August 10, 2020, the Bank filed its response to the motion for discovery, and the plaintiff has filed their response to the Bank's response. On September 15, 2020, a preliminary hearing took place at which the parties were required to file their position by October 25, 2020 as to whether the motion for approval may be ruled upon based on the material in the case and written summations; consequently, the Bank has filed its position insisting on conducting an evidentiary proceeding.

E) 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 for approval on June 10, 2019 and the plaintiff filed their response to the Bank's response on March 5, 2020. Due to the Corona Virus crisis ane the lock-down, the preliminary meeting scheduled for September 29, 2020 was canceled and has yet to be rescheduled.

F) 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 plaintiffs 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. On March 9, 2020, a hearing took place to discuss the motion to dismiss filed by the Bank. After this discussion, the Court gave the plaintiff 15 days to inform the Court whether they insisted on their claim Consequently, on March 16, 2020 the plaintiffs informed the Court that they insisted on their motion for approval. On June 21, 2020, the Court handed down its ruling rejecting the motion out of hand with expenses charged to the plaintiffs. On July 7, 2020, the Bank attorney received an appeal of this verdict, filed by the plaintiffs.
Concurrently with filing of the appeal, the plaintiffs also filed a motion to delay execution of the verdict and a motion seeking exemption from a bond deposit in the appeal. On August 10, a ruling was given rejecting the motion, and the bond was deposited accordingly. An order for summations was given and deadlines for the parties to file their summations were set; the case is scheduled for hearing of additional verbal arguments on July 28, 2021.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 2 above, there is additional, non-remote exposure for which no provision was made, amounting to NIS 42 million.

3. Motions for class action status and motions 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 10 – Contingent Liabilities and Special Commitments – continued

A. In October 2020, a motion was filed with the Tel Aviv District Court, seeking a document discovery order pursuant to provisions of Section 198a of the Corporate Act, 1999 prior to filing a motion for approval of a derivative lawsuit against the Bank and against Union Bank of Israel Ltd. (by way of "double derivative proceeding") (hereinafter: "the defendants"), seeking that the defendants be instructed to provide to them various documents related to "suspect" fund transfer transactions between 1999-2017, as made public on the BuzzFeed media website with regard to the defendants, as well as meeting minutes of the defendants' Board of Directors and/or bank management with regard to this case. The plaintiff claims that all the documents sought are needed for hearing their claims of failures in corporate governance by the defendants, and of action by various officers of the defendants, in order for them to file a motion for approval of a derivative lawsuit against officers and Independent Auditors with regard to damage incurred by Bank Mizrahi and/or Union Bank due to deeds and omissions by various officers of the defendants. In conformity with the Court ruling dated October 11, 2020, the defendants must file their response by December 13, 2020 and the Attorney General must inform the Court by February 14, 2021 of their intention to join the lawsuit.

B. In September 2020, a motion for approval of a derivative lawsuit was filed with the Tel Aviv District Court by a shareholder on behalf of the Company for Economic and Cultural Enterprises for State Employees Ltd. ("Economic Enterprises Company") and on behalf of Bank Yahav for Government Employees Ltd. ("Bank Yahav") against Bank Yahav, the Bank, Board members of the Economic Enterprises Company and of Bank Yahav, including officers of the Bank.
The plaintiff alleges that Bank Yahav and the Economic Enterprises Company incurred damage due to credit extended by Bank Yahav to the Bank, by way of deposits with the Bank, allegedly in violation of the Law and in breach of fiduciary and care duties of the defendants towards Bank Yahav and towards the Economic Enterprises Company.
The alleged damage incurred by Bank Yahav is in excess of NIS 1 billion.

C. In May 2020, the Bank received a motion for approval of class action status, with no estimated amount, filed at the Central District Court, with regard to credit extended by the Bank using the Tefahot Card in conjunction with "General-purpose loan". The motion alleges that the Bank splits the credit facility backed by a lien on the apartment, between the Tefahot Card as a general-purpose loan, and housing loans, rather than providing all of the credit as a "housing loan", at terms and conditions as set forth in the Supervisor of Bank's directives, allegedly in violation of the statute and while bypassing the Supervisor of Bank's directives with regard to housing loans, and with the client being unaware of this splitting action and its implications, and while hiding material facts, such as absence of life insurance in the loan component of the Tefahot credit card, charging of a different interest rate and monthly charge for holding the card.
The plaintiff claims they are unable to quantify the damage to the class, setting their own personal claim at NIS 112,373. The Bank is due to file its response to the motion by November 26, 2020.

D. In May 2020, the Bank received a motion for class action status filed with the Central District Court, against 15 banks including the Bank and Bank Yahav and against the National Insurance Institution, the Enforcement and Collection Authority, the Postal Authority ("the Motion"), citing two causes: one, alleging unlawful delay of provident fund amounts that may not be foreclosed, in contravention of the Court Order Enforcement Act; and the other, with respect to failure to issue debit cards to those who do not have a credit card or ATM card, in alleged breach of the directive by the Supervisor of Banks dated March 22, 2020.
The class was defined in the Motion as any person whose funds were unlawfully delayed by any of the defendant banks under circumstances as set forth in the Motion. The plaintiff set the claim amount for all respondents at NIS 300 million.
Concurrently with filing the motion for approval, the plaintiff also filed a motion for fee exemption. On July 28, a ruling was issued rejecting the motion for fee exemption; this ruling was appealed and the appeal was denied on September 6. On October 13, 2020, the Court handed down its ruling, instruction the proceeding for non-payment of the fee to be erased. On October 22, 2020, the Bank's attorney received a motion filed by the plaintiff on October 18 with the Supreme Court, seeking exemption from mandatory bond deposit for filing their motion for right to appeal; on October 19, 2020 a ruling was issued, allowing the defendants to respond to the motion by November 1, 2020. Given the date when this motion was provided to the Bank, an agreed motion was filed for extension for the Bank to file its response by November 22, 2020; a ruling is still pending.

Note 10 – Contingent Liabilities and Special Commitments – continued

E. In May 2020, a motion for approval of class action status was filed with the Tel Aviv District Court, alleging breach of duty of confidentiality, by the Bank providing various identifiable information to international information corporations, and in particular to Facebook, allowing them to gather private information about Bank clients, allegedly in breach of provisions of the Privacy Protection Act, 1981 and other statutes, without providing required disclosure to Bank clients and without obtaining their consent.
The plaintiff alleges that the Bank uses third-party tools, such as those of Facebook and Google, to monitor its clients when transacting on Bank web sites and apps, in order to conduct advertising campaigns, while these corporations process the information provided about the clients for their own needs, with no disclosure provided with regard to the purposes for which such information is being gathered and what information exactly is being gathered, other than a "legal disclaimer" on the Bank website which, the plaintiff alleges, is deficient and may not be regarded as consent. The plaintiff further alleges that all conditions listed in Bank documents, allowing the Bank to provide information about its clients to third parties, including the "legal disclaimer", constitute unfair conditions in a uniform contract.
The plaintiff claims they are unable to quantify the damage incurred by the class; the Bank is required to file its response to the motion by December 25, 2020.

F. 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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.
In conformity with the District Court ruling dated October 10, 2019, the parties filed a notice of litigation 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. A pre-trial hearing is scheduled for June 24, 2020.

On March 27, 2020, the Independent Committee appointed by the Bank's Board of Directors, inter alia, as an independent claims committee, submitted its conclusions and recommendations with regard to the aforementioned proceedings. On March 31, 2020, the Bank Board of Directors resolved to adopt in full the conclusions and recommendations made by the Committee (not to take legal proceedings against Board members and other officers with respect to breach of fiduciary duty or breach of their duty of care, and not to require them to reimburse remuneration they had received, in conjunction with their office at the Bank in the relevant period, and not to take any legal action in this regard) and instructed Bank management to act to apply the recommendations, including with regard to a settlement agreement amounting to USD 23 million with insurers providing Board member and officer liability insurance. Accordingly, on September 8, 2020, a motion was filed with the Court seeking approval of a settlement agreement signed by the plaintiff, the Bank Group, the defendants and the insurers, based on the recommendation by the Independent Committee, along with a motion seeking an order for the Independent Committee's report to be classified as privileged. On September 8, 2020, the Court ruled to temporarily classify the report as privileged; the Bank then filed a motion for a litigation agreement with regard to the motion seeking classification as privileged; on September 17, the Court validated this litigation agreement. On September 9, 2020, the Court ordered that a notification of the settlement agreement be advertised. As ruled by the Court, the Attorney General should file their position with regard to the settlement agreement by October 15, 2020. On October 18, 2020, the Attorney General filed a motion seeking a 30-day extension to file their position and the Court accepted this motion.
The position of the Attorney General was filed on November 11, 2020 and a ruling was handed down on November 12, 2020, whereby the parties should file their response to the position of the Attorney General by December 3, 2020 and should act with insurers to obtain clarification, backed by an affidavit or by an opinion, with regard to the Attorney General's comment about the potential negative effect on the insurance market in general, and in particular for officer liability insurance.

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.

Note 10 – Contingent Liabilities and Special Commitments – continued

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.
The parties have filed their summations and a hearing of the appeal, scheduled for March 25, 2020, was postponed due to the Corona Virus crisis. On April 26, the appellant filed a motion to schedule a hearing as soon as possible; such hearing was scheduled for June 8, 2020. On June 18, 2020, a verdict was handed down, denying the appeal after the appellant accepted the Supreme Court's recommendation to withdraw their appeal.

See also section 4) below, with regard to recommendation by an Independent Committee appointed further to an agreement signed with the US Department of Justice in 2019, to conclude the investigation with regard to Bank Group business with its US clients.

4. In addition to section 3.F of this Note above, on May 18, 2020, the Board of Directors discussed an additional report provided by the Committee to the Board of Directors, concerning evaluation of managerial processes and controls, including with regard to aspects of corporate governance, related to the events covered by the Agreement. This report stipulated that in most areas and processes reviewed by the Committee with regard to the Relevant Period, the Bank has made significant improvements and the Committee made no comments with regard to said improvements. For some of these, the Committee saw fit to recommend that the Bank apply additional processes, beyond the existing ones, and the Board of Directors has adopted most of these recommendations with slight changes.

Note 10 – Contingent Liabilities and Special Commitments – continued

C. Guarantees by maturity date

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 date:

	As of September 30, 2020 – including Union Bank				
	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	2,881	115	8	253	3,257
Guarantees to home buyers	8,542	2,301	19	1,300	12,162
Guarantees and other commitments	8,954	130	20	261	9,365
Commitments to issue guarantees	5,216	5,310	371	192	11,089
Total guarantees	**25,593**	**7,856**	**418**	**2,006**	**35,873**

	As of September 30, 2020 – excluding Union Bank				
	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	2,677	59	–	241	2,977
Guarantees to home buyers	8,535	2,301	19	121	10,976
Guarantees and other commitments	8,589	–	–	–	8,589
Commitments to issue guarantees	3,919	5,310	371	192	9,792
Total guarantees	**23,720**	**7,670**	**390**	**554**	**32,334**

	As of September 30, 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	1,884	451	42	129	2,506
Guarantees to home buyers	8,831	2,277	22	–	11,130
Guarantees and other commitments	4,184	823	85	2,860	7,952
Commitments to issue guarantees	3,153	4,314	776	–	8,243
Total guarantees	**18,052**	**7,865**	**925**	**2,989**	**29,831**

	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	2,202	460	36	200	2,898
Guarantees to home buyers	8,533	2,050	56	33	10,672
Guarantees and other commitments	3,588	575	138	4,312	8,613
Commitments to issue guarantees	3,058	5,287	1,317	331	9,993
Total guarantees	**17,381**	**8,372**	**1,547**	**4,876**	**32,176**

Note 11 – Derivatives and hedging activities

Reported amounts (NIS in millions)

A) Activity on consolidated basis

	September 30, 2020 (unaudited)				September 30, 2019 (unaudited)		
	Derivatives not held for trading	Derivatives held for trading	Total	Total	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions				NIS in millions		
			Including Union Bank	Excluding Union Bank			
1. Stated amounts of derivative instruments							
Interest contracts							
Forward contracts	2,103	470	2,573	970	1,575	100	1,675
Options written	–	79	79	79	17	–	17
Options purchased	–	79	79	79	1,010	229	1,239
Swaps(1)	20,982	40,759	61,741	28,923	8,714	31,336	40,050
Total(2)	**23,085**	**41,387**	**64,472**	**30,051**	**11,316**	**31,665**	**42,981**
Of which: Hedging derivatives(3)	**4,176**	**–**	**4,176**	**3,460**	**3,960**	**–**	**3,960**
Currency contracts							
Forward contracts(4)(6)	72,306	70,188	142,494	134,360	57,940	51,789	109,729
Options written	5,142	17,734	22,876	15,393	–	23,777	23,777
Options purchased	5,028	17,095	22,123	14,306	201	20,441	20,642
Swaps	1,959	1,621	3,580	2,668	3,360	2,765	6,125
Total	**84,435**	**106,638**	**191,073**	**166,727**	**61,501**	**98,772**	**160,273**
Of which: Hedging derivatives(3)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Contracts for shares							
Options written	291	10,293	10,584	7,241	99	8,475	8,574
Options purchased(5)	4	10,260	10,264	6,983	32	8,478	8,510
Swaps	–	2,394	2,394	2,394	–	1,547	1,547
Total	**295**	**22,947**	**23,242**	**16,618**	**131**	**18,500**	**18,631**
Commodities and other contracts							
Forward contracts	733	10	743	11	21	–	21
Options written	–	8,957	8,957	8,791	–	10,326	10,326
Options purchased	7	8,952	8,959	8,791	–	10,326	10,326
Total	**740**	**17,919**	**18,659**	**17,593**	**21**	**20,652**	**20,673**
Credit contracts							
Bank is guarantor	275	–	275	275	279	–	279
Bank is beneficiary	144	–	144	144	340	–	340
Total	**419**	**–**	**419**	**419**	**619**	**–**	**619**
Total stated amount	**108,974**	**188,891**	**297,865**	**231,408**	**73,588**	**169,589**	**243,177**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 36,592 million (as of September 30, 2019: NIS 26,994 million).
(2) Of which: NIS/CPI swaps amounting to NIS 8,814 million (as of September 30, 2019: NIS 8,388 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 6,348 million (as of September 30, 2019: NIS 8,257 million).
(5) Of which: Traded on the Stock Exchange, amounting to NIS 10,228 million (as of September 30, 2019: NIS 8,477 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 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2019 (audited)		
	Derivatives not held for trading	Derivatives held for trading	Total
	NIS in millions		
1. Stated amounts of derivative instruments			
Interest contracts			
Forward contracts	1,562	–	1,562
Options written	–	79	79
Options purchased	174	148	322
Swaps[1]	8,263	30,577	38,840
Total[2]	**9,999**	**30,804**	**40,803**
Of which: Hedging derivatives[3]	**4,263**	**–**	**4,263**
Currency contracts			
Forward contracts[4][6]	54,757	71,397	126,154
Options written	–	19,936	19,936
Options purchased	–	16,947	16,947
Swaps	3,325	2,736	6,061
Total	**58,082**	**111,016**	**169,098**
Of which: Hedging derivatives[3]	**–**	**–**	**–**
Contracts for shares			
Options written	88	15,564	15,652
Options purchased[5]	–	15,596	15,596
Swaps	–	1,794	1,794
Total	**88**	**32,954**	**33,042**
Commodities and other contracts			
Forward contracts	6	12	18
Options written	–	10,789	10,789
Options purchased	–	10,789	10,789
Total	**6**	**21,590**	**21,596**
Credit contracts			
Bank is guarantor	276	–	276
Bank is beneficiary	462	–	462
Total	**738**	**–**	**738**
Total stated amount	**68,913**	**196,364**	**265,277**

(1) Of which: Swaps for which the banking corporation pays a fixed interest rate amounting to NIS 27,626 million.
(2) Of which: NIS/CPI swaps amounting to NIS 8,484 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.
(5) Of which: Traded on the Stock Exchange, amounting to NIS 15,564 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 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	September 30, 2020 (unaudited)							
	Assets with respect to derivatives, gross				Liabilities with respect to derivatives, gross			
	Derivatives not held for trading	Derivatives held for trading	Total	Total	Derivatives not held for trading	Derivatives held for trading	Total	Total
			Including Union Bank	Excluding Union Bank			Including Union Bank	Excluding Union Bank
2. Fair value of derivative instruments, gross								
Interest contracts	638	642	1,280	640	927	738	1,665	809
Of which: Hedging derivatives	68	–	68	63	212	–	212	97
Currency contracts(1)	331	1,173	1,504	1,337	283	1,123	1,406	1,226
Of which: Hedging derivatives	–	–	–	–	–	–	–	–
Contracts for shares	–	446	446	361	13	450	463	378
Commodities and other contracts	6	4	10	–	5	4	9	–
Credit contracts	6	–	6	6	15	–	15	15
Total assets / liabilities with respect to derivatives, gross(2)	**981**	**2,265**	**3,246**	**2,344**	**1,243**	**2,315**	**3,558**	**2,428**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**981**	**2,265**	**3,246**	**2,344**	**1,243**	**2,315**	**3,558**	**2,428**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	86	886	972	916	113	649	762	730

	September 30, 2019 (unaudited)					
	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. Fair value of derivative instruments, gross						
Interest contracts	200	536	736	313	622	935
Of which: Hedging derivatives	17	–	17	100	–	100
Currency contracts(1)	446	1,313	1,759	486	1,294	1,780
Of which: Hedging derivatives	–	–	–	–	–	–
Contracts for shares	2	218	220	2	199	201
Commodities and other contracts	1	–	1	1	–	1
Credit contracts	7	–	7	5	–	5
Total assets / liabilities with respect to derivatives, gross(2)	**656**	**2,067**	**2,723**	**807**	**2,115**	**2,922**
Fair value amounts offset in the balance sheet	–	–	–	–	–	–
Carrying amount of assets / liabilities with respect to derivative instruments	**656**	**2,067**	**2,723**	**807**	**2,115**	**2,922**
Of which: Carrying amount with respect to derivative instruments not subject to a master netting agreement or to similar agreements	185	283	468	326	380	706

(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 September 30, 2019: NIS 6 million); Gross fair value of liabilities with respect to embedded derivatives amounting to NIS 13 million (as of September 30, 2019: NIS 2 million).

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

A) Activity on consolidated basis – continued

	As of December 31, 2019 (audited)					
	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. Fair value of derivative instruments, gross						
Interest contracts	206	469	675	273	543	816
Of which: Hedging derivatives	31	–	31	71	–	71
Currency contracts(1)	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
Total assets / liabilities with respect to derivatives, gross(2)	**645**	**1,941**	**2,586**	**676**	**2,010**	**2,686**
Fair value amounts offset in 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

(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.

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

B) Accounting hedges

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
				(unaudited)	(audited)
					Interest revenues (expenses)
Interest contracts					
Hedged items	–	8	**9**	24	6
Hedging derivatives	(1)	(6)	**(10)**	(21)	(4)

	Balance as of September 30, 2020			Balance as of September 30, 2019		Balance as of December 31, 2019	
	Carrying amount including Union Bank	Carrying amount excluding Union Bank	Cumulative fair value adjustments that increased the carrying amount	Carrying amount	Cumulative fair value adjustments that increased the carrying amount	Carrying amount	Cumulative fair value adjustments that increased the carrying amount
					(unaudited)		(audited)
Securities available for sale	1,304	418	2	658	7	524	8

2. Cash flows hedges

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
			(unaudited)		(audited)
	Amounts recognized in Other Comprehensive Income (loss) from derivatives				
Interest contracts	–	3	11	4	4

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2020	2019	2020	2019	2019
			(unaudited)		(audited)
					Interest revenues (expenses)
Interest contracts	3	24	44	7	26

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated

	September 30, 2020 (unaudited)						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total including Union Bank	Total excluding Union Bank
Carrying amount of assets with respect to derivative instruments	**119**	**1,704**	**59**	**–**	**1,364**	**3,246**	**2,344**
Gross amounts not offset in the balance sheet:							
Mitigation of credit risk with respect to financial instruments	–	(1,600)	–	–	(297)	(1)(1,897)	(1)(1,175)
Mitigation of credit risk with respect to cash collateral received	–	(88)	–	–	(79)	(167)	(167)
Net amount of assets with respect to derivative instruments	**119**	**16**	**59**		**988**	**1,182**	**1,002**
Off-balance sheet credit risk on derivative instruments(2)	173	1,193	273	–	1,166	2,805	2,313
Mitigation of off-balance sheet credit risk	–	(695)	–	–	(384)	(1,079)	(841)
Net off-balance sheet credit risk with respect to derivative instruments	**173**	**498**	**273**	**–**	**782**	**1,726**	**1,472**
Total credit risk on derivative instruments	**292**	**514**	**332**	**–**	**1,770**	**2,908**	**5,525**
Carrying amount of liabilities with respect to derivative instruments	**86**	**2,347**	**90**	**8**	**1,027**	**3,558**	**2,428**
Gross amounts not offset in the balance sheet:							
Financial instruments	–	(1,600)	–	–	(297)	(1,897)	(1,175)
Pledged cash collateral	–	(512)	–	(8)	(44)	(564)	(564)
Net amount of liabilities with respect to derivative instruments	**86**	**235**	**90**	**–**	**686**	**1,097**	**689**

	September 30, 2019 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Carrying amount of assets with respect to derivative instruments	**47**	**1,620**	**22**	**8**	**1,026**	**2,723**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk with respect to financial instruments	–	(1,116)	–	–	(224)	(1)(1,340)
Mitigation of credit risk with respect to cash collateral received	–	(338)	–	(2)	(222)	(562)
Net amount of assets with respect to derivative instruments	**47**	**166**	**22**	**6**	**580**	**821**
Off-balance sheet credit risk on derivative instruments(2)	217	1,041	73	–	561	1,892
Mitigation of off-balance sheet credit risk	–	(428)	–	–	(100)	(528)
Net off-balance sheet credit risk with respect to derivative instruments	**217**	**613**	**73**	**–**	**461**	**1,364**
Total credit risk on derivative instruments	**264**	**779**	**95**	**6**	**1,041**	**2,185**
Carrying amount of liabilities with respect to derivative instruments	**49**	**1,431**	**22**	**–**	**1,420**	**2,922**
Gross amounts not offset in the balance sheet:						
Financial instruments	–	(1,116)	–	–	(224)	(1,340)
Pledged cash collateral	–	(226)	–	–	–	(226)
Net amount of liabilities with respect to derivative instruments	**49**	**89**	**22**	**–**	**1,196**	**1,356**

(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.

Note 11 – Derivatives and hedging activities – continued

Reported amounts (NIS in millions)

C) Credit risk on financial derivatives according to counter-party to the contract – Consolidated – continued

	As of December 31, 2019 (audited)					
	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**
Off-balance sheet credit risk on derivative instruments(2)	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**

(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 the three-month period ended September 30, 2020, the Bank recognized revenues from decrease in provision for credit losses amounting to NIS 6 million. In the nine-month period ended September 30, 2020, the Bank recognized expenses from increase in provision for credit losses amounting to NIS 7 million (in the three-month period in 2019, the Bank recognized credit losses amounting to NIS 1 million and in the first nine months of 2019, the Bank recognized revenues from provision for credit losses amounting to NIS 5 million).

d) Maturity dates – stated amounts: Balances at end of period – Consolidated

	September 30, 2020 (unaudited)					
	Up to three months	3 months to 1 year	1-5 years	Over five years	Total including Union Bank	Total excluding Union Bank
Interest contracts:						
NIS – CPI	1,667	2,622	3,640	886	8,815	7,782
Other	6,130	7,298	27,768	14,461	55,657	22,269
Currency contracts	120,743	64,807	5,139	384	191,073	166,727
Contracts for shares	18,791	3,561	890	–	23,242	16,618
Commodities and other contracts	18,392	266	320	100	19,078	18,012
Total	**165,723**	**78,554**	**37,757**	**15,831**	**297,865**	**231,408**
	September 30, 2019 (unaudited)					
Total	**133,309**	**75,225**	**25,489**	**9,154**	**243,177**	
	As of December 31, 2019 (audited)					
Total	**160,575**	**76,526**	**20,655**	**7,521**	**265,277**	

Note 12 – Operating Segments

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 Note 12 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, 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.

As from September 30, 2020, the Bank's consolidated balance sheet includes all assets and liabilities of Union Bank, based on initial estimate prepared as of the reporting date (PPA Provisional). For more information see chapter "Significant developments in management of Bank business" below and Note 17 to the financial statements.

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 derivatives 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 derivatives, 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 12 – Operating Segments – continued
Supervisory operating segments
For the nine months ended September 30, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	2,764	719	27	3,483	2	871
Interest expenses from externals	–	359	–	359	120	78
Interest revenues, net from externals	2,764	360	27	3,124	(118)	793
Interest revenues, net – inter-segment	(1,359)	603	(4)	(756)	178	67
Total interest revenues (expenses), net	**1,405**	**963**	**23**	**2,368**	**60**	**860**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	111	420	107	531	90	309
Total non-interest revenues	**111**	**420**	**107**	**531**	**90**	**309**
Total revenues	**1,516**	**1,383**	**130**	**2,899**	**150**	**1,169**
Expenses with respect to credit losses	272	120	–	392	2	218
Operating and other expenses to externals	479	1,298	45	1,777	48	597
Operating and other expenses – inter-segment	–	(98)	(9)	(98)	5	(55)
Total operating and other expenses	**479**	**1,200**	**36**	**1,679**	**53**	**542**
Pre-tax profit (loss)	765	63	94	828	95	409
Provision (reduced provision) for taxes on profit	265	22	33	287	33	141
After-tax profit (loss)	**500**	**41**	**61**	**541**	**62**	**268**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	500	41	61	541	62	268
Net profit attributed to non-controlling interests	–	(33)	(3)	(33)	–	(3)
Net profit (loss) attributable to shareholders of the banking corporation	**500**	**8**	**58**	**508**	**62**	**265**
Average balance of assets	139,221	20,503	3,019	159,724	168	22,333
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	139,221	20,503	3,019	159,724	168	22,333
Balance of loans to the public at end of reported period, including Union Bank	[3]153,298	25,670	4,103	178,968	172	28,398
Balance of loans to the public at end of reported period, excluding Union Bank	[3]143,091	20,848	3,625	163,939	150	23,923
Impaired debt balance – including Union Bank	90	95	–	185	–	771
Impaired debt balance – excluding Union Bank	89	87	–	176	–	699
Balance of debt in arrears 90 days or longer, including Union Bank	1,262	28	–	1,290	–	34
Balance of debt in arrears 90 days or longer, excluding Union Bank	1,220	18	–	1,238	–	32
Average balance of liabilities	–	97,009	3,019	97,009	15,774	31,567
Of which: Average balance of deposits from the public	–	93,990	–	93,990	15,774	31,567
Balance of deposits from the public at end of reported period, including Union Bank	–	112,646	–	112,646	21,093	42,767
Balance of deposits from the public at end of reported period, excluding Union Bank	–	100,059	–	100,059	17,088	36,118
Average balance of risk assets[1]	80,424	19,576	3,408	100,000	28	21,490
Balance of risk assets at end of reported period[1], including Union Bank	88,025	23,782	3,920	111,807	118	27,423
Balance of risk assets at end of reported period[1], excluding Union Bank	82,538	19,340	3,465	101,878	33	22,807
Average balance of assets under management[2]	14,453	44,795	–	59,248	6,417	30,566
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,327	620	23	1,947	–	747
Margin from activities of receiving deposits	–	346	–	346	60	92
Other	78	(3)	–	75	–	21
Total interest revenues, net	**1,405**	**963**	**23**	**2,368**	**60**	**860**

(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) Of which: Balance of housing loans to clients classified under the micro and small business segment, amounting to NIS 17,061 million.

						Operations overseas	Total
	Medium businesses	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total – operations in Israel**	**Total – operations overseas**	
-							
	227	424	23	151	5,181	197	5,378
	38	146	189	280	1,210	34	1,244
	189	278	(166)	(129)	3,971	163	4,134
	29	128	240	132	18	(18)	–
	218	**406**	**74**	**3**	**3,989**	**145**	**4,134**
	–	–	–	193	193	1	194
	60	98	42	182	1,312	23	1,335
	60	**98**	**42**	**375**	**1,505**	**24**	**1,529**
	278	**504**	**116**	**378**	**5,494**	**169**	**5,663**
	100	184	22	1	919	13	932
	43	81	50	286	2,882	62	2,944
	44	62	40	2	–	–	–
	87	**143**	**90**	**288**	**2,882**	**62**	**2,944**
	91	177	4	89	1,693	94	1,787
	31	61	1	31	585	33	618
	60	**116**	**3**	**58**	**1,108**	**61**	**1,169**
	–	–	–	–	–	–	–
	60	116	3	58	1,108	61	1,169
	–	–	–	(29)	(65)	–	(65)
	60	**116**	**3**	**29**	**1,043**	**61**	**1,104**
	7,553	17,833	1,131	61,029	269,771	15,377	285,148
	–	–	–	31	31	–	31
	7,553	17,833	1,131	–	208,742	3,295	212,037
	9,619	21,267	1,880	–	240,304	3,788	244,092
	7,650	17,829	1,825	–	215,316	3,788	219,104
	154	368	115	–	1,593	–	1,593
	131	242	115	–	1,363	–	1,363
	–	1	–	–	1,325	–	1,325
	–	–	–	–	1,270	–	1,270
	9,684	28,428	41,812	29,065	253,339	14,468	267,807
	9,684	28,428	41,812	–	221,255	4,737	225,992
	13,037	37,864	43,872	–	271,279	4,877	276,156
	10,426	29,624	41,211	–	234,526	4,877	239,403
	8,500	24,909	2,471	7,172	164,570	4,477	169,047
	10,669	29,344	2,795	10,807	192,963	4,539	197,502
	8,695	25,120	2,496	7,767	168,796	4,539	173,335
	4,556	23,666	361,899	2,576	488,928	–	488,928
–							
	185	343	20	–	3,242	80	3,322
	26	46	53	–	623	7	630
	7	17	1	3	124	58	182
	218	**406**	**74**	**3**	**3,989**	**145**	**4,134**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the nine months ended September 30, 2019 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	3,102	722	27	3,824	1	865
Interest expenses from externals	–	454	–	454	134	90
Interest revenues, net from externals	3,102	268	27	3,370	(133)	775
Interest revenues, net – inter-segment	(1,855)	743	(4)	(1,112)	198	87
Total interest revenues, net	**1,247**	**1,011**	**23**	**2,258**	**65**	**862**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	119	389	111	508	7	289
Total non-interest revenues	**119**	**389**	**111**	**508**	**7**	**289**
Total revenues	**1,366**	**1,400**	**134**	**2,766**	**72**	**1,151**
Expenses (reduction of expenses) with respect to credit losses	32	72	–	104	1	110
Operating and other expenses to externals	487	1,321	47	1,808	66	609
Operating and other expenses – inter-segment	–	(100)	(9)	(100)	6	(56)
Total operating and other expenses	**487**	**1,221**	**38**	**1,708**	**72**	**553**
Pre-tax profit	847	107	96	954	(1)	488
Provision for taxes on profit	295	37	33	332	–	170
After-tax profit	**552**	**70**	**63**	**622**	**(1)**	**318**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	552	70	63	622	(1)	318
Net profit attributed to non-controlling interests	–	(33)	(4)	(33)	–	(3)
Net profit attributable to shareholders of the banking corporation	**552**	**37**	**59**	**589**	**(1)**	**315**
Average balance of assets	129,626	20,577	3,210	150,203	89	20,176
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	129,626	20,577	3,210	150,203	89	20,176
Balance of loans to the public at end of reported period	133,042	21,565	4,116	154,607	109	21,195
Balance of impaired debts	52	84	–	136	–	551
Balance of debt in arrears 90 days or longer	1,369	21	–	1,390	–	37
Average balance of liabilities	–	87,447	3,210	87,447	13,791	24,878
Of which: Average balance of deposits from the public	–	84,237	–	84,237	13,791	24,878
Balance of deposits from the public at end of reported period	–	86,049	–	86,049	14,464	26,016
Average balance of risk assets(1)	73,982	18,832	3,347	92,814	27	19,332
Balance of risk assets at end of reported period(1)	76,142	19,126	3,465	95,268	21	19,911
Average balance of assets under management(2)	10,000	42,157	–	52,157	2,681	29,281
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,192	620	21	1,812	–	732
Margin from activities of receiving deposits	–	390	–	390	65	109
Other	55	1	2	56	–	21
Total interest revenues, net	**1,247**	**1,011**	**23**	**2,258**	**65**	**862**

(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.

						Operations overseas	Total
-	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total – operations in Israel	Total – operations overseas	
-							
	217	433	18	188	5,546	319	5,865
	46	217	348	508	1,797	80	1,877
	171	216	(330)	(320)	3,749	239	3,988
	47	177	417	263	77	(77)	–
	218	**393**	**87**	**(57)**	**3,826**	**162**	**3,988**
	–	–	–	287	287	6	293
	67	112	27	174	1,184	20	1,204
	67	**112**	**27**	**461**	**1,471**	**26**	**1,497**
	285	**505**	**114**	**404**	**5,297**	**188**	**5,485**
	19	20	(6)	(2)	246	(1)	245
	47	85	48	275	2,938	57	2,995
	45	63	40	2	–	–	–
	92	**148**	**88**	**277**	**2,938**	**57**	**2,995**
	174	337	32	129	2,113	132	2,245
	61	117	11	45	736	46	782
	113	**220**	**21**	**84**	**1,377**	**86**	**1,463**
	–	–	–	–	–	–	–
	113	220	21	84	1,377	86	1,463
	–	–	–	(25)	(61)	–	(61)
	113	**220**	**21**	**59**	**1,316**	**86**	**1,402**
	7,045	16,931	1,058	52,334	247,836	9,897	257,733
	–	–	–	32	32	–	32
	7,045	16,931	1,058	–	195,502	3,213	198,715
	7,153	16,214	1,134	–	200,412	3,813	204,225
	169	200	120	–	1,176	22	1,198
	–	–	–	–	1,427	–	1,427
	8,351	26,638	39,116	30,093	230,314	11,053	241,367
	8,351	26,638	39,116	–	197,011	5,527	202,538
	8,394	25,276	42,802	–	203,001	4,831	207,832
	8,099	22,925	2,084	6,772	152,053	4,166	156,219
	8,463	23,771	1,494	7,350	156,278	4,028	160,306
	6,510	28,151	318,126	12,961	449,867	–	449,867
–							
	178	325	14	–	3,061	82	3,143
	35	54	72	–	725	9	734
	5	14	1	(57)	40	71	111
	218	**393**	**87**	**(57)**	**3,826**	**162**	**3,988**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended September 30, 2020 (unaudited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	1,106	230	8	1,336	1	304
Interest expenses from externals	–	136	–	136	41	27
Interest revenues, net from externals	1,106	94	8	1,200	(40)	277
Interest revenues, net – inter-segment	(624)	215	(1)	(409)	59	8
Total interest revenues (expenses), net	**482**	**309**	**7**	**791**	**19**	**285**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	36	138	38	174	2	106
Total non-interest revenues	**36**	**138**	**38**	**174**	**2**	**106**
Total revenues	**518**	**447**	**45**	**965**	**21**	**391**
Expenses (reduction of expenses) with respect to credit losses	154	36	–	190	2	63
Operating and other expenses to externals	159	433	15	592	12	198
Operating and other expenses – inter-segment	–	(31)	(3)	(31)	1	(18)
Total operating and other expenses	**159**	**402**	**12**	**561**	**13**	**180**
Pre-tax profit (loss)	205	9	33	214	6	148
Provision (reduced provision) for taxes on profit	72	3	12	75	2	52
After-tax profit (loss)	**133**	**6**	**21**	**139**	**4**	**96**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit (loss) before attribution to non-controlling interests	133	6	21	139	4	96
Net profit attributed to non-controlling interests	–	(10)	(1)	(10)	–	(1)
Net profit (loss) attributable to shareholders of the banking corporation	**133**	**(4)**	**20**	**129**	**4**	**95**
Average balance of assets	141,849	20,191	3,053	162,040	142	23,437
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	141,849	20,191	3,053	162,040	142	23,437
Balance of loans to the public at end of reported period, including Union Bank	(3)153,298	25,670	4,103	178,968	172	28,398
Balance of loans to the public at end of reported period, excluding Union Bank	(3)143,091	20,848	3,625	163,939	150	23,923
Impaired debt balance – including Union Bank	90	95	–	185	–	771
Impaired debt balance – excluding Union Bank	89	87	–	176	–	699
Balance of debt in arrears 90 days or longer, including Union Bank	1,262	28	–	1,290	–	34
Balance of debt in arrears 90 days or longer, excluding Union Bank	1,220	18	–	1,238	–	32
Average balance of liabilities	–	101,515	3,053	101,515	16,592	35,051
Of which: Average balance of deposits from the public	–	98,462	–	98,462	16,592	35,051
Balance of deposits from the public at end of reported period, including Union Bank	–	112,646	–	112,646	21,093	42,767
Balance of deposits from the public at end of reported period, excluding Union Bank	–	100,059	–	100,059	17,088	36,118
Average balance of risk assets(1)	81,954	19,370	3,531	101,324	30	22,320
Balance of risk assets at end of reported period(1), including Union Bank	88,025	23,782	3,920	111,807	118	27,423
Balance of risk assets at end of reported period(1), excluding Union Bank	82,538	19,340	3,465	101,878	33	22,807
Average balance of assets under management(2)	24,405	55,748	–	80,153	13,117	36,310
Breakdown of interest revenues, net:						
Margin from credit granting operations	455	201	7	656	–	249
Margin from activities of receiving deposits	–	110	–	110	19	28
Other	27	(2)	–	25	–	8
Total interest revenues, net	**482**	**309**	**7**	**791**	**19**	**285**

(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) Of which: Balance of housing loans to clients classified under the micro and small business segment, amounting to NIS 17,061 million.

						Operations overseas	Total
-	**Medium businesses**	**Large businesses**	**Institutional investors**	**Financial Management Segment**	**Total – operations in Israel**	**Total – operations overseas**	
-							
	73	150	5	26	1,895	57	1,952
	11	44	72	151	482	6	488
	62	106	(67)	(125)	1,413	51	1,464
	9	34	86	214	1	(1)	–
	71	**140**	**19**	**89**	**1,414**	**50**	**1,464**
	–	–	–	53	53	1	54
	17	33	15	50	397	10	407
	17	**33**	**15**	**103**	**450**	**11**	**461**
	88	**173**	**34**	**192**	**1,864**	**61**	**1,925**
	21	23	16	–	315	2	317
	13	28	16	93	952	25	977
	15	21	12	–	–	–	–
	28	**49**	**28**	**93**	**952**	**25**	**977**
	39	101	(10)	99	597	34	631
	14	36	(4)	35	210	12	222
	25	**65**	**(6)**	**64**	**387**	**22**	**409**
	–	–	–	–	–	–	–
	25	65	(6)	64	387	22	409
	–	–	–	(11)	(22)	–	(22)
	25	**65**	**(6)**	**53**	**365**	**22**	**387**
	7,547	18,729	985	66,182	279,062	16,503	295,565
	–	–	–	31	31	–	31
	7,547	18,729	985	–	212,880	3,413	216,293
	9,619	21,267	1,880	–	240,304	3,788	244,092
	7,650	17,829	1,825	–	215,316	3,788	219,104
	154	368	115	–	1,593	–	1,593
	131	242	115	–	1,363	–	1,363
	–	1	–	–	1,325	–	1,325
	–	–	–	–	1,270	–	1,270
	10,256	30,734	40,320	28,307	262,775	15,128	277,903
	10,256	30,734	40,320	–	231,415	4,913	236,328
	13,037	37,864	43,872	–	271,279	4,877	276,156
	10,426	29,624	41,211	–	234,526	4,877	239,403
	8,537	25,459	2,487	7,440	167,597	4,566	172,163
	10,669	29,344	2,795	10,807	192,963	4,539	197,502
	8,695	25,120	2,496	7,767	168,796	4,539	173,335
	6,938	31,786	368,733	2,798	539,835	–	539,835
–							
	61	122	6	–	1,094	27	1,121
	8	13	13	–	191	3	194
	2	5	–	89	129	20	149
	71	**140**	**19**	**89**	**1,414**	**50**	**1,464**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the three months ended September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	607	228	9	835	–	294
Interest expenses from externals	–	101	–	101	35	25
Interest revenues, net from externals	607	127	9	734	(35)	269
Interest revenues, net – inter-segment	(178)	212	(1)	34	56	26
Total interest revenues, net	**429**	**339**	**8**	**768**	**21**	**295**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	42	134	27	176	2	97
Total non-interest revenues	**42**	**134**	**27**	**176**	**2**	**97**
Total revenues	**471**	**473**	**35**	**944**	**23**	**392**
Expenses (reduction of expenses) with respect to credit losses	13	21	–	34	1	44
Operating and other expenses to externals	163	441	16	604	22	202
Operating and other expenses – inter-segment	–	(33)	(3)	(33)	2	(19)
Total operating and other expenses	**163**	**408**	**13**	**571**	**24**	**183**
Pre-tax profit	295	44	22	339	(2)	165
Provision for taxes on profit	107	16	8	123	(1)	60
After-tax profit	**188**	**28**	**14**	**216**	**(1)**	**105**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	188	28	14	216	(1)	105
Net profit attributed to non-controlling interests	–	(13)	(2)	(13)	–	(1)
Net profit attributable to shareholders of the banking corporation	**188**	**15**	**12**	**203**	**(1)**	**104**
Average balance of assets	131,758	20,865	3,254	152,623	107	20,716
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	131,758	20,865	3,254	152,623	107	20,716
Balance of loans to the public at end of reported period	133,042	21,565	4,116	154,607	109	21,195
Balance of impaired debts	52	84	–	136	–	551
Balance of debt in arrears 90 days or longer	1,369	21	–	1,390	–	37
Average balance of liabilities	–	88,897	3,254	88,897	14,091	25,778
Of which: Average balance of deposits from the public	–	85,643	–	85,643	14,091	25,778
Balance of deposits from the public at end of reported period	–	86,049	–	86,049	14,464	26,016
Average balance of risk assets(1)	75,631	18,905	3,404	94,536	25	19,582
Balance of risk assets at end of reported period(1)	76,142	19,126	3,465	95,268	21	19,911
Average balance of assets under management(2)	9,986	42,909	–	52,895	2,491	29,639
Breakdown of interest revenues, net:						
Margin from credit granting operations	409	209	6	618	–	252
Margin from activities of receiving deposits	–	130	–	130	21	36
Other	20	–	2	20	–	7
Total interest revenues, net	**429**	**339**	**8**	**768**	**21**	**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.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial Management Segment	Total – operations in Israel	Total – operations overseas	
	68	144	4	87	1,432	100	1,532
	14	65	63	(9)	294	24	318
	54	79	(59)	96	1,138	76	1,214
	21	51	84	(248)	24	(24)	–
	75	**130**	**25**	**(152)**	**1,162**	**52**	**1,214**
	–	–	–	145	145	2	147
	24	42	9	42	392	8	400
	24	**42**	**9**	**187**	**537**	**10**	**547**
	99	**172**	**34**	**35**	**1,699**	**62**	**1,761**
	3	(8)	(3)	1	72	(2)	70
	14	29	16	93	980	18	998
	16	21	13	–	–	–	–
	30	**50**	**29**	**93**	**980**	**18**	**998**
	66	130	8	(59)	647	46	693
	24	47	3	(22)	234	17	251
	42	**83**	**5**	**(37)**	**413**	**29**	**442**
	–	–	–	–	–	–	–
	42	83	5	(37)	413	29	442
	–	–	–	(6)	(20)	–	(20)
	42	**83**	**5**	**(43)**	**393**	**29**	**422**
	7,269	16,697	930	59,033	257,375	5,919	263,294
	–	–	–	32	32	–	32
	7,269	16,697	930	–	198,342	2,685	201,027
	7,153	16,214	1,134	–	200,412	3,813	204,225
	169	200	120	–	1,176	22	1,198
	–	–	–	–	1,427	–	1,427
	8,453	25,186	38,838	34,616	235,859	10,297	246,156
	8,453	25,186	38,838	–	197,989	6,041	204,030
	8,394	25,276	42,802	–	203,001	4,831	207,832
	8,463	23,925	1,572	7,322	155,425	4,040	159,465
	8,463	23,771	1,494	7,350	156,278	4,028	160,306
	6,378	28,999	343,050	10,977	474,429	–	474,429
–							
	63	108	5	–	1,046	25	1,071
	11	18	20	–	236	3	239
	1	4	–	(152)	(120)	24	(96)
	75	**130**	**25**	**(152)**	**1,162**	**52**	**1,214**

Note 12 – Operating Segments – continued
Supervisory operating segments
For the year ended December 31, 2019 (audited)
Reported amounts (NIS in millions)

	Operations in Israel					
	Households				Private banking	Small and micro businesses
	Housing loans	Others	Of which: Credit cards	Total		
Interest revenues from externals	4,014	961	36	4,975	2	1,157
Interest expenses from externals	–	576	–	576	176	118
Interest revenues, net from externals	4,014	385	36	4,399	(174)	1,039
Interest revenues, net – inter-segment	(2,319)	964	(6)	(1,355)	260	111
Total interest revenues (expenses), net	**1,695**	**1,349**	**30**	**3,044**	**86**	**1,150**
Total non-interest financing revenues	–	–	–	–	–	–
Total commissions and other revenues	160	526	149	686	11	387
Total non-interest revenues	**160**	**526**	**149**	**686**	**11**	**387**
Total revenues	**1,855**	**1,875**	**179**	**3,730**	**97**	**1,537**
Expenses (reduction of expenses) with respect to credit losses	44	99	–	143	2	166
Operating and other expenses to externals	651	1,762	62	2,413	85	809
Operating and other expenses – inter-segment	–	(134)	(12)	(134)	7	(75)
Total operating and other expenses	**651**	**1,628**	**50**	**2,279**	**92**	**734**
Pre-tax profit	1,160	148	129	1,308	3	637
Provision for taxes on profit	404	52	45	456	1	222
After-tax profit	**756**	**96**	**84**	**852**	**2**	**415**
Share of banking corporation in earnings of associated companies	–	–	–	–	–	–
Net profit before attribution to non-controlling interests	756	96	84	852	2	415
Net profit attributed to non-controlling interests	–	(44)	(5)	(44)	–	(5)
Net profit attributable to shareholders of the banking corporation	**756**	**52**	**79**	**808**	**2**	**410**
Average balance of assets	130,749	20,708	3,225	151,457	112	20,412
Of which: Investments in associated companies	–	–	–	–	–	–
Average balance of loans to the public	130,749	20,708	3,225	151,457	112	20,412
Balance of loans to the public at end of reported period	135,311	21,893	3,961	157,204	227	21,241
Balance of impaired debts	56	86	–	142	–	622
Balance of debt in arrears 90 days or longer	1,476	24	–	1,500	–	37
Average balance of liabilities	–	87,897	3,225	87,897	13,938	25,283
Of which: Average balance of deposits from the public	–	84,672	–	84,672	13,938	25,283
Balance of deposits from the public at end of reported period	–	86,076	–	86,076	14,839	26,725
Average balance of risk assets(1)	74,823	19,016	3,349	93,839	26	19,517
Balance of risk assets at end of reported period(1)	78,190	19,749	3,426	97,939	25	20,250
Average balance of assets under management(2)	9,945	42,576	–	52,521	2,687	29,648
Breakdown of interest revenues, net:						
Margin from credit granting operations	1,622	831	30	2,453	–	984
Margin from activities of receiving deposits	–	516	–	516	86	142
Other	73	2	–	75	–	24
Total interest revenues, net	**1,695**	**1,349**	**30**	**3,044**	**86**	**1,150**

(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.

						Operations overseas	Total
	Medium businesses	Large businesses	Institutional investors	Financial management segment	Total activity in Israel	Total – operations overseas	
	297	576	30	266	7,303	408	7,711
	65	274	446	615	2,270	101	2,371
	232	302	(416)	(349)	5,033	307	5,340
	63	224	534	256	93	(93)	–
	295	**526**	**118**	**(93)**	**5,126**	**214**	**5,340**
	–	–	–	349	349	8	357
	90	143	39	223	1,579	30	1,609
	90	**143**	**39**	**572**	**1,928**	**38**	**1,966**
	385	**669**	**157**	**479**	**7,054**	**252**	**7,306**
	42	24	(6)	(3)	368	(4)	364
	62	105	69	366	3,909	79	3,988
	60	85	52	5	–	–	–
	122	**190**	**121**	**371**	**3,909**	**79**	**3,988**
	221	455	42	111	2,777	177	2,954
	77	158	15	38	967	62	1,029
	144	**297**	**27**	**73**	**1,810**	**115**	**1,925**
	–	–	–	–	–	–	–
	144	297	27	73	1,810	115	1,925
	–	–	–	(34)	(83)	–	(83)
	144	**297**	**27**	**39**	**1,727**	**115**	**1,842**
	7,104	16,881	1,051	53,589	250,606	10,079	260,685
	–	–	–	32	32	–	32
	7,104	16,881	1,051	–	197,017	3,228	200,245
	7,196	15,357	1,569	–	202,794	3,607	206,401
	145	241	124	–	1,274	–	1,274
	–	–	–	–	1,537	–	1,537
	8,388	25,985	39,992	32,083	233,566	10,826	244,392
	8,388	25,985	39,992	–	198,258	5,273	203,531
	8,935	25,155	45,330	–	207,060	3,924	210,984
	8,157	23,107	2,029	6,694	153,369	4,179	157,548
	8,389	23,833	1,810	6,385	158,631	4,227	162,858
	6,123	27,695	329,318	10,324	458,316	–	458,316
–							
	240	434	19	–	4,130	108	4,238
	46	70	93	–	953	11	964
	9	22	6	(93)	43	95	138
	295	**526**	**118**	**(93)**	**5,126**	**214**	**5,340**

Note 12 – Operating Segments – continued

B. 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 derivatives, 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 information about supervisory operating segments above.

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 Finance Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) 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 12 – Operating Segments – continued

Operating segments in conformity with the management approach

For the nine months ended September 30, 2020 (unaudited)

Reported amounts (NIS in millions)

	Households – other	Households – mortgages	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Interest revenues, net:								
From externals	482	2,526	(18)	581	156	631	(224)	4,134
Inter-segment	720	(1,314)	73	107	27	110	277	–
Total interest revenues (expenses), net	**1,202**	**1,212**	**55**	**688**	**183**	**741**	**53**	**4,134**
Non-interest financing revenues	5	–	2	2	–	31	154	194
Commissions and other revenues	420	116	120	246	46	198	189	1,335
Total revenues	**1,627**	**1,328**	**177**	**936**	**229**	**970**	**396**	**5,663**
Expenses with respect to credit losses	125	258	1	178	56	311	3	932
Operating and other expenses	1,242	456	73	457	110	292	314	2,944
Pre-tax profit (loss)	260	614	103	301	63	367	79	1,787
Provision (reduced provision) for taxes on profit	90	212	36	104	22	127	27	618
After-tax profit (loss)	**170**	**402**	**67**	**197**	**41**	**240**	**52**	**1,169**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	170	402	67	197	41	240	52	1,169
Attributable to non-controlling interests	(33)	–	–	(3)	–	–	(29)	(65)
Net profit (loss) attributable to shareholders of the Bank	**137**	**402**	**67**	**194**	**41**	**240**	**23**	**1,104**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	9.8%	6.9%	–	19.4%	8.2%	8.0%	4.3%	9.0%
Average balance of loans to the public, net	26,127	132,814	997	15,458	6,067	28,727	–	210,190
Average balance of deposits from the public	104,363	–	10,181	28,064	9,395	59,946	14,043	225,992
Average balance of assets	26,560	133,361	1,434	15,590	6,128	39,659	62,416	285,148
Average balance of risk assets(2)	23,120	77,114	528	13,724	6,707	40,156	7,698	169,047

(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 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the nine months ended September 30, 2019 (unaudited)
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	413	2,862	(28)	518	146	514	(437)	3,988
Inter-segment	810	(1,784)	100	164	29	211	470	–
Total interest revenues, net	**1,223**	**1,078**	**72**	**682**	**175**	**725**	**33**	**3,988**
Non-interest financing revenues	4	–	1	1	1	19	267	293
Commissions and other revenues	402	118	42	250	44	178	170	1,204
Total revenues	**1,629**	**1,196**	**115**	**933**	**220**	**922**	**470**	**5,485**
Expenses (reduction of expenses) with respect to credit losses	70	30	(1)	97	31	21	(3)	245
Operating and other expenses	1,269	464	99	467	114	290	292	2,995
Pre-tax profit	290	702	17	369	75	611	181	2,245
Provision for taxes on profit	101	245	6	129	26	213	62	782
After-tax profit	**189**	**457**	**11**	**240**	**49**	**398**	**119**	**1,463**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	189	457	11	240	49	398	119	1,463
Attributable to non-controlling interests	(33)	–	–	(3)	–	–	(25)	(61)
Net profit attributable to shareholders of the Bank	**156**	**457**	**11**	**237**	**49**	**398**	**94**	**1,402**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.5%	8.6%	27.7%	26.8%	9.8%	14.6%	20.6%	12.4%
Average balance of loans to the public, net	26,028	123,933	1,022	13,776	5,963	26,405	–	197,127
Average balance of deposits from the public	92,998	–	8,673	23,188	7,805	54,595	15,279	202,538
Average balance of assets	26,437	124,419	1,553	13,900	6,023	32,301	53,100	257,733
Average balance of risk assets(2)	22,415	70,927	539	12,189	6,685	36,421	7,043	156,219

(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 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended September 30, 2020 (unaudited)
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	150	1,019	(6)	188	52	209	(148)	1,464
Inter-segment	245	(608)	21	40	10	35	257	–
Total interest revenues (expenses), net	**395**	**411**	**15**	**228**	**62**	**244**	**109**	**1,464**
Non-interest financing revenues	2	–	1	–	–	13	38	54
Commissions and other revenues	142	39	9	79	15	71	52	407
Total revenues	**539**	**450**	**25**	**307**	**77**	**328**	**199**	**1,925**
Expenses (reduction of expenses) with respect to credit losses	28	144	1	53	28	65	(2)	317
Operating and other expenses	412	152	17	151	36	100	109	977
Pre-tax profit (loss)	99	154	7	103	13	163	92	631
Provision (reduced provision) for taxes on profit	35	54	2	36	5	57	33	222
After-tax profit (loss)	**64**	**100**	**5**	**67**	**8**	**106**	**59**	**409**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit (loss):								
Before attribution to non-controlling interests	64	100	5	67	8	106	59	409
Attributable to non-controlling interests	(10)	–	–	(1)	–	–	(11)	(22)
Net profit (loss) attributable to shareholders of the Bank	**54**	**100**	**5**	**66**	**8**	**106**	**48**	**387**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)[(1)]	11.9%	5.2%	–	19.7%	4.9%	10.7%	27.6%	9.5%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the three months ended September 30, 2019 (unaudited)
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	173	544	(8)	184	47	199	75	1,214
Inter-segment	236	(177)	30	72	12	23	(196)	–
Total interest revenues, net	**409**	**367**	**22**	**256**	**59**	**222**	**(121)**	**1,214**
Non-interest financing revenues	2	–	–	–	1	7	137	147
Commissions and other revenues	139	40	14	88	16	56	47	400
Total revenues	**550**	**407**	**36**	**344**	**76**	**285**	**63**	**1,761**
Expenses (reduction of expenses) with respect to credit losses	21	12	–	38	11	(12)	–	70
Operating and other expenses	424	154	33	155	38	97	97	998
Pre-tax profit	105	241	3	151	27	200	(34)	693
Provision for taxes on profit	38	87	1	55	10	72	(12)	251
After-tax profit	**67**	**154**	**2**	**96**	**17**	**128**	**(22)**	**442**
Share in net profit of associated companies, after tax	–	–	–	–	–	–	–	–
Net profit:								
Before attribution to non-controlling interests	67	154	2	96	17	128	(22)	442
Attributable to non-controlling interests	(13)	–	–	(1)	–	–	(6)	(20)
Net profit attributable to shareholders of the Bank	**54**	**154**	**2**	**95**	**17**	**128**	**(28)**	**422**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	12.2%	8.7%	16.3%	29.4%	10.3%	15.8%	–	11.1%

(1) Calculated in conformity with capital attributed to this segment based on risk components attributed to it in conformity with provisions of Basel III.

Note 12 – Operating Segments – continued
Operating segments in conformity with the management approach
For the year ended December 31, 2019 (audited)
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	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 profit 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**
Return on equity (percentage of net profit attributed to shareholders of the banking corporation out of average equity)(1)	11.5%	8.6%	36.9%	25.1%	10.3%	14.2%	11.9%	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
Average balance of risk assets(2)	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 13 – Additional information about credit risk, loans to the public and provision for credit losses

Reported amounts (NIS in millions)

A. Off balance sheet debts[1] and credit instruments

1. Movement in balance of provision for credit losses

	Loans to the public: Comme-rcial	Housing	Individual – other	Total	Banks and govern-ments	Total
	For the three months ended September 30, 2020 (unaudited)					
	Provision for credit losses					
Balance of provision for credit losses at start of period	1,160	783	314	2,257	2	2,259
Expenses with respect to credit losses	125	154	38	317	–	317
Accounting write-offs[2]	(59)	(1)	(39)	(99)	–	(99)
Collection of debts written off for accounting purposes in previous years[2]	7	–	22	29	–	29
Net accounting write-offs	(52)	(1)	(17)	(70)	–	(70)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
Of which: With respect to off balance sheet credit instruments	**198**	**–**	**23**	**221**	**–**	**221**
	For the three months ended September 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	793	660	265	1,718	1	1,719
Expenses with respect to credit losses	34	13	22	69	1	70
Accounting write-offs[2]	(45)	(2)	(35)	(82)	–	(82)
Collection of debts written off for accounting purposes in previous years[2]	34	–	14	48	–	48
Net accounting write-offs	(11)	(2)	(21)	(34)	–	(34)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**
	For the nine months ended September 30, 2020 (unaudited)					
Balance of provision for credit losses at start of period	865	674	273	1,812	1	1,813
Expenses with respect to credit losses	537	272	122	931	1	932
Accounting write-offs[2]	(234)	(11)	(115)	(360)	–	(360)
Collection of debts written off for accounting purposes in previous years[2]	65	1	55	121	–	121
Net accounting write-offs	(169)	(10)	(60)	(239)	–	(239)
Initial consolidation of Union Bank	40	–	4	44	–	44
Balance of provision for credit losses at end of period	**1,273**	**936**	**339**	**2,548**	**2**	**2,550**
Of which: With respect to off balance sheet credit instruments	**198**	**–**	**23**	**221**	**–**	**221**
	For the nine months ended September 30, 2019 (unaudited)					
Balance of provision for credit losses at start of period	766	644	263	1,673	4	1,677
Expenses with respect to credit losses	142	32	73	247	(2)	245
Accounting write-offs[2]	(170)	(6)	(116)	(292)	–	(292)
Collection of debts written off for accounting purposes in previous years[2]	78	1	46	125	–	125
Net accounting write-offs	(92)	(5)	(70)	(167)	–	(167)
Balance of provision for credit losses at end of period	**816**	**671**	**266**	**1,753**	**2**	**1,755**
Of which: With respect to off balance sheet credit instruments	**96**	**–**	**10**	**106**	**–**	**106**

(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 consists 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 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

A. Off balance sheet debts[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:

	September 30, 2020 (unaudited)					
	Loans to the public					
	Commercial	Housing	Individual – other	Total	Banks and governments	Total
Recorded debt balance of debts [1]						
reviewed on individual basis	56,115	89	746	56,950	14,637	71,587
reviewed on group basis	10,336	153,427	23,379	187,142	–	187,142
Of which: the relevant provision is calculated by extent of arrears	1,838	153,427	–	155,265	–	155,265
Total debts	**66,451**	**[2]153,516**	**24,125**	**244,092**	**14,637**	**258,729**
Of which: With respect to initial consolidation of Union Bank						
reviewed on individual basis	9,338	–	80	9,418	732	10,150
reviewed on group basis	584	10,207	4,779	15,570	–	15,570
Of which: the relevant provision is calculated by extent of arrears	7	10,207	–	10,214	–	10,214
Total debts	**9,922**	**[2]10,207**	**4,859**	**24,988**	**732**	**25,720**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	932	1	33	966	2	968
reviewed on group basis	143	935	283	1,361	–	1,361
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	9	935	–	944	–	944
Total provision for credit losses	**1,075**	**936**	**316**	**2,327**	**2**	**2,329**
	September 30, 2019 (unaudited)					
Recorded debt balance of debts [1]						
reviewed on individual basis	41,633	52	739	42,424	7,967	50,391
reviewed on group basis	8,903	133,259	19,639	161,801	–	161,801
Of which: the relevant provision is calculated by extent of arrears	1,563	133,259	–	134,822	–	134,822
Total debts	**50,536**	**133,311**	**20,378**	**204,225**	**7,967**	**212,192**
Provision for credit losses with respect to debts [1]						
reviewed on individual basis	606	2	28	636	2	638
reviewed on group basis	114	669	228	1,011	–	1,011
Of which: For which a provision for credit losses is calculated by extent of arrears[3]	6	669	–	675	–	675
Total provision for credit losses	**720**	**671**	**256**	**1,647**	**2**	**1,649**
	As of December 31, 2019 (audited)					
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**

(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 8,843 million (as of September 30, 2019: NIS 7,507 million and as of December 31, 2019: NIS 7,696 million).
(3) Includes balance of provision in excess of that required by extent of arrears, assessed on individual basis, amounting to NIS 9 million (as of September 30, 2019: NIS 19 million, as of December 31, 2019: NIS 18 million), and assessed on group basis, amounting to NIS 720 million (as of September 30, 2019: NIS 467 million, as of December 31, 2019: NIS 475 million).

Note 13 – 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

Including Union Bank

	As of September 30, 2020 (unaudited)					
		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]	16,504	56	139	16,699	7	38
Construction and real estate – real estate operations	5,325	356	76	5,757	–	7
Financial services	6,966	1	148	7,115	–	2
Commercial – other	32,347	728	987	34,062	28	90
Total commercial	**61,142**	**1,141**	**1,350**	**63,633**	**35**	**137**
Private individuals – housing loans	151,891	[7]1,274	90	153,255	[7]1,262	[6]495
Private individuals – other	23,783	140	95	24,018	28	55
Total public – activity in Israel	**236,816**	**2,555**	**1,535**	**240,906**	**1,325**	**687**
Banks in Israel	474	–	–	474	–	–
Government of Israel	16	–	–	16	–	–
Total activity in Israel	**237,306**	**2,555**	**1,535**	**241,396**	**1,325**	**687**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,756	–	–	1,756	–	–
Commercial – other	1,004	–	58	1,062	–	–
Total commercial	**2,760**	–	**58**	**2,818**	**–**	**–**
Private individuals	368	–	–	368	–	–
Total public – activity overseas	**3,128**	–	**58**	**3,186**	**–**	**–**
Overseas banks	13,547	–	–	13,547	–	–
Overseas governments	600	–	–	600	–	–
Total activity overseas	**17,275**	–	**58**	**17,333**	**–**	**–**
Total public	239,944	2,555	1,593	244,092	1,325	687
Total banks	14,021	–	–	14,021	–	–
Total governments	616	–	–	616	–	–
Total	**254,581**	**2,555**	**1,593**	**258,729**	**1,325**	**687**

(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 13.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 77 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 74 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 2,004 million, extended to certain purchase groups which are in the process of construction.

Note 13 – 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

Consolidated

Excluding Union Bank

	As of September 30, 2020 (unaudited)					
		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]	14,428	50	126	14,604	6	8
Construction and real estate – real estate operations	4,216	355	65	4,636	–	7
Financial services	5,562	1	125	5,688	–	2
Commercial – other	27,424	546	813	28,783	26	83
Total commercial	**51,630**	**952**	**1,129**	**53,711**	**32**	**100**
Private individuals – housing loans	141,727	(7)1,232	89	143,048	(7)1,220	(6)473
Private individuals – other	18,956	116	87	19,159	18	42
Total public – activity in Israel	**212,313**	**2,300**	**1,305**	**215,918**	**1,270**	**615**
Banks in Israel	276	–	–	276	–	–
Government of Israel	16	–	–	16	–	–
Total activity in Israel	**212,605**	**2,300**	**1,305**	**216,210**	**1,270**	**615**
Borrower activity overseas						
Public – commercial						
Construction and real estate	1,756	–	–	1,756	–	–
Commercial – other	1,004	–	58	1,062	–	–
Total commercial	**2,760**	–	**58**	**2,818**	**–**	**–**
Private individuals	368	–	–	368	–	–
Total public – activity overseas	**3,128**	–	**58**	**3,186**	**–**	**–**
Overseas banks	13,013	–	–	13,013	–	–
Overseas governments	600	–	–	600	–	–
Total activity overseas	**16,741**		**58**	**16,799**	**–**	**–**
Total public	215,441	2,300	1,363	219,104	1,270	615
Total banks	13,289	–	–	13,289	–	–
Total governments	616	–	–	616	–	–
Total	**229,346**	**2,300**	**1,363**	**233,009**	**1,270**	**615**

(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 13.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 70 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 72 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 1,997 million, extended to certain purchase groups which are in the process of construction.

Note 13 – 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 September 30, 2019 (unaudited)					
		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)]	13,616	38	185	13,839	7	10
Construction and real estate – real estate operations[(9)]	3,432	378	33	3,843	–	9
Financial services	3,927	3	133	4,063	–	2
Commercial – other[(9)]	25,204	372	688	26,264	30	74
Total commercial	**46,179**	**791**	**1,039**	**48,009**	**37**	**95**
Private individuals – housing loans[(9)]	131,525	[(7)]1,369	52	132,946	[(7)]1,369	[(6)]630
Private individuals – other	19,896	139	84	20,119	21	59
Total public – activity in Israel	**197,600**	**2,299**	**1,175**	**201,074**	**1,427**	**784**
Banks in Israel	95	–	–	95	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**197,695**	**2,299**	**1,175**	**201,169**	**1,427**	**784**
Borrower activity overseas						
Public – commercial						
Construction and real estate[(9)]	1,621	–	23	1,644	–	–
Commercial – other[(9)]	873	10	–	883	–	–
Total commercial	**2,494**	**10**	**23**	**2,527**	**–**	**–**
Individuals[(9)]	624	–	–	624	–	–
Total public – activity overseas	**3,118**	**10**	**23**	**3,151**	**–**	**–**
Overseas banks	7,283	–	–	7,283	–	–
Overseas governments	589	–	–	589	–	–
Total activity overseas	**10,990**	**10**	**23**	**11,023**	**–**	**–**
Total public	200,718	2,309	1,198	204,225	1,427	784
Total banks	7,378	–	–	7,378	–	–
Total governments	589	–	–	589	–	–
Total	**208,685**	**2,309**	**1,198**	**212,192**	**1,427**	**784**

(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 13.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 78 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.
(9) Reclassified.

Note 13 – 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, 2019 (audited)					
		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[9]	3,914	363	62	4,339	1	6
Financial services	3,889	9	135	4,033	–	1
Commercial – other[9]	24,612	342	782	25,736	28	100
Total commercial	**45,674**	**756**	**1,095**	**47,525**	**37**	**118**
Private individuals – housing loans[9]	133,746	[7]1,476	56	135,278	[7]1,476	[6]637
Private individuals – other	20,245	145	86	20,476	24	108
Total public – activity in Israel	**199,665**	**2,377**	**1,237**	**203,279**	**1,537**	**863**
Banks in Israel	110	–	–	110	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**199,775**	**2,377**	**1,237**	**203,389**	**1,537**	**863**
Borrower activity overseas						
Public – commercial						
Construction and real estate[9]	1,790	–	1	1,791	–	–
Commercial – other[9]	855	25	36	916	–	–
Total commercial	**2,645**	**25**	**37**	**2,707**	**–**	**–**
Individuals[9]	415	–	–	415	–	–
Total public – activity overseas	**3,060**	**25**	**37**	**3,122**	**–**	**–**
Overseas banks	7,150	–	–	7,150	–	–
Overseas governments	656	–	–	656	–	–
Total activity overseas	**10,866**	**25**	**37**	**10,928**	**–**	**–**
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 debts restructured using problematic debt restructuring, see Note 13.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.
(9) Reclassified.

Note 13 – 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".

For more information about directives of the Supervisor of Banks with regard to addressing the Corona Virus crisis, see Note 1.D.3. above.

Below is the recorded debt balance by credit quality and by credit segment of the Bank:

	As of September 30, 2020 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing	59,483	151,337	23,586	616	14,021	249,043
Debts in good standing other than at performing credit rating[(1)]	4,407	827	305	–	–	5,539
Troubled non-impaired debt.	1,153	1,262	140	–	–	2,555
Impaired debts	1,408	90	95	–	–	1,593
Total	**66,451**	**153,516**	**24,125**	**616**	**14,021**	**258,729**

	As of September 30, 2019 (unaudited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debt in good standing[(2)]	46,319	131,118	19,759	589	7,378	205,163
Debts in good standing other than at performing credit rating[(1)]	2,354	772	396	–	–	3,522
Troubled non-impaired debt.	801	1,369	139	–	–	2,309
Impaired debts	1,062	52	84	–	–	1,198
Total	**50,536**	**133,311**	**20,378**	**589**	**7,378**	**212,192**

	As of December 31, 2019 (audited)					
	Credit segment					
Debt quality	**Commercial**	**Housing**	**Individuals**	**Governments**	**Banks**	**Total**
Debts in good standing at performing credit rating	46,799	133,145	19,959	656	7,260	207,819
Debts in good standing other than at performing credit rating[(1)]	1,520	899	403	–	–	2,822
Troubled non-impaired debt.	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**

(1) 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.
(2) Reclassified.

Note 13 – 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

	As of September 30, 2020 (unaudited)					
	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]	Of which: With respect to acquisition of Union Bank	Contractual principal balance of impaired debts
Borrower activity in Israel						
Public – commercial						
Construction and real estate – construction	126	21	13	139	13	211
Construction and real estate – real estate operations	65	4	11	76	11	87
Financial services	125	27	23	148	23	164
Commercial – other	810	191	177	987	174	1,108
Total commercial	**1,126**	**243**	**224**	**1,350**	**221**	**1,570**
Private individuals – housing loans	2	1	88	90	1	96
Private individuals – other	50	22	45	95	8	114
Total public – activity in Israel	**1,178**	**266**	**357**	**1,535**	**230**	**1,780**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,178**	**266**	**357**	**1,535**	**230**	**1,780**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	–		–
Commercial – other	58	39	–	58	–	59
Total commercial	**58**	**39**	**–**	**58**	**–**	**59**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**58**	**39**	**–**	**58**	**–**	**59**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**58**	**39**	**–**	**58**	**–**	**59**
Total public	1,236	305	357	1,593	230	1,839
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**1,236**	**305**	**357**	**1,593**	**230**	**1,839**
Of which:						
Measured at present value of cash flows	1,198	302	295	1,493	182	
Debts under problematic debts restructuring	321	64	229	550	135	

(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 13 – 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

	As of September 30, 2019 (unaudited)				
	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	176	21	9	185	260
Construction and real estate – real estate operations	31	2	2	33	26
Financial services	127	8	6	133	148
Commercial – other	624	140	64	688	793
Total commercial	**958**	**171**	**81**	**1,039**	**1,227**
Private individuals – housing loans	9	2	43	52	52
Private individuals – other	41	20	43	84	101
Total public – activity in Israel	**1,008**	**193**	**167**	**1,175**	**1,380**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**1,008**	**193**	**167**	**1,175**	**1,380**
Borrower activity overseas					
Public – commercial					
Construction and real estate	23	–	–	23	2
Commercial – other	–	–	–	–	–
Total commercial	**23**	**–**	**–**	**23**	**2**
Private individuals	–	–	–	–	–
Total public – activity overseas	**23**	**–**	**–**	**23**	**2**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**23**	**–**	**–**	**23**	**2**
Total public	1,031	193	167	1,198	1,382
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**1,031**	**193**	**167**	**1,198**	**1,382**
Of which:					
Measured at present value of cash flows	968	192	158	1,126	
Debts under problematic debts restructuring	270	27	84	354	

(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 13 – 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

	As of December 31, 2019 (audited)				
	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 13 – 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)]

	For the three months ended					
	September 30, 2020 (unaudited)			September 30, 2019 (unaudited)		
	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	125	–	–	155	1	1
Construction and real estate – real estate operations	69	1	1	27	–	–
Financial services	141	2	2	152	–	–
Commercial – other	928	3	3	681	3	2
Total commercial	**1,263**	**6**	**6**	**1,015**	**4**	**3**
Private individuals – housing loans	79	–	–	49	–	–
Private individuals – other	93	3	2	85	1	1
Total public – activity in Israel	**1,435**	**9**	**8**	**1,149**	**5**	**4**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,435**	**9**	**8**	**1,149**	**5**	**4**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	13	–	–
Commercial – other	59	–	–	–	–	–
Total commercial	**59**	**–**	**–**	**13**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**59**	**–**	**–**	**13**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**59**	**–**	**–**	**13**	**–**	**–**
Total public	1,494	9	8	1,162	5	4
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total(4)	**1,494**	**9**	**8**	**1,162**	**5**	**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) 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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 24 million (as of September 30, 2019 – NIS 17 million).

Note 13 – 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)]

	For the nine months ended					
	September 30, 2020 (unaudited)			September 30, 2019 (unaudited)		
	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	117	1	1	152	3	3
Construction and real estate – real estate operations	63	1	1	26	1	1
Financial services	137	2	2	160	–	–
Commercial – other	882	9	8	640	9	8
Total commercial	**1,199**	**13**	**12**	**978**	**13**	**12**
Private individuals – housing loans	71	–	–	54	–	–
Private individuals – other	90	6	5	83	5	5
Total public – activity in Israel	**1,360**	**19**	**17**	**1,115**	**18**	**17**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,360**	**19**	**17**	**1,115**	**18**	**17**
Borrower activity overseas						
Public – commercial						
Construction and real estate	–	–	–	7	–	–
Commercial – other	52	–	–	2	–	–
Total commercial	**52**	**–**	**–**	**9**	**–**	**–**
Private individuals	–	–	–	–	–	–
Total public – activity overseas	**52**	**–**	**–**	**9**	**–**	**–**
Overseas banks	–	–	–	–	–	–
Overseas governments	–	–	–	–	–	–
Total activity overseas	**52**	**–**	**–**	**9**	**–**	**–**
Total public	1,412	19	17	1,124	18	17
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total(4)	**1,412**	**19**	**17**	**1,124**	**18**	**17**

(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 debts accrued interest at the original terms, the Bank would have recognized interest revenues amounting to NIS 72 million (as of September 30, 2019 – NIS 56 million).

Note 13 – 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

Including Union Bank data

	September 30, 2020 (unaudited)				
	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	26	–	–	–	26
Construction and real estate – real estate operations	18	–	–	6	24
Financial services	122	–	–	21	143
Commercial – other	260	–	–	21	281
Total commercial	**426**	**–**	**–**	**48**	**474**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	41	–	1	34	76
Total public – activity in Israel	**467**	**–**	**1**	**82**	**550**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**467**	**–**	**1**	**82**	**550**
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	467	–	1	82	550
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**467**	**–**	**1**	**82**	**550**

(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 13 – 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

Excluding Union Bank data

	September 30, 2020 (unaudited)				
	Recorded debt balance				
	Not accruing interest revenues	Accruing i nterest 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	17	–	–	–	17
Construction and real estate – real estate operations	11	–	–	1	12
Financial services	122	–	–	–	122
Commercial – other	182	–	–	14	196
Total commercial	**332**	**–**	**–**	**15**	**347**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	35	–	1	32	68
Total public – activity in Israel	**367**	**–**	**1**	**47**	**415**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**367**	**–**	**1**	**47**	**415**
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	367	–	1	47	415
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**367**	**–**	**1**	**47**	**415**

(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 September 30, 2020, the Bank had commitments to provide additional credit amounting to NIS 1 million to debtors subject to problematic debt restructuring, for which credit terms have been revised.

Note 13 – 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

	September 30, 2019 (unaudited)				
	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	15	–	–	–	15
Construction and real estate – real estate operations	1	–	–	–	1
Financial services	125	–	–	–	125
Commercial – other	114	–	–	12	126
Total commercial	**255**	**–**	**–**	**12**	**267**
Private individuals – housing loans	–	–	–	–	–
Private individuals – other	35	–	1	29	65
Total public – activity in Israel	**290**	**–**	**1**	**41**	**332**
Banks in Israel	–	–	–	–	–
Government of Israel	–	–	–	–	–
Total activity in Israel	**290**	**–**	**1**	**41**	**332**
Borrower activity overseas					
Public – commercial					
Construction and real estate	22	–	–	–	22
Commercial – other	–	–	–	–	–
Total commercial	**22**	**–**	**–**	**–**	**22**
Private individuals	–	–	–	–	–
Total public – activity overseas	**22**	**–**	**–**	**–**	**–**
Overseas banks	–	–	–	–	–
Overseas governments	–	–	–	–	–
Total activity overseas	**22**	**–**	**–**	**–**	**–**
Total public	312	–	1	41	354
Total banks	–	–	–	–	–
Total governments	–	–	–	–	–
Total	**312**	**–**	**1**	**41**	**354**

(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 13 – 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

	As of December 31, 2019 (audited)				
	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.

Note 13 – 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

	Restructurings made[(2)]					
	For the three months ended					
	September 30, 2020 (unaudited)			September 30, 2019 (unaudited)		
	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	12	4	4	11	2	2
Construction and real estate – real estate operations	4	–	–	–	–	–
Financial services	1	1	1	–	–	–
Commercial – other	115	43	42	52	10	10
Total commercial	**132**	**48**	**47**	**63**	**12**	**12**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	196	9	8	208	10	10
Total public – activity in Israel	**328**	**57**	**55**	**271**	**22**	**22**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**328**	**57**	**55**	**271**	**22**	**22**
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	328	57	55	271	22	22
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**328**	**57**	**55**	**271**	**22**	**22**

(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 13 – 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

	Restructurings made[2]					
	For the nine months ended					
	September 30, 2020 (unaudited)			September 30, 2019 (unaudited)		
	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	37	6	6	33	4	4
Construction and real estate – real estate operations	9	1	1	–	–	–
Financial services	5	1	1	4	3	3
Commercial – other	332	155	141	235	57	56
Total commercial	**383**	**163**	**149**	**272**	**64**	**63**
Private individuals – housing loans	–	–	–	–	–	–
Private individuals – other	660	26	25	725	36	36
Total public – activity in Israel	**1,043**	**189**	**174**	**997**	**100**	**99**
Banks in Israel	–	–	–	–	–	–
Government of Israel	–	–	–	–	–	–
Total activity in Israel	**1,043**	**189**	**174**	**997**	**100**	**99**
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	1,043	189	174	997	100	99
Total banks	–	–	–	–	–	–
Total governments	–	–	–	–	–	–
Total	**1,043**	**189**	**174**	**997**	**100**	**99**

(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 13 – 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

	Restructurings made which are in default[(2)]			
	For the three months ended			
	September 30, 2020 (unaudited)		September 30, 2019 (unaudited)	
	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	1	–	1	–
Construction and real estate – real estate operations	–	–	–	–
Financial services	–	–	–	–
Commercial – other	11	–	7	2
Total commercial	**12**	–	**8**	**2**
Private individuals – housing loans	–	–	–	–
Private individuals – other	33	1	30	2
Total public – activity in Israel	**45**	**1**	**38**	**4**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**45**	**1**	**38**	**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	45	1	38	4
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**45**	**1**	**38**	**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 13 – 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

	Restructurings made which are in default[(2)]			
	For the nine months ended			
	September 30, 2020 (unaudited)		September 30, 2019 (unaudited)	
	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	3	–	4	–
Construction and real estate – real estate operations	–	–	1	–
Financial services	–	–	1	–
Commercial – other	47	4	45	5
Total commercial	**50**	**4**	**51**	**5**
Private individuals – housing loans	–	–	–	–
Private individuals – other	122	3	84	3
Total public – activity in Israel	**172**	**7**	**135**	**8**
Banks in Israel	–	–	–	–
Government of Israel	–	–	–	–
Total activity in Israel	**172**	**7**	**135**	**8**
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	7	135	8
Total banks	–	–	–	–
Total governments	–	–	–	–
Total	**172**	**7**	**135**	**8**

(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 13 – 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:

		September 30, 2020 (unaudited)			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
		Including Union Bank			
Senior lien: LTV ratio	Up to 60%	103,369	2,930	65,707	3,202
	Over 60%	49,857	603	31,594	3,091
Junior lien or no lien		290	1	212	6,983
Total		**153,516**	**3,534**	**97,513**	**13,276**

		September 30, 2020 (unaudited)			
		Housing loan balance			Off-balance sheet credit risk
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
	Excluding Union Bank				
Senior lien: LTV ratio	Up to 60%	94,986	2,737	61,014	2,639
	Over 60%	48,033	563	30,477	2,807
Junior lien or no lien		290	1	212	6,983
Total		**143,309**	**3,301**	**91,703**	**12,429**

		September 30, 2019 (unaudited)			
		Total	Of which: Bullet / balloon	Of which: Variable interest	Total
Senior lien: LTV ratio	Up to 60%	89,807	2,943	57,951	2,920
	Over 60%	43,210	551	27,709	2,259
Junior lien or no lien		294	3	214	6,207
Total		**133,311**	**3,497**	**85,874**	**11,386**

		As of December 31, 2019 (audited)			
		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**

(1) Ratio of approved facility upon extending the facility to the property value, as approved by the Bank upon extending the facility

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

C. Information about purchase and sale of debts

	For the three months ended September 30, 2020				For the three months ended September 30, 2019			
	Commercial	Housing	Other	Total	Commercial	Housing	Other	Total
Loans acquired	–	–	93	93	–	–	206	206
Loans sold	[2]300	–	–	300	–	–	–	–

	For the nine months ended September 30, 2020				For the nine months ended September 30, 2019			
	Commercial	Housing	Other	Total	Commercial	Housing	Other[1]	Total
Loans acquired	–	–	394	394	–	–	585	585
Loans sold	[2]340	–	–	340	–	571	–	571

	For the year ended December 31, 2019			
	Commercial	Housing	Other[1]	Total
Loans acquired	–	–	782	782
Loans sold	–	571	–	571

(1) Excludes purchase of credit risk to foreign governments, amounting to NIS 38 million.
(2) For more information about sale of Union Bank's diamond operations, see Note 17 to the financial statements.

Note 13 – Additional information about credit risk, loans to the public and provision for credit losses – continued

Reported amounts (NIS in millions)

D. Off-balance sheet financial instruments

Contractual balances or their denominated amounts at end of quarter

			September 30,	December 31,			September 30,	December 31,
	2020		2019	2019	2020		2019	2019
	Balance[(1)]				Provision for credit losses			
	(unaudited)			(audited)	(unaudited)			(audited)
	Including Union Bank	Excluding Union Bank			Including Union Bank	Excluding Union Bank		
Transactions in which the balance represents a credit risk:								
– Un-utilized debitory account and other credit facilities in accounts available on demand	19,933	19,095	15,436	14,734	41	39	21	20
– Guarantees to home buyers[(3)]	12,162	10,976	11,130	10,672	8	5	4	4
– Irrevocable commitments for loans approved but not yet granted[(4)]	27,612	22,836	18,970	22,466	52	38	18	19
– Un-utilized revolving credit card facilities	10,112	8,901	7,983	8,160	12	10	5	5
– Commitments to issue guarantees[(3)]	11,089	9,792	8,243	9,993	5	4	3	3
– Other guarantees and liabilities[(2)(3)]	9,365	8,589	7,952	8,613	57	43	27	36
– Loan guarantees[(3)]	3,257	2,996	2,506	2,898	44	36	27	31
– Documentary credit	274	255	202	206	2	2	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 87 million (as of September 30, 2019 and December 31, 2019 – NIS 35 million and NIS 57 million, respectively).
(3) The Bank provides guarantees to improve the credit and transaction capacity of its clients.
The term to maturity of guarantees to home buyers is typically up to three years.
With respect to these guarantees and to commitments to issue such guarantees, the Bank has acquired a credit exposure insurance policy. The insurance policy covers 80% of the guarantees and is effective as from December 31, 2016.
The term to maturity of other guarantees, performance guarantees and credit backing guarantees is typically up to one year.
(4) Includes the effect of extension of the lock period for approval in principle of housing loans, from 12 days to 24 days, in conformity with the revision of Proper Conduct of Banking Business Directive 451 "Procedures for extending housing loans".

Note 14 – Assets and Liabilities by Linkage Basis

As of September 30, 2020 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
	Including Union Bank						
Assets							
Cash and deposits with banks	63,492	1	13,236	769	240	–	77,738
Securities	10,561	2,089	4,657	549	–	402	18,258
Securities borrowed or bought in conjunction with resale agreements	104	68	–	–	–	–	172
Loans to the public, net[3]	166,916	63,675	5,872	3,615	1,600	87	241,765
Loans to Governments	–	5	428	183	–	–	616
Investments in associated companies	35	–	–	–	–	(5)	30
Buildings and equipment	–	–	–	–	–	1,646	1,646
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,508	118	1,152	319	56	85	3,238
Other assets	2,046	540	195	5	36	678	3,500
Total assets	**244,662**	**66,496**	**25,540**	**5,440**	**1,932**	**2,980**	**347,050**
Liabilities							
Deposits from the public	210,232	15,602	42,318	5,302	2,615	87	276,156
Deposits from banks	2,013	–	646	113	14	–	2,786
Deposits from the Government	19	2	19	1	–	–	41
Debentures and subordinated notes	7,114	25,881	–	–	–	–	32,995
Liabilities with respect to derivative instruments	1,630	21	1,390	371	48	85	3,545
Other liabilities	8,046	2,641	127	11	43	1,548	12,416
Total liabilities	**229,054**	**44,147**	**44,500**	**5,798**	**2,720**	**1,720**	**327,939**
Difference	**15,608**	**22,349**	**(18,960)**	**(358)**	**(788)**	**1,260**	**19,111**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,716	(2,716)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(20,202)	(632)	20,230	(11)	615	–	–
Net in-the-money options (in terms of underlying asset)	460	–	(741)	298	(17)	–	–
Net out-of-the-money options (in terms of underlying asset)	(80)	–	55	33	(8)	–	–
Grand total	**(1,498)**	**19,001**	**584**	**(38)**	**(198)**	**1,260**	**19,111**
Net in-the-money options (capitalized par value)	(61)	–	(258)	340	(21)	–	–
Net out-of-the-money options (capitalized par value)	1,461	–	(959)	(612)	110	–	–

(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 14 – Assets and Liabilities by Linkage Basis – Continued

As of September 30, 2020 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
	Excluding Union Bank						
Assets							
Cash and deposits with banks	54,200	–	12,733	303	221	–	67,457
Securities	4,848	949	3,045	253	–	138	9,233
Securities borrowed or bought in conjunction with resale agreements	48	68	–	–	–	–	116
Loans to the public, net[3]	147,471	58,826	5,348	3,566	1,566	–	216,777
Loans to Governments	–	5	428	183	–	–	616
Investments in associated companies	35	–	–	–	–	(5)	30
Buildings and equipment	–	–	–	–	–	1,433	1,433
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,317	118	599	256	46	–	2,336
Other assets	1,535	478	123	–	34	629	2,799
Total assets	**209,454**	**60,444**	**22,276**	**4,561**	**1,867**	**2,282**	**300,884**
Liabilities							
Deposits from the public	181,268	14,930	36,763	4,133	2,309	–	239,403
Deposits from banks	1,942	–	616	99	10	–	2,667
Deposits from the Government	19	2	19	1	–	–	41
Debentures and subordinated notes	6,266	22,951	–	–	–	–	29,217
Liabilities with respect to derivative instruments	1,371	21	695	284	44	–	2,415
Other liabilities	6,898	1,891	122	8	41	277	9,237
Total liabilities	**197,764**	**39,795**	**38,215**	**4,525**	**2,404**	**277**	**282,980**
Difference	**11,690**	**20,649**	**(15,939)**	**36**	**(537)**	**2,005**	**17,904**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	2,716	(2,716)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(16,379)	(694)	17,119	(409)	363	–	–
Net in-the-money options (in terms of underlying asset)	230	–	(566)	353	(17)	–	–
Net out-of-the-money options (in terms of underlying asset)	43	–	(28)	(7)	(8)	–	–
Grand total	**(1,700)**	**17,239**	**586**	**(27)**	**(199)**	**2,005**	**17,904**
Net in-the-money options (capitalized par value)	(451)	–	70	400	(19)	–	–
Net out-of-the-money options (capitalized par value)	1,381	–	(838)	(665)	122	–	–

(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 14 – Assets and Liabilities by Linkage Basis – Continued

As of September 30, 2019 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	39,538	–	7,074	342	171	–	47,125
Securities	4,501	619	4,775	514	–	157	10,566
Securities borrowed or bought in conjunction with resale agreements	62	2	–	–	–	–	64
Loans to the public, net[3]	135,345	56,627	5,882	2,869	1,855	–	202,578
Loans to Governments	–	–	480	109	–	–	589
Investments in associated companies	36	–	–	–	–	(4)	32
Buildings and equipment	–	–	–	–	–	1,384	1,384
Intangible assets and goodwill	–	–	–	–	–	87	87
Assets with respect to derivative instruments	1,986	348	322	28	33	–	2,717
Other assets	1,183	505	78	1	30	62	1,859
Total assets	**182,651**	**58,101**	**18,611**	**3,863**	**2,089**	**1,686**	**267,001**
Liabilities							
Deposits from the public	153,246	15,119	33,161	4,229	2,077	–	207,832
Deposits from banks	171	1	424	58	19	–	673
Deposits from the Government	11	2	21	–	–	–	34
Debentures and subordinated notes	8,244	22,198	–	–	–	–	30,442
Liabilities with respect to derivative instruments	2,264	87	444	94	31	–	2,920
Other liabilities	6,954	1,235	96	8	36	257	8,586
Total liabilities	**170,890**	**38,642**	**34,146**	**4,389**	**2,163**	**257**	**250,487**
Difference	**11,761**	**19,459**	**(15,535)**	**(526)**	**(74)**	**1,429**	**16,514**
Impact of hedging derivative instruments:							
Derivative instruments (other than options)	3,072	(3,072)	–	–	–	–	–
Non-hedging derivative instruments:							
Derivative instruments (other than options)	(15,346)	(1,309)	15,725	975	(45)	–	–
Net in-the-money options (in terms of underlying asset)	1,039	–	(465)	(563)	(11)	–	–
Net out-of-the-money options (in terms of underlying asset)	(487)	–	416	69	2	–	–
Grand total	**39**	**15,078**	**141**	**(45)**	**(128)**	**1,429**	**16,514**
Net in-the-money options (capitalized par value)	(1,105)	–	494	634	(23)	–	–
Net out-of-the-money options (capitalized par value)	3,443	–	(1,606)	(2,000)	163	–	–

(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 14 – Assets and Liabilities by Linkage Basis – Continued

As of December 31, 2019 (audited)

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI-linked	USD	EUR	Other currencies	Non-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 15 – Balances and estimates of fair value of financial instruments

Reported amounts (NIS in millions)

1) Information on the fair value of financial instruments is presented below:

A. Fair value balances

	September 30, 2020 (unaudited)					
						Fair value
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total	Excluding Union Bank
Financial assets						
Cash and deposits with banks	77,738	20,835	47,650	9,253	77,738	67,441
Securities(3)	18,258	13,956	4,122	241	18,319	9,292
Securities loaned or purchased in resale agreements	172	172	–	–	172	116
Loans to the public, net	241,765	2,291	7,969	(5)230,880	241,140	215,993
Loans to Governments	616	–	–	617	617	617
Investments in associated companies	30	–	–	30	30	30
Assets with respect to derivative instruments	3,238	341	1,519	(2)1,378	3,238	2,328
Other financial assets	1,557	8	–	1,548	1,556	1,451
Total financial assets	**343,374(4)**	**37,603**	**61,260**	**243,947**	**342,810**	**297,268**
Financial liabilities						
Deposits from the public	276,156	2,282	77,414	198,675	278,371	241,503
Deposits from banks	2,786	–	280	2,506	2,786	2,667
Deposits from the Government	41	–	–	44	44	44
Debentures and subordinated notes	32,995	31,750	6	1,866	33,622	29,701
Liabilities with respect to derivative instruments	3,545	334	1,684	(2)1,527	3,545	2,461
Other financial liabilities	9,356	1,326	4,687	3,343	9,356	8,272
Total financial liabilities	**(4)324,879**	**35,692**	**84,071**	**207,961**	**327,724**	**284,648**

(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 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 83,269 million and NIS 89,606 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 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	September 30, 2019 (unaudited)				
		Fair value			
	Book balance	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Cash and deposits with banks	47,125	13,323	32,679	1,123	47,125
Securities(3)	10,566	7,946	2,610	74	10,630
Securities loaned or purchased in resale agreements	64	64	–	–	64
Loans to the public, net	202,578	703	10,734	(5)193,077	204,514
Loans to Governments	589	–	–	589	589
Investments in associated companies	32	–	–	32	32
Assets with respect to derivative instruments	2,717	138	1,911	(2)668	2,717
Other financial assets	630	6	–	624	630
Total financial assets	**(4)264,301**	**22,180**	**47,934**	**196,187**	**266,301**
Financial liabilities					
Deposits from the public	207,832	703	61,803	147,245	209,751
Deposits from banks	673	–	200	491	691
Deposits from the Government	34	–	–	36	36
Debentures and subordinated notes	30,442	29,837	–	1,965	31,802
Liabilities with respect to derivative instruments	2,920	141	1,733	(2)1,046	2,920
Other financial liabilities	6,784	419	5,032	1,333	6,784
Total financial liabilities	**(4)248,685**	**31,100**	**68,768**	**152,116**	**251,984**

(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 5 to the financial statements.

(4) Includes assets and liabilities amounting to NIS 67,158 million and NIS 67,083 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 6 million.

Note 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

A. Fair value balances – continued:

	As of December 31, 2019 (audited)				
		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 5 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 15 – 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

	September 30, 2020 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Total fair value
Assets[2]				
Debentures available for sale				
Debentures:				
of Government of Israel	6,157	3,517	–	9,674
Of foreign governments	1,168	–	–	1,168
Of banks and financial institutions in Israel	183	81	–	264
Of banks and financial institutions overseas	12	228	5	245
Asset-backed (ABS)	12	38	–	50
Of others in Israel	493	238	11	742
Of others overseas	263	18	–	281
Investments in shares not held for trading	156	–	17	173
Securities held for trading:				
Debentures of the Government of Israel	1,383	–	–	1,383
Debentures of financial institutions in Israel	2	–	–	2
Debentures of others in Israel	22	2	–	24
Debentures of foreign others	29	–	–	29
Shares	20	–	–	20
Securities loaned or purchased in resale agreements	172	–	–	172
Credit with respect to loans to clients	2,291	–	–	2,291
Assets with respect to derivative instruments[1]				
Interest contracts:				
NIS / CPI	–	54	133	187
Other	–	862	231	1,093
Currency contracts	84	504	916	1,504
Contracts for shares	257	98	83	438
Commodities and other contracts	–	1	15	16
Other financial assets	8	–	–	8
Other	–	–	8	8
Total assets	**12,712**	**5,641**	**1,419**	**19,772**
Liabilities[2]				
Deposits with respect to borrowing from clients	2,282	–	–	2,282
Liabilities with respect to derivative instruments[1]				
Interest contracts:				
NIS / CPI	–	48	69	117
Other	–	1,121	427	1,548
Currency contracts	76	503	827	1,406
Contracts for shares	258	3	189	450
Commodities and other contracts	–	9	15	24
Other financial liabilities	1,326	–	–	1,326
Other	–	–	13	13
Total liabilities	**3,942**	**1,684**	**1,540**	**7,166**

(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.

(2) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 10,362 million and NIS 2,113 million, respectively. Includes balance of fair value of assets and balance of fair value of Level 3 liabilities, amounting to NIS 65 million and NIS 9 million, respectively. For more information about the acquisition, see Note 17 to the financial statements.

Note 15 – 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

	September 30, 2019 (unaudited)			
	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	700	2,284	–	2,984
Of foreign governments	2,679	–	–	2,679
Of banks and financial institutions overseas	–	326	–	326
Investments in shares not held for trading	83	–	17	100
Securities held for trading:				
Debentures of the Government of Israel	377	–	–	377
Securities loaned or purchased in resale agreements	64	–	–	64
Credit with respect to loans to clients	703	–	–	703
Assets with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	73	101	174
Other	–	539	23	562
Currency contracts	63	1,265	431	1,759
Contracts for shares	75	30	109	214
Commodities and other contracts	–	4	4	8
Other financial assets	6	–	–	6
Other	–	–	6	6
Total assets	**4,750**	**4,521**	**691**	**9,962**
Liabilities				
Deposits with respect to borrowing from clients	703	–	–	703
Liabilities with respect to derivative instruments(1)				
Interest contracts:				
NIS / CPI	–	64	18	82
Other	–	809	44	853
Currency contracts	64	836	880	1,780
Contracts for shares	76	21	102	199
Commodities and other contracts	1	3	2	6
Other financial liabilities	419	–	–	419
Other	–	–	2	2
Total liabilities	**1,263**	**1,733**	**1,048**	**4,044**

(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 15 – 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

	As of December 31, 2019 (audited)			
	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
Investments in 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 15 – 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

	September 30, 2020 (unaudited)					For the three months ended June 30, 2020	For the nine months ended June 30, 2020
					Fair value		
	Level 1(1)	Level 2(1)	Level 3(1)	Total	Excluding Union Bank	Gains (losses)	
Impaired credit whose collection is contingent on collateral	–	24	73	97	49	(5)	(24)
Investments in shares for which no fair value is available	–	–	207	207	51	1	1

	September 30, 2019 (unaudited)				For the three months ended June 30, 2019	For the nine months ended June 30, 2019
	Fair value					
	Level 1(1)	Level 2(1)	Level 3(1)	Total	Gains (losses)	
Impaired credit whose collection is contingent on collateral	–	16	55	71	(1)	4
Investments in shares for which no fair value is available	–	–	57	57	–	–

	As of December 31, 2019 (audited)				For the year ended December 31, 2019
	Fair value				
	Level 1(1)	Level 2(1)	Level 3(1)	Total	Gains (losses)
Impaired credit whose collection is contingent on collateral	–	16	46	62	24
Investments in shares for which no fair value is available	–	–	49	49	(6)

(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.

Note 15 – 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 three months ended September 30, 2020 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of June 30, 2020	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Purchases[5]	Sales	Disposi-tions	Transfers to Level 3[4]	Fair value as of September 30, 2020	Unrealized gains (losses) with respect to instruments held as of September 30, 2020
Assets									
Securities available for sale									
Debentures:									
Of foreign financial institutions	–	–	–	5	–	–	–	5	–
Of others in Israel	–	–	–	11	–	–	–	11	–
Shares not held for trading	17	–	–	–	–	–	–	17	–
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	153	(2)	–	1	–	(55)	36	133	86
Other	209	36	–	1	–	(15)	–	231	192
Currency contracts	567	104	–	516	–	(271)	–	916	392
Contracts for shares	113	(64)	–	64	–	(30)	–	83	–
Commodities and other contracts	3	3	–	9	–	–	–	15	–
Other	9	(1)	–		–	–	–	8	–
Total assets	**1,071**	**76**	**–**	**607**	**–**	**(371)**	**36**	**1,419**	**670**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	23	4	–	9	–	(1)	34	69	(33)
Other	307	143	–	–	–	(23)	–	427	354
Currency contracts	954	238	–	225	–	(590)	–	827	467
Contracts for shares	239	(28)	–	58	–	(80)	–	189	–
Commodities and other contracts	–	15	–	–	–	–	–	15	–
Other	16	(3)	–		–	–	–	13	–
Total liabilities	**1,539**	**369**	**–**	**292**	**–**	**(694)**	**34**	**1,540**	**788**

(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.

(5) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 65 million and NIS 9 million, respectively. For more information about the acquisition, see Note 17 to the financial statements.

Note 15 – 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 three months ended September 30, 2019 (unaudited)								
		Realized / unrealized gains (losses) included, net[1]		Acquisitions	Sales	Dispositions	Transfers to Level 3[4]	Fair value as of September 30, 2019	Unrealized gains (losses) with respect to instruments held as of September 30, 2019
	Fair value as of June 30, 2019	In statement of profit and loss	In statement of Other Comprehensive Income under Equity						
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	69	14	–	4	–	(15)	29	101	116
Other	26	(3)	–	–	–	–	–	23	152
Currency contracts	407	90	–	180	–	(246)	–	431	453
Contracts for shares	39	70	–	–	–	–	–	109	–
Commodities and other contracts	5	(1)	–	–	–	–	–	4	–
Other	5	1	–	–	–	–	–	6	–
Total assets	**551**	**171**	**–**	**184**	**–**	**(261)**	**46**	**691**	**721**
Liabilities									
Liabilities with respect to derivative instruments[2][3]									
Interest contracts:									
NIS / CPI	46	(22)	–	–	–	(6)	–	18	30
Other	33	7	–	4	–	–	–	44	(280)
Currency contracts	550	265	–	310	–	(245)	–	880	(906)
Contracts for shares	38	72	–	–	–	(8)	–	102	–
Commodities and other contracts	4	(2)	–	–	–	–	–	2	–
Other	1	1	–	–	–	–	–	2	–
Total liabilities	**672**	**321**	**–**	**314**	**–**	**(259)**	**–**	**1,048**	**(1,156)**

(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 15 – 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 nine months ended September 30, 2020 (unaudited)								
		Net realized / unrealized gains (losses) included(1)							
	Fair value as of December 31, 2019	In statement of profit and loss	In statement of other compre-hensive income under Equity	Purchases(5)	Sales	Disposi-tions	Transfers to Level 3(4)	Fair value as of September 30, 2020	Unrealized gain (loss) with respect to instruments held as of September 30, 2020
Assets									
Securities available for sale									
Debentures:									
Of foreign financial institutions	–	–	–	5	–	–	–	5	–
Of others in Israel	–	–	–	11	–	–	–	11	–
Shares not held for trading	17	–	–	–	–	–	–	17	–
Assets with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	126	33	–	13	–	(126)	87	133	86
Other	24	224	–	29	–	(46)	–	231	192
Currency contracts	485	(12)	–	1,927	–	(1,484)	–	916	392
Contracts for shares	63	(51)	–	214	–	(143)	–	83	–
Commodities and other contracts	3	3	–	10	–	(1)	–	15	–
Other	8	–	–	–	–	–	–	8	–
Total assets	**726**	**197**	**–**	**2,209**	**–**	**(1,800)**	**87**	**1,419**	**670**
Liabilities									
Liabilities with respect to derivative instruments(3)(2)									
Interest contracts:									
NIS / CPI	14	3	–	9	–	(15)	58	69	(33)
Other	40	355	–	77	–	(45)	–	427	354
Currency contracts	771	(79)	–	1,348	–	(1,213)	–	827	467
Contracts for shares	135	(47)	–	185	–	(84)	–	189	–
Commodities and other contracts	4	11	–	1	–	(1)	–	15	–
Other	–	13	–	–	–	–	–	13	–
Total liabilities	**964**	**256**	**–**	**1,620**	**–**	**(1,358)**	**58**	**1,540**	**788**

(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.

(5) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 65 million and NIS 9 million, respectively. For more information about the acquisition, see Note 17 to the financial statements.

Note 15 – 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 nine months ended September 30, 2019 (unaudited)								
		Net realized / unrealized gains (losses) included[1]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of other compre-hensive income under Equity	Acquisi-tions	Sales	Disposi-tions	Transfers to Level 3[4]	Fair value as of September 30, 2019	Unrealized gain (loss) with respect to instruments held as of September 30, 2019
Assets									
Shares not held for trading	–	–	–	–	–	–	17	17	–
Assets with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	75	10	–	4	–	(48)	60	101	116
Other	9	(6)	–	20	–	–	–	23	152
Currency contracts	1,092	(24)	–	640	–	(1,277)	–	431	453
Contracts for shares	156	(52)	–	66	–	(61)	–	109	–
Commodities and other contracts	3	2	–	1	–	(2)	–	4	–
Other	4	2	–	–	–	–	–	6	–
Total assets	**1,339**	**(68)**	**–**	**731**	**–**	**(1,388)**	**77**	**691**	**721**
Liabilities									
Liabilities with respect to derivative instruments[3][2]									
Interest contracts:									
NIS / CPI	25	(6)	–	3	–	(20)	16	18	30
Other	27	8	–	9	–	–	–	44	(280)
Currency contracts	584	435	–	656	–	(795)	–	880	(906)
Contracts for shares	206	(116)	–	73	–	(61)	–	102	–
Commodities and other contracts	3	–	–	–	–	(1)	–	2	–
Other	8	(6)	–	–	–	–	–	2	–
Total liabilities	**853**	**315**	**–**	**741**	**–**	**(877)**	**16**	**1,048**	**(1,156)**

(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 15 – 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 – Continued:

	For the year ended December 31, 2019 (audited)								
		Realized / unrealized gains (losses) included, net[1]							
	Fair value as of December 31, 2018	In statement of profit and loss	In statement of Other Comprehensive Income under Equity	Acquisitions	Sales	Dispositions	Transfers 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 15 – Balances and estimates of fair value of financial instruments – continued

Reported amounts (NIS in millions)

D. 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 September 30, 2020[(1)]	Valuation technique	Non-observed data	Range	Weighted average
Shares not held for trading	17	Quote from counter-party to the transaction			
Securities available for sale					
Debentures of others in Israel	1	Cash flows discounting	Price	5.60-54.10	8.8
	6	Cash flows discounting	Discount rate	12.40%	12.40%
Debentures of foreign others	4	NAV (Net Asset Value) model	Price	28.67	28.67
Assets with respect to derivative instruments:					
NIS / CPI	85	Cash flows discounting	Inflationary expectations	(0.16%)-0.19%	(0.14%)
Foreign currency	35	Cash flows discounting	Counter-party credit quality	0.13%- 16.87%	0.55%
Contracts for shares	200	Options pricing model	Standard deviation per share	51.04%- 56.32%	52.11%
Commodities and other contracts	9	Cash flows discounting	Counter-party credit quality	0.13%- 1.37%	1.05%
Other	1,061	Cash flows discounting	Counter-party credit quality	0.30%- 3.30%	1.65%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	33	Cash flows discounting	Inflationary expectations	(0.29%)-0.36%	(0.09%)
Other	1,516	Cash flows discounting	Counter-party credit quality	0.30%- 2.60%	1.74%

	Fair value as of September 30, 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	99	Cash flows discounting	Inflationary expectations	0.94% - 0.99%	0.95%
Contracts for shares	139	Options pricing model	Standard deviation per share	27.37%- 40.85%	37.28%
Other	436	Cash flows discounting	Counter-party credit quality	0.30%- 2.65%	1.66%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	15	Cash flows discounting	Inflationary expectations	0.96% - 0.99%	0.97%
Other	1,033	Cash flows discounting	Counter-party credit quality	0.30%- 2.70%	1.74%

	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	0.82% - 0.93%	0.84%
Contracts for shares	300	Options pricing model	Standard deviation per share	40.86%- 41.49%	41.26%
Other	286	Cash flows discounting	Counter-party credit quality	0.30%- 2.90%	1.66%
Liabilities with respect to derivative instruments:					
Interest contracts – NIS CPI	14	Cash flows discounting	Inflationary expectations	0.82% - 0.93%	0.89%
Other	950	Cash flows discounting	Counter-party credit quality	0.30%- 3.10%	1.76%

(1) Includes balance of fair value of assets and liabilities with respect to acquisition of Union Bank, amounting to NIS 60 million and NIS 9 million, respectively. For more information about the acquisition, see Note 17 to the financial statements.

Note 15 – Balances and estimates of fair value of financial instruments – continued

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 September 30, 2020 and September 30, 2019, the Bank did not elect the fair value option.

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 Note 5.D.

	Fair value as of December 31, 2019	Gains with respect to changes in fair value for the year ended December 31, 2019
Securities available for sale	341	2

Note 16 – Other matters

On June 22, 2020, the Bank's Board of Directors, after receiving approval by the Remuneration Committee dated June 8, 2020, approved the offering of options to the Bank President & CEO for 2019 and to officers of the Bank (other than the Bank President & CEO and Bank Board members) and to other managers at the Bank and at Bank subsidiaries for 2020, pursuant to Section 15b(1)(a) of the Securities Act, as set forth in the employee offering outline dated June 22, 2020 (hereinafter: "the Employee Offering Memorandum" or "the Memorandum").

As resolved by the Board of Directors on June 22, 2020, the following option plans were approved:

For the Bank's previous President & CEO with respect to 2019:

- Option plan 1 – 22,148 options 1 exercisable for up to 22,148 Bank ordinary shares of NIS 0.1 par value each.

For other Bank managers with respect to 2020:

- Option plan A – up to 343,527 options A to be awarded to up to six Bank officers who are not gatekeepers, exercisable for up to 343,527 Bank ordinary shares of NIS 0.1 par value each.
- Option plan B – up to 199,500 options B to be awarded to up to five Bank officers who are gatekeepers, exercisable for up to 199,500 Bank ordinary shares of NIS 0.1 par value each.
- Option plan C – up to 517,700 options C to be awarded to up to eighteen key Bank employees and up to sixteen key employees at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 517,700 Bank ordinary shares of NIS 0.1 par value each.
- Option plan D – up to 779,930 options D to be awarded to up to fifty-six managers employed by the Bank subject to individual employment contracts and up to twenty-seven other managers at the Bank and at Bank subsidiaries, which have been approved for inclusion in this group, exercisable for up to 779,930 Bank ordinary shares of NIS 0.1 par value each.
- Option plan E – up to 1,454,530 options E to be awarded to up to two hundred sixty-eight managers employed by the Bank subject to collective bargaining agreements, exercisable for up to 1,454,530 Bank ordinary shares of NIS 0.1 par value each.

The number of exercise shares, as stated above, is the maximum number of shares arising from exercise of all options which may be issued pursuant to all plans. However, the number of options which offerees may actually exercise, pursuant to terms of each plan, would be derived from the eligibility terms set for each plan, as follows. Furthermore, allotment of the maximum number of exercise shares is merely theoretical, since in actual fact the Bank would not allot to the offerees the full number of exercise shares arising from the options which the offerees may exercise pursuant to terms of each plan – but only the number of shares reflecting the monetary benefit inherent in those options, based, *inter alia*, on the closing price cap of NIS 110 plus linkage differentials from the known CPI upon approval by the Board of Directors to the known CPI upon the exercise date.

Also note that in case of dividend distribution, bonus share distribution, rights issuance, share capital split or reverse split or re-organization of the Bank, adjustments would be made as set forth in the Employee Offering Memorandum.

The options issued in the name of the previous Trustee on behalf of the Bank President & CEO, pursuant to options plan 1, may be exercised as from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

The options issued in the name of the Trustee on behalf of each officer, pursuant to option plans A,B or C would be in three equal lots, which may be exercised as from two years after: (1) The issuance date; (2) April 1, 2023; and (3) April 1, 2024, and each lot of options would expire 18 months after each of said dates.

All options issued pursuant to option plans D and E may be exercised in a single lot from the second anniversary of the issue date and would expire two years after the vesting date, as defined in the Memorandum.

An offeree's eligibility for options pursuant to option plans A-E above would be contingent on the Bank's total capital adequacy ratio and Tier I capital ratio for the award year, would not be lower than the minimum ratios stipulated by 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 would be determined based on four criteria which are measurable "company-wide criteria" (hereinafter: "the quantitative benchmarks") and based on a qualitative criterion based on supervisor assessment of achievement of individual targets of the officer specified in the employee offering outline.

Note 16 – Other matters – continued

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 2.12.10 of the Memorandum.

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 exercise price for each option issued pursuant to any of the plans is NIS 70.88 plus CPI linkage differentials, from the known CPI upon approval of option issuance to offerees by the Board of Directors to the known CPI upon the option exercise date by the offeree. 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 offeree 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 issued to the offeree.

For calculation of fair value as of approval of the option award by the Board of Directors, as noted above, the terms of the option plans and the data and assumptions as listed in the Memorandum were taken into account.

Based on the aforementioned assumptions, as stated in the Memorandum, the fair value of each option awarded pursuant to each of the option plans, as of the approval date of option issuance by the Board of Directors, is as follows:

- Options 1 – NIS 10.61;
- Options A – NIS 9.97;
- Options B – NIS 10.00;
- Options C – NIS 9.89;
- Options D and E – NIS 10.41.

The theoretical benefit value of the options in these approved lots, calculated in accordance with US accounting rules (ASC 718 "Share-based Payment"), amounts to NIS 21 million.

The theoretical lot value was recognized in Bank accounts over the vesting period, i.e. from the second quarter of 2020 through the end of the year.

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. Therefore, the Bank would not be liable for wages tax with respect to the benefit arising to offerees from exercise of the options pursuant to the option plan. Furthermore, upon payment of tax with respect to this benefit by the offerees, the Bank would not have any tax deductible expense with respect to the aforementioned options.

Note 17 – Significant events during the reported period

A. Effect of the Corona Virus crisis

The Corona Virus crisis currently affecting Israel and the entire world has real economic and financial implications, with a sharp decline in economic activity, significant increase in the unemployment rate and volatility in financial markets. These events resulted in higher credit risk in the Israeli economy and world-wide. The higher risk level primarily applies to the business segment, especially small and medium businesses, due to reduced economic activity.

For more information about supervisory highlights with regard to accounting treatment of debt, and public reporting in view of the Corona Virus crisis, see Note 1.D.3. above.

For more information about Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)", see Note 9.

The provision for credit losses recognized on these financial statements includes an estimate with respect to the effect of the Corona Virus crisis, primarily reflected in the increase in group-based provision. In conformity with directives of the Supervisor of Banks, the Bank applies a methodology for measuring the group provision, which takes into account both past loss rates, since 2011, and adjustments with respect to relevant environmental factors. These factors include the following: Trends in credit volume for each sector as well as sector conditions, macro-economic data, general assessment of credit quality for each economic sector, changes in volume and in trend of balances in arrears, changes to Bank policy on extending credit and so forth.

On April 21, 2020, the Supervisor of Banks issued a circular listing highlights for the financial statements. This circular emphasizes, inter alia, that banking corporations should ensure that their public reports reflect the major effects of the Corona Virus crisis, and that provisions for credit losses were made in conservative and cautious fashion. According to the circular, the Supervisor of Banks is aware that under the current circumstances, there is a high degree of uncertainty, which requires banking corporations to exercise significant judgment, and stipulates that qualitative adjustments in calculating the provision should be revised, and amounts of the provision for credit losses should be increased. Over time, as the Bank has more available information, the estimated effects would be revised accordingly. In order to calculate provisions for credit losses, the Bank is required to utilize reliable external sources and the most current macro-economic forecasts as anchor points.

The estimated provision takes into account developments in the third quarter of 2020, that include potential for increased risk associated with continued payment delays granted to clients was revised, including in cases where a further delay was granted. The new parameters were accounted for in determination of the provision, in conformity with provisions of Appendix J to the Public Reporting Regulations, which require the Bank "to take into account all known relevant factors, both internal and external, which may impact the likelihood of debt collection" and whereby the method for calculation of the provision for credit losses should be "consistently applied but, when appropriate, should be revised with respect to new factors that affect the likelihood of collection". The qualitative provision is based on judgment exercised and estimate prepared under uncertainty, and shall be regularly reviewed in view of developments of various indicators.

Expenses with respect to credit losses in the first nine months and in the third quarter of 2020, amounted to NIS 932 million and NIS 317 million, respectively, compared with NIS 245 million and NIS 70 million in the corresponding periods last year – an increase by NIS 687 million and NIS 247 million. For more information about the provision for credit losses included on these financial statements, see Notes 6 and 13.

B. Acquisition of Union Bank

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 Union Bank of Israel Ltd. (hereinafter: "Union Bank"), who jointly hold 47.63% of Union Bank's issued and paid-up share capital, to acquire the shares of Union Bank 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 Bank shareholder who holds (through Trustees) 27.12% of Union Bank's issued and paid-in share capital ("the Other Shareholder"). Later on, Union Bank, the Other Shareholder and the Bank signed multiple addendums to the merger 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); an appeal was filed in September 2018. On November 28, 2019, the verdict in this appeal was received, 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. On January 8, 2020, the Supervisor issued their decision with regard to the aforementioned conditions ("the original decision on merger conditions").

Further to original decision on merger conditions, on July 14, 2020 the Bank and Peninsula Group Ltd. signed an agreement (hereinafter: "Peninsula" and "the Peninsula agreement" or "the Peninsula transaction") whereby, subject to closing of the transaction subject of the merger agreement and approval by the Supervisor ("the suspensive conditions of Peninsula transaction") and after control over Union Bank would be transferred to the Bank, Union and Peninsula would sign an agreement regarding sale of the sold operations.

Note 17 – Significant events during the reported period – Continued

On July 27, 2020, the revised decision by the Supervisor (hereinafter: "the revised decision by the Supervisor") was received, including certain revisions to the original decision on merger conditions, which were discussed by the parties to the merger agreement and the Supervisor, in order for the Peninsula Transaction to comply with conditions set forth in the Supervisor's decision. The revised decision by the Supervisor would allow, *inter alia*, for closing of the transaction for sale of the credit portfolio concurrently with closing of the merger. Furthermore, on said date, the Supervisor's approval was received for the identity of the buyer of the credit portfolio and the content of the sold operations of credit to the diamond sector.
On August 30, 2020, the Bank issued an exchange tender offer for Union Bank shares; the acceptance date for this offer was postponed on September 10, 2020 and on September 16, 2020; its terms and conditions were revised on September 17, 2020; the acceptance date for the tender offer was September 23, 2020 and it was concluded on September 30, 2020. In conjunction with the tender offer, the Bank acquired 100% of the issued and paid-in share capital of Union Bank and of voting rights in Union Bank, in exchange for the following: (1). Share issuance, where for each Union Bank ordinary shares of NIS 0.01 par value acquired by the Bank, the Bank issued 0.2699694 Bank ordinary shares of NIS 0.1 par value, for total issuance of NIS 19,865,165 par value Bank shares; (2). Cash payment by the Bank amounting to NIS 16 million ("the cash consideration");(3). Furthermore, a receipt amounting to NIS 37.24 million made by the Other Shareholder was paid in cash; as the Bank was informed, this is payment which the Other Shareholder committed to pay to the controlling shareholder of Union Bank pursuant to agreements between them and as allocated among them, which the controlling shareholder of Union Bank announced their intention to share with public shareholders of Union Bank (other than the Other Shareholder) pro rata to their holding stakes in Union Bank shares ("the additional receipt").
Note that in conformity with the foregoing, each Union Bank share of NIS 0.01 par value entitled Union Bank shareholders to NIS 1.8513449 with respect to the cash consideration and the additional receipts, except for shares of the controlling shareholders and shares of the Other Shareholder.
As from September 30, 2020, the Bank holds all of the share capital of Union Bank and therefore the Bank has control over Union Bank. Therefore, the Bank's consolidated balance sheet includes Union Bank's balance sheet.
In accordance with conditions stipulated by the Supervisor to alleviate concern about impact to competition, and in conformity with the agreement signed on July 14, 2020 by the Bank and Peninsula Group Ltd. (hereinafter: "Peninsula" and "the Peninsula Agreement" or "the Peninsula Transaction"), upon closing of the acquisition transaction, Union Bank and Peninsula signed an agreement for sale of Union Bank's diamond operations. According to the agreement, the consideration payable by Peninsula to Union Bank was calculated based on the actual utilized credit in the credit portfolio upon closing of the credit transaction (except for credit to clients classified by Union Bank as impaired debt, which would be sold to the credit buyer for no consideration). As a result of this sale on September 30, 2020, Union Bank recognized a loss amounting to NIS 117 million (NIS 77 million after tax) with respect to sale of the diamond operations.

Valuation of assets and liabilities
Pursuant to provisions of ASC 805, the Bank is required upon acquisition to conduct a Purchase Price Allocation (PPA) for assets and liabilities of Union Bank, within 12 months after the acquisition date. Accordingly, the initial accounting treatment of the acquisition of Union Bank, as presented on these financial statements, is provisional. Due to the short time elapsed from the acquisition date to the issue date of these financial statements, carrying amounts on Union Bank books were used as a conservative initial estimate for provisional attribution of the purchase cost (PPA Provisional) upon initial consolidation. This estimate will be revised on subsequent financial statements. By the publication date of the financial statements, the Bank has yet to complete allocation of the purchase cost to assets, liabilities and contingent liabilities of Union Bank.
The net amount recognized upon the acquisition date with respect to provisional fair value of identifiable assets acquired and liabilities assumed in the business combination, after effect of sale of Union Bank's diamond operations, exceeds the consideration provided. The difference of NIS 1.3 billion was recognized on the Bank's consolidated financial statements as "Deferred credit balance from acquisition of Union Bank", under Other Liabilities. The deferred credit balance was calculated after deduction of net loss amounting to NIS 77 million, recognized upon sale of Union Bank's diamond operations. This amount would also be decreased by the net expense to be recognized by Union Bank with respect to retirement expenses for some Union Bank employees, as agreed in the acquisition transaction. The remaining deferred credit balance would be recognized as revenues on the statement of profit and loss over 5 years as from the acquisition date.

Below is the consideration paid and the provisional value as of September 30, 2020, the acquisition date:

	NIS in millions
Consideration paid in cash	16
Issue of 19,865,165 Bank ordinary shares of NIS 1 par value(1)	1,207
Total cost of acquisition	**1,223**
Less: Provisional fair value of net identified assets(2) (see table below)	(2,484)
Deferred credit balance from acquisition of Union Bank	**1,261**

(1) The fair value of ordinary shares issued as part of the cost of the business combination was determined based on the closing price per Bank share on the Tel Aviv Stock Exchange on September 30, 2020.
(2) Including value of net loss from sale of Union Bank's diamonds portfolio, amounting to NIS 77 million.

Note 17 – Significant events during the reported period – Continued

Below are details of identified assets and liabilities acquired, as included on the financial statements (NIS in millions):

	As of September 30,				As of December 31,
	2020			2019	2019
				(unaudited)	(audited)
	Including Union Bank	Union Bank(1)	Excluding Union Bank		
Assets					
Cash and deposits with banks	77,738	10,281	67,457	47,125	51,672
Securities	18,258	9,025	9,233	10,566	10,113
Securities loaned or purchased in resale agreements	172	56	116	64	120
Loans to the public	244,092	24,988	219,104	204,225	206,401
Provision for credit losses	(2,327)	–	(2,327)	(1,647)	(1,693)
Loans to the public, net	241,765	24,988	216,777	202,578	204,708
Loans to Governments	616	–	616	589	656
Investments in associated companies	30	–	30	32	32
Buildings and equipment	1,646	213	1,433	1,384	1,457
Intangible assets and goodwill	87	–	87	87	87
Assets with respect to derivative instruments	3,238	902	2,336	2,717	2,578
Other assets	3,500	701	2,799	1,859	1,821
Total assets	**347,050**	**46,166**	**300,884**	**267,001**	**273,244**
Liabilities and Equity					
Deposits from the public	276,156	36,753	239,403	207,832	210,984
Deposits from banks	2,786	119	2,667	673	714
Deposits from the Government	41	–	41	34	29
Debentures and subordinated notes	32,995	3,778	29,217	30,442	33,460
Liabilities with respect to derivative instruments	3,545	1,130	2,415	2,920	2,686
Other liabilities	12,416	3,179	9,237	8,586	8,566
Total liabilities	**327,939**	**44,959**	**282,980**	**250,487**	**256,439**
Shareholders' equity attributable to shareholders of the Bank	18,272	1,207	17,065	15,755	16,033
Non-controlling interests	839	–	839	759	772
Total equity	**19,111**	**1,207**	**17,904**	**16,514**	**16,805**
Total liabilities and equity	**347,050**	**46,166**	**300,884**	**267,001**	**273,244**

(1) After adjustment of deferred credit balance, as noted above, and offset of mutual balances. Shareholder equity attributable to shareholders of the Bank increased with respect to share issuance to Union Bank shareholders, as part of the Union Bank acquisition agreement. Shareholder equity as included on Union Bank's financial statements as of September 30, 2020: NIS 2,484 million.

Note 17 – Significant events during the reported period – Continued

Below are results of the consolidated financial statements had the Bank acquired Union Bank on January 1, 2019:

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31,
	2020	2019	2020	2019	2019
					(unaudited)
Excluding Union Bank:					
Reported revenues for the Bank(1)	1,925	1,761	5,663	5,485	7,306
Reported net profit for the Bank	387	422	1,104	1,402	1,842
Union Bank:					
Reported revenues for Union Bank(1)	182	268	664	819	1,144
Reported net profit (loss) for Union Bank	(93)	29	(89)	100	162
Pro-forma revenues(1)	2,284	2,089	6,624	6,366	8,572
Pro-forma net profit	434	514	1,281	1,613	2,177
Pro-forma earnings per share:					
Basic	1.70	2.02	5.02	6.35	8.57
Diluted	1.70	2.01	5.01	6.33	8.54

(1) Revenues including net interest revenues and non-interest revenues.

Below are the underlying assumptions for compiling pro-forma data:
- The acquisition transaction was made on January 1, 2019.
- Upon the acquisition date, a deferred credit balance was generated, similar to that generated by the actual acquisition on September 30, 2020. The deferred credit balance was recognized on the statement of profit and loss over 5 years as from January 1, 2019.
- Union Bank's diamonds operations were sold upon the transaction date, on January 1, 2019, and the impact on Union Bank profit was identical to that recognized by Union Bank on its books in the third quarter of 2020.
- Sale of the diamonds operations reduced revenues of Union Bank proportionally for the percentage of operations sold, and reduced expenses of Union Bank in similar proportion.
- Adjustment of the value of a primary real estate property at Union Bank, to which part of the acquisition cost was attributed, is due to the land value and is, therefore, not depreciated.
- Because in accordance with accounting principles, the purchase price allocation (PPA) to assets and liabilities of Union Bank has yet to be completed, the impact of anticipated further adjustments to allocatin of deferred gain has not been included.

Note 18 – Events after the balance sheet date

On November 8, 2020, after the balance sheet date, the Board of Directors of Mizrahi Tefahot Trust Company Ltd. (hereinafter: "the Trust Company") and the Bank’s Board of Directors of Union Bank Trust Company Ltd. (hereinafter: "Union Bank Trust Company"), after approval by the Board of Directors of Union Bank of Israel Ltd. (hereinafter: "Union Bank") and approval by the General Meeting of shareholders of Union Bank Trust Company, approved transfer of all issued share capital of Union Bank Trust Company from Union Bank to the Trust Company, and merger of Union Bank Trust Company, as the target entity, with and into the Trust Company, as the surviving entity, by statutory merger in conformity with Chapter 1 of Addendum VIII to the Corporate Act, 1999, as a merger between a wholly-owned subsidiary and the parent company thereof. The foregoing is subject to fulfillment of all suspensive conditions set forth in the merger agreement between the Trust Company and Union Bank Trust Company, approved by the Board of Directors of the Trust Company and by the Board of Directors of Union Bank Trust Company at that date. The merger would be conducted for no consideration. The Board of Directors of the Trust Company and the Board of Directors of Union Bank Trust Company approved the merger, with due notice to the financial standing of the merged companies and after data and certifications were presented to these Boards of Directors, whereby these Boards of Directors believe there is no reasonable concern that due to the merger, the Trust Company, as the surviving entity, would be unable to fulfill its obligations to its creditors. The merger had no effect on the Bank Group's consolidated financial statements.

Mizrahi-Tefahot Bank

Corporate governance, audit, other information about the Bank and its management

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Corporate governance

Board of Directors and management

Board of Directors

During the first nine months of 2020, the Bank's Board of Directors held 25 plenary meetings. During this period there were also 51 meetings of Board committees and 5 Board member workshops.

Presented below are changes since January 1, 2020 through publication of these financial statements:

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.

On February 24, 2020, Mr. Moshe Vidman concluded their term in office as Chairman, IT and Technology Innovation Committee but continues to be a member of this Committee.

On February 24, 2020, Mr. Gilad Rabinowitz started their term in office as Chairman, IT and Technology Innovation Committee.

Members of Bank management and senior officers

On February 19, 2020, the Bank President & CEO, Mr. Eldad Fresher, announced his intention to conclude his term in office.

On February 24, 2020, the Bank Board of Directors appointed a Board committee tasked with identifying candidates for the position of Bank President & CEO; the committee is headed by the Chairman of the Board of Directors, Mr. Moshe Vidman.

On June 8, 2020, the Bank's Board of Directors resolved to adopt the recommendation of the search committee, and to appoint Mr. Moshe Larry to be the Bank's President & CEO, as from September 16, 2020.

On July 2, 2020, the Bank received notice from the Supervisor of Banks that the Supervisor had no objection to appointment of Mr. Moshe Larry as President & CEO of the Bank.

On July 20, 2020, the Bank's Board of Directors resolved to appoint Mr. Adi Shachaf as Manager, Finance Division at the Bank, replacing Mr. Moshe Larry, effective as from September 16, 2020.

On December 31, 2019, Ms. Rita Rubinstein retired from the position of Manager, Human Resources and Administration Division. Replacing her, Mr. Nissan Levi was appointed Manager, Human Resources, Resources and Operations Division.

On February 29, 2020, Ms. Maya Feller retired from the position of Bank Secretary. Replacing her, Mr. Ofer Hurwitz was appointed Bank Secretary and Manager, Bank Headquarters.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2019 annual report.

Due to the Corona Virus pandemic, Internal Audit updated its work plan for 2020, and adapted its operations in order to reduce the physical attendance of employees while preserving the capacity to review major risks.

Transactions with controlling shareholders and related parties

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 March 25, 2020, the General Meeting of Bank shareholders approved, after approval by the Remuneration Committee and by the Board of Directors, 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.

On September 24, 2020, the Board of Directors, after receiving approval from the Remuneration Committee, approved inclusion of Union Bank of Israel Ltd. and subsidiaries thereof (hereinafter jointly: "Union Bank") to the current Board member and officer liability insurance policy of the Bank and subsidiaries of the Bank, including the President & CEO of the bank as well as controlling shareholders of the bank and relatives thereof. Later on, after further negotiations with re-insurers on the London insurance market, whereby it turned out that the requested premium is higher than the approved amount, the Remuneration Committee and the Bank Board of Directors approved for the maximum additional premium for inclusion of Union Bank as noted above, not to exceed USD 800 thousand per year, i.e. not to exceed USD 400 thousand for the remaining insurance period.

For more information see Immediate Reports dated February 19, 2020, reference no. 2020-01-017409 and reference: 2020-01-017415, and report dated March 25, 2020, reference: 2020-01-029814, report dated September 24, 2020 (reference no. 2020-01-096061, and report dated October 1, 2020 (reference no. 2020-01-097933).

Controlling shareholders

On July 1, 2020, L.I.N (Holdings) Ltd. increased its holding stake in the Bank to 22.54% by purchasing 790,000 shares during trading on the stock exchange. For more information see Immediate Report dated July 1, 2020 (reference: 2020-01-062383).

As from July 23, 2020, L.I.N. Trust owns 100% of the issued share capital of L.I.N. (Holdings) Ltd., after shared of Maraval Inc., which owns 5% of L.I.N. Share capital, were transfered to L.I.N. Trust, in conformity with provisions of the control permit. For more information see Immediate Report dated August 9, 2020 (reference: 2020-01-076270).

On August 18, 2020, L.I.N (Holdings) Ltd. increased its holding stake in the Bank to 23.17% by purchasing 1,490,000 shares during trading on the stock exchange. For more information see Immediate Report dated August 18, 2020 (reference: 2020-01-080740).

On September 6, 2020, M. W. Z (Holdings) Ltd. Increased its holding stake in the Bank to 8.81%, by purchasing 585,759 shares off the stock exchange. For more information see Immediate Report dated September 6, 2020 (reference: 2020-01-089152).

On September 6, 2020, M. W. Z (Holdings) Ltd. Purchased 1,098,924 shares off the stock exchange, which shares became dormant upon being purchased. For more information see Immediate Report dated September 6, 2020 (reference: 2020-01-089155).

On September 29, 2020, L.I.N. (Holdings) Ltd. Transferred 2,700,000 shares it owned to L.A.B.M (Holdings) Ltd., a wholly-owned subsidiary thereof. For more information see Immediate Report dated September 29, 2020 (reference: 2020-01-096811).

On September 30, 2020, the 1,098,924 dormant shares owned by M. W. Z (Holdings) Ltd. ceased to be dormant shares. For more information see Immediate Reports dated September 30, 2020, references: 2020-01-097087; 2020-01-097156).

On September 30, 2020, M. W. Z (Holdings) Ltd. transferred 2,500,000 shares it owned to F. & W Registered Partnership, off the stock exchange and for no consideration. For more information see Immediate Report dated October 1, 2020 (reference: 2020-01-098002).

Legislation and Supervisory Regulation of Bank Group Operations

Laws and regulations

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.

On June 30, 2020, the Knesset Economics Committee approved the request by the Minister of Finance, to delay by six months the start date of Chapter II of the Act, which should become effective on September 22, 2021, unless further delayed (two allowed delays by up to six months each).

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.

Payment Services Act, 2019

On January 9, 2019, the Payment Services Act, 2019 was published (hereinafter: "the Payment Services Act"), which mostly became effective on October 14, 2020; a small part of this Act (Section 77(b) and (c)) would become effective on April 14, 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.

European regulation – PRIIPS (Packaged Retail and Insurance based Investment Products)

European regulation regarding transparency and protection of investors. This regulation requires disclosure and provision of KIDS (Key Information Documents) – documents that help the client understand the product and its associated risk. KIDS documents should be provided to European retail clients (clients other than qualified clients, in conformity with regulation) who conduct transactions in products that are subject to the regulation (structured products, derivatives and products where return for the client depends on volatility of the underlying asset). The Bank is reviewing applicability of this regulation to the Bank, its potential implications to Bank operations and consequently, implementation of the required implications. Application of this regulation is not expected to have any material impact on the Bank's financial statements.

Supervisor of Banks

Circulars and Public Reporting Directives

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 September 30, 2020
	Transaction volume (NIS in millions)
Loans to the public (including mortgages)	6,136
Deposits from the public	–
Net derivatives (par value)	627

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.

In 2019, the Bank 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 Bank's 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 fall back 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) and €STR (Euro Short-Term 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 March 2020, 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, in hedge accounting and in debentures held to maturity. The Bank is reviewing the effect of the relief measures on its financial statements.

  Note that as from the end of July 2020, the London Clearing House (LCH) started using the €STR curve (anchor curve in EUR) and as from October, it also started to use anchor interest rates in USD based on the SOFR curve.

Debit cards

On January 9, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 470 "Debit cards" and to Proper Conduct of Banking Business Directive 472 "Settlement providers and settlement of debit card transactions". According to this circular, and to promote adoption and use of the EMV standard (a technology for reading the chip embedded in the credit card) and to improve the user experience, a transition period was specified, to allow for gradual introduction of contact-less cards. It was further stipulated that due to the increase in ATM fraud, due to the fact that such devices do not support the smart standard and allow fund withdrawal using counterfeit cards, banking corporations were prohibited from connecting to their systems any device that does not support the EMV standard. Provisions of this circular are effective as from the issue date thereof, other than some exceptions that would become effective gradually.

The Bank applies the sections in effect and is preparing to apply the other provisions of this circular. Application of this circular has no material impact on the Bank's financial statements.

Implementation of open banking standard in Israel

On February 24, 2020, the Bank of Israel issued a circular concerning Proper Conduct of Banking Business Directive 368 "Implementation of open banking standard". This circular describes the evolution of open banking world-wide and the standards created, elaborating the legislation being enacted in Israel, which resulted in the Supervisor of Banks promoting the open banking project and issuing a directive with regard to this matter. The directive includes instructions with regard to implementation of the open banking standard, rules for service level and client consent, as well as instructions with regard to architecture and information security. This directive applies to banks and to credit card companies in their operations in Israel, with respect to accounts held by individuals. The directive also stipulates instructions with regard to corporate governance, including details of the roles and responsibilities of the Board of Directors and senior management in setting policy, allocating appropriate resources and supervising the implementation of the open banking management framework. The effective start date of this directive is December 31, 2020, except for information about debit cards which is effective as from July 1, 2021 and information about credit, deposits and securities which is effective as from December 31, 2021.

On April 7, 2020, the Bank of Israel issued a circular regarding evolution of the Corona Virus pandemic, containing revised effective start dates for Directive 368. The effective start date of this directive was revised to March 31, 2021; the effective start date for information about debit cards was revised to October 10, 2021 and the effective start date for information about credit, deposits and securities was revised to March 31, 2022.

Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus (Interim Directive)

On March 19, 2020, the Bank of Israel issued a circular regarding Proper Conduct of Banking Business Directive 250 "Adjustments to Proper Conduct of Banking Business Directives for addressing the Corona Virus". The circular lists a range of relief measures incorporated in the interim directive due to development of the Corona Virus pandemic and its economic implications globally and in Israel. The adjustments to the directive are intended to provide banks with the business flexibility required at this time. Further adjustments to the directive were issued in circulars dated March 31, 2020, April 1, 2020, April 7, 2020, April 27, 2020, May 5, 2020, May 20, 2020, June 1, 2020, June 23, 2020, September 16, 2020 and September 22, 2020. The Bank has applied some of the relief measures set forth in the directive, as well as further relief measures pursuant to business decisions made by the Bank, including the following:

- Suspension of limitation of accounts and account holders due to checks denied due to insufficient funds as from March 4, 2020 (this suspension has been discontinued due to a directive to discontinue the effect of this suspension).
- Issuance of immediate debit cards to clients who do not hold a debit card and who withdraw their pensions at branches (this issuance was conducted as a non-recurring action).
- Implementation of instructions with regard to reduced branch opening hours and to reduced operations and movement in the public space (these instructions were gradually rescinded later on, in view of relief made public by the Government).

- Relief for limitations on extending housing loans and for issue dates for letters of intent and settlement confirmations.
- Relief for online banking, providing instructions by telephone and giving precedence in queues to senior citizens.
- Delay in payments for commercial loans and housing loans.

Application of this circular has no material impact on the Bank's financial statements.

Transfer of activity and closing of client account

On June 23, 2020, the Bank of Israel issued an update circular to Proper Conduct of Banking Business Directive 432. According to this circular and in order to improve the application process for transfer of a securities portfolio, it was stipulated that the client may submit the application through online channels, unless there is reasonable ground for refusal. The effective start date of this amendment is 6 months after the publication date thereof.

The Bank applies the provisions of the circular. Application of this circular has no material impact on the Bank's financial statements.

Banking Ordinance (Customer Service) (Supervision of Service – Immediate Debit Card Fee, Warning Letter from Attorney and Transaction by Call Center Teller) (Interim Provision), 2020

On September 14, 2020, the Bank of Israel issued an ordinance, effective for 6 months after the issue date, classifying three banking services as services subject to supervision: Immediate Debit Card Fee, Warning Letter from Attorney and Transaction by Call Center Teller.

The Bank is preparing to implement provisions of the Ordinance. Application of the directive is not expected to have any material impact on the Bank's financial statements.

Bank's credit rating

On July 21, 2020, S&P Global Ratings Ma'alot Ltd. (hereinafter: "Ma'alot") confirmed the Bank's issuer rating of ilAAA with a Stable rating outlook. According to the rating agency: "The Stable rating outlook for Mizrahi reflects our view that over the next 24 months, the Bank's capital cushion would allow the Bank to absorb the impact to profitability due to implications of the Corona Virus outbreak."

The Bank's subordinated capital notes (Upper Tier II capital) and 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-.

On September 9, 2020, Midroog Ltd. (created in partnership with Moody's International, which owns a 51% equity stake) (hereinafter: "Midroog") left the Bank's ratings un-changed. Long-term deposits and senior debt of the Bank are rated Aaa.il / Stable outlook. The 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 September 30, 2020, Moody's rating agency confirmed the Bank's long-term deposit rating at A2 with Stable outlook.

Operating segments

For more information about supervisory operating segments, see chapter "Corporate Governance, Audit, Other Information about the Bank and Management thereof" of the 2019 financial statements.

Addendums to condensed quarterly financial statements

Addendum I – Interest Revenue and Expense Rates – of the Bank and its Subsidiaries(1)

Reported amounts (NIS in millions)

A. Average balances and interest rates – assets

	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
	Average balance(2)	Interest revenues	Revenue rate	Average balance(2)	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public(3)						
In Israel	208,991	(7)1,864	3.62	194,310	(7)1,364	2.84
Outside of Israel	3,416	47	5.62	3,319	57	7.05
Total	**212,407**	**1,911**	**3.65**	**197,629**	**1,421**	**2.91**
Loans to the Government						
In Israel	187	–	–	118	–	–
Outside of Israel	418	5	4.87	482	8	6.81
Total	**605**	**5**	**3.35**	**600**	**8**	**5.44**
Deposits with banks						
In Israel	1,152	2	0.70	655	3	1.84
Outside of Israel	148	–	–	230	1	1.75
Total	**1,300**	**2**	**0.62**	**885**	**4**	**1.82**
Deposits with central banks						
In Israel	53,177	11	0.08	40,641	21	0.21
Outside of Israel	11,002	3	0.11	5,474	30	2.21
Total	**64,179**	**14**	**0.09**	**46,115**	**51**	**0.44**
Securities loaned or purchased in resale agreements						
In Israel	118	–	–	65	–	–
Outside of Israel	–	–	–	–	–	–
Total	**118**	**–**	**–**	**65**	**–**	**–**
Debentures held to maturity and available for sale(4)						
In Israel	7,616	17	0.90	8,089	44	2.19
Outside of Israel	655	2	1.23	577	4	2.80
Total	**8,271**	**19**	**0.92**	**8,666**	**48**	**2.23**
Debentures held for trading(5)						
In Israel	210	1	1.92	302	–	–
Outside of Israel	–	–	–	–	–	–
Total	**210**	**1**	**1.92**	**302**	**–**	**–**
Total interest-bearing assets	**287,090**	**1,952**	**2.75**	**254,262**	**1,532**	**2.43**
Receivables for credit card operations	3,696			3,886		
Other non-interest bearing assets(6)	4,544			4,946		
Total assets	**295,330**			**263,094**		
Total interest-bearing assets attributable to operations outside of Israel	**15,639**	**57**	**1.47**	**10,082**	**100**	**4.03**

See remarks below.

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Average balance[(2)]	Interest revenues	Revenue rate	Average balance[(2)]	Interest revenues	Revenue rate
			In %			In %
Interest-bearing assets						
Loans to the public[(3)]						
In Israel	204,910	[(7)]5,077	3.32	191,597	[(7)]5,361	3.75
Outside of Israel	3,296	143	5.83	3,213	176	7.37
Total	**208,206**	**5,220**	**3.36**	**194,810**	**5,537**	**3.81**
Loans to the Government						
In Israel	216	–	–	131	1	1.02
Outside of Israel	439	17	5.20	378	24	8.55
Total	**655**	**17**	**3.48**	**509**	**25**	**6.60**
Deposits with banks						
In Israel	1,215	5	0.55	947	11	1.55
Outside of Israel	186	1	0.72	231	3	1.74
Total	**1,401**	**6**	**0.57**	**1,178**	**14**	**1.59**
Deposits with central banks						
In Israel	47,624	45	0.13	37,904	58	0.20
Outside of Israel	9,972	27	0.36	4,744	103	2.91
Total	**57,596**	**72**	**0.17**	**42,648**	**161**	**0.50**
Securities loaned or purchased in resale agreements						
In Israel	72	–	–	80	–	–
Outside of Israel	–	–	–	–	–	–
Total	**72**	**–**	**–**	**80**	**–**	**–**
Debentures held to maturity and available for sale[(4)]						
In Israel	7,531	50	0.89	8,197	112	1.83
Outside of Israel	656	9	1.83	553	13	3.15
Total	**8,187**	**59**	**0.96**	**8,750**	**125**	**1.91**
Debentures held for trading[(5)]						
In Israel	411	4	1.30	554	3	0.72
Outside of Israel	–	–	–	–	–	–
Total	**411**	**4**	**1.30**	**554**	**3**	**0.72**
Total interest-bearing assets	**276,528**	**5,378**	**2.60**	**248,529**	**5,865**	**3.16**
Receivables for credit card operations	3,596			3,705		
Other non-interest bearing assets[(6)]	4,789			5,299		
Total assets	**284,913**			**257,533**		
Total interest-bearing assets attributable to operations outside of Israel	**14,549**	**197**	**1.81**	**9,119**	**319**	**4.69**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

A. Average balances and interest rates – liabilities and equity

	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	31,214	4	0.05	25,143	1	0.02
Term deposits	132,868	334	1.01	123,497	308	1.00
Outside of Israel						
On-call	752	–	–	518	–	–
Term deposits	4,164	5	0.48	4,155	22	2.13
Total	**168,998**	**343**	**0.81**	**153,313**	**331**	**0.87**
Deposits from the Government						
In Israel	46	3	28.75	35	–	–
Outside of Israel	–	–	–	–	–	–
Total	**46**	**3**	**28.75**	**35**	**–**	**–**
Deposits from banks						
In Israel	1,287	1	0.31	944	2	0.85
Outside of Israel	–	–	–	3	1	–
Total	**1,287**	**1**	**0.31**	**947**	**3**	**1.27**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	29,519	141	1.92	31,154	(16)	(0.21)
Outside of Israel	–	–	–	–	–	–
Total	**29,519**	**141**	**1.92**	**31,154**	**(16)**	**(0.21)**
Other liabilities						
In Israel	464	–	–	301	–	–
Outside of Israel	–	–	–	–	–	–
Total	**464**	**–**	**–**	**301**	**–**	**–**
Total interest-bearing liabilities	**200,314**	**488**	**0.98**	**185,750**	**318**	**0.69**
Non-interest bearing deposits from the public	67,079			50,614		
Payables for credit card transactions	3,696			3,884		
Other non-interest bearing liabilities[(8)]	6,579			5,668		
Total liabilities	**277,668**			**245,916**		
Total equity resources	**17,662**			**17,178**		
Total liabilities and equity resources	**295,330**			**263,094**		
Interest margin			**1.77**			**1.75**
Net return[(9)] on interest-bearing assets						
In Israel	271,451	1,412	2.10	244,180	1,137	1.88
Outside of Israel	15,639	52	1.34	10,082	77	3.09
Total	**287,090**	**1,464**	**2.06**	**254,262**	**1,214**	**1.92**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,916**	**5**	**0.41**	**4,676**	**23**	**1.98**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[1] – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[2]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Interest-bearing liabilities						
Deposits from the public						
In Israel						
On-call	30,625	11	0.05	25,143	36	0.19
Term deposits	128,400	939	0.98	121,488	1,276	1.40
Outside of Israel						
On-call	664	–	–	518	–	–
Term deposits	4,074	34	1.11	5,010	75	2.00
Total	**163,763**	**984**	**0.80**	**152,159**	**1,387**	**1.22**
Deposits from the Government						
In Israel	51	3	7.92	39	–	–
Outside of Israel	–	–	–	–	–	–
Total	**51**	**3**	**7.92**	**39**	**–**	**–**
Deposits from banks						
In Israel	1,139	5	0.59	975	6	0.82
Outside of Israel	2	–	–	2	3	–
Total	**1,141**	**5**	**0.58**	**977**	**9**	**1.23**
Securities loaned or sold in conjunction with repurchase agreements						
In Israel	–	–	–	–	–	–
Outside of Israel	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**
Debentures and subordinated notes						
In Israel	30,416	251	1.10	29,691	478	2.15
Outside of Israel	–	–	–	–	–	–
Total	**30,416**	**251**	**1.10**	**29,691**	**478**	**2.15**
Other liabilities						
In Israel	446	1	0.30	248	3	1.62
Outside of Israel	–	–	–	–	–	–
Total	**446**	**1**	**0.30**	**248**	**3**	**1.62**
Total interest-bearing liabilities	**195,817**	**1,244**	**0.85**	**183,114**	**1,877**	**1.37**
Non-interest bearing deposits from the public	61,994			50,179		
Payables for credit card transactions	3,616			3,725		
Other non-interest bearing liabilities[8]	6,145			4,149		
Total liabilities	**267,572**			**241,167**		
Total equity resources	**17,341**			**16,366**		
Total liabilities and equity resources	**284,913**			**257,533**		
Interest margin			**1.75**			**1.79**
Net return[9] on interest-bearing assets						
In Israel	261,979	3,971	2.03	239,410	3,747	2.09
Outside of Israel	14,549	163	1.50	9,119	241	3.54
Total	**276,528**	**4,134**	**2.00**	**248,529**	**3,988**	**2.15**
Total interest-bearing liabilities attributable to operations outside of Israel	**4,740**	**34**	**0.96**	**5,530**	**78**	**1.89**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

B. Average balances and interest rates – additional information about interest-bearing assets and liabilities attributed to operations in Israel

	For the three months ended September 30, 2020			For the three months ended September 30, 2019		
	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate	Average balance[(2)]	Interest expenses (revenues)	Expense (revenue) rate
			In %			In %
Israeli currency – non-linked						
Total interest-bearing assets	200,372	1,317	2.66	175,052	1,274	2.94
Total interest-bearing liabilities	135,086	(242)	(0.72)	122,119	(270)	(0.89)
Interest margin			**1.94**			**2.05**
Israeli currency – linked to the CPI						
Total interest-bearing assets	59,854	508	3.44	56,944	49	0.34
Total interest-bearing liabilities	37,929	(175)	(1.86)	38,501	106	1.10
Interest margin			**1.58**			**1.44**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,225	70	2.52	12,184	109	3.63
Total interest-bearing liabilities	22,383	(66)	(1.18)	20,454	(131)	(2.59)
Interest margin			**1.34**			**1.04**
Total – operations in Israel						
Total interest-bearing assets	271,451	1,895	2.82	244,180	1,432	2.37
Total interest-bearing liabilities	195,398	(483)	(0.99)	181,074	(295)	(0.65)
Interest margin			**1.83**			**1.72**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries(1) – Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Average balance	**Interest expenses (revenues)**	**Expense (revenue) rate**	**Average balance**	**Interest expenses (revenues)**	**Expense (revenue) rate**
			In %			**In %**
Israeli currency – non-linked						
Total interest-bearing assets	191,238	3,939	2.76	169,699	3,708	2.92
Total interest-bearing liabilities	134,886	(744)	(0.74)	120,756	(761)	(0.84)
Interest margin			**2.02**			**2.08**
Israeli currency – linked to the CPI						
Total interest-bearing assets	59,642	996	2.23	56,135	1,498	3.57
Total interest-bearing liabilities	37,305	(206)	(0.74)	36,735	(645)	(2.35)
Interest margin			**1.49**			**1.22**
Foreign currency (including Israeli currency linked to foreign currency)						
Total interest-bearing assets	11,099	246	2.97	13,576	340	3.35
Total interest-bearing liabilities	18,886	(260)	(1.84)	20,093	(393)	(2.62)
Interest margin			**1.13**			**0.73**
Total – operations in Israel						
Total interest-bearing assets	261,979	5,181	2.65	239,410	5,546	3.10
Total interest-bearing liabilities	191,077	(1,210)	(0.85)	177,584	(1,799)	(1.35)
Interest margin			**1.80**			**1.75**

Interest Revenues and Expenses Rates - of the Bank and its Subsidiaries[(1)] – Continued

Reported amounts (NIS in millions)

C. Analysis of changes in interest revenues and expenses

	For the three months ended September 30, 2020 compared to the three months ended September 30, 2019			For the nine months ended September 30, 2020 – compared to the nine months ended September 30, 2019		
	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	131	369	500	330	(614)	(284)
Outside of Israel	1	(11)	(10)	4	(37)	(33)
Total	**132**	**358**	**490**	**334**	**(651)**	**(317)**
Other interest-bearing assets						
In Israel	6	(43)	(37)	17	(98)	(81)
Outside of Israel	4	(37)	(33)	26	(115)	(89)
Total	**10**	**(80)**	**(70)**	**43**	**(213)**	**(170)**
Total interest revenues	**142**	**278**	**420**	**377**	**(864)**	**(487)**
Interest-bearing liabilities						
Deposits from the public						
In Israel	32	(3)	29	74	(436)	(362)
Outside of Israel	–	(17)	(17)	(6)	(35)	(41)
Total	**32**	**(20)**	**12**	**68**	**(471)**	**(403)**
Other interest-bearing liabilities						
In Israel	(5)	164	159	9	(236)	(227)
Outside of Israel	–	(1)	(1)	–	(3)	(3)
Total	**(5)**	**163**	**158**	**9**	**(239)**	**(230)**
Total interest expenses	**27**	**143**	**170**	**77**	**(710)**	**(633)**

(1) Information in these tables is after effect of hedging I 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 (to) the average balance of debentures available for sale, for the three-month periods ended September 30, 2020 and September 30, 2019, and for the nine-month periods ended September 30, 2020 and September 30, 2019, we deducted (added) the average balance of unrealized gains (losses) from adjustment to fair value of debentures available for sale, included in equity under Cumulative Other Comprehensive Income, under "Adjustments with respect to presentation of securities available for sale at fair value", amounting to NIS 24 million, NIS 40 million, NIS 17 million and NIS (3) million, respectively.

(5) From the average balance of debentures held for trading, for the three-month periods ended September 30, 2020 and September 30, 2019, and for the nine-month periods ended September 30, 2020 and September 30, 2019, we deducted / added the average balance of unrealized gains from adjustment to fair value of debentures held for trading amounting to NIS 7 million, NIS 8 million, NIS 11 million, and NIS 4 million, respectively.

(6) Includes derivative instruments, other non-interest bearing assets, net of provision for credit losses.

(7) Commissions amounting to NIS 107 million, NIS 91 million, NIS 331 million and NIS 236 million were included in interest revenues for the three-month periods ended September 30, 2020 and 2019 and for the nine-month periods ended September 30, 2020 and 2019, 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.

Glossary and index of terms included on the financial statements

Below is a summary of terms included on the financial statements:

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 risk 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.
	LGD (Loss Given Default) – Loss as percentage of credit should the client go into default.
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.
	PD (Probability Of Default) – Probability in percent of a borrower going into default within a specified time.
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 capital, additional Tier I capital and Tier II capital. 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.

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.
	Derivative – 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	**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.
	Indebtedness – On- and off-balance sheet credit, as defined in Proper Conduct of Banking Business Directive 313.
O	**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

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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To see in each person his personal imprint

At Mizrahi Tefahot we view each person's individuality as representing the way we treat our customers; each customer is a person, a unique and complete world.

When we adopt such a view of our customers, we are committed to acting according to our customers' individual needs and wishes, in a fair and empathetic manner.

By doing so, we realize one of the most significant values of the Bank - the person is in the center, a value that guides us in all of our actions and operations.

מזרחי טפחות

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