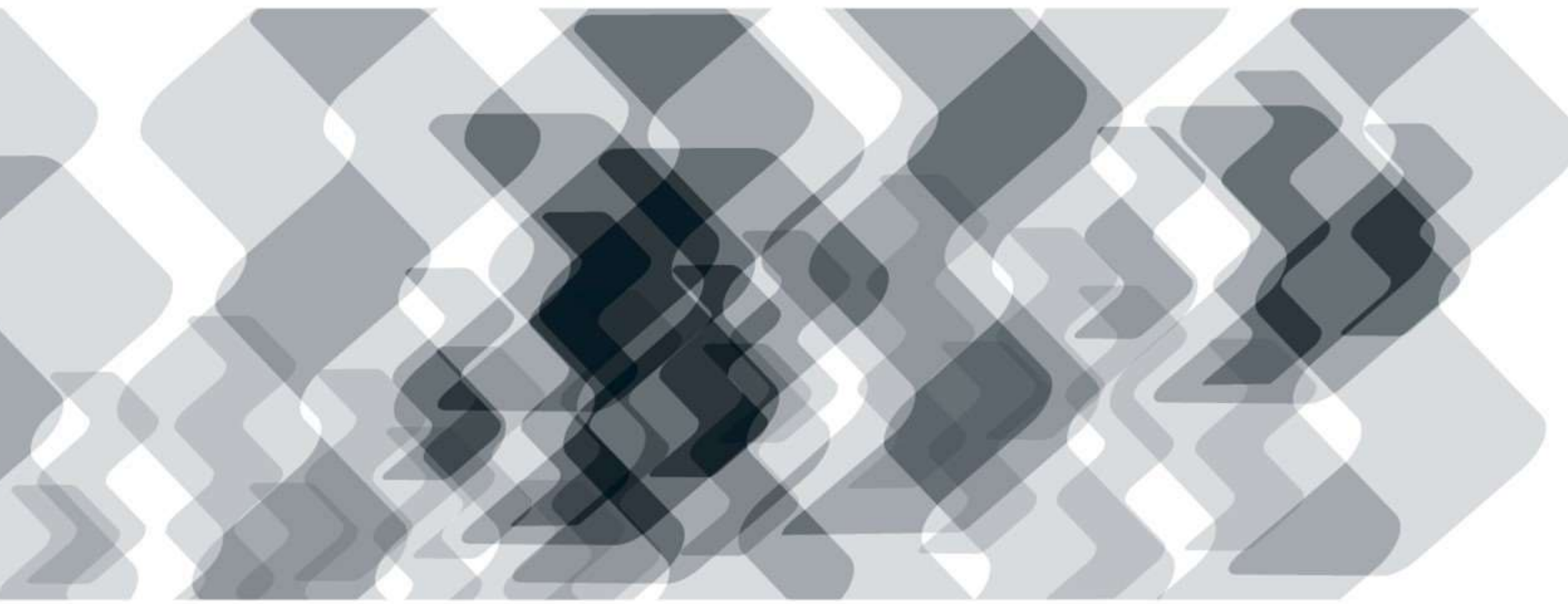

Financial Statements
as of September 30,

# 2019

**CONTENTS**

## LIST OF TABLES -REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT

# Report of the Board of Directors and Management

## GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

## REPORT OF THE BOARD OF DIRECTORS AND MANAGEMENT AS OF SEPTEMBER 30, 2019

The meeting of the Board of Directors held on November 26, 2019, resolved to approve and publish the unaudited consolidated financial statements of the First International Bank of Israel Ltd. (hereinafter - "the Bank") and its consolidated subsidiaries (hereinafter - "the Bank Group"), as of September 30, 2019.

### GENERAL OVERVIEW, OBJECTIVES AND STRATEGY

### Description of the Bank Group's activity

The Bank Group is one of the five large banking groups in Israel.

The business operations of the Bank Group focus on several principal areas:

- Financial brokerage between depositors and borrowers, which is the basis for commercial banking. Income from such operation is reflected in net interest income comprising the main source of profit of the Group.
- Financial and banking services producing commission income in a variety of operations in the foreign currency, international trade, securities, information services, credit cards, derivative financial instruments, etc.
- Investment and pension consulting.
- The "nostro" investments of the Bank and market and liquidity risk management.
- Operational banking services for the capital market.
- Trusteeship services for private and institutional customers through the Bank's trust company.

The Bank operates through three principal business divisions:

- The corporate division, which conducts all operations relating to corporate and middle-market customers, as well as business and institutional customers active on the capital market. Operating within this division is the business region, covering the operation of all business branches of the Bank.
- The banking division, which through the branches provides banking and mortgages services to all customers segments- households, private banking and small businesses. In this framework operate Ubank branches specializing in private banking and capital market operations and Otsar Hahayal branches (which was merged with and into the Bank on January 1, 2019- see below), specializing in providing services to retail and commercial customers with emphasis on the employees and retirees of the defence forces. In addition, the PAGI sub-division branches specialize in the religious and orthodox segment.
- The customer asset division centralizing the whole operation in the capital market, money market and foreign currency operation with private customers, business customers, institutional customers and capital market professionals. Within the division operating dealing rooms of securities, foreign currency and deposits as well as investment and pension advisement settings, investment center and the trust company and portfolio management company.

In addition to the Bank, the Group includes Massad Bank specializing in providing services to the teachers population in Israel.

A merger agreement was signed on September 20, 2018, between the Bank and Otsar Hahayal, according to which Otsar Hahayal would be merged with and into the Bank so that the assets and liabilities of Otsar Hahayal as of date of merger, shall pass to the Bank at no consideration, and Otsar Hahayal would be eliminated without liquidation and would be removed from the Register of Companies.
The merger, as stated above, was completed on January 1, 2019, following the fulfillment of all conditions precedent determined in the merger agreement.
Otsar Hahayal as an independent brand name as well as its operations and identity of its branches, have been maintained even after its legal merger into the Bank. Likewise, the expertise of Otsar Hahayal in the retail banking field and in providing services to the Israeli defense forces personnel.

## RAISING OF THE BANK'S RATING BY RATING AGENCIES

- On July 11, 2019, S&P Maalot raised the issuer rating of the Bank to ilAAA/Stable and its subordinate notes to ilAA+ and ratified the rating of the subordinate notes with a loss absorption mechanism at ilAA-.
- On June 26, 2019, Midrug raised the evaluation Bank's internal financial stability to aa2.il/stable outlook, the Bank's long-term deposits and the senior debt to Aa1.il/stable outlook and its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism to Aa3il (hyb)/stable outlook rating. The Bank's short-term deposits remained at the rating of P-1.il

## FORWARD-LOOKING INFORMATION

Part of the information detailed in this report which does not refer to historical facts is forward-looking information as defined in the Securities Law, 1968. Actual results are likely to be substantially different from those included in the context of forward-looking information due to a large number of factors, including changes in legislation and supervisory directives, macroeconomic developments in Israel and abroad and their effect on the liquidity position and stability in the capital markets at business companies in Israel and abroad, exceptional economic developments such as extreme changes in interest rates, exchange rates and inflation, stock prices, bond prices, competitors' behavior and changes in the terms of competition.

Forward-looking information is notable for such words or expressions as: "forecast," "expected," "in the Bank's estimation" and "the Bank intends," as well as expressions such as "will be able," "might be" and "will be." These forward-looking expressions involve risks and uncertainty because they are based on the Management's assessments regarding future events that may not occur or that may occur in a different manner than expected as the result inter alia of the aforementioned factors or as the result of the materialization of one or more of the risk factors detailed in the table of risk factors presented in this report.

The information in this report is based, among other, on the publication of the Central Bureau of Statistics, the Treasury department and the data from the Bank of Israel, as well as on public information given by different factors operating and connected with the capital and money markets.

# CONDENSED PRINCIPAL FINANCIAL INFORMATION AND PRINCIPAL EXECUTION INDICES

| Principal financial ratios | For the nine months ended September 30, 2019 | For the nine months ended September 30, 2018 | For the year ended December 31, 2018 |
|---|---|---|---|
| | | | in % |
| **Execution indices** | | | |
| Return on equity attributed to shareholders of the Bank(1) | **10.6%** | 9.8% | 9.3% |
| Return on average assets(1) | **0.6%** | 0.6% | 0.5% |
| Ratio of equity capital tier 1 | **10.79%** | 10.39% | 10.51% |
| Leverage ratio | **5.91%** | 5.63% | 5.76% |
| Liquidity coverage ratio | **124%** | 123% | 122% |
| Ratio of total income to average assets(1) | **3.0%** | 3.1% | 3.1% |
| Efficiency ratio | **64.9%** | 67.7% | 68.4% |
| **Credit quality indices** | | | |
| Ratio of provision for credit losses to credit to the public | **1.03%** | 1.02% | 1.02% |
| Ratio of impaired debts or in arrears of 90 days or more to credit to the public | **1.02%** | 0.85% | 0.83% |
| Ratio of provision for credit losses to total impaired credit to the public | **139%** | 177% | 186% |
| Ratio of net write-offs to average total credit to the public (1) | **0.09%** | 0.12% | 0.16% |
| Ratio of expenses for credit losses to average total credit to the public (1) | **0.14%** | 0.21% | 0.20% |

| Principal data from the statement of income | For the nine months ended September 30, 2019 | For the nine months ended September 30, 2018 |
|---|---|---|
| | | NIS million |
| Net profit attributed to shareholders of the Bank | **643** | 568 |
| Interest Income, net | **1,942** | 1,833 |
| Expenses from credit losses | **92** | 130 |
| Total non-Interest income | **1,140** | 1,257 |
| Of which: Fees | **960** | 985 |
| Total operating and other expenses | **2,000** | 2,093 |
| Of which: Salaries and related expenses | **1,215** | 1,241 |
| Dismissal expenses | **41** | 18 |
| Primary net profit per share of NIS 0.05 par value (NIS) | **6.41** | 5.66 |

| Principal data from the balance sheet | | | As of |
|---|---|---|---|
| | **30.9.19** | **30.9.18** | **31.12.18** |
| | | | NIS million |
| Total assets | **136,988** | 135,851 | 134,120 |
| of which: Cash and deposits with banks | **34,516** | 32,835 | 31,303 |
| Securities | **10,453** | 11,880 | 12,595 |
| Credit to the public, net | **87,310** | 85,484 | 84,292 |
| Total liabilities | **128,178** | 127,441 | 125,707 |
| of which: Deposits from the public | **116,292** | 113,804 | 111,697 |
| Deposits from banks | **464** | 857 | 1,150 |
| Bonds and subordinated capital notes | **3,690** | 5,155 | 4,989 |
| Capital attributed to the shareholders of the Bank | **8,461** | 8,096 | 8,093 |

| Additional data | 30.9.19 | 30.9.18 | 31.12.18 |
|---|---|---|---|
| Share price (0.01 NIS) | **9,257** | 8,209 | 7,860 |
| Dividend per share (0.01 NIS) | **300** | 255 | 355 |
| Ratio of interest income, net to average assets (in %)(1) | **1.9%** | 1.8% | 1.9% |
| Ratio of fees to average assets (in %)(1) | **0.9%** | 1.0% | 1.0% |

(1) Annualized.

## Principal Risks to which the Bank is exposed

The Bank group activity involves exposure to risk, the more significant of which are:

- Credit risk, including credit concentration (borrower and sectorial).
- Market risks, the principal of which is interest rate risk.
- Liquidity risks.
- Operating risks, including cyber and information security and IT risk.
- Compliance and Money Laundering risks.
- Strategic risk.
- Reputation risk.
- Legal risk.

All material risks are managed by and the responsibility of appointed members of Management. A regulatory requirement for capital adequecy exists in respect of credit, market and operating risks, according to the instructions of Pillar I of Basel. Within the framework of the Internal Capital Adequacy Assessment Process ("ICAAP"), the Group performs an intensive process for the identification of additional risk centers and the challenging of identified risk centers, in accordance with Pillar I. Where required, a supplementory allocation of capital is made in respect of Pillar I risks, and an additional allocation of capital in respect of other risks and sub-risks.

The main developing risks are: competitive-strategic/ business model risk, regulatory risk, cyber and information security risk, cross border risk and conduct risk. Starting with the second quarter of the year, the IT risk was added to the main developing risks, in light of the complicated and changing technological environment and the growing dependency on it. A need was created in raising the business and technological flexibility and increased use in new technologies. Additional information is detailed in the annual financial statements for the year 2018.

## Objectives and Strategy

Management of the Bank is guided and directed by the Board of Directors and its committees, with respect to the strategy and business policy of the Bank. In this framework, the Board of Directors approves the quantitative and qualitative targets and goals as well as the lines of operation of the Bank.

On the basis of the multi-annual strategic plans of the Bank, Management presents to the Board of Directors annual work plans and budgets, giving quantitative and qualitative details of the income, expenses and investment mix, which Management had determined as the long-term goals and specific targets for the current year of operation.

The Board of Directors and its committees supervise and control the work of Management in everything relating to the implementation of the strategy and business policy, as approved by them. The Board of Directors approves also the comprehensive risk management policy, including the determination of different limitations to exposure regarding credit risk and market and liquidity risks. The various units of the Bank, of the branch layout and of the Head Office, operate within the framework of written procedures and circular letters, guiding them in their current operations. These procedures define, among other things, the authority of the different units of the Bank and the manner of operation which they have to adopt.

The Bank operates according to a multi-annual strategic plan, validated by the Board of Directors at half-yearly intervals. The plan is based upon appropriate conduct in all areas of operation, with aspiration for proper and stable profitability over a period of time.

The Bank had a strategic plan for the years 2016-2018, which was approved by the Board of Directors in September 2015 and validated by it twice a year. The supreme goals of the plan are in terms of return on capital in excess of riskless interest rate and efficiency ratio. The bank promoted and is still promoting over the course of the years various strategic plans in different operating fields, in adequacy with the Bank's vision and its strategic emphasis and in accordance with the latest changes in its operating surroundings.

On November 17, 2016 the Board of Directors of the Bank approved the update of the strategic plan of the Group in respect of efficiency measures, for the years 2016- 2020.

The Bank reviewed the plan at half-yearly intervals, in relation to the macro-economic environment, to developments in market competition, to the regulatory environment, to technological developments and frequent changes in the digital and cyber area, as well as to changes occurring in the Bank Group, and if necessary updates the plans and the moves stemming from the strategic plan.

On November 5, 2019 the Board of Directors of the Bak approved new entity strategy for the upcoming years in accordance with the latest changes in the Bank and its operating surroundings, and with looking forward on the banking world.

The new strategy was formed during 2019 and is a direct continuation to the former entity strategy and to detailed strategic processes carried out in latest years, as detailed below.

The Bank emphasises on providing added value to its customers by providing a comprehensive response modified to the needs of the customer, including in the digital area and technological answer; the Bank is to maintain the leadership of its subsidiary (Massad) and the brands UBank, PAGI and Otsar Hahayal in their unique operating niches, mostly in the retail and small business sectors. The Bank is to maintain leadership in the capital market; would conduct actions leading to efficiency in expenses, while improving its manpower position, improving procedures, continue efficiency measures in the branch layout and increase the use of online banking channels, and support performance directed culture and measurement in the Group.

In 2018, the Bank launched the digital strategy (approved at the end of 2017), the purpose of which is to support the business strategy of the Bank. As part of the digital strategy and with adequacy to the Bank's strategy "Investing in you", the Bank developes a digital answering adjusted and focuses on the customer's needs. The Bank emphasis is on solutions which can be combined in the interfaces with the customers and improving the Customer experience and providing added value in the various financial worlds, and specifically in the capital markets worlds.

In addition, the Bank promote innovation through implementation of products and technologies from start-up companies, this alongside the current activity of developing products and technologies in-house by the IT division of the Bank. For that, a specific department was build for holistic treatment in innovation and digital.

In addition, in 2019 the Bank completed to formulate a new strategic plan in the infrastructure and computerization worlds. The goal of the plan is to improve the Bank's ability to operate in the changing banking surroundings, among other things, by shortening response times and increasing flexibilty.

# EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

# EXPLENATION AND ANALYSIS OF RESULTS AND BUSINESS POSITION

## TRENDS, EVENTS, DEVELOPMENTS AND MATERIAL CHANGES

### PRINCIPAL ECONOMIC DEVELOPMENTS

Following are the principal economic developments, which impacted the economic environment in which the Israeli banking sector operated in the first nine months of 2019.

#### Growth

The latest published nonfinancial economic activity indicators, continue to be positive indicating that the economy continued to grow also in the first nine months of 2019, when estimates for the third quarter of 2019 indicated a growth of 4.1% in the GDP. The employment market continues to demonstrate vigor with relatively low unemployment rates and a high rate of employment security, and in the long run, a trend of increase in growth is envisaged. The Bank of Israel's Composite State-of-the-Economy Index, rose during the first eight months of 2019 by 1.9%, in comparison with an increase of 2.2% in the corresponding period last year.

The forecast dated October 2019, issued by the Research Division of Bank of Israel left unchanged the product growth forecast for 2019 to a level of 3.1%, while reducing the growth forecast for 2020 to a level of 3.0%.

#### State budget

A deficit of NIS 30.9 billion was measured in the first nine months of 2019 in the budgetary activity of the Government, in comparison to a deficit of NIS 23.8 billion measured in the corresponding period last year. The planned deficit for the year 2019 amounts to NIS 40.2 billion, comprising 2.9% of the GDP. In the last twelve months (October 2018 to September 2019) the State's budgetary deficit was 3.3% of the GDP.

Fitch, the international credit rating agency, ratified in March 2019 the credit rating of the State of Israel at a level of A+ with a stable forecast.

S&P, the international credit rating agency, ratified in August 2019 the credit rating of the State of Israel at a level of AA- with a stable forecast.

#### Inflation

The Consumer Price Index (CPI) rose in the first nine months of 2019 by 0.6% (the Index "for the month"). The "known" Index rose by 0.5%. In the last twelve months (September 2019 in comparison with September 2018) the CPI rose by 0.3%. According to Bank of Israel estimates dated October 2019,, the inflation rate in 2019 would reach 0.6% and in 2020 would reach 1.2%. As of September 2019, the inflationary expectations for the coming twelve months, derived from the capital market, indicate an inflation rate of 1.1%.

#### Housing market

Recent publications reflect an increase in housing prices. According to the Housing Price Index published in October 2019 by the Central Bureau of Statistics (hereinafter - "the CBS") prices of apartments recorded a rise of 0.1% in the months of July-August 2019, in comparison with transactions effected in the months of June-July 2019. Prices of transactions in the months of July- August 2019 rose by 1.3% in comparison with the corresponding months last year.

#### Labor market

The rate of unemployment is low and stable in substance, when in August 2019 it amounted to 3.8%, in comparison with 3.7% in July 2019.

**Exchange rate**

The exchange rate of the shekel as against the US dollar and as against the Euro dropped in the first nine months of 2019 by 7.1% and by 11.3% respectively.

**Bank of Israel interest rate**

In November 2018, Bank of Israel raised the interest rate for the first time since February 2015, by 0.15 percentage points to a level of 0.25%. According to estimates of Bank of Israel Research Division dated October 2019, the interest rate is expected to stay in the range of 0.25% and 0.1% in the course of 2020.

**The global environment**

The risks envisaged for the global economy have intensified, mostly in view of the "trade war" and the uncertainty regarding the Brexit. The OECD has updated downwards the the forecasts with respect to global economic growth and trade for the years 2019 and 2020.

In the United States, the FED has lowered three times the interest rate by 0.25 percentage points, the last time at the end of October 2019.

The inflation rate has risen slightly, but is still slightly lower than the targeted rate. Economic growth in the third quarter of the year is expected to be moderate, following the slowdown recorded in the second quarter.

In Europe, economic growth has slowed down with shrinking industrial production, which mostly affected the German economy, which is inclined towards the manufacturing industry.

Inflation in the Eurozone remained at a low level and the ECB has lowered the interest rate and has adopted additional significant expansionary measures.

**Capital markets**

The principal equities indices of the domestic capital market recorded an increase in the first nine months of 2019: the TA-35 Index and the TA-125 Index rose by approximately 10.4% and 15.0%, respectively. The General Bond Index rose by 7.7%.

The trading turnover in equities on the local Stock Exchange recorded a decrease in volume during the first nine months of 2019.

The S&P-500 Index rose by 18.7% during the first nine months of 2019. In Europe, the Eurostocks-600 Index rose by 16.4% and the developing countries Index (the EM-MSCI Index) rose by 3.7%.

For additional details, see principal developments in Israel and globally, in the Chapter "Corporate governance - additional details".

## MATERIAL DEVELOPMENTS IN REVENUES, EXPENSES AND OTHER COMPREHENSIVE INCOME

### PROFIT AND PROFITABILITY

**Net profit attributed to the shareholders of the Bank** amounted to NIS 643 million in the first nine months of 2019, as compared to NIS 568 million in the same period last year, an increase of 13.2%.

**The return of net profit to the capital attributed to the shareholders of the Bank** (annualized) amounted to 10.6% in the period January-September 2019, as compared to 9.8% in the same period last year and 9.3% in 2018.

**Net profit attributed to the shareholders of the Bank** in the third quarter of the year amounted to NIS 236 million, compared with NIS 212 million in the same period last year, an increase of 11.3%.

**The return of net profit to the capital attributed to the shareholders of the Bank** (annualized) amounted to 11.7% in the third quarter of the year, compared with 11.1% in the same period last year.

### Condensed statement of income

| | For the three months ended September 30, | | | For the nine months ended September 30, | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **change** | **2019** | **2018** | **change** |
| | | NIS million | % | | NIS million | % |
| Net financing earnings[1] | **705** | 742 | (5.0) | **2,117** | 2,028 | 4.4 |
| Expenses from credit losses | **33** | 49 | (32.7) | **92** | 130 | (29.2) |
| Net financing earnings after Expenses from credit losses | **672** | 693 | (3.0) | **2,025** | 1,898 | 6.7 |
| Fees | **325** | 322 | 0.9 | **960** | 985 | (2.5) |
| Other income | **3** | 2 | 50.0 | **5** | 77 | (93.5) |
| Operating and other expenses | **649** | 701 | (7.4) | **2,000** | 2,093 | (4.4) |
| Profit before taxes | **351** | 316 | 11.1 | **990** | 867 | 14.2 |
| Provision for taxes on profit | **119** | 103 | 15.5 | **357** | 302 | 18.2 |
| The bank's share in profit of equity-basis investee, after taxes | **15** | 9 | 66.7 | **39** | 28 | 39.3 |
| **Net profit:** | | | | | | |
| Before attribution to non-controlling interests | **247** | 222 | 11.3 | **672** | 593 | 13.3 |
| Attributed to non-controlling interests | **(11)** | (10) | 10.0 | **(29)** | (25) | 16.0 |
| Attributed to shareholders of the Bank | **236** | 212 | 11.3 | **643** | 568 | 13.2 |
| Net return on equity attributed to the Bank's shareholders | **11.7%** | 11.1% | | **10.6%** | 9.8% | |

(1) The items of profit and loss above were presented in a different format then the condensed statement of income. The change is expressed by sorting of non-interest income from the item non-interest income to the Net financing earnings.

### Profitability after elimination of certain components

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | | NIS million | | NIS million |
| Net profit attributed to the shareholders of the Bank - as reported | **236** | 212 | **643** | 568 |
| Less/- Eliminations [1] | | | | |
| Gain from sale of a real estate asset in consolidated companies | **-** | - | **-** | (46) |
| Gain from the sale/ evaluation of the TASE shares | **(16)** | (65) | **(16)** | (65) |
| Expenses of the merger of Otsar Hahayal | **-** | 31 | **4** | 53 |
| Net profit attributed to the shareholders of the Bank after elimination of the above items | **220** | 178 | **631** | 510 |
| Return on equity | **10.9%** | 9.2% | **10.4%** | 8.8% |

(1) See below for details regarding the eliminated items.

### Details regarding eliminated items

**Gain from sale of a real estate asset in consolidated companies** - the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded on March 14, 2018. The gain on the sale, in the amount of NIS 19 million, was included in "other income" in the first quarter of 2018 (the effect on net earnings - NIS 13 million).

On June 21, 2018, the sale of the rights of Otsar Hahayal in the building were the management of the company operated, was completed . The gain on the sale, in the amount of NIS 46 million, was included in "other income" in the second quarter of 2018 (the effect on net earnings - NIS 33 million).

**Gain from the sale of the stock exchange-** On August 27, 2018, the transaction for the sale of the stock exchange shares was completed. The gain from the sale in the amount of NIS 77 million was included in the third quarter of 2018 in the item non-interest financing income ( the effect on net earnings- NIS 65 million).

**Gain from evaluation of the stock exchange shares-** On August 1, 2019 the stock exchange shares were registered for trade on the Stock Exchange. Following the registration, the Bank recorded in the third quarter of the year gain from evaluation of the shares in the amount of NIS 25 million in the item non-interest financing income (the effect on net earnings- NIS 16 million)(see note 5.f. to the inancial statements).

**Provision for expenses of the merger of Otsar Hahayal with and into the Bank** - Expenses in respect of severance compensation payable under the merger terms, and which were recognized in the statement of profit and loss in the same period last year, amounted to NIS 82 million (the effect on net earnings - NIS 53 million).

## DEVELOPMENT IN INCOME AND EXPENSES

### The Net Financing earnings

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effect of the time value in the fair value of derivatives, which is integral part of interest rate risk management and the effect of the rate of rise in the known CPI on derivatives, which is an integral part of the management of the exposure to the CPI risk.

Set out below is the composition of net financing earnings:

| | | | 2019 | | | | 2018 | First nine months | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | 2019 | 2018 |
| | | | | | | | NIS million | | NIS million |
| Interest income | **699** | 911 | 727 | 772 | 756 | 819 | 654 | **2,337** | 2,229 |
| Interest expenses | **57** | 246 | 92 | 119 | 122 | 204 | 70 | **395** | 396 |
| Net interest income | **642** | 665 | 635 | 653 | 634 | 615 | 584 | **1,942** | 1,833 |
| Non-interest financing income | **63** | 66 | 46 | 36 | 108 | 47 | 40 | **175** | 195 |
| Net financing earnings | **705** | 731 | 681 | 689 | 742 | 662 | 624 | **2,117** | 2,028 |

Set out below is an analysis of net financing earnings:

| | 2019 | | | 2018 | | | | First nine months | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | 2019 | 2018 |
| | | | | | | | NIS million | | NIS million |
| Earnings from current activity | **676** | 709 | 675 | 684 | 662 | 647 | 618 | **2,060** | 1,927 |
| Reconciliations to fair value of derivative instruments | **(4)** | 2 | (5) | 3 | 3 | 11 | 1 | **(7)** | 15 |
| Income from realization and reconciliations to fair value of bonds | **-** | 5 | 4 | 3 | - | 5 | 1 | **9** | 6 |
| Earnings (losses) from investments in shares | **33** | 15 | 7 | (1) | 77 | (1) | 4 | **55** | 80 |
| Net financing earnings | **705** | 731 | 681 | 689 | 742 | 662 | 624 | **2,117** | 2,028 |

An increase of 6.9% in financing earnings from current activity occurred in the first nine months of the year in comparison with the same period last year. This increase derived mainly from an increase in the volume of activity.

Set out below are main data regarding interest income and expenses:

| | For the nine months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| | | in % |
| Income rate on asset bearing interest | **2.59** | 2.48 |
| Expense rate on liabilities bearing interest | **0.76** | 0.74 |
| Total interest spread | **1.83** | 1.74 |
| Ratio between net interest income and assets bearing interest balance | **2.15** | 2.04 |

For details regarding the report on rates of interest income and expenses of the Bank and of its consolidated subsidiaries and the analysis of changes in interest income and expenses, see Appendix 1 to the Chapter "Corporate governance ".

**Expenses from credit losses** amounted to NIS 92 million in the first nine months of 2019 compared with NIS 130 million in the same period last year.

Set out below are details of expenses in respect of credit losses in respect of debts and off-balance sheet credit instruments:

| | For the nine months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| | | NIS million |
| Individual expense in respect of credit losses | **160** | 133 |
| Decrease in individual expense in respect of credit losses and collection of debts written off in accounting | **(153)** | (118) |
| Individual expense, net in respect of credit losses | **7** | 15 |
| Collective expense in respect of credit losses | **85** | 115 |
| Total expenses in respect of credit losses | **92** | 130 |
| Of which: | | |
| Expenses in respect of commercial credit | **43** | 88 |
| Expenses in respect of housing credit | **2** | 4 |
| Expenses in respect of other private credit | **47** | 38 |
| Ratio of individual expense in respect of credit losses to average total credit to the public(1) | **0.01%** | 0.03% |
| Ratio of collective expense in respect of credit losses to average total credit to the public(1) | **0.13%** | 0.18% |
| Ratio of total expenses in respect of credit losses to average total credit to the public(1) | **0.14%** | 0.21% |

(1) Annualized.

For additional information regarding expenses for credit losses, see Chapter "Review of Risks" below.

**Fees** totaled NIS 960 million in the first nine months of 2019, compared with NIS 985 million in the same period last year, a decrease of 2.5%.

Set out below are details of fees income:

| | For the nine months ended | | Change |
|---|---|---|---|
| | September 30, 2019 | September 30, 2018 | |
| | | NIS million | in % |
| Account management | **171** | 181 | (5.5) |
| Credit cards | **76** | 80 | (5.0) |
| Transactions in securities | **453** | 462 | (1.9) |
| Conversion differentials | **111** | 107 | 3.7 |
| Fees from financing transactions | **65** | 69 | (5.8) |
| Other Fees | **84** | 86 | (2.3) |
| Total Fees | **960** | 985 | (2.5) |

**Other income** totaled NIS 5 million in the first nine months of 2019, compared with NIS 77 million in the same period last year, a decrease stemming from decrease in gain from realization of assets. On June 21, 2018 the transaction for the sale of Otsar Hahayal rights in the building in which the head-office of the company operates, was consumated. The gain from the sale of these rights, which was included in this item in the same period last year, amounted to NIS 46 million, before tax effect. On March 14, 2018 the transaction for the sale of the real estate asset owned by FIBI (Swiss) Ltd. was concluded. The gain on the sale, which was included in this item in the same period last year, amounted to NIS 19 million, before tax effect.

**Operating and other expenses** totaled NIS 2,000 million in the first nine months of 2019, compared with NIS 2,093 million in the same period last year, a decrease of 4.4%.
Set out below are details of operating and other expenses:

| | For the nine months ended | |
|---|---|---|
| | September 30, 2019 | September 30, 2018 |
| | | NIS million |
| Salaries and related expenses | **1,215** | 1,241 |
| Maintenance and depreciation of buildings and equipment | **270** | 285 |
| Amortization of intangible assets | **68** | 67 |
| Expenses in respect of the merger of Otsar Hahayal | **6** | 82 |
| Expenses of reduction and dismissal | **40** | 18 |
| Other expenses except reduction and dismissal | **401** | 400 |
| Total operating and other expenses | **2,000** | 2,093 |

**Salaries and related expenses** totaled NIS 1,215 million in the first nine months of 2019, compared with NIS 1,241 million in the same period last tear, a decrease of 2.1%, explained mainly by decrease in salaries due to reduction in the manpower position in the Group, partialy offset by increase in salaries and from reduction in awards for employees.

**Maintenance and depreciation of buildings and equipment expenses** amounted to NIS 270 million in comparison to NIS 285 million in the same period last year, a decrease of 5.3%, stemming from reduction in the volume of the real estate assets in the Group due to the efficiency measures.

**Other expenses** totaled NIS 447 million in the first nine months of 2019, compared with NIS 500 million in the same period last year, a decrease of 10.6% explained mainly by a decrease in the amount of NIS 76 million in expenses in respect of the merger of Otsar Hahayal. This reduction was partially offset by an increase in dismissal expenses in the amount of NIS 22 million.

**The provision for taxes on operating earnings** amounted to NIS 357 million in the first nine months of 2019, compared with NIS 302 million in the same period last year. The effective tax rate as a proportion of earnings before taxes amounted to 36.1%, compared with the statutory rate of tax of 34.2%.

**The Bank's share in the operating earnings of investee company after the tax effect** amounted to NIS 39 million, compared with NIS 28 million in the same period last year.

**The total comprehensive profit attributed to the shareholders of the Bank** amounted to NIS 668 million. This amount was affected by the net profit for the period attributed to the shareholders of the Bank of NIS 643 million, by other comprehensive profit in respect of adjustments of available-for-sale securities in an amount of NIS 54 million and by other comprehensive loss in respect of employees' benefits in an amount of NIS 29 million.

# COMPOSITION AND DEVELOPMENT OF ASSETS, LIABILITIES, CAPITAL AND CAPITAL ADEQUACY

The consolidated balance sheet as of September 30, 2019 amounted to NIS 136,988 million compared with NIS 134,120 million as of December 31, 2018.

A. Set out below are developments in the principal balance sheet items:

| | September 30, 2019 | December 31, 2018 | Change |
|---|---|---|---|
| | | NIS million | % |
| Credit to the public, net | **87,310** | 84,292 | 3.6 |
| Securities | **10,453** | 12,595 | (17.0) |
| Cash and deposits with banks | **34,516** | 31,303 | 10.3 |
| Deposits from the public | **116,292** | 111,697 | 4.1 |
| Bonds and subordinated capital notes | **3,690** | 4,989 | (26.0) |
| Shareholders' equity | **8,461** | 8,093 | 4.5 |

B. Set out below are developments in the principal off-balance sheet financial instruments:

| | September 30, 2019 | December 31, 2018 | Change |
|---|---|---|---|
| | | NIS million | % |
| **Off-balance sheet financial instruments excluding derivatives:** | | | |
| Documentary credit | **290** | 281 | 3.2 |
| Guarantees and other liabilities | **7,858** | 7,840 | 0.2 |
| Unutilized credit lines for derivatives instruments | **2,303** | 2,405 | (4.2) |
| Unutilized revolving credit and other on-call credit facilities | **9,100** | 9,568 | (4.9) |
| Unutilized credit lines for credit card facilities and Facilities for the lending of securities | **7,909** | 7,726 | 2.4 |
| Irrevocable commitments to grant credit, not yet executed and commitments to issue guarantees | **5,719** | 6,679 | (14.4) |
| Total | **33,179** | 34,499 | (3.8) |

**Derivative financial instruments:**

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Positive fair value | Negative fair value | Face value | Positive fair value | Negative fair value | Face value |
| | | | | | | NIS million |
| Interest contracts | **269** | **440** | **20,371** | 207 | 224 | 29,110 |
| Currency contracts | **528** | **579** | **73,056** | 540 | 422 | 60,101 |
| Contracts in respect of shares | **280** | **280** | **38,275** | 651 | 650 | 45,227 |
| Commodities and other contracts | **1** | **1** | **66** | 1 | 1 | 100 |
| Total | **1,078** | **1,300** | **131,768** | 1,399 | 1,297 | 134,538 |

**Credit to the public, net** as of September 30, 2019 amounted to NIS 87,310 million compared with NIS 84,292 million as of December 31, 2018, an increase of 3.6%.

The following is information on credit to the public by linkage segment:

| | As of | | Change | | Segment's share of credit to the public as of | |
|---|---|---|---|---|---|---|
| | **September 30, 2019** | **December 31, 2018** | | **Change** | **September 30, 2019** | **December 31, 2018** |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **72,466** | 69,600 | 2,866 | 4.1 | **83.0** | 82.5 |
| - CPI-linked | **9,774** | 10,073 | (299) | (3.0) | **11.2** | 12.0 |
| Foreign currency (including f-c linked) | **4,448** | 4,065 | 383 | 9.4 | **5.1** | 4.8 |
| Non-monetary items | **622** | 554 | 68 | 12.3 | **0.7** | 0.7 |
| Total | **87,310** | 84,292 | 3,018 | 3.6 | **100.0** | 100.0 |

### Gross Credit to the public, before provision for credit losses, by supervisory segment of activity

| | | | As of | | Change |
|---|---|---|---|---|---|
| | **September 30, 2019** | **September 30, 2018** | **December 31, 2018** | **September 30, 2018** | **December 31, 2018** |
| | | | NIS million | % | |
| Large business segment | **17,732** | 18,688 | 17,052 | (5.1) | 4.0 |
| Medium business segment | **5,927** | 5,857 | 5,816 | 1.2 | 1.9 |
| Small and minute business segment | **16,290** | 15,932 | 15,948 | 2.2 | 2.1 |
| Household segment excluding housing loans | **21,942** | 20,833 | 21,040 | 5.3 | 4.3 |
| Housing loans | **25,198** | 24,033 | 24,319 | 4.8 | 3.6 |
| Private banking segment | **60** | 51 | 51 | 17.6 | 17.6 |
| Institutional entities | **1,069** | 973 | 934 | 9.9 | 14.5 |
| Total | **88,218** | 86,367 | 85,160 | 2.1 | 3.6 |
| Of which: consumer credit excluding housing loans and credit cards | | | | | |
| Household segment | **18,146** | 17,473 | 17,720 | 3.9 | 2.4 |
| Private banking segment | **25** | 20 | 22 | 25.0 | 13.6 |
| Total | **18,171** | 17,493 | 17,742 | 3.9 | 2.4 |

Total credit risk to the public is comprised of balance-sheet credit risk, which includes credit to the public, investments in bonds of the public and assets deriving from financial derivative instruments purchased by the public, and from off-balance-sheet credit, which includes transactions in off-balance-sheet financial instruments, unutilized credit lines and liabilities for the granting of credit.

Total credit risk to the public amounted to NIS 121,816 million on September 30, 2019 compared with NIS 120,495 million on December 31, 2018, an increase of 1.1%.

Set out below is information on the distribution of total credit risk to the public by sectors of the economy.

| Sector | As of September 30, 2019 | | As of December 31, 2018 | | |
|---|---|---|---|---|---|
| | Total credit risk | Sector's share in total credit risk | Total credit risk | Sector's share in total credit risk | Change |
| | NIS million | % | NIS million | % | % |
| Financial services (including holding companies) | **14,746** | **12.1** | 15,507 | 12.9 | (4.9) |
| Construction and real estate | **15,678** | **12.9** | 15,547 | 12.9 | 0.8 |
| Industry | **10,004** | **8.2** | 10,330 | 8.6 | (3.2) |
| Commerce | **7,902** | **6.5** | 7,981 | 6.6 | (1.0) |
| Private customers, including housing loans | **60,866** | **50.0** | 58,779 | 48.8 | 3.6 |
| Others | **12,620** | **10.3** | 12,351 | 10.2 | 2.2 |
| Total | **121,816** | **100.0** | 120,495 | 100.0 | 1.1 |

Set out below is the sector-specific distribution of the six largest borrowers at the Group (by size of gross indebtedness before deduction of collateral whose deduction is permissible for the purpose of limiting the indebtedness of a borrower and group of borrowers):

| | | As of September 30, 2019 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Aggregate credit risk | Aggregate credit risk after permitted deductions |
| | | | | | NIS million |
| 1. | Financial services | **1,183** | **165** | **1,348** | **610** |
| 2. | Industry | **530** | **291** | **821** | **821** |
| 3. | Financial services | **701** | **6** | **707** | **707** |
| 4. | Financial services | **701** | **-** | **701** | **701** |
| 5. | Electricity and water supply | **393** | **232** | **625** | **625** |
| 6. | Financial services | **553** | **5** | **558** | **34** |

| | | As of December 31, 2018 | | | |
|---|---|---|---|---|---|
| Borrower no. | Sector of the economy | Balance-sheet credit risk (*) | Off-balance-sheet credit risk | Aggregate credit risk | Aggregate credit risk after permitted deductions |
| | | | | | NIS million |
| 1. | Financial services | 1,999 | 224 | 2,223 | 763 |
| 2. | Financial services | 900 | 6 | 906 | 906 |
| 3. | Industry | 130 | 738 | 868 | 868 |
| 4. | Financial services | 700 | - | 700 | 700 |
| 5. | Financial services | 432 | - | 432 | - |
| 6. | Electricity and water supply | 230 | 172 | 402 | 402 |

* Including credit to the public after net accounting write-offs, investment in bonds and other assets in respect of derivative instruments.

The investment in securities as of September 30, 2019 totaled NIS 10,453 million compared with NIS 12,595 million at the end of 2018, a decrease of 17.0%.

Set out below is the composition of the portfolio:

| | As of | | Share of total securities | |
|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| | | NIS million | | % |
| Government bonds | **8,257** | 9,742 | **79.0** | 77.4 |
| Banks' bonds (1) | **297** | 698 | **2.8** | 5.5 |
| Other bonds (corporate and asset-backed) | **877** | 803 | **8.4** | 6.4 |
| Other bonds (corporate and asset-backed) guaranteed by governments | **712** | 1,125 | **6.8** | 8.9 |
| Shares (2) | **310** | 227 | **3.0** | 1.8 |
| Total | **10,453** | 12,595 | **100.0** | 100.0 |

(1) The balance includes bonds that were issued by banks' issuing companies.
Of which: Banks' foreign-currency bonds guaranteed by foreign governments in the amount of NIS 260 million (December 31, 2018 - NIS 531 million).

(2) Investment in shares includes inter alia investment in private equity funds in the amount of NIS 94 million, investment in foreign currency shares of NIS 70 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 113 million (31.12.18 - investment in private equity funds in the amount of NIS 123 million, investment in foreign currency shares of NIS 77 million and investment in shares traded on the Tel Aviv Stock Exchange amounting to NIS 19 million).

Set out below is the distribution of the securities portfolio by linkage segments:

| | As of | | | | Segment's share of total securities | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | | Change | September 30, 2019 | December 31, 2018 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **3,401** | 4,250 | (849) | (20.0) | **32.5** | 33.7 |
| - CPI-linked | **335** | 712 | (377) | (52.9) | **3.2** | 5.7 |
| Foreign currency denominated & linked | **6,407** | 7,406 | (999) | (13.5) | **61.3** | 58.8 |
| Non-monetary items | **310** | 227 | 83 | 36.6 | **3.0** | 1.8 |
| Total | **10,453** | 12,595 | (2,142) | (17.0) | **100.0** | 100.0 |

Set out below are the sources for the price quotations which the Bank used for determining the fair value of securities on September 30, 2019:

| | Price quoted in active market | Indicative price* | Counter-party price** | Total |
|---|---|---|---|---|
| | | | | NIS million |
| Shares and private investment funds | **178** | **33** | **99** | **310** |
| Local currency government bonds | **3,097** | **-** | **-** | **3,097** |
| Local currency corporate bonds | **365** | **274** | **-** | **639** |
| Non-asset backed foreign-currency and f-c linked bonds | **131** | **5,865** | **-** | **5,996** |
| MBS bonds | **-** | **411** | **-** | **411** |
| Total | **3,771** | **6,583** | **99** | **10,453** |
| % of portfolio | **36.1** | **62.9** | **1.0** | **100.0** |

* Indicative price-An indication determined by the Bank and which is based mainly on price quotations obtained from an external entity or entities specializing in the matter, and the remainder is based on internal models determined by the Bank.

** Counter-party price-Price quotation obtained from the entity with which the transaction is conducted. With respect to private equity funds, the need for a provision for write-down is examined on the basis of their financial statements.

Below are additional details of bonds denominated in and linked to foreign currency, which are not asset-backed, by country/continent:

| | As of | |
|---|---|---|
| | September 30, 2019 | December 31, 2018 |
| | | NIS million |
| Israel (incl. Israel Government - NIS 3,075 million, 31.12.18 - NIS 3,364 million) | **3,210** | 3,491 |
| USA (incl. USA Government - NIS 2,085 million, 31.12.18 - NIS 1,944 million) | **2,199** | 2,051 |
| France | **183** | 96 |
| Canada | **25** | 459 |
| Germany (incl. Germany Government or guaranteed by it) | **279** | 547 |
| Europe - others (1 country; 31.12.18 - 2 countries) | **38** | 93 |
| UK | **-** | 29 |
| Far East, Australia and others (3 countries; 31.12.18 - 5 countries) | **62** | 204 |
| Total | **5,996** | 6,970 |

It should be noted that there is no issuer (except the Israel Government and USA Government) whose bond balance exceeds 2% of the shareholders' equity of the Bank.

Set out below are additional details on local currency corporate bonds by sector:

| | As of | |
|---|---|---|
| | September 30, 2019 | December 31, 2018 |
| | | NIS million |
| Financial services | **82** | 72 |
| Banks | **12** | 68 |
| Industry | **32** | 46 |
| Electricity and water | **148** | 139 |
| Construction and real estate | **177** | 161 |
| Communications and computer services | **-** | 9 |
| Commerce | **58** | 50 |
| Transportation | **101** | 63 |
| Hotels, hospitality and food services | **25** | 23 |
| Public and community services | **4** | 5 |
| Total | **639** | 636 |

**Set out below is the composition of the foreign-currency bond portfolio at the Bank Group:**

- **Non-asset-backed bonds denominated in or linked to foreign currency** - amounting to NIS 5,996 million (Dollar 1,722 million) (includes foreign corporations amounting to NIS 700 million, foreign currency denominated bonds of Israeli corporations, mostly traded abroad, amounting to NIS 136 million, foreign currency denominated Israel Government bonds amounting to NIS 3,075 million and foreign government bonds amounting to NIS 2,085 million). All of the foreign bonds are investment grade and All of the portfolio is rated A or higher; 0.4% of the exposure is to leading banking and financial institutions in OECD countries. This portfolio is diversified, in a manner whereby exposure to any single issuer (which is not a government) does not exceed 2.3% of the total foreign currency bond portfolio. The duration (average term-to-maturity) of the foreign currency bond portfolio is 3 years. The balance of unrealized gross profits (included in shareholders' equity under reconciliations to fair value in respect of the presentation of securities available for sale) as of the report date in respect of this portfolio amounted to NIS 40 million (Dollar 12 million) compared with NIS 6 million (Dollar 2 million) on December 31, 2018.
- **Mortgage Backed Securities (MBS)** - amount to NIS 411 million (Dollar 118 million).

  Of these, NIS 410 million (Dollar 118 million) were issued by Ginnie Mae, which is wholly owned by the US government. The balance of NIS 1 million was issued by the US federal agencies Fannie Mae and Freddie Mac.

  Set out below is a sensitivity analysis as of September 30, 2019 of the effect of changes in the interest rate on the rate of early repayments and the fair value of the MBS portfolio (including economic hedging of interest rate swaps):

| | Change in rate of early repayments | Change in fair value |
|---|---|---|
| | Percentage points | Dollar million |
| Increase of 200 base points | **(13.1)** | **(5.7)** |
| Increase of 100 base points | **(9.0)** | **(2.1)** |
| Decrease of 100 base points | **20.8** | **0.4** |
| Decrease of 200 base points | **35.3** | **0.3** |

The balance of the gain, net, included in other comprehensive profit, in respect of the difference between fair value of available for sale bonds and their amortized cost, as of September 30, 2019 amounted to NIS 63 millions.

**Cash and deposits at banks** on September 30, 2019 totaled NIS 34,516 million compared with NIS 31,303 million at the end of 2018, an icrease of 10.3%

**Deposits from the public** on September 30, 2019 totaled NIS 116,292 million compared with NIS 111,697 million at the end of 2018, an increase of 4.1%.

Set out below is the distribution of deposits from the public by linkage segments:

| | As of | | | | Segment's share of total deposits from the public on | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | December 31, 2018 | | Change | September 30, 2018 | December 31, 2018 |
| | | NIS million | NIS million | % | % | % |
| Local currency | | | | | | |
| - Non-linked | **91,598** | 86,317 | 5,281 | 6.1 | **78.8** | 77.3 |
| - CPI-linked | **5,369** | 5,858 | (489) | (8.3) | **4.6** | 5.2 |
| Foreign currency denominated & linked | **18,701** | 18,968 | (267) | (1.4) | **16.1** | 17.0 |
| Non-monetary items | **624** | 554 | 70 | 12.6 | **0.5** | 0.5 |
| Total | **116,292** | 111,697 | 4,595 | 4.1 | **100.0** | 100.0 |

### Deposits from the public by supervisory segment of activity

| | As of | | | Change | |
|---|---|---|---|---|---|
| | **September 30, 2019** | **September 30, 2018** | **December 31, 2018** | **September 30, 2018** | **December 31, 2018** |
| | | | NIS million | | % |
| Large business | **10,487** | 9,879 | 9,212 | 6.2 | 13.8 |
| Medium business | **5,057** | 4,902 | 5,167 | 3.2 | (2.1) |
| Small and minute business | **18,612** | 16,951 | 17,802 | 9.8 | 4.6 |
| Household | **51,706** | 48,343 | 50,300 | 7.0 | 2.8 |
| Private banking | **7,526** | 7,795 | 8,029 | (3.5) | (6.3) |
| Institutional entities | **22,904** | 25,934 | 21,187 | (11.7) | 8.1 |
| Total | **116,292** | 113,804 | 111,697 | 2.2 | 4.1 |

### Securities portfolios belonging to customers of the Bank Group

The total of the securities portfolios of customers of the Bank Group as of September 30, 2019, amounted to NIS 328 billion, as compared to NIS 304 billion at the end of 2018.

**Bonds and subordinated capital notes** amounted at September 30, 2019 to NIS 3,690 million, as compared with NIS 4,989 million at December 31, 2018, a decrease of 26.0%.

On September 10, 2019 the First International Issuance Ltd., a wholly owned subsidiary of the Bank, issued on public placement bonds, at par value of NIS 700 million in proceeds of NIS 711 million. The proceeds of the issuance of the bonds was deposited at the Bank. The Bank committed to fullfil the conditions of the issued subordinated capital notes.

## CAPITAL AND CAPITAL ADEQUACY

**The capital attributed to the shareholders of the Bank** amounted on September 30, 2019 to NIS 8,461 million, as compared with NIS 8,093 million on December 31, 2018, an increase of 4.5%.
For detailes regarding the development of the other comprehensive profit, see the Chapter "Material developments in income, expenditure and in other comprehensive profit".

### CAPITAL ADEQUACY

#### Minimum capital ratios

The Bank implement Proper Conduct of Banking Business Directives Nos. 201-211 in the metter of "Measurement and capital adequacy" as were amended in order to reconcile them with the Basel guidelines. The implementation was gradual in accordance to the transitional instructions in Proper Conduct of Banking Business Directive No. 299 "Measurement and capital adequacy- supervisory capital - transitional instructions". These instruction require that the ratio of Tier I equity capital to weighted average risk assets should be no less than 9% and the ratio of comprehensive capital to average risk assets should be no less than 12.5% for all banking corporations, the total consolidated stated assets of which does not exceeds 20% of total stated assets of the banking sector (including the Bank).

To these minimal capital ratios an additional capital requirement was added at a rate reflecting 1% of the outstanding balance of housing loans at the reporting date.
In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

The internal capital goals as were set by the Board of Directors are as follows:

- In a regular business situation - Tier I equity capital will be no less than 9.31%, and the ratio of the comprehensive capital will be no less than 12.81%.
- In stress situations - the ratio of Tier I equity capital shall not be less than 6.50%, and the ratio of comprehensive capital shall not be less than 9.00%.

#### Basel 3 guidelines

According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, as from January 1, 2019 the maximum rate of instruments qualified as regulatory capital amounts to 30%.

#### Operational Efficiency

On January 12, 2016, Bank of Israel issued a letter, in the matter of "operational efficiency of the banking sector in Israel". In accordance with the letter, the board of directors of banking corporation has to outline a multi-annual program for the improvement of efficiency.
A banking corporation that conforms with the terms of the letter would be entitled to a relief, whereby it may spread, by the "straight line" method, over a period of five years, the effect of the cost of the program. On September 16, 2018 the Supervisor of Banks published a letter that extends the effectiveness of these guidelines until December 31, 2019.

- On November 17, 2016, the Board of Directors of the Bank approved the update of the strategic program of the Group concerning the efficiency measures aspect, the cost of which was estimated at NIS 207 million (before the tax effect). Were it not for the said relief, the implementation of the efficiency measures, as of September 30, 2019 would have reduced the capital adequacy ratios by 0.08%.

- In the course of 2018, the Board of Directors of the Bank resolved to introduce additional efficiency measures at Otsar Hahayal, a merger decision was taken in the third quarter of 2018, and on January 1, 2019, Otsar Hahayal was merged with and into the Bank. The said decisions as well as their expected implications have surpassed the original efficiency program of the Group from 2016. In respect of these actions the Group recorded a provision for increased severance compensation in the amount of NIS 82 million (net amount of NIS 53 million after the tax effect).

  Were it not for the said relief, the implementation of the efficiency measures, as of September 30, 2019 would have reduced the capital adequacy ratios by additional 0.06%.

## Implementation of the instructions

As stated above, in accordance with Bank of Israel instructions, the Bank implements the Basel instructions.

Pillar I - Credit, market and operating risks - the Bank is implementing the standard approach in accordance with Bank of Israel instructions.

Pillar II - the Bank is required to conduct an internal process for the assessment of capital adequacy (the ICAAP process). This process is designed to ensure the maintenance of an adequate level of capital means supporting the overall risks inherent in the operations of the Bank. The ICAAP document relating to the data as of March 31, 2019, has been dully submitted to bank of Israel. The infrastructure for the capital adequacy, as approved by the Bank, serves as a basis for the internal process conducted at the banking subsidiary, subject to required adjustments, and on the basis of its specific risk profile.

| | | | As of |
|---|---|---|---|
| | | **September 30, 2019** | **December 31, 2018** |
| **1.** | **Capital for calculation of capital ratio, after deduction and supervisory adjustments** | | |
| | Tier 1 capital, after deductions and supervisory adjustments | **8,683** | 8,321 |
| | Tier 2 capital, after deductions | **2,350** | 2,713 |
| | Total capital | **11,033** | 11,034 |
| **2.** | **Weighted balances of risk assets** | | |
| | Credit risk | **73,438** | 71,847 |
| | Market risk | **640** | 889 |
| | Operational risk | **6,399** | 6,401 |
| | Total weighted balances of risk assets | **80,477** | 79,137 |
| **3.** | **Ratio of capital to risk assets** | | |
| | Raito of tier 1 equity capital to risk assets | **10.79%** | 10.51% |
| | Comprehensive ratio of capital to risk assets | **13.71%** | 13.94% |
| | Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **9.31%** | 9.31% |
| | Minimal ratio of comprehensive capital required by the Supervisor of Banks | **12.81%** | 12.81% |

The Tier I equity capital ratio as of September 30, 2019, amounted to 10.79% in comparison with 10.51% on December 31, 2018. The ratio of comprehensive capital to risk components as of September 30, 2019, amounted to 13.71%, in comparison with 13.94% on December 31, 2018.

The comprehensive capital as of September 30, 2019 amounted to NIS 11,033 million, in comparison with NIS 11,034 million on December 31, 2018. The capital base was affected from earnings of NIS 643 million and from other comprehensive income in respect of presentation of available for sale bonds at fair value in the amount of NIS 54 million. This increase was offset by dividend paid in the amount of NIS 300 million, other comprehensive loss in the amount of NIS 29 million in respect of employees' benefits and a decrease in the amount of NIS 364 million in capital instruments issued by the Bank, which are qualified as regulatory capital.

Risk assets as of September 30, 2019 amounted to NIS 80,477 million as compared with NIS 79,137 million on December 31, 2018.

The comprehensive capital ratio and the Tier I equity capital ratio of the significant subsidiary, in accordance with the "framework for measurement and capital adequacy" of Basel, are:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| | | In percent |
| **Bank Massad Ltd.** | | |
| Ratio of Tier 1 capital to risk assets | **13.43%** | 13.04% |
| Ratio of comprehensive capital to risk assets | **14.47%** | 14.12% |

**Leverage ratio in accordance with instructions of the Supervisor of Banks** - The Bank implements the Proper Conduct of Banking Business Directive No. 218 in the matter of Leverage ratio. The leverage ratio is expressed in percentages and is defined as the ratio between capital measurement and exposure measurement. Capital for the purpose of measuring the leverage ratio is the Tier I equity capital, as defined in Proper Conduct of Banking Business Directive No. 202, taking into consideration the prescribed transitional arrangements. In accordance with the Directive, a banking corporation should attain a leverage ratio of no less than 5% on a consolidated basis, for a banking corporation, the total consolidated stated assets of which is up to 20% of total stated assets of the banking sector as a whole (including the Bank). The minimum leverage ratio for a banking corporation applies as from January 1, 2018 and thereafter. The leverage ratio of the Bank as of September 30, 2019, amounts to 5.91%, compared to 5.76% as of December 31, 2018.

## DIVIDEND DISTRIBUTION POLICY

According to the updated dividend distribution policy as was approved by the Board of Directors of the Bank (as was updated on June 9, 2015 and August 14, 2017), the Bank will distribute annual dividends of up to 50% of its distributable annual net earnings, subject to the Bank's ratio of capital to risk elements being no less than the target specified by the Bank's Board of Directors from time to time. Such distributions will be made subject to legislative provisions and to Proper Conduct of Banking Business Regulations, providing that no adverse changes occur in the Bank's earnings and/or business and/or financial position and/or the overall state of the economy and/or the legal environment. It should be clarified, that as from the year 2017, the net annual earnings refer to the annual net earnings of the current year.

This resolution is not to be construed as detracting from the Board of Directors' authority to review policy from time to time and to resolve at any time, after taking due account of business considerations and of the legislative provisions applying to the Bank, changes in policy or the rate of dividend to be distributed for a specific period, or to resolve not to distribute any dividend at all.

It is clarified that any dividend distribution shall be subject to specific approval by the Board of Directors and to all the restrictions applying to the Bank regarding dividend distribution, and shall be made public with all required details in accordance with the law.

It should be noted that in addition to the provisions of the Companies Law, dividend distribution by the Bank is subject to additional restrictions that are detailed in Note 24A.b. to the financial statements for 2018.

Following are details regarding dividends distributed by the Bank, as from the year 2017:

| Declaration date | Payment date | Total dividend paid | Dividend per share |
|---|---|---|---|
| | | NIS million | NIS |
| 15 March 2017 | 2 April 2017 | 70 | 0.70 |
| 23 May 2017 | 14 June 2017 | 70 | 0.70 |
| 14 August 2017 | 31 August 2017 | 70 | 0.70 |
| 14 November 2017 | 3 December 2017 | 100 | 1.00 |
| 5 March 2018 | 21 March 2018 | 95 | 0.95 |
| 28 May 2018 | 5 June 2018 | 60 | 0.60 |
| 14 August 2018 | 2 September 2018 | 100 | 1.00 |
| 20 November 2018 | 9 December 2018 | 100 | 1.00 |
| 12 March 2019 | 20 March 2019 | 105 | 1.05 |
| 28 May 2019 | 17 June 2019 | 85 | 0.85 |
| 13 August 2019 | 29 August 2019 | 110 | 1.10 |

Subsequent to balance sheet date, on November 26, 2019, the Board of directors of the Bank resolved to distribute a dividend in cash to shareholders of the Bank in a total amount of NIS 110 million. The determining date for the distribution of the dividend is December 4, 2019, and the date of payment is December 12, 2019. The amount of the dividend is before any taxes, including the tax that the Bank has to withhold in terms of the law.

## SUPERVISORY SEGMENTS OF ACTIVITY

The reporting on segments of activity is in accordance with the format and classification set in the Directive of the Reporting to the Public of the Supervisor of Banks. This reporting is materialy defferent from the segments of activity used by the Bank according to Management approach, which are detailed in Note 11A to the financial statements. The supervisory segements of activity are reported in a uniform format that was set by the Supervision of Banks to the entire banking system, and they are based on the customers characteristics, such as: the volume of assets protfolio- for private customers, or the business turnover- for business customers.
For the definitions of the supervisory segements of activity and for details regarding main instructions, estimates and principals of reporting, see Note 28 to the financial statements for the year 2018.
For details regarding segments of activity according to management's approach, see Note 28A to the financial statements for the year 2018.

The following is a summary of the results of activity by segments:

### a. Total income*

| | For the three months ended September 30, | | | Segment's share of total income | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **30.9.19** | **30.9.18** |
| | | NIS million | % | | % |
| Large business | **101** | 107 | (5.6) | **9.8** | 10.0 |
| Medium business | **62** | 65 | (4.6) | **6.0** | 6.1 |
| Small and minute business | **236** | 233 | 1.3 | **22.8** | 21.9 |
| Household | **448** | 439 | 2.1 | **43.4** | 41.2 |
| Private banking | **27** | 24 | 12.5 | **2.6** | 2.3 |
| Institutional entities | **65** | 64 | 1.6 | **6.3** | 6.0 |
| Financial management | **94** | 134 | (29.9) | **9.1** | 12.5 |
| Total | **1,033** | 1,066 | (3.1) | **100.0** | 100.0 |

| | For the nine months ended September 30, | | | Segment's share of total income | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **30.9.19** | **30.9.18** |
| | | NIS million | % | | % |
| Large business | **301** | 314 | (4.1) | **9.8** | 10.2 |
| Medium business | **187** | 187 | 0.0 | **6.1** | 6.1 |
| Small and minute business | **711** | 697 | 2.0 | **23.0** | 22.5 |
| Household | **1,338** | 1,281 | 4.4 | **43.4** | 41.4 |
| Private banking | **80** | 71 | 12.7 | **2.6** | 2.3 |
| Institutional entities | **198** | 182 | 8.8 | **6.4** | 5.9 |
| Financial management | **267** | 358 | (25.4) | **8.7** | 11.6 |
| Total | **3,082** | 3,090 | (0.3) | **100.0** | 100.0 |

* Including net interest income and non-interest income.

## b. Net profit attributed to the shareholders of the bank

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | | NIS million | | NIS million |
| Large business | **16** | 26 | **105** | 91 |
| Medium business | **41** | 15 | **64** | 57 |
| Small and minute business | **46** | 32 | **125** | 90 |
| Household | **51** | 25 | **114** | 48 |
| Private banking | **9** | 1 | **21** | 11 |
| Institutional entities | **9** | 16 | **36** | 38 |
| Financial management | **64** | 97 | **178** | 233 |
| Total | **236** | 212 | **643** | 568 |

## c. Average balance sheet balances*

| | Total assets | | | % of total assets | |
|---|---|---|---|---|---|
| | For the nine months ended September 30, | | | For the nine months ended September 30, | |
| | 2019 | 2018 | Change | 30.9.19 | 30.9.18 |
| | | NIS million | % | % | % |
| Large business | **17,438** | 17,634 | (1.1) | **20.4** | 21.3 |
| Medium business | **5,687** | 5,708 | (0.4) | **6.7** | 6.9 |
| Small and minute business | **15,852** | 15,297 | 3.7 | **18.6** | 18.5 |
| Household | **45,258** | 43,349 | 4.4 | **53.0** | 52.4 |
| Private banking | **49** | 51 | (3.9) | **0.1** | 0.1 |
| Institutional entities | **1,000** | 683 | 46.4 | **1.2** | 0.8 |
| Total | **85,284** | 82,722 | 3.1 | **100.0** | 100.0 |

| | Total liabilities | | | % of total liabilities | |
|---|---|---|---|---|---|
| | For the nine months ended September 30, | | | For the nine months ended September 30, | |
| | 2019 | 2018 | Change | 30.9.19 | 30.9.18 |
| | | NIS million | % | % | % |
| Large business | **9,667** | 9,954 | (2.9) | **8.4** | 8.8 |
| Medium business | **4,877** | 4,865 | 0.2 | **4.2** | 4.3 |
| Small and minute business | **18,148** | 17,076 | 6.3 | **15.8** | 15.0 |
| Household | **50,884** | 47,365 | 7.4 | **44.3** | 41.7 |
| Private banking | **7,648** | 7,700 | (0.7) | **6.7** | 6.8 |
| Institutional entities | **23,693** | 26,610 | (11.0) | **20.6** | 23.4 |
| Total | **114,917** | 113,570 | 1.2 | **100.0** | 100.0 |

* Average balances are calculated on the basis of balances at the beginning of quarter or the beginning of month.

## BUSINESS SEGMENTS - SMALL AND MINUTE BUSINESS SEGMENT, MEDIUM BUSINESS SEGMENT AND LARGE BUSINESS SEGMENT

### Following are main data concerning business segments - Small and minute, medium and large business - activity in Israel

| | For the three months ended September 30, 2019 | | | | For the three months ended September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Small and minute business | Medium business | Large business | Total | Small and minute business | Medium business | Large business | Total |
| | | | | | | | | NIS million |
| Net interest income | **159** | **42** | **72** | **273** | 160 | 45 | 81 | 286 |
| Non-interest income | **77** | **20** | **29** | **126** | 73 | 20 | 26 | 119 |
| Total income | **236** | **62** | **101** | **399** | 233 | 65 | 107 | 405 |
| Expenses (income) from credit losses | **11** | **(33)** | **43** | **21** | 15 | 7 | 15 | 37 |
| Operating and other expenses | **153** | **28** | **36** | **217** | 163 | 30 | 49 | 242 |
| Net profit attributed to the shareholders of the Bank | **46** | **41** | **16** | **103** | 32 | 15 | 26 | 73 |
| Average balance of credit to the public | **15,836** | **5,849** | **16,926** | **38,611** | 15,661 | 5,694 | 17,986 | 39,341 |
| Balance of credit to the public at the end of the reported period | **16,290** | **5,927** | **17,732** | **39,949** | 15,932 | 5,857 | 18,688 | 40,477 |
| Average balance of deposits from the public | **18,522** | **4,771** | **12,439** | **35,732** | 17,630 | 4,861 | 9,578 | 32,069 |
| Balance of deposits from the public at the end of the reported period | **18,612** | **5,057** | **10,487** | **34,156** | 16,951 | 4,902 | 9,879 | 31,732 |

| | For the nine months ended September 30, 2019 | | | | For the nine months ended September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Small and minute business | Medium business | Large business | Total | Small and minute business | Medium business | Large business | Total |
| | | | | | | | | NIS million |
| Net interest income | **482** | **129** | **213** | **824** | 462 | 127 | 227 | 816 |
| Non-interest income | **229** | **58** | **88** | **375** | 235 | 60 | 87 | 382 |
| Total income | **711** | **187** | **301** | **1,199** | 697 | 187 | 314 | 1,198 |
| Expenses (income) from credit losses | **38** | **(6)** | **9** | **41** | 59 | 6 | 23 | 88 |
| Operating and other expenses | **471** | **88** | **123** | **682** | 489 | 86 | 146 | 721 |
| Net profit attributed to the shareholders of the Bank | **125** | **64** | **105** | **294** | 90 | 57 | 91 | 238 |
| Average balance of credit to the public | **15,852** | **5,687** | **17,438** | **38,977** | 15,297 | 5,708 | 17,634 | 38,639 |
| Balance of credit to the public at the end of the reported period | **16,290** | **5,927** | **17,732** | **39,949** | 15,932 | 5,857 | 18,688 | 40,477 |
| Average balance of deposits from the public | **18,148** | **4,877** | **9,667** | **32,692** | 17,076 | 4,865 | 9,954 | 31,895 |
| Balance of deposits from the public at the end of the reported period | **18,612** | **5,057** | **10,487** | **34,156** | 16,951 | 4,902 | 9,879 | 31,732 |

**Main changes in the results of activity in the first nine months of 2019 compared with the corresponding period last year**

Total net interest income amounted to NIS 824 million, compared with NIS 816 million in the same period last year, an increase of 1.0%.

The operating and other expenses amounted to NIS 682 million, compared to NIS 721 million in the corresponding period last year, a decrease of 5.4%, derived mainly from expenses recorded in the same period last year in respect of the merger of Otsar Hahayal and from reduction in the payroll expenses due to a decrease in manpower in the Group. This decrease was partialy offset by an increase in dismissal expenses and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the small and minute, medium sized and large businesses, amounted to NIS 294 million, in comparison with NIS 238 million in the same period last year, an increase of 23.5%. The increase in profit is explained by a reduction in expenses in respect of credit losses and decrease in operating and other expenses.

Average balance of credit to the public amounted to NIS 38,977 million, in comparison with NIS 38,639 million in the same period last year, an increase of 0.9%.

Credit to the public as of September 30, 2019 amounted to NIS 39,949 million, in comparison with NIS 40,477 million on September 30, 2018, a decrease of 1.3%.

Average balance of deposits from the public amounted to NIS 32,692 million, in comparison with NIS 31,895 million in the same period last year, an increase of 2.5%.

Deposits from the public as of September 30, 2019 amounted to NIS 34,156 million, in comparison with NIS 31,732 million on September 30, 2018, an increase of 7.6%.

## PRIVATE INDIVIDUALS SEGMENTS - HOUSEHOLDS AND PRIVATE BANKING

### Following are main data concerning Private individuals segments - household and private banking - activity in Israel

| | For the three months ended September 30, 2019 | | | For the three months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | household | private banking | Total | household | private banking | Total |
| | | | | | | NIS million |
| Net interest income | **310** | **10** | **320** | 293 | 8 | 301 |
| Non-interest income | **138** | **17** | **155** | 146 | 16 | 162 |
| Total income | **448** | **27** | **475** | 439 | 24 | 463 |
| Expenses from credit losses | **10** | **-** | **10** | 12 | - | 12 |
| Operating and other expenses | **350** | **15** | **365** | 379 | 22 | 401 |
| Net profit attributed to the shareholders of the Bank | **51** | **9** | **60** | 25 | 1 | 26 |
| Average balance of credit to the public | **45,884** | **55** | **45,939** | 44,297 | 49 | 44,346 |
| Balance of credit to the public at the end of the reported period | **47,140** | **60** | **47,200** | 44,866 | 51 | 44,917 |
| Average balance of deposits from the public | **51,440** | **7,490** | **58,930** | 48,193 | 7,666 | 55,859 |
| Balance of deposits from the public at the end of the reported period | **51,706** | **7,526** | **59,232** | 48,343 | 7,795 | 56,138 |

| | For the nine months ended September 30, 2019 | | | For the nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | household | private banking | Total | household | private banking | Total |
| | | | | | | NIS million |
| Net interest income | **928** | **30** | **958** | 847 | 24 | 871 |
| Non-interest income | **410** | **50** | **460** | 434 | 47 | 481 |
| Total income | **1,338** | **80** | **1,418** | 1,281 | 71 | 1,352 |
| Expenses from credit losses | **49** | **-** | **49** | 42 | - | 42 |
| Operating and other expenses | **1,085** | **48** | **1,133** | 1,140 | 53 | 1,193 |
| Net profit attributed to the shareholders of the Bank | **114** | **21** | **135** | 48 | 11 | 59 |
| Average balance of credit to the public | **45,258** | **49** | **45,307** | 43,349 | 51 | 43,400 |
| Balance of credit to the public at the end of the reported period | **47,140** | **60** | **47,200** | 44,866 | 51 | 44,917 |
| Average balance of deposits from the public | **50,884** | **7,648** | **58,532** | 47,365 | 7,700 | 55,065 |
| Balance of deposits from the public at the end of the reported period | **51,706** | **7,526** | **59,232** | 48,343 | 7,795 | 56,138 |

**Main changes in the results of activity in the first nine months of 2019 compared with the corresponding period last year**

Total net interest income amounted to NIS 958 million, as compared with NIS 871 million in the corresponding period last year, an increase of 10.0%, which stemmed mainly from an increase in the volume of activity and from an increase in income from the deposit activity.

Non-interest income amounted to NIS 460 million, in comparison with NIS 481 million in the corresponding period last year, a decrease of 4.4%.

Operating and other expenses amounted to NIS 1,133 million, as compared to NIS 1,193 million in the corresponding period last year, a decrease of 5.0%, derived mainly from expenses recorded in the same period last year in respect of the merger of Otsar Hahayal, from reduction in the payroll expenses due to a decrease in manpower in the Group and from decrease in the expenses of maintenance and depreciation of buildings and equipment due to reduction in the volume of real estate assets. This decrease was partialy offset by an increase in dismissal expenses and an increase in salaries.

The net profit attributed to the shareholders of the Bank in respect of the private individuals segment, which includes households and private banking, amounted to NIS 135 million, compared with NIS 59 million in the corresponding period last year.

Average balance of credit to the public amounted to NIS 45,307 million, in comparison with NIS 43,400 million in the same period last year, an increase of 4.4%.

Credit to the public as of September 30, 2019 amounted to NIS 47,200 million, in comparison with NIS 44,917 million on September 30, 2018, an increase of 5.1%.

Average balance of deposits from the public amounted to NIS 58,532 million, in comparison with NIS 55,065 million in the same period last year, an increase of 6.3%.

Deposits from the public as of September 30, 2019 amounted to NIS 59,232 million, in comparison with NIS 56,138 million on September 30, 2018, an increase of 5.5%.

## FINANCIAL MANAGEMENT SEGMENT

Total income attributed to this segment amounted to NIS 267 million compared with NIS 358 million in the corresponding period last year.

The net earnings of the Financial Management Segment amounted to NIS 178 million compared with NIS 233 million in the corresponding period last year.

The following are the main factors which affected the decrease in profit in the financial management segment:

- Decrease in gain from the sale of assets in consolidated subsidiaries, which amounted to NIS 46 million, net after tax effect, in the corresponding period last year.
- Gain from the sale of the Stock Exchange shares was recorded in the amount of NIS 65 million, net after tax effect, in the corresponding period last year.

On the other hand, the following facrors partially offset these effect:

- An increase in proit from investment in shares and bonds in the amount of NIS 36 million, net after tax effect.
- An increase in the share of the Bank in the earnings of ICC in the amount of NIS 11 million.

## PRINCIPAL INVESTEE COMPANIES

**Bank Massad Ltd.** (hereinafter - "Massad") - in which the Bank owns 51.0% of the share capital and voting rights, is a commercial bank which operates a network of 23 branches and sub-branches.

The Bank's investment in Massad amounted to NIS 364 million on September 30, 2019.

Total assets of Massad on September 30, 2019 amounted to NIS 8,577 million compared with NIS 8,255 million on December 31, 2018, an increase of 3.9%.

Shareholders' equity of Massad on September 30, 2019, totaled NIS 713 million compared with NIS 653 million on December 31, 2018, an increase of 9.2%.

Net earnings of Massad for the nine month of 2019 totaled NIS 59.2 million compared with NIS 50.7 million in the same period last year, an increase of 16.8%. The change in profits is mostly explained by the increase in interest income, stemming mainly from the growth in volume of credit to the public and an increase in the Bank of Israe interest rate.

The Bank's share in Massad's operating results for the nine month of 2019 amounted to NIS 30.2 million compared with NIS 23.7 million in the same period last year.

Net return on equity (annualized) amounted to 11.8% in the period January- September 2019, compared with 11.2% in the same period last year. The ratio of comprehensive capital to risk assets amounted to 14.47%, compared with 14.12% at the end of 2018. The Tier 1 equity capital ratio amounted to 13.43% compared with 13.04% at the end of 2018.

In the framework of the ICAAP process for the data of December 31, 2018 the minimal capital targets were set as follows: tier 1 equity capital ratio will not be less than 10.5% until December 31, 2021 and the comprehensive capital ratio will be no less than 12.65% until December 31, 2021.

On July 26, 2019, Mr. Gavriel Title was appointed as the CEO of Massad, instead of Mr. Yaacov Shuri who retired.

**Israel Credit Cards Ltd. ("ICC")** - The Bank holds 28.2% of equity and 21.0% of voting rights in ICC.

ICC markets and issues credit cards and settles credit card transactions of the international Visa and MasterCard brand, markets and operates Diners credit cards on an exclusive basis in Israel, and also settles credit cards of Isracard brand.

The Bank's investment in ICC amounted to NIS 607 million on September 30, 2019.

The ratio of comprehensive capital to risk assets amounted to 14.4%, compare with 15.9% at the end of 2018.

The Bank's share in the net earnings of ICC before the tax effect amounted in the first nine months of 2019 to NIS 44.5 million compared with NIS 32.1 million in the same period last year, an increase of 38.6%. The increase in profit is mainly explained from an increase in income from transactions in credit cards.

In May 2019 ICC distributed a dividend in an amount of NIS 150 million. The Bank's share in the dividend amounted to NIS 42 million.

See Note 9.E. regarding motions for approval of class actions against ICC and regarding assessments issued to ICC by the Director of Value Added Tax.

# REVIEW OF RISKS

## REVIEW OF RISKS

This chapter was written in great detail in the financial statements for 2018. Therefore, it should be read together with the chapter of the risk review published in the annual reports for 2018. Additional information about the risks can be found on the report on risks and additional supervisory reporting in the Bank's internet website.

### General

a. The Group's activity is accompanied by exposure to risks, the most significant of which are: credit risk (including concentration of economy segments and borrowers), market risk, for which the main risk is the interest risk, liquidity risk, operational risks, including Cyber and information security risks and IT risks, compliance risk and Money Laundering risk, strategy risk, legal risk and reputation risk.

   Members of the Board of Management or senior officers are responsible for management of these risks. With respect to credit risk, market risk and operational risk, a regulatory requirement for capital adequacy in accordance with the Pillar 1 Basel directives exists. Within the ICAAP process, the Group performs an in-depth process of identifying additional risks focal and challenging the risks focal identified in the first pillar. If needed the Group makes an additional capital allocation in respect of Pillar 1 risks and other risks.

b. The Group's risk management policy is directed at achieving the strategic and business objectives defined by the Group and at increasing its earnings expectancy by developing areas of specialization at the Group, exploiting economies of diversity and scale, keeping to the levels of risk which have been approved, and by operating suitable management, control and reporting mechanisms.

c. The overall risk perceptive of the Group is in line with the regulatory framework set by the Supervisor of Banks and in line with the Sound Practices of the Basel Committee, based on the principal that every banking activity involving risk, the following will be defined and characterized: risk policy and appetite, limitations for bordering and defining the volume of exposure, control and auditing circles, reporting arrangement and earnings estimation mechanism, its measurement and reporting according to acceptable standard.

d. Risk management and control at the Group are implemented by means of a suitable infrastructure of control, supervision, review and auditing mechanisms, and are applied via three lines of defense: The first line of defense consists of those responsible for the creation and management of risk, including the legal sub-division and the chief accountant division, in the relevant areas. The second line is maintained by units of the Risk Management Division, Chief Accountant and legal sub-division, by means of independent control. The third line consists of the internal and external auditing functions.

e. Chief Risk Manager and member of Management in charge of the risk management division and across the organization risk management infrastructure- Mr. Eli Cohen CPA (until November 15, 2019, Mr. Betzi Adiri CPA).

f. Those responsible for risk management are:

   Mr. Bentzi Adiri CPA- served as the Head of risk management division, CRO, operational risk manager, supervisor of the internal enforcement and manager of business continuity (in addition, the cyber risks manager was subordinated to him) until November 15, 2019. As from that date, Mr. Eli Cohen, CPA, which served as the Head of Planning and efficiency department at the Bank, serves as the Head of risk management division the Bank's CRO, and replaced Mr. Bentzi Adiri CPA in all his responsibilities.

   Mr. Yossi Levi- head of resources division- Strategic risk manager;

   Mr. Avi Sterenshous- served as financial risk manager until November 15, 2019. Starting at this date, Mr. Bentzi Adiri CPA serves as the Financial risk manager. (For details see the section on appointment and retirements in the chapter on Corporate Governance).

   Mr. Ilan Batzri CPA, Head of the Business Division-serves as Credit Risk Manager;

Mr. Amir Birenboim- compliance manager, including, among other things Money Laundering risk, Finance of Terror risks and internal enforcement and cross border risks. Also appointed as Responsible Officer in-charge of implementation of the FATCA directives and QI agreement.

Mr. Ron Grisaro- the CEO of MATAF -IT risk manager.

Mr. Yehoshua Peleg, manager of cyber defense and information security- cyber risks manager;

Adv. Haviva Dahan, head of the legal sub-division -Legal Risk Manager;

Mr. Nachman Nitzan, CPA- head of the chief accounting division- reputation risk manager;

g. Additional risks to which the Bank is exposed- regulatory and legislative risks - are managed and supervised as part of overall business management by members of the Board of Management and department heads in the areas for which they are responsible.

h. Risk management is carried out at each subsidiary in the Group separately, in accordance with the policy determined by the subsidiary's board of directors on the basis of Group policy, and on the basis of Group risk management methodology with an emphasis on the special nature of each subsidiary's activity. A Chief Risk Manager was appointed at the banking subsidiary, subordinate to the subsidiary's CEO and guided professionally by the Bank's Chief Risk Manager.

i. Every quarter, the Risk Management Division, which is independent of the risk-taking units, compiles a risks document which is presented to the Management of the Bank, the Risk Management Committee and the Board of Directors of the Bank.

j. The risks document contains an examination of all the risks to which the Bank Group is exposed in the course of its activity, with details of the findings at the specific risk level as well as the results of stress scenarios that were conducted.

   Presented in the document is the Chief Risk Manager's review of the risk management situation at the group and of the effectiveness and the quality of the risk management. Also reviewed in the document are developments in the business environment and in the financial markets, and the measures taken by the division with respect to the main process involved with the different types of risks and special action which the division took during the relevant quarter.

k. The Bank applies stress scenarios for reviewing capital adequacy. In this respect, the Bank examines the effect of the materialization of risk on the capital base and the ratio of capital to risk assets. The scenarios which the Bank operates are forward looking and are used as an additional tool for risk management and for indication for the capital required for loss absorbent in case of major crisis. The importance of the stress scenarios come into effect in the planning of capital.

For discussion of the risk appetite and risk management principles, see reference in the description of principal risks, presented in the financial statements for the year 2018.

For detailed information regarding risk, provided in accordance with the disclosure requirements of Pillar III of Basel, and addtional information regarding risks - see additional supervisory disclosure and report on risks on the Internet website of the Bank.

## CREDIT RISK

Credit risk is the risk borrowers' inability or counterparty's inability to fulfill their obligations to the Bank.
The Group implements the standard approach, within the implementation of the Basel Directives, with respect to the exposure to credit risk. Within Pillar 2 the capital allocation of Pillar 1 is challenged, and if required, a complementary capital allocation is carried in respect of the credit risks.

### Significant exposures to borrower groups

As of September 30, 2019 there is no borrower group which its indebtness on consolidated basis, after deductions of permissible deduction according to section 5 of directive 313, exceeds 15% of the bank's capital, calculated according to directive of Proper Conduct of Banking Business regulation concerning measurement and capital adequacy.

### Credit quality and problematic credit risk

Problematic credit risk, including off-balance-sheet components, totaled NIS 1,865 million as of September 30, 2019, compared with NIS 1,820 million at the end of 2018, an increase of 2.5%.
The ratio of problematic credit risk to total credit risk at the group amounted to 1.5% at the end of September 2019, similar to the end of 2018.
20.1% of problematic credit risk at the group are attributed to the manufacturing sector, 9.8% to the real estate sector, 15.5% to the commerce sector, and 30.8% to the private customers including housing loans. The ratio of problematic credit risk to total credit to the public amounted to 1.9%, similar to the end of 2018.

For additional information in respect of credit quality see note 12.B.(1) to the financial statements.

**1. Problematic credit risk**

| | September 30, 2019 | | | September 30, 2018 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance-sheet | Off-balance-sheet | Total | Balance-sheet | Off-balance-sheet | Total | Balance-sheet | Off-balance-sheet | Total |
| | | | | | | | | | NIS million |
| Impaired credit risk | **659** | **111** | **770** | 504 | 97 | 601 | 472 | 104 | 576 |
| Inferior credit risk | **146** | **22** | **168** | 157 | 5 | 162 | 161 | 4 | 165 |
| Credit under special supervision risk | **844** | **83** | **927** | 917 | 113 | 1,030 | 978 | 101 | 1,079 |
| Total problematic credit risk* | **1,649** | **216** | **1,865** | 1,578 | 215 | 1,793 | 1,611 | 209 | 1,820 |
| * Of which: Non-impaired debts in arrears of 90 days or more | **250** | **-** | **250** | 232 | - | 232 | 243 | - | 243 |

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| | | | NIS million |
| **2. Non-performing assets** | | | |
| Impaired credit to the public not accruing interest income | **596** | 450 | 418 |
| **3. Performing impaired assets** | | | |
| Impaired debts undergoing problematic debts restructuring and accruing interest income | **58** | 50 | 49 |
| Impaired bonds accruing interest income | **5** | 4 | 5 |
| Total performing impaired assets | **63** | 54 | 54 |

| | For the three months ended September 30, 2019 | | | For the three months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Commercial | Private | Total | Commercial | Private | Total |
| | | | NIS million | | | NIS million |
| **4. Changes in impaired debts in respect of credit to the public**** | | | | | | |
| Balance of impaired debts at beginning of period | **411** | **118** | **529** | 428 | 93 | 521 |
| Classified as impaired during the period | **176** | **11** | **187** | 2 | 4 | 6 |
| Removed from impaired classification | **-** | **-** | **-** | - | - | - |
| Accounting write-offs | **(42)** | **(1)** | **(43)** | (22) | (2) | (24) |
| Collection of debts | **(10)** | **(9)** | **(19)** | (3) | - | (3) |
| Balance of impaired debts at end of period | **535** | **119** | **654** | 405 | 95 | 500 |
| ** **Of which: movement in problematic restructured debts** | | | | | | |
| Balance of restructured debts at beginning of the period | **154** | **94** | **248** | 185 | 75 | 260 |
| Debts restructured during the period | **17** | **17** | **34** | 14 | 13 | 27 |
| Accounting write-offs of restructured debts | **(11)** | **(1)** | **(12)** | (29) | (5) | (34) |
| Collection of restructured debts | **(20)** | **(11)** | **(31)** | (16) | (6) | (22) |
| Balance of problematic restructured debts at end of period | **140** | **99** | **239** | 154 | 77 | 231 |
| **Changes in provision for credit losses in respect of impaired debts** | | | | | | |
| Balance of provision for credit losses at the beginning of the period | **133** | **26** | **159** | 161 | 23 | 184 |
| Increase in provisions | **50** | **4** | **54** | 16 | 2 | 18 |
| Collection and write-offs | **(28)** | **(3)** | **(31)** | (29) | (8) | (37) |
| Balance of provision for credit losses at the end of the period | **155** | **27** | **182** | 148 | 17 | 165 |

| | For the nine months ended September 30, 2019 | | | For the nine months ended September 30, 2018 | | | For the year ended December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Commercial | Private | Total | Commercial | Private | Total | Commercial | Private | Total |
| | | | NIS million | | | NIS million | | | NIS million |
| **4. Changes in impaired debts in respect of credit to the public**** | | | | | | | | | |
| Balance of impaired debts at beginning of year | **367** | **100** | **467** | 447 | 95 | 542 | 447 | 95 | 542 |
| Classified as impaired during the period | **352** | **54** | **406** | 124 | 33 | 157 | 145 | 67 | 212 |
| Removed from impaired classification | **(4)** | **-** | **(4)** | (8) | - | (8) | (4) | - | (4) |
| Accounting write-offs | **(81)** | **(9)** | **(90)** | (73) | (13) | (86) | (89) | (26) | (115) |
| Collection of debts | **(99)** | **(26)** | **(125)** | (85) | (20) | (105) | (132) | (36) | (168) |
| Balance of impaired debts at end of period | **535** | **119** | **654** | 405 | 95 | 500 | 367 | 100 | 467 |
| ** **Of which: movement in problematic restructured debts** | | | | | | | | | |
| Balance of restructured debts at beginning of the year | **150** | **83** | **233** | 189 | 74 | 263 | 189 | 74 | 263 |
| Debts restructured during the period | **58** | **50** | **108** | 56 | 37 | 93 | 77 | 54 | 131 |
| Accounting write-offs of restructured debts | **(21)** | **(9)** | **(30)** | (36) | (13) | (49) | (44) | (21) | (65) |
| Collection of restructured debts | **(47)** | **(25)** | **(72)** | (55) | (21) | (76) | (72) | (24) | (96) |
| Balance of problematic restructured debts at the end of the period | **140** | **99** | **239** | 154 | 77 | 231 | 150 | 83 | 233 |
| **Changes in provision for credit losses in respect of impaired debts** | | | | | | | | | |
| Balance of provision for credit losses at the beginning of the year | **121** | **23** | **144** | 136 | 26 | 162 | 136 | 26 | 162 |
| Increase in provisions | **108** | **16** | **124** | 84 | 12 | 96 | 80 | 18 | 98 |
| Collection and write-offs | **(74)** | **(12)** | **(86)** | (72) | (21) | (93) | (95) | (21) | (116) |
| Balance of provision for credit losses at the end of the period | **155** | **27** | **182** | 148 | 17 | 165 | 121 | 23 | 144 |

| | For the nine months ended September | | For the year ended December 31 |
|---|---|---|---|
| | **2019** | **2018** | **2018** |
| **5. Risk Indices** | | | |
| Ratio of impaired credit to the public or in arrears of 90 days + to total credit to the public | **1.02%** | 0.85% | 0.83% |
| Of which: | | | |
| Ratio of impaired credit to the public to total credit to the public | **0.74%** | 0.58% | 0.55% |
| Ratio of non-impaired credit to the public in arrears of 90 days+ to total credit to the public | **0.28%** | 0.27% | 0.28% |
| Ratio of problematic credit risk in respect of the public to overall credit risk in respect of the public | **1.53%** | 1.49% | 1.51% |
| Ratio of expenses for credit losses to average total credit to the public* | **0.14%** | 0.21% | 0.20% |
| Ratio of net write-offs in respect of credit to the public to average total credit to the public* | **0.09%** | 0.12% | 0.16% |
| Ratio of provision for credit losses in respect of credit to the public to credit to the public | **1.03%** | 1.02% | 1.02% |
| Ratio of provision for credit losses in respect of credit to the public to total impaired credit to the public | **138.8%** | 176.6% | 185.9% |
| Ratio of provision for credit losses in respect of credit to the public to impaired credit to the public plus credit to the public in arrears of 90 days or more | **100.4%** | 120.6% | 122.3% |
| Ratio of net write-offs in respect of credit to the public to provision for credit losses in respect of credit to the public* | **8.3%** | 11.9% | 15.3% |

* Annualized.

## Total credit risk according to economic sectors
(NIS million)

| | as at September 30, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution rating (3) | Of which: Problematic credit risk (4) | Of which: Impaired credit risk | Expenses (income) for credit losses | Net accounting write-offs | Provision for Credit losses |
| **In respect of borrowers in Israel** | | | | | | | |
| **Public-Commercial:** | | | | | | | |
| Industry | **9,944** | **9,141** | **375** | **174** | **(23)** | **(12)** | **167** |
| Construction and Real estate - construction (5) | **9,746** | **9,137** | **103** | **56** | **(13)** | **(6)** | **69** |
| Construction and Real estate - real estate activities | **5,932** | **5,678** | **80** | **69** | **(1)** | **(1)** | **21** |
| Commerce | **7,902** | **7,382** | **289** | **103** | **55** | **40** | **175** |
| Financial services | **13,666** | **13,611** | **18** | **2** | **(3)** | **(4)** | **26** |
| Other business services | **12,455** | **11,393** | **418** | **238** | **51** | **18** | **114** |
| Total commercial (6) | **59,645** | **56,342** | **1,283** | **642** | **66** | **35** | **572** |
| Private individuals - housing loans | **26,887** | **26,348** | **213** | **7** | **2** | **1** | **120** |
| Private individuals - others | **33,979** | **32,509** | **361** | **113** | **47** | **43** | **275** |
| Total public - activity in Israel | **120,511** | **115,199** | **1,857** | **762** | **115** | **79** | **967** |
| Banks and Israeli government in Israel | **7,514** | **7,514** | **-** | **-** | **-** | **-** | **-** |
| Total activity in Israel | **128,025** | **122,713** | **1,857** | **762** | **115** | **79** | **967** |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | **1,305** | **1,296** | **8** | **8** | **(23)** | **(23)** | **1** |
| Banks and foreign governments abroad | **4,092** | **4,092** | **-** | **-** | **-** | **-** | **-** |
| Total activity abroad | **5,397** | **5,388** | **8** | **8** | **(23)** | **(23)** | **1** |
| Total | **133,422** | **128,101** | **1,865** | **770** | **92** | **56** | **968** |

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities which were borrowed or purchased in repurchase agreements) bonds, securities borrowed, assets in respect of derivative instruments and credit risk in respect of off-balance sheet financial instruments as was calculated for limitation of borrower indebtedness, in the amount of NIS 90,408, 10,143, 126, 1,078 and 31,667 million, respectively.

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

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

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

(5) Including balance sheet credit risk amounting to NIS 252 million and non-utilized credit facilities amounting to NIS 96 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,806 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

## Total credit risk according to economic sectors

(NIS million)

| | as at September 30, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution rating (3) | Of which: Problematic credit risk (4) | Of which: Impaired credit risk | Expenses (income) for credit losses | Net accounting write-offs | Provision for Credit losses |
| **In respect of borrowers in Israel** | | | | | | | |
| **Public-Commercial:** | | | | | | | |
| Industry | 10,142 | 9,457 | 370 | 136 | 27 | - | 167 |
| Construction and Real estate - construction (5) | 10,776 | 10,407 | 140 | 63 | 9 | (1) | 86 |
| Construction and Real estate - real estate activities | 5,616 | 5,245 | 99 | 82 | - | 1 | 22 |
| Commerce | 8,168 | 7,350 | 392 | 123 | 38 | 30 | 187 |
| Financial services | 13,253 | 13,181 | 17 | 2 | - | - | 24 |
| Other business services | 12,036 | 11,206 | 203 | 92 | 17 | 10 | 81 |
| Total commercial (6) | 59,991 | 56,846 | 1,221 | 498 | 91 | 40 | 567 |
| Private individuals - housing loans | 25,145 | 24,582 | 199 | 7 | 4 | 1 | 118 |
| Private individuals - others | 32,989 | 31,418 | 365 | 88 | 38 | 40 | 263 |
| Total public - activity in Israel | 118,125 | 112,846 | 1,785 | 593 | 133 | 81 | 948 |
| Banks and Israeli government in Israel | 9,713 | 9,713 | - | - | - | - | - |
| Total activity in Israel | 127,838 | 122,559 | 1,785 | 593 | 133 | 81 | 948 |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | 2,265 | 2,257 | 8 | 8 | (3) | (3) | 3 |
| Banks and foreign governments abroad | 4,138 | 4,138 | - | - | - | - | - |
| Total activity abroad | 6,403 | 6,395 | 8 | 8 | (3) | (3) | 3 |
| Total | 134,241 | 128,954 | 1,793 | 601 | 130 | 78 | 951 |

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities which were borrowed or purchased in repurcha se agreements) bonds, securities borrowed, assets in respect of derivative instruments and credit risk in respect of off-balance sheet financial instruments as was calculated for limitation of borrower indebtedness, in the amount of NIS 88,936, 11,640, 904, 1,009 and 31,752 million, respectively.

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

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

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

(5) Including balance sheet credit risk amounting to NIS 302 million and non-utilized credit facilities amounting to NIS 129 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,826 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

## Total credit risk according to economic sectors
(NIS million)

| | as at December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | Credit losses (2) | | |
| | Total credit risk(1) | Of which: Credit execution rating (3) | Of which: Problematic credit risk (4) | Of which: Impaired credit risk | Expenses (income) for credit losses | Net accounting write-offs | Provision for Credit losses |
| **In respect of borrowers in Israel** | | | | | | | |
| **Public-Commercial:** | | | | | | | |
| Industry | 10,253 | 9,576 | 458 | 136 | 34 | (3) | 178 |
| Construction and Real estate - construction (5) | 9,797 | 9,491 | 121 | 55 | 1 | - | 76 |
| Construction and Real estate - real estate activities | 5,750 | 5,565 | 76 | 73 | - | 1 | 21 |
| Commerce | 7,981 | 7,242 | 371 | 113 | 50 | 68 | 161 |
| Financial services | 14,452 | 14,282 | 21 | 1 | 1 | - | 25 |
| Other business services | 11,850 | 11,067 | 192 | 89 | 18 | 13 | 81 |
| Total commercial (6) | 60,083 | 57,223 | 1,239 | 467 | 104 | 79 | 542 |
| Private individuals - housing loans | 25,629 | 25,043 | 198 | 6 | 4 | - | 119 |
| Private individuals - others | 33,150 | 31,424 | 375 | 95 | 63 | 57 | 271 |
| Total public - activity in Israel | 118,862 | 113,690 | 1,812 | 568 | 171 | 136 | 932 |
| Banks and Israeli government in Israel | 10,726 | 10,725 | - | - | - | - | - |
| Total activity in Israel | 129,588 | 124,415 | 1,812 | 568 | 171 | 136 | 932 |
| **In respect of borrowers abroad** | | | | | | | |
| Total public - activity abroad | 1,633 | 1,625 | 8 | 8 | (5) | (3) | - |
| Banks and foreign governments abroad | 4,840 | 4,839 | - | - | - | - | - |
| Total activity abroad | 6,473 | 6,464 | 8 | 8 | (5) | (3) | - |
| Total | 136,061 | 130,879 | 1,820 | 576 | 166 | 133 | 932 |

NOTES:

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts (credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities which were borrowed or purchased in repurchase agreements) bonds, securities borrowed, assets in respect of derivative instruments and credit risk in respect of off-balance sheet financial instruments as was calculated for limitation of borrower indebtedness, in the amount of NIS 88,776, 12,368, 863, 1,399 and 32,655 million, respectively.

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

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

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

(5) Including balance sheet credit risk amounting to NIS 309 million and non-utilized credit facilities amounting to NIS 95 million, in respect of loans extended to certain purchasing groups currently in the process of construction.

(6) The balance of commercial debts includes housing loans in the amount of NIS 2,875 million, combined in the transaction and collateral position of commercial borrowers or those extended to certain purchasing groups currently in the process of constructions.

## Counter-party credit risk management

### Present credit exposure to counter-parties that are foreign financial institutions

Most of the Bank Group's credit exposure to foreign financial institutions is to banks, mainly the banking systems in Western Europe and North America. The exposure to other financial institutions is negligible.

Present credit exposure to foreign financial institutions,(1) consolidated

| External credit rating | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Balance-sheet credit risk(2)** | **Current Off-balance-sheet credit risk(3)** | **Aggregate credit risk** | **Balance-sheet credit risk(2)** | **Current Off-balance-sheet credit risk(3)** | **Aggregate credit risk** |
| | | | NIS million | | | NIS million |
| AAA to AA- | **681** | **2** | **683** | 596 | 1 | 597 |
| A+ to A- | **1,187** | **21** | **1,208** | 1,714 | 15 | 1,729 |
| BBB+ to BBB- | **76** | **27** | **103** | 44 | 12 | 56 |
| BB+ to B- | **53** | **-** | **53** | 51 | - | 51 |
| Unrated | **-** | **-** | **-** | - | 2 | 2 |
| Total credit exposure to foreign financial institutions | **1,997** | **50** | **2,047** | 2,405 | 30 | 2,435 |
| Of which: Balance of problem loans (4) | **-** | **-** | **-** | - | - | - |

NOTES:
(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional investors and entities under their control.
(2) Deposits at banks, credit to the public, investments in bonds, securities that have been lent and other assets in respect of derivative instruments.
(3) Mainly guarantees and liabilities for the granting of credit, including guarantees for securing third-party indebtedness.
(4) Credit risk that is impaired, inferior or under special supervision.
(5) For the purpose of rating the financial institutions, the Bank used the ratings that were determined for the purpose of applying the Basel standardized approach. The Bank uses the rating of S&P for rating the foreign financial institutions to which credit exposure exists. When no S&P rating is available, the Bank uses the ratings of other rating agencies.

GENERAL NOTES:
a. Credit positions and problematic loans balances are presented after deduction of the provision for credit losses.
b. The credit positions do not include exposures to financial institutions that have an explicit and full government guarantee, and do not include investments in asset-backed securities.
c. For further information regarding the composition of credit positions in respect of derivative instruments against banks and (local and foreign) dealers/brokers, see Note 10 to the financial statements. Off-balance-sheet credit risk in respect of transactions in derivative financial instruments which were conducted with foreign financial institutions as calculated for the purpose of borrower indebtedness restrictions totaled NIS 290 million on September 30, 2019 (December 31, 2018 - NIS 327 million).

The conservative risk appetite defined by the Board of Directors of the Bank is reflected by the distribution of the exposure of credit to financial institutions that are almost entirely graded at high ratings.

Most of the Group's present credit exposure (92%) is attributed to leading financial institutions in OECD countries, which are graded AAA to A-, and 33% of the total exposure is rated in the range between AAA to AA-.

The Group's balance-sheet credit exposure to foreign financial institutions includes an NIS 25 million investment in foreign currency bonds.
All these bonds are investment grade bonds, and are rated A- or higher. The average duration of the portfolio is 3 years.
In addition, balance-sheet credit risk includes NIS 1.6 billion of deposits placed with foreign banks, mainly for a short period of a day to a week.

As of September 30, 2019 there is no country in which the credit exposure to sovereigns of the Bank group exceeding 15% of the Bank's equity capital, which amounted to NIS 1,655 million (as defined in Proper Conduct of Banking Business Regulation No. 202 concerning capital components).

## Exposure to foreign countries

Balance-sheet exposure to foreign countries consists of deposits, bonds, credit to the public and the fair value of financial instruments.

Off-balance-sheet exposure consists of guarantees, off-balance-sheet credit risk with respect to financial derivatives and unutilized facilities.

### Main exposures to foreign countries*(1) (NIS million)

| | As at September 30, 2019 | | | As at December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Balance sheet exposure(2)** | **Off Balance sheet exposure(2)(3)** | **Total** | **Balance sheet exposure(2)** | **Off Balance sheet exposure(2)(3)** | **Total** |
| United States | **3,491** | **78** | **3,569** | 3,877 | 121 | 3,998 |
| Other | **2,418** | **373** | **2,791** | 3,583 | 453 | 4,036 |
| Total exposure to foreign countries | **5,909** | **451** | **6,360** | 7,460 | 574 | 8,034 |
| Off which: Total exposure to PIGS countries (Portugal, Italy, Greece and Spain) | **16** | **4** | **20** | 15 | 18 | 33 |
| Off which: Total exposure to LDC countries | **160** | **46** | **206** | 254 | 96 | 350 |
| Off which: Total exposure to countries with liquidity problems | **7** | **6** | **13** | 4 | 2 | 6 |

* Including countries, the exposure to which exceeds 1% of total assets of the Bank on consolidated basis or 20% of capital, the lower of them.

(1) On the basis of final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Balance sheet and off-balance sheet credit risk are presented before the effect of provision for credit losses and before the effect of deductible collateral for the purpose of indebtedness of borrower and group of borrowers.
(3) Off-balance sheet credit risk as calculated for the purpose of the limits on indebtedness of borrower.

## Risks in the Housing loans portfolio

### The Group's credit policy in the area of mortgage activity

In view of the risk to which the Israeli banking system is exposed to in its mortgage activity, developments in the housing loan market and the Supervisor of Banks' directives, the Bank adopts a conservative credit policy that is approved by the Board of Directors of the Bank and that is examined yearly. This conservative approach is reflected by an examination of LTV, the repayments as a percentage of the borrower's debt-to-income ratio and the ability to maintain current repayments in interest rate adjustment scenarios. In addition, restrictions are applied on the maximum portion of the floating rate in the loan mix and loan size per single borrower. The Bank adopts a particularly cautious approach to properties notable for a complex registration situation, taking due account of the quality of the customer and the LTV.

The Bank ensures that each transaction is priced in accordance with the risk involved and the capital retention required by means of advanced yield calculation tools.

The Bank performs monthly control on the development of risks characteristics, among them: LTV, income-debt ratio, loan purpose etc.

### Volume of housing loans

| | For the nine months ended September | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| | | NIS million | % |
| Housing loans extensions | | | |
| Loans from bank funds | **3,222** | 3,124 | 3.1 |
| Loans from treasury funds | **17** | 10 | 70.0 |
| Grants from treasury funds | **8** | 5 | 60.0 |
| Total new loans | **3,247** | 3,139 | 3.4 |
| Refinanced loans from bank funds | **280** | 237 | 18.1 |
| Total extensions | **3,527** | 3,376 | 4.5 |

| | As at September 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| | | NIS million | % |
| Balance of housing loans, net | | | |
| Loans from bank funds | **25,327** | 23,876 | 6.1 |
| Loans from treasury funds* | **333** | 385 | (13.5) |
| Grants from treasury funds* | **29** | 24 | 20.8 |
| Total balance of housing loans | **25,689** | 24,285 | 5.8 |

* These amounts are not included in the balance sheet balances

**Loan to value**

One of the main parameters used by the Bank in examining the risk in the housing loan portfolio is the loan to value ratio (LTV). The LTV is calculated in accordance with the Banking Supervision Division's Directive No. 876 - "Report on housing loans," and is the ratio between the amount of credit and the value of the assets serving as collateral on the date at the time the loan is approved. It should be noted that in itself, a rise in the value of the property does not constitute an event for the purpose of re-calculating the LTV. However, when additional credit secured by the same property is granted, the LTV can be calculated on the basis of a revised value appraisal.

The portfolio of housing loans extended from the Bank's sources on September 30, 2019 included 70% of credit granted at an LTV of up to 60%, compared with 71% on September 30, 2018. 94% of total loans were granted at an LTV of up to 75%, compared with 95% on September 30, 2018.

Housing loan extensions from the Bank's sources in the first nine months of 2019 included 72% of credit granted at an LTV of up to 60%, compared with 73% in the same period last year. All loan extensions were granted at an LTV of up to 75%, similar to the same period last year.

The calculation of the LTV does not include loans which are not secured by an asset.

**Debt-income ratio**

Another key parameter used by the Bank in examining the risk in the housing loan portfolio is the debt-income ratio. This ratio enables the Bank to assess a borrower's ability to maintain current loan repayments in an orderly manner from the borrower's regular income at the date of the extension of the loan.

The portfolio of housing loans extended from the Bank's sources as of September 30, 2019 included 88% of credit granted at a debt-income ratio of up to 35% compared with 87% on September 30, 2018. 97% of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50%, similar to September 30, 2018.

Housing loan extensions from the Bank's sources in the first nine months of 2019 included 92% of credit granted at a debt-income ratio of up to 35% similar to the same period last year. All of the credit was extended to borrowers on the basis of a debt-income ratio of up to 50% similar to the same period last year.

The calculation of the ratio does not include loans which are bullet and balloon.

**Floating-rate loans**

The portfolio of housing loans from the Bank's sources as of September 30, 2019 includes 61% of credit that was granted at floating-rate interest and amounts to NIS 15,619 million.

Housing loan extensions from the Bank's sources in the first nine months of 2019 include NIS 1,137 million of credit granted at floating-rate interest of up to five years constituting 35% of extentions. An amount of NIS 738 million is floating-rate credit for five years, constituting 23% of extentions .

**Long-term loans**

The portfolio of housing loans from the Bank's sources as of September 30, 2019 includes 84% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 21,366 million.

Housing loan extensions from the Bank's sources in the first nine months of 2019 include 72% of credit whose redemption period as of the report date is up to 25 years and amounts to NIS 2,329 million.

Set out below are data on the development of the housing loan portfolio at the Bank alone by linkage segments (excluding credit from Treasury funds and after deduction of the allowance for credit losses)

| | For residential purposes | | | | | | | | | | | Secured by a residential apartment | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unlinked segment | | | | CPI-linked segment | | | | Foreign-currency linked segment | | Total | | |
| | Fixed-rate | | Floating rate | | Fixed-rate | | Floating rate | | Floating rate | | | | |
| | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Balance | Balance |
| | NIS million | % | NIS million | % | NIS million | % | NIS million | % | NIS million | % | NIS million | NIS million | NIS million |
| 30.9.19 | **6,293** | **25.7** | **10,761** | **44.0** | **3,226** | **13.2** | **4,166** | **17.0** | **23** | **0.1** | **24,469** | **858** | **25,327** |
| 31.12.18 | 5,885 | 25.4 | 10,246 | 44.1 | 3,132 | 13.5 | 3,925 | 16.9 | 34 | 0.1 | 23,222 | 916 | 24,138 |

Set out below are data on the development of housing loan extensions at the Bank alone (excluding credit from Treasury funds)

| | nine months 2019 | nine months 2018 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Total housing loan extensions (NIS million) | **3,222** | 3,124 | 4,149 | 3,756 | 4,337 | 4,796 |
| Rate of change in housing loan extensions compared with previous year | **3.1%** | 10.8% | 10.5% | (13.4%) | (9.6%) | 29.4% |
| Rate of expense (income) on credit losses relative to mortgages at the Bank's risk | **0.01%** | 0.03% | - | (0.01%) | 0.01% | 0.01% |
| Cumulative rate of allowance for credit losses relative to mortgages at the Bank's risk | **0.49%** | 0.50% | 0.50% | 0.51% | 0.55% | 0.60% |

## Private individuals credit risk (excluding housing loans)

### General

The private consumption is in growth trend during the last years, and as a result also the volume of credit to private individuals.

The banks in the Group grant consumer credit to a variety of households, made up mainly of individuals in employee positions, part of whom in the education system and part in the defense system.

The credit policy for private individuals reflects the risk apetite of the Bank and its intensions as to the risk levels it wants to take as well as the wanted profile for the private individuals credit portfolio and its volume in respect to the overall credit portfolio.

The granting of credit is based on statistical models for the rating of credit risk, which take into account the personal parameters of each customer, including: his income and stability of income, financial wealth, his repayment ability and past experience of the Bank with the customer.

This perception is well reflected in the credit policy of the Bank through quantitative and qualitative restrictions for the granting of credit in the level of the single customer and in the level of the Bank, as well as in control procedures and structured work procedures, in the different control lines.

Models of credit rating used by the banks both for the direct granting of credit via the Internet, the cellular application and via "International Bank Call", and in the underwriting process of credit at the branches. The credit recommendations derived from the statistical models together with procedures of the Bank based on the credit policy of the Bank and the qualitative and quantitative limitations included therein - shape the proportional risk appetite of the Group as regards the consumer credit field.

The Bank focuses on retail credit, typified by a high level of distribution and a low level of risk, taking into account the fact that the subsidiary Massad Bank is engaged in the credit field, the Bank operates from a Group viewpoint and acts for the implementation of an orderly work format of the Group, which defines, inter alia, a business focused format for each population in the Group. The targeted population is mostly a population having stable sources of income, which requires finance in the consumer field and has credit repayment ability, inter alia, salaried persons and those having a fixed income, designated populations having a joint connection on a country-wide level (such as: teaching personel, Ministry of Defense personnel, etc.) having repayment ability or realizable collateral.

Teaching personnel loan tender are loans repaid by the direct withholding from salary. Most of the customers in the households segments and Otsar Hahayal branches are salaried employees, large part of them are former employees of the defense forces. Loans to Ministry of Defense personnel are granted within the framework of different tender, reflect the capitalization of rights for interim periods and are characterized by large amounts and long periods. Moreover, within the framework of the terms of the tender, the responsibility of the Ministry of Defense for the repayment of the credit in default cases is determined, thus reducing to a minimum the risk of credit granted to Ministry of Defense personnel within this framework.

These loan repayments and additional loans to the defense personnel population as well as loans granted in the framework of collective agreements, deducted directly from salaries.

78% of the balance of the credit risk to private individuals is in respect of customers with fixed income credited to the account in an amount exceeding NIS 10 thousands.

Set out below is the distribution of Private individuals credit risk (excluding housing loans) in Israel:

| | | | **As of** | | **Change** |
|---|---|---|---|---|---|
| | | **September 30,** | **December 31,** | **September 30,** | **December 31,** |
| | **2019** | **2018** | **2018** | **2018** | **2018** |
| | | | NIS million | | % |
| Current account and utilized balances of credit cards | **5,499** | 5,048 | 5,136 | 8.9 | 7.0 |
| Other loans | **16,251** | 15,534 | 15,646 | 4.6 | 3.9 |
| Total balance credit risk | **21,750** | 20,582 | 20,782 | 5.7 | 4.7 |
| Unutilized current account credit lines | **4,323** | 4,220 | 4,147 | 2.4 | 4.2 |
| Unutilized credit lines in credit cards | **6,616** | 6,579 | 6,658 | 0.6 | (0.6) |
| Other off-balance credit risks | **1,272** | 1,585 | 1,542 | (19.7) | (17.5) |
| Total off-balance credit risk | **12,211** | 12,384 | 12,347 | (1.4) | (1.1) |
| Total credit risk | **33,961** | 32,966 | 33,129 | 3.0 | 2.5 |
| Average volume of balance-sheet credit, including overdrafts, credit cards and loans | **20,578** | 19,964 | 20,228 | 3.1 | 1.7 |

Set out below is the distribution of problematic private individuals credit risk (excluding housing loans) in Israel:

| | | | **As of** | | **Change** |
|---|---|---|---|---|---|
| | | **September 30,** | **December 31,** | **September 30,** | **December 31,** |
| | **2019** | **2018** | **2018** | **2018** | **2018** |
| | | | NIS million | | % |
| Impaired credit risks | **113** | 88 | 95 | 28.4 | 18.9 |
| Unimpaired problematic credit risk | **248** | 277 | 280 | (10.5) | (11.4) |
| Non-problematic credit risk | **33,601** | 32,601 | 32,754 | 3.1 | 2.6 |
| Total credit risk | **33,961** | 32,966 | 33,129 | 3.0 | 2.5 |
| Of which: unimpaired debts in arrears of 90 days or more | **24** | 28 | 30 | (14.3) | (20.0) |
| Balance of restructured debts out of the problematic credit | **99** | 77 | 83 | 28.6 | 19.3 |
| Expense rate of credit losses out of total credit to the public | **0.29%** | 0.25% | 0.30% | | |

Following is the distribution of credit risk relating to private individuals in Israel by fixed income credited to the account

| | | | | September 30, 2019 |
|---|---|---|---|---|
| **Fixed income credited to the account*** | **Total financial assets** lower than NIS 50 K** | **Total financial assets** higher than NIS 50 K** | **Balance sheet Credit risk** | **Off-balance sheet credit risk** |
| NIS thousands | | | | NIS million |
| No fixed income | **376** | **31** | **407** | **198** |
| Up to 10 | **4,085** | **490** | **4,575** | **2,333** |
| From 10 to 20 | **5,047** | **1,334** | **6,381** | **3,366** |
| Over 20 | **6,114** | **4,273** | **10,387** | **6,314** |
| Total | **15,622** | **6,128** | **21,750** | **12,211** |

| | | | | September 30, 2018 |
|---|---|---|---|---|
| **Fixed income credited to the account*** | **Total financial assets** lower than NIS 50 K** | **Total financial assets** higher than NIS 50 K** | **Balance sheet Credit risk** | **Off-balance sheet credit risk** |
| NIS thousands | | | | NIS million |
| No fixed income | 335 | 27 | 362 | 201 |
| Up to 10 | 3,990 | 466 | 4,456 | 2,412 |
| From 10 to 20 | 4,908 | 1,252 | 6,160 | 3,549 |
| Over 20 | 5,739 | 3,865 | 9,604 | 6,222 |
| Total | 14,972 | 5,610 | 20,582 | 12,384 |

| | | | | December 31, 2018 |
|---|---|---|---|---|
| **Fixed income credited to the account*** | **Total financial assets** lower than NIS 50 K** | **Total financial assets** higher than NIS 50 K** | **Balance sheet Credit risk** | **Off-balance sheet credit risk** |
| NIS thousands | | | | NIS million |
| No fixed income | 313 | 28 | 341 | 169 |
| Up to 10 | 4,209 | 522 | 4,731 | 2,462 |
| From 10 to 20 | 4,886 | 1,270 | 6,156 | 3,478 |
| Over 20 | 5,816 | 3,738 | 9,554 | 6,238 |
| Total | 15,224 | 5,558 | 20,782 | 12,347 |

* Fixed income credited to the account as defined in the reporting instruction to the Supervisor of Banks No.836 (which includes actual salary, total annuities, cash deposits and check deposits).

** The financial assets portfolio related to the account, such as: monetary deposits (including current account balances), securities portfolios and other financial assets.

Distribution by average period to redemption (according to the last repayment date of the loan)

| | | | Balance sheet credit risk |
|---|---|---|---|
| | **September 30, 2019** | **September 30, 2018** | **December 31, 2018** |
| **Period to redemption** | | | NIS million |
| Up to one year | **6,056** | 5,580 | 5,678 |
| From one to three years | **3,036** | 2,986 | 2,974 |
| From three to five years | **4,855** | 4,426 | 4,457 |
| From five to seven years | **2,766** | 2,688 | 2,761 |
| Over seven years | **5,037** | 4,902 | 4,912 |
| Total | **21,750** | 20,582 | 20,782 |

## Distribution by size of credit to the borrower*

| Credit range to the borrower | September 30, 2019 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** | September 30, 2018 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** | December 31, 2018 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk** |
|---|---|---|---|---|---|---|---|---|---|
| NIS thousands | | | NIS million | | | NIS million | | | NIS million |
| Up to 10 | **282** | **635** | **917** | 254 | 607 | 861 | 261 | 608 | 869 |
| From 10 to 20 | **408** | **800** | **1,208** | 388 | 817 | 1,205 | 388 | 815 | 1,203 |
| From 20 to 40 | **1,147** | **1,839** | **2,986** | 1,084 | 1,868 | 2,952 | 1,095 | 1,862 | 2,957 |
| From 40 to 80 | **3,076** | **3,097** | **6,173** | 2,923 | 3,131 | 6,054 | 2,957 | 3,136 | 6,093 |
| From 80 to 150 | **5,872** | **3,087** | **8,959** | 5,557 | 3,098 | 8,655 | 5,644 | 3,083 | 8,727 |
| From 150 to 300 | **6,760** | **2,119** | **8,879** | 6,418 | 2,173 | 8,591 | 6,475 | 2,157 | 8,632 |
| Over 300 | **4,205** | **634** | **4,839** | 3,958 | 690 | 4,648 | 3,962 | 686 | 4,648 |
| Total | **21,750** | **12,211** | **33,961** | 20,582 | 12,384 | 32,966 | 20,782 | 12,347 | 33,129 |

* Definition of borrower - in accordance with the definition included in Proper Conduct of Banking Business Directive No. 313.
** Total credit risk - excluding indebtedness in respect of derivatives and excluding residential loans.

## Distribution by type and extent of exposure to a significant growth in payments

| Type of credit | September 30, 2019 Balance sheet credit risk | September 30, 2018 Balance sheet credit risk | December 31, 2018 Balance sheet credit risk |
|---|---|---|---|
| | NIS million | NIS million | NIS million |
| Current account | **1,668** | 1,657 | 1,787 |
| Credit card | **3,831** | 3,391 | 3,349 |
| Credit carrying variable interest | **15,516** | 14,907 | 15,068 |
| Credit carrying fixed interest | **735** | 627 | 578 |
| Total | **21,750** | 20,582 | 20,782 |

## Collateral

| Credit range to the borrower | September 30, 2019 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | September 30, 2018 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk | December 31, 2018 Balance sheet credit risk | Off-balance sheet credit risk | Total credit risk |
|---|---|---|---|---|---|---|---|---|---|
| | | | NIS million | | | NIS million | | | NIS million |
| Total credit secured by collateral* | **4,214** | **1,106** | **5,320** | 3,979 | 1,431 | 5,410 | 4,059 | 1,381 | 5,440 |
| * Of which: | | | | | | | | | |
| Non-liquid collateral | **3,504** | **878** | **4,382** | 3,241 | 1,191 | 4,432 | 3,324 | 1,141 | 4,465 |
| Liquid collateral | **710** | **228** | **938** | 738 | 240 | 978 | 735 | 240 | 975 |

**Description of operations**

**A. The underwriting of credit to private individuals**

The underwriting of consumer credit is conducted taking into consideration of personal parameters of the customer and reflects readiness for proportional acceptance of credit risk. This concept is well reflected in quantitative and qualitative limitations, as well as by means of a wide array of structured work procedures and close control processes in the different control lines.

The banks in the Group offer credit to their customers in an initiated fashion on the basis of monitoring the risk characteristics of the borrower and identifying his needs. As part of the underwriting process, several criteria that form a decision supporting tool are examined, inter alia, general information regarding the customer (his identity, financial stability, conduct of his account and any additional information which might assist in the underwriting process), the object of the credit, the volume of activity of the customer with the Bank in relation to the pricing of the transaction, repayment ability, the total credit mix in the account and the modification thereof to the customer's needs. This process is based upon values of fairness and transparency towards the customer.

**B. The manner of supervising and monitoring risk characteristics**

The banks in the Group have a high level of skill and expertise in the field of retail credit due to many years of experience in household credit.

The Group trains its employees at a high level of professional skill in the credit field, having decision supporting computer systems and control and monitoring systems for the early discovery of borrowers in default or of negative symptoms.

The Group hedges acceptance of credit risks, inter alia, by means of the distribution of risk among customers.

Risk management and the control thereof are conducted at the Bank by means of an appropriate infrastructure of inspection, supervision, control and audit mechanisms. Control in the matter of consumer credit is conducted by means of three defense lines.

Controls conducted within the framework of the first line of defense include: the monitoring of deviation from current account and revolving debit account credit facilities, examination of troubled credit in arrears and follow-up of developments in the troubled consumer credit at the branches.

The second line of defense includes different controls, the essence of which are intended to test the financial management of accounts and to identify signs for deterioration in the debt situation. Deterioration signs may stem from a decline in the volume of operations, deviation from approved credit facilities, etc. In addition, the Bank uses supporting computer systems, such as a system for the identification and treatment of debts showing trouble symptoms and a statistical system forecasting credit default.

The third line of defense is the internal audit division, which is responsible for performing independent audits of risk management, work framework and controls over consumer credit risks, including the work of the first and second lines of defense in respect of this risk.

## Construction and real estate sector risks

On background of the risk under which the Israeli banking sector is operating in the construction and real estate credit field, as well as on background of changes and developments in the housing credit market, directives of the Supervisor of Banks and Government regulations, the Bank adopts a proportional and careful credit policy, approved by the Board of Directors of the Bank, which is examined every year and is revised in accordance with changes in conditions in the country, changes in regulation, etc. The said proportionality and care are reflected in the examination of the financing ratio, the careful examination of failures in the financing of construction projects and examination of the ratio of the borrower's equity and early sales, this in order to reduce the risk to the extent possible.

Moreover, The Bank has adopted a specific policy in respect of the different lines of operation in the real estate and construction field, including the financing of housing construction, financing of income producing property construction, as well as financing of construction of income producing offices, commercial and industrial properties. The Bank grants credit to "purchase groups" and focuses on groups having projects in demand areas and on groups the organizer thereof has proven experience in this field.

Over and above examination performed on a current basis, the Bank conducts monthly discussions with respect of all credit portfolios and examines the condition of the projects as well as the level of risk inherent in each, and reduces exposure accordingly.

The pricing of each transaction is strictly calculated in accordance with the risk involved and the required capital allocation.

The parameters used by the Bank for the examination of risk relating to the real estate credit portfolio are mostly "loan to value", the ratio of the credit amount to the value of assets used as collateral at date of approval of the loan, based on an updated value assessment and the existence of stable sources for the repayment of the credit.

Examination of the risk relating to the construction credit portfolio is performed on a monthly basis, based on construction progress reports by the supervisor of the project, where the examined risks are both at the level of market risk and at the level of execution risk.

Following are data of credit to the public risk in the construction and real estate field:

| | | September 30, | December 31, |
|---|---|---|---|
| | **2019** | **2018** | **2018** |
| | | | NIS million |
| **Overall credit risk(1)** | | | |
| Projects not yet completed | | | |
| Of which: Open land | **1,965** | 1,837 | 1,846 |
| Property under construction | **4,286** | 5,381 | 4,484 |
| Completed building projects | **4,163** | 3,979 | 4,253 |
| Other(2) | **5,264** | 5,195 | 4,964 |
| Total | **15,678** | 16,392 | 15,547 |

(1) Of which: credit secured by housing property in the amount of NIS 4,932 million, Credit secured by industrial property in the amount of NIS 574 million and credit secured by commercial property in the amount of 4,908 million (30.9.18 - NIS 5,243 million, NIS 422 million and NIS 5,532 million, respectively, 31.12.18- NIS 5,638 million, NIS 430 million and NIS 4,515 million).

(2) Includes credit to borrowers in the construction and real estate field in Israel, the collateral provided by them does not include real estate, or borrowers where the value of their property for prompt realization purposes secures less than 50% of the credit risk of the borrower.

### Leveraged Finance

Leveraged finance is defined as credit granted for financing capital transaction in corporation (as defined in the Bank of Israel directive 323) that meets certain criteria, and credit granted to debtors characterized with high finance leverage.
The criteria according to which the Bank defines credit as leveraged finance were set in a conservative manner.
Additional information can be found in the annual risk report for the year 2018, on the website of the Bank.
As of September 30, 2019 total aggregate balances (balance sheet credit and off-balance sheet credit net of provisions for credit losses and deductible collateral) considered as leveraged finance, amounted to NIS 619 million, compared to NIS 1,506 million on September 30, 2018 and NIS 708 million at the end of 2018.

## MARKET RISK

Market risk (financial risk) is the actual or future existence of a risk to a loss or impairment derived from a change in the economic value of financial instrument, certain portfolio or a group of portfolios and on an aggregate level, due to changes in prices, rates, margins and other parameters in the financial markets. Including: interest risk, currency risk, inflation risk, securities prices risk and volatility risk.

### Methodology for the estimation of exposure to market risk

The Bank manages and controls exposure to market risks by means of a number of generally accepted models and tools which include VaR calculations and the operation of stress tests and management and exposure control tools such as: duration, fair value and sensitivity tests for changes in the interest curve.

### Interest exposure

Interest risk is the actual or future existence of a risk to the Group's income or capital deriving from movement in interest rates, effecting the Bank's earnings by changes in net income, and the value of the Bank's assets, liabilities and off-balance-sheet instruments, since the fair value of future cash-flows (and in certain cases the cash-flows themselves) changes when the interest rates are changing. The main shapes of the interest risk to which the Bank is exposued to are: risk of repricing, yield curve risk, basis risk and option risk. Interest risks in respect of the entire portfolio are the dominant risks to which the Bank is exposed in all matters relating to their effect on the fair value of assets and liabilities and its effect on earnings. The Bank manages the interest risks in accordance with the Bank of Israel directive 333, a specific directive in the area of interest risk management with emphasis on the banking portfolio. The Bank implemented policy for the management of interest risk, in accordance with the regulations.

## Analysis of sensitivity to the effect of exposure to interest rate adjustments based on the fair value of financial instruments

Set out below is information on assets and liabilities that are exposed to changes in interest rates on the basis of their fair value, including a sensitivity analysis of the effect of theoretical changes in the interest rate on the fair value of financial instruments, excluding non monetary items, according to accounting rules:

Following are the details of the effect of changes in the interest rate on the fair value of the asset surplus in the segment, on net interest income and non-interest income:

1. Fair value of financial instruments of the Bank and consolidated subsidiaries, excluding non-financial items (before the effect of potential changes in the interest rates):

| | September 30, 2019 | | | September 30, 2018 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | NIS | Foreign currency | Total | NIS | Foreign currency | Total | NIS | Foreign currency | Total |
| | | | NIS million | | | NIS million | | | NIS million |
| Adjusted fair value, net [1] | **7,705** | **(10)** | **7,695** | 6,605 | 23 | 6,628 | 6,641 | (138) | 6,503 |
| Of which: banking portfolio | **7,326** | **362** | **7,688** | 7,000 | (695) | 6,305 | 6,954 | (1,064) | 5,890 |

(1) Net fair value of financial instruments, excluding non-financial items and after the effect of liabilities to employees' rights and attribution of demand deposits to periods of duration.

Additional details as to the assumptions used to calculate the adjusted fair value of the financial instruments, see note 14A to the financial statements.

2. Effect of scenarios of changes in interest rate on the adjusted fair value[1] of the Bank and its consolidated subsidiaries:

| | September 30, 2019 | | | September 30, 2018 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | NIS[5] | Foreign currency | Total | NIS[5] | Foreign currency | Total | NIS[5] | Foreign currency | Total |
| | | | NIS million | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | | | | |
| Parallel increase of 1% | **(29)** | **(25)** | **(54)** | (51) | (25) | (76) | (81) | (25) | (106) |
| Of which: banking portfolio | **(28)** | **(18)** | **(46)** | (46) | (25) | (71) | (83) | (15) | (98) |
| Parallel decrease of 1% | **100** | **21** | **121** | 131 | 14 | 145 | 109 | 21 | 130 |
| Of which: banking portfolio | **100** | **12** | **112** | 129 | 18 | 147 | 110 | 14 | 124 |
| **Non-parallel changes** | | | | | | | | | |
| Steeping[2] | **(180)** | **2** | **(178)** | (316) | (12) | (328) | (190) | 1 | (189) |
| Flattening[3] | **194** | **(14)** | **180** | 167 | 1 | 168 | 152 | (11) | 141 |
| Interest increase in short term | **158** | **(16)** | **142** | 97 | (9) | 88 | 57 | (17) | 40 |
| Interest decrease in short term | **(71)** | **12** | **(59)** | (142) | 8 | (134) | (35) | 5 | (30) |

The table presents the adjusted net fair value of all financial instruments, with the assumption that the change in interest occurred in all interest rate and in all linkage segments

3. Effect of scenarios of changes in interest rate on interest income, net and non-interest income:

| | September 30, 2019 | | | September 30, 2018 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Interest income | Non-interest income | Total(4) | Interest income | Non-interest income | Total(4) | Interest income | Non-interest income | Total(4) |
| | | | NIS million | | | NIS million | | | NIS million |
| **Parallel changes** | | | | | | | | | |
| Parallel increase of 1% | **305** | **9** | **314** | 314 | 12 | 326 | 290 | 10 | 300 |
| Of which: banking portfolio | **305** | **-** | **305** | 312 | - | 312 | 288 | - | 288 |
| Parallel decrease of 1% | **(574)** | **(9)** | **(583)** | (513) | (12) | (525) | (545) | (10) | (555) |
| Of which: banking portfolio | **(574)** | **-** | **(574)** | (511) | - | (511) | (543) | - | (543) |

(1) Fair value of financial instruments, excluding non-financial items and after the effect of liability in respect to employees' rights and attribution of demand deposits to periods.
(2) Steeping- decline of interest in the short term and increase in interest in the long term.
(3) Flattening- Increase in interest in short term and decline in interest in the long term.
(4) After offsetting effects.
(5) In scenarios of interest decline in the linked to the CPI segment the calculation is made on the basis of negative interest environment.
(6) In interest decline scenarios reflecting negative interest, the effect of the scenario on interest income, net was calculated according to deferent assumptions.

## Basis exposure

### Actual basis exposure

Set out below is a description of the actual exposure of active capital, at the Group level (NIS millions):

| | Exposure of Active Capital | | % of active capital | |
|---|---|---|---|---|
| | As of September 30, | As of December 31, | As of September 30, | As of December 31, |
| | 2019 | 2018 | 2019 | 2018 |
| Non-linked local currency | **4,601** | 5,504 | **69** | 87 |
| CPI-linked local currency | **2,184** | 1,045 | **32** | 16 |
| Foreign currency and f-C linked | **(66)** | (199) | **(1)** | (3) |

### Sensitivity of capital to changes in the exchange rate

The Bank operates in the currency markets by means of spot transactions, forward transactions and options on its own behalf and on behalf of its customers. The Bank operates using global negotiable currencies, and the total net currency exposure for the Group is low.

Most of the activity in derivative financial instruments is carried in the currency derivatives Shekel/Dollar for the Bank's customers. The Bank is not exposued in its derivative activity to material currency risks.

Set out below is the sensitivity of the Bank’s capital to theoretical changes in the exchange rates of the principal currencies as of September 30, 2019 (NIS millions).

The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

| Percentage change in exchange rate | Dollar | Euro |
|---|---|---|
| 5% decrease | **10** | **-** |
| 10% decrease | **(23)** | **-** |
| 5% increase | **(1)** | **-** |
| 10% increase | **9** | **1** |

NOTES:
(1) This effect is calculated in accordance with the expected change in the economic positions managed in different currencies, given the scenarios that were determined by the Supervisor of Banks.
(2) An increase implies a strengthening of the currency in question against the shekel.
(3) The data express the effects of changes in exchange rates on fair value after the tax effect.
(4) Changes in the exchange rates of other currencies have a negligible effect on the Bank’s earnings.

### Sensitivity of capital to changes in the CPI

The Bank operates in the CPI market by extending uses such as loans, mortgages and the purchase of bonds and by raising CPI linked funds. In addition, the Bank performs CPI forward transactions on behalf of its customers and itself.
The Bank is not exposed in its forward activity to material CPI risks.

Set out below is the sensitivity of the Bank's capital to theoretical changes in the CPI as of September 30, 2019 (NIS millions).
The measurement refers to the effect of changes on capital and includes activity in balance-sheet and off-balance-sheet instruments:

| Percentage change in CPI | |
|---|---|
| 3% decrease | **(63)** |
| 3% increase | **56** |

## Management of risks in derivative financial instruments

Set out below is the volume of activity in derivative financial instruments (nominal value NIS millions):

| | As of September 30, | | | As of December 31, | | |
|---|---|---|---|---|---|---|
| | Derivatives not for trading | Derivatives for trading | Total | Derivatives not for trading | Derivatives for trading | Total |
| **Hedging transactions:** | | | | | | |
| Interest rate contracts | **2,859** | **-** | **2,859** | 3,209 | - | 3,209 |
| **Other transactions:** | | | | | | |
| Interest rate contracts | **929** | **16,583** | **17,512** | 900 | 25,001 | 25,901 |
| Foreign currency contracts | **13,130** | **59,926** | **73,056** | 8,851 | 51,250 | 60,101 |
| Contracts on shares, share indexes, commodities and other contracts | **-** | **38,341** | **38,341** | 37 | 45,290 | 45,327 |
| Total derivative financial instruments | **16,918** | **114,850** | **131,768** | 12,997 | 121,541 | 134,538 |

## LIQUIDITY RISK

Liquidity risk is the actual or future risk that the Bank will have difficulty in supplying liquidity requirements in exceptional demand and supply situations, including unexpected liabilities, unexpected withdrawals of deposits from the public, unexpected demand for credit, uncertainty regarding the availability of sources, including sharp decline in the value of assets available to the Bank. Materialization of the risk might cause the Bank shortage in liquid means, that will force the Bank to realize assets in prices lower than the market prices and/or raise funds in a price higher than market prices and in crisis situations might endanger the stability of the Bank.

Liquidity coverage ratio of the Bank Group for the three months ended September 30, 2019 is 124%, compared with 122% for the three months ended December 31, 2018. The minimal Liquidity Coverage Ratio required by the Supervisor of Banks is 100%.
For information regarding liquidity coverage ratio (LCR) see note 8 to the financial statements.

### Liquidity position and the composition of assets and liabilities

The liquidity assets at the group, which includes cash, deposits at the Bank of Israel, deposits at banks and liquid securities, amounted to NIS 43.8 billion on September 30, 2019, compared with NIS 42.9 billion at the end of 2018. Of this amount, the balance of cash, deposits with the Bank of Israel and deposits with banks amounted to NIS 34.5 billion, and NIS 9.3 billion were invested in securities, principally Israel government bonds.
The ratio of deposits from the public to credit to the public on September 30, 2019 amounted to 133.2% compared with 132.5% on December 31, 2018.
On September 30, 2019, deposits from the public, bonds and subordinated notes totaled NIS 120.0 billion compared with NIS 116.7 billion at the end of 2018.
The composition of the assets and liabilities of the Bank shows high liquidity. This, as a result of the policy to raise deversified and stable funds, while emphsizing on raising sources for medium and long periods from deversified customers sectors and in different currencies.
The Bank has sources in a short-medium contructual duration, which the Bank anticipates that they will be held for a long time. The uses are both for short term and medium- long term.
In general the exposures in the foreign currency segment are low (see the chapter on market risk).
The CPI exposure of the Bank's group amounted to NIS 2,184 million as of September 30, 2019.

Balance of deposits from the public of the three largest depositors in the Group:

| | As of September 30, 2019 | As of December 31, 2018 |
|---|---|---|
| | | NIS million |
| 1 | **3,360** | 2,017 |
| 2 | **2,108** | 1,758 |
| 3 | **1,903** | 1,672 |

## OTHER RISKS

For information regarding other risks, among others, the operational risks and the way they are managed (including business continuity, data security and cyber events), compliance risk, anti money laundering and terror finance risk (including cross border risks), finance risk, legal risk, reputation risk and strategy risk- see the chapter on risk review in the annual financial statements of the Bank for 2018 and the risk report on the Bank's website.

## DISCUSSION OF RISK FACTORS

For discussion in risk factors see the chapter of risk review in the annual financial statements of the Bank for 2018.
No change occurred in the level of risk factors during the nine month of 2019 compared with the table published in the annual financial statements for 2018, except for:

- Cyber and information security risk- is part of the operational risk. However, in the first quarter of the year it was presented separated from the operational risk, and was assessed "medium", in light of its importance and the multiplicity of events in Israel and in the world in general, and in the banking system in particular, and in light the expanding of the digital activity.
- Information Technology risk- is part of the operational risk. However, starting with the second quarter of the year it was presented separated from the operational risk, and was assessed "medium", in light of complicated and changing technological environment and the growing dependency. In recent years the risk became stronger because of the need for increasing the business and technological flexibility and increasing the use of new technologies.
- The assessment of the labor relation risk was lowered to "medium" in the first quarter of the year and the risk is presented as part of the operational risk, in light of the improvement in the labor relations.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES, CONTROLS AND PROCEDURES

### General

The estimates and assessments regarding critical accounting policy matters were made in accordance with the best knowledge and judgment of the professional entities engaged in their preparation, and that they were applied in an appropriate manner in the financial statements of the Bank.

A review of the significant areas, which in the opinion of the Bank Management consist critical accounting policies, are detailed in the Director's report for the annaual financial statements for 2018 and no change has occurred.

## CONTROLS AND PROCEDURES

### ASSESSMENT OF CONTROLS AND PROCEDURES CONCERNING DISCLOSURE IN THE FINANCIAL REPORT

In accordance with the Supervisor of Banks' directives for reporting to the public and the guidelines of Proper Conduct of Banking Business Regulation 309 that was issued in September 2008, the Bank has for a number of years maintained controls and procedures regarding disclosure, and has deployed an internal control network for financial reporting which was first applied in the financial report for the year ending December 31, 2008.

The directives, which concern Management's responsibility on the internal control of financial reporting and the external auditor's statement of opinion regarding the audit of the internal control of financial reporting, were compiled in accordance with the provisions of Sections 302 and 404 of the law known as the Sarbanes-Oxley Act of 2002 that was enacted in the USA, and directives and guidelines that were determined in the USA, including those determined by the PCAOB.

Enclosed with the financial statements are declarations by the CEO of the Bank and the Chief Accountant, each one separately, concerning the assessment of controls and procedures in the matter of disclosure.

The Management of the Bank, in cooperation with the CEO of the Bank and the Chief Accountant, assessed for September 30, 2019 the effectiveness of the controls and procedures in the matter of disclosure by the Bank. On the basis of this assessment, the CEO of the Bank and the Chief Accountant concluded that as at the end of this report period, the controls and procedures in the matter of disclosure by the Bank were effective for the purpose of recording, processing, summarizing and reporting the information which the Bank is required to disclose in the report in accordance with the Supervisor of Banks' directives for reporting to the public, and at the time determined in those directives.

During the quarter ending on September 30, 2019, no change occurred in the Bank's internal control over financial reporting which exerted a material effect, or which can reasonably be expected to exert a material effect on the Bank's internal control over financial reporting.

| | | |
|---|---|---|
| **Irit Izakson** | **Smadar Barber-Tsadik** | **Nachman Nitzan** |
| Chairperson of the Board of Directors | Chief Executive Officer | Executive Vice President,<br>Chief Accountant |

Tel Aviv, November 26, 2019

## CERTIFICATION

I, Smadar Barber-Tsadik, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: “the Bank”) for the quarter ended September 30, 2019 (hereinafter: “the Report”).
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure (1) and internal control of financial reporting (1). furthermore:
   A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, November 26, 2019

**Smadar Barber-Tsadik**
Chief Executive Officer

## CERTIFICATION

I, Nachman Nitzan, declare that:

1. I have reviewed the quarterly report of the First International Bank of Israel Ltd. (hereinafter: "the Bank") for the quarter ended September 30, 2019 (hereinafter: "the Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included on the Report correctly reflect the financial condition, results of operations, changes in shareholders' equity, and cash flows of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure (1) and internal control of financial reporting (1). furthermore:
   A. We have established such controls and procedures or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report.
   B. We have established such internal controls of financial reporting or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.
   C. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
   D. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditor, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting;
   A. Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   B. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have significant role in the internal control of financial reporting at the Bank.

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

(1) As defined in the public reporting directives concerning the "board of Directors' report".

Tel-Aviv, November 26, 2019

**Nachman Nitzan**
Executive Vice President,
Chief Accountant

# FINANCIAL STATMENTS

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

# AUDITORS' REVIEW TO THE SHAREHOLDERS' OF THE FIRST INTERNATIONAL BANK OF ISRAEL LTD.

## Introduction

We have reviewed the accompanying financial information of The First International Bank of Israel Ltd. and its subsidiaries (hereinafter- "the Bank"), comprising of the condensed consolidated interim balance sheet as of September 30, 2019 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and nine months periods then ended. The Board of directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of Review

We conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel and a review standard applied in the review of banking institutions according to the directives and guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respect, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting and in accordance with the directives and guidelines of the Supervisor of Banks.

As explained in Note 1A, the accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

Somekh Chaikin
Certified Public Accountants (Isr.)

November 26, 2019

## CONSOLIDATED STATEMENT OF INCOME

(NIS million)

| | NOTE | For the three months ended September 30 2019 (unaudited) | For the three months ended September 30 2018 (unaudited) | For the nine months ended September 30 2019 (unaudited) | For the nine months ended September 30 2018 (unaudited) | For the year Ended December 31 2018 (audited) |
|---|---|---|---|---|---|---|
| Interest Income | 2 | **699** | 756 | **2,337** | 2,229 | 3,001 |
| Interest Expenses | 2 | **57** | 122 | **395** | 396 | 515 |
| Interest Income, net | | **642** | 634 | **1,942** | 1,833 | 2,486 |
| Expenses from credit losses | 6,12 | **33** | 49 | **92** | 130 | 166 |
| Net Interest Income after expenses from credit losses | | **609** | 585 | **1,850** | 1,703 | 2,320 |
| **Non- Interest Income** | | | | | | |
| Non-Interest Financing income | 3 | **63** | 108 | **175** | 195 | 231 |
| Fees | | **325** | 322 | **960** | 985 | 1,325 |
| Other income | | **3** | 2 | **5** | 77 | 81 |
| Total non- Interest income | | **391** | 432 | **1,140** | 1,257 | 1,637 |
| **Operating and other expenses** | | | | | | |
| Salaries and related expenses | | **394** | 406 | **1,215** | 1,241 | 1,696 |
| Maintenance and depreciation of premises and equipment | | **90** | 95 | **270** | 285 | 376 |
| Amortizations and impairment of intangible assets | | **22** | 22 | **68** | 67 | 91 |
| Other expenses | | **143** | 178 | **447** | 500 | 656 |
| Total operating and other expenses | | **649** | 701 | **2,000** | 2,093 | 2,819 |
| Profit before taxes | | **351** | 316 | **990** | 867 | 1,138 |
| Provision for taxes on profit | | **119** | 103 | **357** | 302 | 408 |
| Profit after taxes | | **232** | 213 | **633** | 565 | 730 |
| The bank's share in profit of equity-basis investee, after taxes | | **15** | 9 | **39** | 28 | 37 |
| **Net profit:** | | | | | | |
| Before attribution to non-controlling interests | | **247** | 222 | **672** | 593 | 767 |
| Attributed to non-controlling interests | | **(11)** | (10) | **(29)** | (25) | (34) |
| Attributed to shareholders of the Bank | | **236** | 212 | **643** | 568 | 733 |
| | | | | | | NIS |
| **Primary profit per share attributed to the shareholders of the Bank** | | | | | | |
| Net profit per share of NIS 0.05 par value | | **2.35** | 2.11 | **6.41** | 5.66 | 7.31 |

The notes to the financial statements are an integral part thereof.

**Irit Izakson**
Chairperson of the Board of Directors

**Smadar Barber-Tsadik**
Chief Executive Officer

**Nachman Nitzan**
Executive Vice President,
Chief Accountant

Tel-Aviv, November 26, 2019

## STATEMENT OF COMPREHENSIVE INCOME(1)

(NIS million)

| | For the three months ended September 30 | | For the nine months ended September 30 | | For the year Ended December 31 |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2018** |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| Net profit before attribution to non-controlling interests | **247** | 222 | **672** | 593 | 767 |
| Net profit attributed to non-controlling interests | **(11)** | (10) | **(29)** | (25) | (34) |
| Net profit attributed to the shareholders of the Bank | **236** | 212 | **643** | 568 | 733 |
| Other comprehensive income (loss) before taxes: | | | | | |
| Adjustments of available for sale bonds (2018 - securities) to fair value, net | **8** | 22 | **84** | (48) | (102) |
| Adjustments of liabilities in respect of employee benefits(2) | **(57)** | 13 | **(45)** | 91 | 37 |
| Other comprehensive income (loss) before taxes | **(49)** | 35 | **39** | 43 | (65) |
| Related tax effect | **17** | (12) | **(14)** | (15) | 22 |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | **(32)** | 23 | **25** | 28 | (43) |
| Less other comprehensive loss attributed to non-controlling interests | **(1)** | - | **-** | (1) | (4) |
| Other comprehensive income (loss) attributed to the shareholders of the Bank, after taxes | **(31)** | 23 | **25** | 29 | (39) |
| Comprehensive income before attribution to non-controlling interests | **215** | 245 | **697** | 621 | 724 |
| Comprehensive income attributed to non-controlling interests | **(10)** | (10) | **(29)** | (24) | (30) |
| Comprehensive income attributed to the shareholders of the Bank | **205** | 235 | **668** | 597 | 694 |

(1) See note 4.

(2) Mostly reflects adjustments in respect of actuarial assessments as of the end of the period regarding defined benefits pension plans, of amounts recorded in the past in other comprehensive profit.

The notes to the financial statements are an integral part thereof.

# CONSOLIDATED BALANCE SHEET
(NIS million)

| | | September 30, | | December 31, |
|---|---|---|---|---|
| | | **2019** | **2018** | **2018** |
| | **NOTE** | (unaudited) | (unaudited) | (audited) |
| **Assets** | | | | |
| Cash and deposits with banks | | **34,516** | 32,835 | 31,303 |
| Securities(4) | 5 | **10,453** | 11,880 | 12,595 |
| Securities which were borrowed | | **126** | 904 | 863 |
| Credit to the public | 6,12 | **88,218** | 86,367 | 85,160 |
| Provision for Credit losses | 6,12 | **(908)** | (883) | (868) |
| Credit to the public, net | | **87,310** | 85,484 | 84,292 |
| Credit to the government | | **680** | 672 | 700 |
| Investments in investee company | | **607** | 596 | 606 |
| Premises and equipment | | **988** | 1,025 | 1,023 |
| Intangible assets | | **227** | 223 | 239 |
| Assets in respect of derivative instruments | 10 | **1,078** | 1,009 | 1,399 |
| Other assets(2) | | **1,003** | 1,223 | 1,100 |
| Total assets | | **136,988** | 135,851 | 134,120 |
| **Liabilities Shareholders' Equity** | | | | |
| Deposits from the public | 7 | **116,292** | 113,804 | 111,697 |
| Deposits from banks | | **464** | 857 | 1,150 |
| Deposits from the Government | | **368** | 948 | 982 |
| Bonds and subordinated capital notes | | **3,690** | 5,155 | 4,989 |
| Liabilities in respect of derivative instruments | 10 | **1,298** | 942 | 1,294 |
| Other liabilities(1)(3) | | **6,066** | 5,735 | 5,595 |
| Total liabilities | | **128,178** | 127,441 | 125,707 |
| Capital attributed to the shareholders of the Bank | | **8,461** | 8,096 | 8,093 |
| Non-controlling interests | | **349** | 314 | 320 |
| Total equity | | **8,810** | 8,410 | 8,413 |
| Total liabilities and shareholders' equity | | **136,988** | 135,851 | 134,120 |

(1) Of which: provision for credit losses in respect of off-balance sheet credit instruments in the amount of NIS 60 million and NIS 68 million and NIS 64 million at 30.9.19, 30.9.18 and 31.12.18, respectively.
(2) Of which: other assets measured at fair value in the amount of NIS 49 million and NIS 392 million and NIS 426 million at 30.9.19, 30.9.18 and 31.12.18, respectively.
(3) Of which: other liabilities measured at fair value in the amount of NIS 170 million and NIS 720 million and NIS 586 million at 30.9.19, 30.9.18 and 31.12.18, respectively.
(4) Regarding amounts measured at fair value, see note 14B.

The notes to the financial statements are an integral part thereof.

## STATEMENT OF CHANGES IN EQUITY

(NIS million)

| | For the three months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive income (loss) | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as of June 30, 2019 | **927** | **(95)** | **7,534** | **8,366** | **339** | **8,705** |
| Net profit for the period | **-** | **-** | **236** | **236** | **11** | **247** |
| Dividend | **-** | **-** | **(110)** | **(110)** | **-** | **(110)** |
| Other comprehensive loss, after tax effect | **-** | **(31)** | **-** | **(31)** | **(1)** | **(32)** |
| Balance as at September 30, 2019 | **927** | **(126)** | **7,660** | **8,461** | **349** | **8,810** |

| | For the three months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive income (loss) | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as of June 30, 2018 | 927 | (114) | 7,148 | 7,961 | 304 | 8,265 |
| Net profit for the period | - | - | 212 | 212 | 10 | 222 |
| Dividend | - | - | (100) | (100) | - | (100) |
| Other comprehensive income, after tax effect | - | 23 | - | 23 | - | 23 |
| Balance as at September 30, 2018 | 927 | (91) | 7,260 | 8,096 | 314 | 8,410 |

| | For the nine months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive income (loss) | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as at December 31, 2018 (audited) | **927** | **(159)** | **7,325** | **8,093** | **320** | **8,413** |
| Cumulative effect of the initial implementation of US accepted accounting principals(3) | **-** | **8** | **(8)** | **-** | **-** | **-** |
| Adjusted balance as at January 1, 2019 after the initial implementation | **927** | **(151)** | **7,317** | **8,093** | **320** | **8,413** |
| Net profit for the period | **-** | **-** | **643** | **643** | **29** | **672** |
| Dividend | **-** | **-** | **(300)** | **(300)** | **-** | **(300)** |
| Other comprehensive income, after tax effect | **-** | **25** | **-** | **25** | **-** | **25** |
| Balance as at September 30, 2019 | **927** | **(126)** | **7,660** | **8,461** | **349** | **8,810** |

| | For the nine months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive income (loss) | Retained earnings (2) | Total share-holders' equity | Non-controlling interests | Total equity |
| Balance as at December 31, 2017 (audited) | 927 | (120) | 6,949 | 7,756 | 290 | 8,046 |
| Net profit for the period | - | - | 568 | 568 | 25 | 593 |
| Dividend | - | - | (255) | (255) | - | (255) |
| Other comprehensive income (loss), after tax effect | - | 29 | - | 29 | (1) | 28 |
| Temporary equity - non-controlling interest | - | - | (2) | (2) | - | (2) |
| Balance as at September 30, 2018 | 927 | (91) | 7,260 | 8,096 | 314 | 8,410 |

## STATEMENT OF CHANGES IN EQUITY (CONT'D)

(NIS million)

| | For the year ended December 31, 2018 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Share capital and premium (1) | Accumulated other comprehensive loss | Retained earnings (2) | Total | Non-controlling interests | Total equity |
| Balance as at December 31, 2017 | 927 | (120) | 6,949 | 7,756 | 290 | 8,046 |
| Net profit for the year | - | - | 733 | 733 | 34 | 767 |
| Dividend | - | - | (355) | (355) | - | (355) |
| Other comprehensive loss, after tax effect | - | (39) | - | (39) | (4) | (43) |
| Temporary equity - non-controlling interest | - | - | (2) | (2) | - | (2) |
| Balance as at December 31, 2018 | 927 | (159) | 7,325 | 8,093 | 320 | 8,413 |

(1) Including share premium of NIS 313 million (as from 1992 onwards).

(2) Including an amount of NIS 2,391 million which cannot be distributed as dividend.

(3) Cumulative effect of the initial implementation regarding financial instruments of US accepted accounting standards at banks in respect of financial instruments (ASU 2016-01). See also Note 1.D.(1).

The notes to the financial statements are an integral part thereof.

## STATEMENT OF CASH FLOWS
(NIS million)

| | For the three months ended September 30 | | For the nine months ended September 30 | | For the year Ended December 31 |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| **Cash flows from operating activities:** | | | | | |
| Net profit for the period | **247** | 222 | **672** | 593 | 767 |
| **Adjustments to reconcile cash provided by operating activities:** | | | | | |
| The Bank's share in profit of equity-basis investee | **(15)** | (9) | **(39)** | (28) | (37) |
| Depreciation of premises and equipment | **17** | 16 | **53** | 54 | 75 |
| Amortization of intangible assets | **22** | 22 | **68** | 67 | 91 |
| Gain on sale of premises and equipment | **(2)** | (1) | **(2)** | (68) | (69) |
| Expenses from credit losses | **33** | 49 | **92** | 130 | 166 |
| Gain from sale of available for sale bonds and not for trading shares (2018- available for sale securities) | **(8)** | (77) | **(24)** | (78) | (77) |
| Realized and non-realized loss (gains) from adjustment to fair value of trading securities | **9** | - | **15** | - | (1) |
| Realized and non-realized gain from adjustment to fair value of not for trading shares | **(29)** | - | **(48)** | - | - |
| Deferred taxes, net | **(5)** | (9) | **(23)** | (42) | (24) |
| Defined benefit of pension and severance pay plans | **19** | 63 | **78** | 136 | 157 |
| Adjustments of exchange rate differences | **(229)** | (28) | **(560)** | 260 | 439 |
| Dividend received from equity-basis investee | **-** | - | **42** | - | - |
| **Net change in current assets:** | | | | | |
| Trading securities | **127** | (37) | **448** | 161 | (6) |
| Other assets | **162** | 723 | **129** | (12) | 109 |
| Assets in respect of derivative instruments | **(175)** | 270 | **164** | 367 | (74) |
| **Net change in current liabilities:** | | | | | |
| Other liabilities | **187** | (543) | **1,517** | 526 | 1,243 |
| Liabilities in respect of derivative instruments | **194** | (182) | **4** | (376) | (24) |
| Accumulation differences included in investing and financing activities | **13** | 93 | **(2)** | 123 | 122 |
| Net cash from operating activity | **567** | 572 | **2,584** | 1,813 | 2,857 |
| **Cash flows for investing activity** | | | | | |
| Change in Deposits with banks | **(336)** | (2,186) | **(78)** | (2,134) | 146 |
| Change in Securities borrowed | **290** | (354) | **737** | (91) | (50) |
| Change in Credit to the public | **(1,769)** | (1,444) | **(4,314)** | (4,968) | (3,897) |
| Change in credit to the public held for sale | **-** | - | **-** | 2 | - |
| Change in Credit to the government | **4** | 9 | **20** | 3 | (25) |
| Purchase of available for sale bonds and not for trading shares (2018- available for sale securities) | **(1,916)** | (1,604) | **(4,317)** | (6,180) | (7,530) |
| Proceeds from redemption of bonds held to maturity | **16** | 9 | **151** | 268 | 305 |
| Proceeds from sale of available for sale bonds and not for trading shares (2018- available for sale securities) | **1,048** | 173 | **2,450** | 514 | 1,009 |
| Redemption of available for sale bonds | **832** | 1,270 | **3,346** | 3,650 | 4,232 |
| Acquisition of premises and equipment | **(6)** | (13) | **(20)** | (31) | (47) |
| Proceeds from sale of premises, equipment and other assets | **5** | 11 | **5** | 115 | 113 |
| Investment in intangible assets | **(22)** | (18) | **(56)** | (55) | (95) |
| Net cash for investing activity | **(1,854)** | (4,147) | **(2,076)** | (8,907) | (5,839) |

The notes to the financial statements are an integral part thereof.

## **STATEMENT OF CASH FLOWS** (CONT'D)
(NIS million)

| | For the three months ended September 30, | | For the nine months ended September 30, | | For the year ended December 31 |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** | **2018** |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) | (audited) |
| **Cash flows from (for) financing activity** | | | | | |
| Change in Deposits from the public | **2,520** | 640 | **5,784** | (577) | (3,923) |
| Change in Deposits from banks | **(471)** | 404 | **(625)** | (297) | (39) |
| Change in Deposits from the government | **122** | 56 | **(735)** | 118 | 53 |
| Additional acquisition of shares in consolidated company | **-** | - | **-** | (340) | (340) |
| Issue of bonds and subordinate debt notes | **711** | 252 | **711** | 252 | 252 |
| Redemption of bonds and subordinate debt notes | **(1,105)** | (124) | **(2,032)** | (378) | (559) |
| Dividend paid to shareholders | **(110)** | (100) | **(300)** | (255) | (355) |
| Net cash from (for) financing activity | **1,667** | 1,128 | **2,803** | (1,477) | (4,911) |
| Increase (decrease) in cash | **380** | (2,447) | **3,311** | (8,571) | (7,893) |
| Cash balances at beginning of period | **33,981** | 32,820 | **31,126** | 38,863 | 38,863 |
| Effect of changes in exchange rates on cash balances | **(100)** | 4 | **(176)** | 85 | 156 |
| Cash balances at end of period | **34,261** | 30,377 | **34,261** | 30,377 | 31,126 |
| | | | | | |
| **Interest and taxes paid and/or received:** | | | | | |
| Interest received | **789** | 826 | **2,405** | 2,264 | 3,137 |
| Interest paid | **(235)** | (183) | **(604)** | (512) | (657) |
| Dividends received | **2** | 10 | **8** | 18 | 19 |
| Income tax paid | **(167)** | (127) | **(466)** | (360) | (487) |
| Income tax received | **2** | - | **56** | 68 | 70 |

The notes to the financial statements are an integral part thereof.

## NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 - PRINCIPAL ACCOUNTING POLICIES

### A. General

The first International bank of Israel Ltd. (hereinafter - "the Bank") is an Israeli corporation. The condensed consolidated interim financial statements of the Bank as of September 30, 2019 include those of the Bank and of its subsidiary companies (hereinafter - "the Group") as well as the rights of the Group in an affiliated company. The condensed consolidated interim financial statements do not include all the information required in full annual financial statements. The condensed statements should be read together with the financial statements as of and for the year ended December 31, 2018 (hereinafter - "the Annual Report").

The accounting policy of the Group applied in these condensed consolidated interim financial statements, is the same policy applied in the Annual Report, with the exception of that stated in subsection "D" below.

In accordance with the guidelines of the Supervisor of Banks, publication of condensed financial statements is made on the basis of consolidated financial statements only. The condensed consolidated interim financial statements were approved for publication by the Board of Directors on November 26, 2019.

The accompanying financial statements represent a translation into English from the original financial statements in Hebrew.

### B. Financial reporting principles

The financial statements of the Bank are prepared in accordance with accepted accounting principles in Israel (Israeli GAAP) and in accordance with the public reporting instructions and guidelines of the Supervisor of Banks. In most matters, these directives are based on accounting principles accepted by US banks. In other matters, which are less material, the directives are based on international financial reporting standards (IFRS) and on accepted accounting principles in Israel (Israeli GAAP). Where the international financial reporting standards (IFRS) allow several alternatives, or do not include specific reference to a certain situation, these instructions set specific implementation guidelines, based mainly on accounting principles accepted by US banks.

### C. Use of estimates

Preparation of the condensed Interim consolidared financial statements requires Management to use judgment in making estimates and assumptions which affect the implementation of the accounting policy and the reported amounts of assets and liabilities and the amounts of income and expenses. It should be noted that actual results may differ from these estimates.

Upon the formation of accounting estimates used in the preparation of the financial statements of the Bank, Management is required to make assumptions as to circumstances and events which involve uncertainty. The assessments as well as the assumptions supporting them are consistent with those used in the formation of the annual financial statements.

The assessments as well as the assumptions supporting them are being reviewed on a current basis. Changes in accounting assessments are recognized in the period in which these changes occur as well as in all future periods affected by them.

## D. Initial implementation of accounting standards, updates of accounting standards and instructions of the Supervisor of Banks

Starting with the periods beginning on January 1, 2019, the Bank implements new accounting standards and instructions regarding the matters detailed below:

1. Reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional issues.
2. Amendment No. 2017-08 of the Codification of the FASB regarding debtors - irrecoverable loans and other costs.

Following is a description of the substance of the changes made to the accounting policy applied in these condensed consolidated interim financial statements, and a description of the manner and effect of the initial implementation, if at all:

### 1. Reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional issues

A circular letter was published on August 30, 2018, in the matter of reporting by banks and credit card companies in Israel in accordance with US accepted accounting principles in the matter of derivative instruments and hedging, classification and measurement of financial instruments, cash flow statement and additional issues.

**Derivative instruments and hedging**

The US Accounting Standards Board (FASB) published in August 2017 ASU 2017-12, which updates Item 815 of the Codification with respect to derivative instruments and hedge accounting. The update includes changes in the guidelines regarding the measurement and purpose of qualified hedge relations, and regarding the presentation requirements respecting hedge results. The update enlarges the ability of banking corporations to hedge risk components, and creates a match between the recognition and presentation of the hedge instruments and the hedged items in the financial statements. The update cancels the need to relate separately to the "noneffective part" in hedge relations, in cases where amounts are eliminated from the assessment of the hedge effectiveness. The update allows deferral of these amounts to other comprehensive profit, though when recognized in profit and loss, they will be presented in the same line presenting the effect of the hedged instrument. Furthermore, the amendments included in the update simplify the implementation of the accounting guidelines in the matter of hedging by easing the assessment of hedge effectiveness and the documentation requirements. The amendments to the instructions adopt in the public reporting instructions the accounting principles accepted by US banks, as determined in the update. Moreover, the disclosure format was modified to agree with that presented in financial statements of US banks.

The Bank has adopted the new instructions as from January 1, 2019. The new instructions had no effect upon the financial statements save for the changes in disclosure required in the financial statements.

**Classification and measurement of financial instruments**

Included in the said letter are amendments to instructions that adopt in the public reporting instructions the accounting principles accepted by US banks, as stated in update ASU 2016-01 and in update ASU 2018-03. Most of the changes in the public reporting instructions in the matter of classification and measurement of financial instruments relate to: changes in the fair value of yet unrealized investments in available-for-sale shares that have an available fair value, which are to be recognized on a current basis in the statement of profit and loss instead of in other comprehensive profit; investments in shares that do not have an available fair value, which at present are presented at cost (net of impairment), would, as a general rule, be presented at cost (net of impairment) adjusted for changes in observable prices of shares of that same issuer.

The new instructions have been applied since January 1, 2019, by way of retroactive application recognizing the cumulative effect thereof in the opening balance of retained earnings at date of initial application. The instructions regarding investment in capital instruments having no available fair value, have been applied by way of "from now onwards". Changes in disclosure required in the financial statements have been applied as from now onwards.

Implementation of the new instructions regarding classification and measurement of financial instruments as from January 1, 2019, resulted in the reclassification of unrealized net losses in the amount of NIS 8 million, previously recognized in other comprehensive profit, from cumulative other comprehensive profit to retained earnings.

**2. Amendment No. 2017-08 to the Codification of the FASB in the matter of debtors - irrecoverable loans and other costs**

The FASB published in March 2017 an update regarding the amortization of the premium on purchased debt instruments having an early repayment option, comprising an amendment to Item 310-20 of the Codification in the matter of debtors - nonrecoverable commissions and other costs (hereinafter - "the amendment).

In accordance with the amendment, the period of amortization of the premium on debt instruments having an early repayment option by the issuer, shall be shortened and calculated in accordance with the earliest repayment date.

The instruction of the amendment have been applied as from January 1, 2019, by way of retroactive application, with the cumulative effect thereof being recognized in the opening balance of retained earnings at date of initial application.

Application of the instructions had no material effect on the financial statements.

## E. New accounting standards and new directives of the Supervisor of Banks in the period prior to the implementation thereof

**(1) Reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles in the matter of leasing**

The Supervisor of Banks issued a letter on July 1, 2018, in the matter of reporting by banking corporations and credit card companies in Israel in accordance with US accepted accounting principles with respect to leasing, which adopts the accounting principles accepted by US banks in the matter of leasing, and inter alia, the presentation, measurement and disclosure rules determined by Item 842 of the Codification with respect to "leasing".

A summary of the principal changes expected in the accounting treatment in financial statements of banking corporations following the application of Item 842 of the Codification, as stated in the letter, determines, inter alia, as follows: banking corporations that lease assets for periods exceeding twelve months shall recognize them in the balance sheet, even where the lease is classified as an operating lease; in the case of an operating lease, a "right of use asset" shall be recorded in the balance sheet reflecting the right of a bank to use the leased asset, while on the other hand a liability in respect of an operating lease will be recorded; moreover, a sale and lease-back transaction of an asset made by a bank may in certain cases be considered as an accounting sale transaction, subject to the existence of certain terms detailed in Item 842. This standard is to be applied as from January 1, 2020 and thereafter.

The Bank plans to apply the new instructions in the matter of leasing by way of retroactive application, recognizing the cumulative effect thereof in retained earning at date of initial application. Moreover, the Bank intends to adopt at the initial date of application, certain reliefs granted by the transitional instructions, including maintaining the assumptions regarding the existence of a lease and its classification as an operating or a financial lease, as well as maintaining the assumptions regarding qualification for the capitalization of primary direct expenses, which had been determined in the period prior to the date of initial application, in accordance with the provisions of the present standards.

The Bank estimates that at date of initial application, the implementation of the new instructions is expected to result in an increase of NIS 450 million in the balance of the right of use assets, and to a parallel increase of NIS 450 million in the balance of liabilities in respect of leases. Furthermore, the bank estimates that the application of the new instructions is expected to lead to a decline in the Tier I equity capital ratio and in the comprehensive capital ratio at rates of 0.06% and 0.08%, respectively, being the result of weighing the risk assets in respect of right of use assets stemming from operating leases, which are recognized in the balance sheet at the rate of 100%. In addition, application of the new instructions might lead to a decline in the leverage ratio of the Bank at the rate of 0.02%.

The Bank is preparing for the implementation of the letter.

In addition, the letter includes a transitional instruction guiding a banking corporation not to include the exchange differences in respect of available-for-sale bonds as part of the adjustments to fair value of such bonds, but to continue treating them as required by the public reporting instructions prior to the adoption of Item 830 of the Codification as regards "foreign currency", and this until January 1, 2021.

**(2) Adoption of updates to accounting principles accepted by US banks - provisions for credit losses and additional instructions**

The Supervisor of Banks issued a letter on March 28, 2018, in the matter of "Adoption of updates to accounting principles accepted by US banks - provisions for credit losses and additional instructions". The letter requires the implementation of the accounting principles accepted by US banks with respect to provisions for credit losses, financial instruments, including derivatives and hedge activity as well as leases. The initial implementation shall be in accordance with the transitional instructions determined in the US rules.

The letter adopts the US accepted accounting principles in the matter of provisions for expected credit losses, published within the framework of updating standard ASU 2016-13. The aim of the new rules is to improve the quality of reporting the financial condition of a banking corporation by means of advance recognition of provisions for credit losses, in a manner that strengthens the counter-recurrence in the conduct of the provisions for credit losses, supporting a quicker response by the banks to the deterioration in the quality of credit to borrowers, and the reinforcement of the bond between credit risk management and the way in which such risks are being reflected in financial statements, while basing it on existing methods and processes.

The principal changes expected in the accounting treatment in financial statements of banking corporations, following the implementation of these rules, are, inter alia, as follows: the provision for credit losses shall be calculated according to the loss expected over the life of the credit, instead of assessing the loss caused but not yet identified; in assessing the provision for credit losses, significant use should be made of forward -looking information reflecting reasonable forecasts as to future economic events; providing wider disclosure of the impact of the date of extending the credit on the quality of credit of the credit portfolio; changes in the manner of recording impairment of bonds classified as available-for-sale; also, the new rules for the calculation of the provision for credit loss shall apply to credit (including residential loans), bonds held to redemption and to exposure to certain off-balance sheet credit.

The standard is to be applied as from January 1, 2021 and thereafter. As a general rule, the new rules are to be applied by way of recognition in retained earnings of the cumulative effect of the rules at date of their initial application.

The Bank is preparing for the implementation of the letter. Preparations made by the Bank include, inter alia, mapping of the new instructions and their possible implications on the Bank; review of the practices applying at present to the management of credit risk and to the assessment of the provision for credit losses, in order to identify processes that might be used for the purpose of the application of the new rules. Identification of the challenges and the ways to be used in order to face such challenges, as well as examination of the changes required for the modification of the models used for assessing credit losses.

On July 4, 2019 the Supervision of Banks a draft in respect of "application of acceptable accounting standards in the USA regarding anticipated credit losses" which includes combining of the new guidelines in the Public Reporting Directives, postponement of initial application of the new guidelines to January 1, 2022 and simultaneous measurement of credit losses starting from January 1, 2021. In addition, the Supervision of Banks published a draft of Questions & Answers file in respect of the new guidelines in the matter of "anticipated credit losses" in order to assist the banking entities with the preparation for the implementation of the new guidelines.

**(3) Amendment of Standard ASU 2018-14 in the matter of changes in disclosure requirements regarding defined benefit plans**

On August 28, 2018, the US Financial Accounting Standard Board ("FASB") published Amendment ASU 2018-14 regarding the disclosure framework - changes in disclosure requirements regarding defined benefit plans, comprising an update of Item 715-20 of the Codification in the matter of compensation-retirement benefits-defined benefits plans-general (hereinafter - "the Amendment"). The aim of the Amendment is to improve the effectiveness of disclosure provided in notes to financial statements, as well as reduce the costs involved in the preparation of the required notes.

The changes contained in the Amendment abolish disclosures that are useless, clarify specific disclosure requirements, as well as add disclosure requirements identified as relevant.

The principal changes are, inter alia, as follows: it is no longer required to present an assessment of the amounts included in other comprehensive income expected to be removed from other cumulative comprehensive income in the following year and charged to profit and loss as an expense; it is no longer required to present the amount of the future annual benefits that are covered by insurance contracts, including pension contracts, as well as any significant transactions between the entity, or related parties and the plan; a new requirement is added for the provision of details regarding the reasons for material profits or losses related to changes during the period in the liability regarding defined benefit; also clarified are the disclosure requirements in respect of entities having two or more plans.

The provisions of the Amendment apply to public entities in the United States starting with annual periods beginning after December 15, 2020. Earlier adoption of the rules is permitted also for interim periods. Upon initial application it is required to implement the changes by way of retroactive application.

The Bank is studying the effect of the new rules upon its financial statements.

**(4) Update ASU 2018-13 of the standard in the matter of changes in the disclosure requirements regarding the measurement of fair value**

The US Financial Accounting Standard Board ("FASB") published on August 28, 2018, ASU 2018-13 in the matter of disclosure framework - changes in the disclosure requirements regarding the measurement of fair value, comprising an update of Item 820 of the Codification regarding measurement of fair value (hereinafter - "the update"). The purpose of the update is to improve the effectiveness of disclosure in notes to financial statements as well as reduce the cost involved in the preparation of the required notes.

The amendments included in the update, eliminate disclosure that is useless, clarify specific disclosure requirements and add disclosure requirements found as relevant.

The principal amendments are, inter alia, as follows: the requirement for presentation of the amounts and reasons for the transfers between levels 1 and 2 of the fair value hierarchy has been eliminated; also eliminated is the requirement for information regarding the policy of the entity determining when transfers between levels are considered as effected; also eliminated is the requirement to present a description of the process of measurement of the fair value at level 3; within the framework of the requirement to provide a verbal description of the sensitivity to changes in unobservable data for recurring measurements of fair value classified at level 3 in the fair value scale; the term "sensitivity" has been changed to "uncertainty" in order to emphasize that the required information relates to uncertainty; a requirement has been added for the presentation of the unrealized changes in other comprehensive income during the reported period in respect of assets held at the end of that period.

The instructions contained in the update apply to US public entities beginning with annual periods beginning after December 15, 2019. Prior adoption is permissible also for interim periods. Upon initial application it is required to apply the instructions by way of retroactive application, with the exception of the additional disclosure requirements and the updated disclosure requirement regarding uncertainty in the measurement of fair value at level 3, the application thereof would be from now onwards.

The amendment is not expected to have a material effect on the financial statements..

# NOTE 2 - INTEREST INCOME AND EXPENSES

(NIS million)

| | | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |
| | | | (unaudited) | | (unaudited) |
| **A.** | **Interest income (expenses)** (1) | | | | |
| | From credit to the public | **635** | 694 | **2,113** | 2,059 |
| | From credit to the Government | **(4)** | 1 | **3** | 4 |
| | From deposits with banks | **6** | 4 | **19** | 10 |
| | From deposits with Bank of Israel and from cash | **18** | 7 | **50** | 22 |
| | From securities borrowed | **-** | - | **1** | - |
| | From bonds(2) | **44** | 50 | **151** | 134 |
| | Total interest income | **699** | 756 | **2,337** | 2,229 |
| **B.** | **Interest expenses** | | | | |
| | On deposits from the public | **53** | 78 | **289** | 242 |
| | On deposits from the Government | **1** | 1 | **3** | 3 |
| | On deposits from banks | **1** | 1 | **3** | 3 |
| | On bonds and subordinated capital notes | **2** | 42 | **96** | 146 |
| | On other liabilities | **-** | - | **4** | 2 |
| | Total interest expenses | **57** | 122 | **395** | 396 |
| | Total interest income, net | **642** | 634 | **1,942** | 1,833 |
| **C.** | **Details on net effect of hedging derivative instruments on interest income and expenses** | | | | |
| | Interest income (expenses)(3) | **(2)** | 2 | **(5)** | 2 |
| **D.** | **Details of interest income from bonds on cumulative basis** | | | | |
| | Held to maturity | **6** | 9 | **26** | 26 |
| | Available for sale | **38** | 40 | **124** | 106 |
| | Held for trading | **-** | 1 | **1** | 2 |
| | Total included in interest income | **44** | 50 | **151** | 134 |

(1) Including effect of hedging relations (2018- effective component in hedging relations).

(2) Including Interest income on mortgage-backed bond (MBS) in the amount of NIS 2 million and NIS 7 million for the periods of three months and nine months ended September 30, 2019, respectively (NIS 3 million and NIS 6 million for the periods of three and nine months ended September 30, 2018, respectively).

(3) Details of effect of hedging derivative instruments on subsection A.

# NOTE 3 - NON-INTEREST FINANCING INCOME

(NIS million)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | | (unaudited) | | (unaudited) |
| **A. Non-interest financing income in respect of non-trading activities** | | | | |
| **1. From activity in derivative instruments** | | | | |
| Total from activity in derivative instruments[1] | **(186)** | (1) | **(445)** | 360 |
| **2. From investments in bonds** | | | | |
| Profits from sale of bonds available for sale[2] | **8** | 1 | **23** | 6 |
| Total from investment in bonds | **8** | 1 | **23** | 6 |
| **3. Net exchange differences** | **229** | 30 | **560** | (259) |
| **4. Gains from investment in shares** | | | | |
| Gains from sale of shares not for trading (2018- available for sale shares) | **-** | 77 | **1** | 78 |
| Losses from sale of shares not for trading (2018- available for sale shares) | **-** | [4](1) | **-** | [4](6) |
| Dividend from shares not for trading (2018- available for sale shares) | **5** | - | **7** | 8 |
| Unrealized gains[3] | **29** | - | **48** | - |
| Total from investment in shares | **34** | 76 | **56** | 80 |
| Total non-interest financing income in respect of non-trading activities | **85** | 106 | **194** | 187 |

(1) Excluding effect of hedging relation (2018- excluding effective component in hedging relations).
(2) Reclassified from cumulative other comprehensive income.
(3) Including profits and losses from measurement according to fair value of shares in respect of which fair value exist and adjustment of shares in respect of which fair value does not exist.
(4) Including impairment in the amount of NIS 1 million and NIS 6 million for the three and nine months ended September 30, 2018, respectively.

## NOTE 3 - NON-INTEREST FINANCING INCOME (CONT'D)

(NIS million)

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | | (unaudited) | | (unaudited) |
| **B. Net income in respect of non-interest financing activity for trading[3]** | | | | |
| Net income (expenses) in respect of other derivative instruments | **(13)** | 2 | **(4)** | 8 |
| Net realized and unrealized losses from adjustments to fair value of bonds held for trading[1] | **(8)** | (1) | **(14)** | - |
| Net realized and unrealized gain (losses) from adjustments to fair value of shares held for trading[2] | **(1)** | 1 | **(1)** | - |
| Total non-interest financing income (expenses) from trading activities[4] | **(22)** | 2 | **(19)** | 8 |
| Total non-interest financing income | **63** | 108 | **175** | 195 |
| **Details on non-interest financing income (expenses) in respect of trading activities, by risk exposure** | | | | |
| Interest rate exposure | **(5)** | (1) | **-** | - |
| Exposure to shares | **2** | 3 | **5** | 8 |
| Foreign currency exposure | **(19)** | - | **(24)** | - |
| Total | **(22)** | 2 | **(19)** | 8 |

(1) Of which losses in respect of trading bonds held at balance sheet date in the amount of NIS 3 million and NIS 4 million for the three and nine months ended September 30, 2019, respectively (three months ended September 30, 2018 - NIS 1 million).
(2) No gains/losses exist in respect of trading shares on hand at balance sheet date.
(3) Including exchange differences arising from trading activity.
(4) See Note 2 for details on income from investment in trading bonds.
(5) See Note 2 for disclosure of the net effect of hedge derivative instruments on interest income and expenses.

# NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

(NIS million)

## A. Changes in cumulative other comprehensive income (loss), net after tax effect

| | Other comprehensive income (loss) before attribution to non-controlling interests | | | | |
|---|---|---|---|---|---|
| | Adjustment in respect of reporting available for sale bonds (2018 - securities) in fair value | Adjustments in respect of employee benefits | Total | Other comprehensive income (loss) attributed to non-controlling interests | Other comprehensive income (loss) attributed to the Bank's shareholders |
| | | | | | **For the three months ended September 30, 2019** |
| Balance as of June 30, 2019 (unaudited) | **36** | **(143)** | **(107)** | **(12)** | **(95)** |
| Net change during the period | **5** | **(37)** | **(32)** | **(1)** | **(31)** |
| Balance as of September 30, 2019 (unaudited) | **41** | **(180)** | **(139)** | **(13)** | **(126)** |
| | | | | | **For the three months ended September 30, 2018** |
| Balance as of June 30, 2018 (unaudited) | (1) | (123) | (124) | (10) | (114) |
| Net change during the period | 14 | 9 | 23 | - | 23 |
| Balance as of September 30, 2018 (unaudited) | 13 | (114) | (101) | (10) | (91) |
| | | | | | **For the nine months ended September 30, 2019** |
| Balance as of December 31, 2018 (audited) | **(22)** | **(150)** | **(172)** | **(13)** | **(159)** |
| Cumulative effect in respect of initial application of US accepted accounting standards* | **8** | **-** | **8** | **-** | **8** |
| Adjusted balance as of January 1, 2019 after initial application | **(14)** | **(150)** | **(164)** | **(13)** | **(151)** |
| Net change during the period | **55** | **(30)** | **25** | **-** | **25** |
| Balance as of September 30, 2019 (unaudited) | **41** | **(180)** | **(139)** | **(13)** | **(126)** |
| | | | | | **For the nine months ended September 30, 2018** |
| Balance as of December 31, 2017 (audited) | 45 | (174) | (129) | (9) | (120) |
| Net change during the period | (32) | 60 | 28 | (1) | 29 |
| Balance as of September 30, 2018 (unaudited) | 13 | (114) | (101) | (10) | (91) |
| | | | | | **For the year ended December 31, 2018** |
| Balance as of December 31, 2017 (audited) | 45 | (174) | (129) | (9) | (120) |
| Net change during 2018 | (67) | 24 | (43) | (4) | (39) |
| Balance as of December 31, 2018 (audited) | (22) | (150) | (172) | (13) | (159) |

* Cumulative effect in respect of initial application of US accepted accounting standards for banks in respect of financial instruments (ASU 2016-01), see also note 1.D.(1).

## NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

### B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect

| | For the three months ended September 30 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | 2019 | | | 2018 |
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| **Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests** | | | | | | |
| **Adjustments in respect of presentation of available for sale bonds according to fair value (2018- securities)** | | | | | | |
| Unrealized net gains from adjustments to fair value | **51** | **(17)** | **34** | 4 | (2) | 2 |
| Losses (Gains) in respect of available for sale Bonds (2018 - securities) reclassified to income statement (1) | **(43)** | **14** | **(29)** | 18 | (6) | 12 |
| Net change during the period | **8** | **(3)** | **5** | 22 | (8) | 14 |
| **Employee benefits:** | | | | | | |
| Net actuarial gain (loss) for the period | **(69)** | **25** | **(44)** | 6 | (1) | 5 |
| Net losses reclassified to the statement of profit and loss (2) | **12** | **(5)** | **7** | 7 | (3) | 4 |
| Net change during the period | **(57)** | **20** | **(37)** | 13 | (4) | 9 |
| **Changes in the components of cumulative other comprehensive loss attributed to minority interests** | | | | | | |
| Total change during the period | **(2)** | **1** | **(1)** | - | - | - |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to the Bank's shareholders** | | | | | | |
| Total change during the period | **(47)** | **16** | **(31)** | 35 | (12) | 23 |

| | For the nine months ended September 30 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | | 2019 | | | 2018 |
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| **Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests** | | | | | | |
| **Adjustments in respect of presentation of available for sale bonds according to fair value (2018- securities)** | | | | | | |
| Unrealized net gains (losses) from adjustments to fair value | **264** | **(90)** | **174** | (88) | 30 | (58) |
| Losses (Gains) in respect of available for sale Bonds (2018 - securities) reclassified to income statement (1) | **(180)** | **61** | **(119)** | 40 | (14) | 26 |
| Net change during the period | **84** | **(29)** | **55** | (48) | 16 | (32) |
| **Employee benefits:** | | | | | | |
| Net actuarial gain (loss) for the period | **(97)** | **33** | **(64)** | 63 | (21) | 42 |
| Net losses reclassified to the statement of profit and loss (2) | **52** | **(18)** | **34** | 28 | (10) | 18 |
| Net change during the period | **(45)** | **15** | **(30)** | 91 | (31) | 60 |
| **Changes in the components of cumulative other comprehensive income (loss) attributed to minority interests** | | | | | | |
| Total change during the period | **-** | **-** | **-** | (1) | - | (1) |
| **Changes in the components of cumulative other comprehensive income attributed to the Bank's shareholders** | | | | | | |
| Total change during the period | **39** | **(14)** | **25** | 44 | (15) | 29 |

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

## NOTE 4 - CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS) (CONT'D)

(NIS million)

### B. Changes in the components of cumulative other comprehensive income (loss) before and after tax effect (cont'd)

| | For the year ended December 31, 2018 (audited) | | |
|---|---|---|---|
| | **Before tax** | **Tax effect** | **After tax** |
| **Changes in the components of cumulative other comprehensive income (loss) before attribution to minority interests** | | | |
| **Adjustments in respect of presentation of available for sale securities according to fair value** | | | |
| Unrealized net losses from adjustments to fair value | (92) | 32 | (60) |
| Gains in respect of available for sale securities reclassified to income statement (1) | (10) | 3 | (7) |
| Net change during the period | (102) | 35 | (67) |
| **Employee benefits:** | | | |
| Net actuarial loss for the period | (10) | 3 | (7) |
| Net losses reclassified to the statement of profit and loss (2) | 47 | (16) | 31 |
| Net change during the period | 37 | (13) | 24 |
| **Changes in the components of cumulative other comprehensive loss attributed to minority interests** | | | |
| Total change during the period | (6) | 2 | (4) |
| **Changes in the components of cumulative other comprehensive loss attributed to the Bank's shareholders** | | | |
| Total change during the period | (59) | 20 | (39) |

(1) The amount before tax is reported in the statement of income in the item non-interest financing income. For additional details see note 3.

(2) The amount before tax is reported in the statement of income in the item employee benefits, see note 7A.

# NOTE 5 - SECURITIES
(NIS million)

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| **A. Debentures held to maturity** | **Book value** | **Amortized cost** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value (1)** |
| Of Israeli government | 1,563 | 1,563 | 94 | - | 1,657 |
| Of financial institutions in Israel | 61 | 61 | 1 | - | 62 |
| Of others in Israel | 244 | 244 | 33 | - | 277 |
| Total debentures held to maturity | 1,868 | 1,868 | 128 | - | 1,996 |

| | | | Cumulative other comprehensive income | | |
|---|---|---|---|---|---|
| **B. Bonds available for sale** | **Book value** | **Amortized cost** | **Profits** | **Losses** | **Fair value (1)** |
| Of Israeli government | 4,547 | 4,494 | 53 | - | 4,547 |
| Of foreign governments | 2,085 | 2,084 | 1 | - | 2,085 |
| Of financial institutions in Israel | 45 | 45 | 1 | 1 | 45 |
| Of foreign financial institutions | (6)285 | 284 | 1 | - | 285 |
| Mortgage backed (MBS) securities | (5)411 | 408 | 4 | 1 | 411 |
| Of others in Israel | (7)412 | 407 | 10 | 5 | 412 |
| Of foreign others | 416 | 416 | - | - | 416 |
| Total bonds available for sale | 8,201 | 8,138 | (2)70 | (2)7 | 8,201 |

| **C. Investment in not for trading shares** | **Book value** | **cost** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value (1) (4)** |
|---|---|---|---|---|---|
| Not for trading shares | 308 | 260 | (3)48 | (3)- | 308 |
| Of which: shares, the fair value of which is not ready determinable | 132 | 132 | - | - | 132 |
| Total not for trading securities | 8,509 | 8,398 | 118 | 7 | 8,509 |

| **D. Securities held for trading** | **Book value** | **Amortized cost (in shares cost)** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value (1)** |
|---|---|---|---|---|---|
| Bonds - | | | | | |
| Of Israeli government | 62 | 62 | - | - | 62 |
| Of financial institutions in Israel | 7 | 7 | - | - | 7 |
| Of others in Israel | 5 | 5 | - | - | 5 |
| Total trading debentures and bonds | 74 | 74 | - | - | 74 |
| Shares - | 2 | 2 | - | - | 2 |
| Total trading securities | 76 | 76 | (3)- | (3)- | 76 |
| Total securities | 10,453 | 10,342 | 246 | 7 | 10,581 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale bonds at fair value".

(3) Recorded in the Statement of Income.

(4) Regarding shares which do not have available fair value, in this column presented cost less impairment, adjusted upwards or downwards to observable prices in similar or identical investments of the same issuer.

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 410 million and securities issued by FNMA & FHLMC in amount of NIS 1 million.

(6) Including securities owned by a government in the amount of NIS 122 million securities owned by a government and have specified government guarantee in the amount of NIS 137 million.

(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

## NOTE 5 - SECURITIES (CON'T)

(NIS million)

| | | | | | September 30, 2018 (unaudited) |
|---|---|---|---|---|---|
| A. Debentures held to maturity | Book value | Amortized cost | Unrealized gains from adjustment to fair value | Unrealized losses from adjustment to fair value | Fair value (1) |
| Of Israeli government | 1,508 | 1,508 | 17 | 2 | 1,523 |
| Of financial institutions in Israel | 34 | 34 | - | - | 34 |
| Of others in Israel | 255 | 255 | 31 | - | 286 |
| Total debentures held to maturity | 1,797 | 1,797 | 48 | 2 | 1,843 |

| B. Securities available for sale | Book value | Amortized cost (in shares cost) | Cumulative other comprehensive income | | Fair value (1) |
|---|---|---|---|---|---|
| | | | Profits | Losses | |
| Bonds - | | | | | |
| Of Israeli government | 5,388 | 5,353 | 47 | 12 | 5,388 |
| Of foreign governments | 1,936 | 1,939 | - | 3 | 1,936 |
| Of financial institutions in Israel | 80 | 81 | 1 | 2 | 80 |
| Of foreign financial institutions | (6)485 | 485 | - | - | 485 |
| Mortgage backed (MBS) securities | (5)410 | 423 | 1 | 14 | 410 |
| Of others in Israel | (7)347 | 345 | 5 | 3 | 347 |
| Of foreign others | 833 | 833 | 1 | 1 | 833 |
| Total debentures and bonds available for sale | 9,479 | 9,459 | 55 | 35 | 9,479 |
| Shares - | (4)233 | 234 | 3 | 4 | 233 |
| Total securities available for sale | 9,712 | 9,693 | (2)58 | (2)39 | 9,712 |

| C. Securities held for trading | Book value | Amortized cost (in shares cost) | Unrealized gains from adjustment to fair value | Unrealized losses from adjustment to fair value | Fair value (1) |
|---|---|---|---|---|---|
| Bonds - | | | | | |
| Of Israeli government | 308 | 308 | - | - | 308 |
| Of financial institutions in Israel | 5 | 5 | - | - | 5 |
| Of foreign financial institutions | 47 | 47 | - | - | 47 |
| Of others in Israel | 4 | 4 | - | - | 4 |
| Total trading debentures and bonds | 364 | 364 | - | - | 364 |
| Shares - | 7 | 7 | - | - | 7 |
| Total trading securities | 371 | 371 | (3)- | (3)- | 371 |
| Total securities | 11,880 | 11,861 | 106 | 41 | 11,926 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.

(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".

(3) Recorded in the Statement of Income.

(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 126 million (of which - investments in private equity funds in amount of NIS 114 million).

(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 406 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.

(6) Including securities owned by a government and have specified government guarantee in the amount of NIS 421 million.

(7) Including impaired bonds accruing interest income in amount of NIS 4 million.

## NOTE 5 - SECURITIES (CON'T)
(NIS million)

| | | | | | December 31, 2018 (audited) |
|---|---|---|---|---|---|
| **A. Debentures held to maturity** | **Book value** | **Amortized cost** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value (1)** |
| Of Israeli government | 1,495 | 1,495 | 11 | 4 | 1,502 |
| Of financial institutions in Israel | 52 | 52 | - | - | 52 |
| Of others in Israel | 252 | 252 | 25 | - | 277 |
| Total debentures held to maturity | 1,799 | 1,799 | 36 | 4 | 1,831 |

| | | | Cumulative other comprehensive income | | |
|---|---|---|---|---|---|
| **B. Securities available for sale** | **Book value** | **Amortized cost (in shares cost)** | **Profits** | **Losses** | **Fair value (1)** |
| Bonds - | | | | | |
| Of Israeli government | 5,778 | 5,785 | 23 | 30 | 5,778 |
| Of foreign governments | 2,050 | 2,051 | - | 1 | 2,050 |
| Of financial institutions in Israel | 49 | 52 | - | 3 | 49 |
| Of foreign financial institutions | (6)597 | 597 | - | - | 597 |
| Mortgage backed (MBS) securities | (5)436 | 442 | 2 | 8 | 436 |
| Of others in Israel | (7)348 | 351 | 3 | 6 | 348 |
| Of foreign others | 777 | 777 | - | - | 777 |
| Total debentures and bonds available for sale | 10,035 | 10,055 | 28 | 48 | 10,035 |
| Shares - | (4)224 | 237 | 1 | 14 | 224 |
| Total securities available for sale | 10,259 | 10,292 | (2)29 | (2)62 | 10,259 |

| **C. Securities held for trading** | **Book value** | **Amortized cost (in shares cost)** | **Unrealized gains from adjustment to fair value** | **Unrealized losses from adjustment to fair value** | **Fair value (1)** |
|---|---|---|---|---|---|
| Bonds - | | | | | |
| Of Israeli government | 419 | 419 | - | - | 419 |
| Of financial institutions in Israel | 58 | 58 | - | - | 58 |
| Of foreign financial institutions | 33 | 34 | - | 1 | 33 |
| Of others in Israel | 2 | 2 | - | - | 2 |
| Of foreign others | 22 | 22 | - | - | 22 |
| Total trading debentures and bonds | 534 | 535 | - | 1 | 534 |
| Shares - | 3 | 3 | - | - | 3 |
| Total trading securities | 537 | 538 | (3)- | (3)- | 537 |
| Total securities | 12,595 | 12,629 | 65 | 67 | 12,627 |

Notes: Details of results of investment activity in bonds and in shares - see note 2 and note 3.

(1) The fair value of securities is generally based on market price, which does not necessarily reflect the price obtained in the event of sale of securities in large volumes.
(2) Included in equity in the item "Adjustments in respect of presentation of available-for-sale securities at fair value".
(3) Recorded in the Statement of Income.
(4) Including investments in shares and private equity funds having no available fair value presented at cost of NIS 135 million. Of which: investments in private equity funds in amount of NIS 123 million.
(5) Securities issued by GNMA and guaranteed by US government in the amount of NIS 432 million and securities issued by FNMA & FHLMC in amount of NIS 4 million.
(6) Including securities owned by government in the amount of NIS 74 million and securities owned and have specified government guarantee in the amount of NIS 457 million.
(7) Including impaired bonds accruing interest income in amount of NIS 5 million.

## NOTE 5 - SECURITIES (CON'T)

(NIS million)

### E. Fair value and unrealized losses, according to period and rate of impairment of bonds held to maturity and of available-for-sale securities being in an unrealized loss position

| | September 30, 2019 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | | Unrealized losses | | | | Unrealized losses | | |
| | Fair Value | (3)0-20% | (4)20-40% | Total | Fair Value | (3)0-20% | (4)20-40% | Total |
| **Bonds available for sale** | | | | | | | | |
| Of Israeli financial institutions | **-** | **-** | **-** | **-** | **20** | **1** | **-** | **1** |
| Mortgage backed (MBS) securities | **-** | **-** | **-** | **-** | **84** | **1** | **-** | **1** |
| Of others in Israel | **36** | **2** | **-** | **2** | **32** | **3** | **-** | **3** |
| Total securities available for sale | **36** | **2** | **-** | **2** | **136** | **5** | **-** | **5** |

| | September 30, 2018 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | | Unrealized losses | | | | Unrealized losses | | |
| | Fair Value | (3)0-20% | (4)20-40% | Total | Fair Value | (3)0-20% | (4)20-40% | Total |
| **Held to maturity bonds of Israeli government(5)** | 489 | 2 | - | 2 | - | - | - | - |
| **Securities available for sale** | | | | | | | | |
| **Bonds** | | | | | | | | |
| Of Israeli government | 1,698 | 11 | - | 11 | 14 | 1 | - | 1 |
| Of foreign government | 1,936 | 3 | - | 3 | - | - | - | - |
| Of Israeli financial institutions | 20 | 2 | - | 2 | - | - | - | - |
| Mortgage backed (MBS) securities | 165 | 2 | - | 2 | 242 | 12 | - | 12 |
| Of others in Israel | 101 | 2 | - | 2 | 12 | 1 | - | 1 |
| Of foreign others | 553 | 1 | - | 1 | - | - | - | - |
| **Shares** | 54 | 1 | - | 1 | 28 | 1 | 2 | 3 |
| Total securities available for sale | 4,527 | 22 | - | 22 | 296 | 15 | 2 | 17 |

| | December 31, 2018 (audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 12 months(1) | | | | 12 months and above(2) | | | |
| | | Unrealized losses | | | | Unrealized losses | | |
| | Fair Value | 0-20%(3) | 20-40%(4) | Total | Fair Value | 0-20%(3) | 20-40%(4) | Total |
| **Held to maturity bonds of Israeli government(5)** | 619 | 4 | - | 4 | - | - | - | - |
| **Available for-sale Securities** | | | | | | | | |
| **Bonds** | | | | | | | | |
| Of Israeli government | 3,342 | 30 | - | 30 | - | - | - | - |
| Of foreign governments | 1,759 | 1 | - | 1 | - | - | - | - |
| Of financial institutions in Israel | 21 | 1 | - | 1 | 19 | 2 | - | 2 |
| Mortgage backed (MBS) securities | - | - | - | - | 259 | 8 | - | 8 |
| Of others in Israel | 222 | 5 | - | 5 | 12 | 1 | - | 1 |
| **Shares** | 62 | 5 | 5 | 10 | 21 | 4 | - | 4 |
| Total securities available for sale | 5,406 | 42 | 5 | 47 | 311 | 15 | - | 15 |

(1) Investments in an unrealized loss position less than 12 months.
(2) Investments in an unrealized loss position more than 12 months.
(3) Investments which their unrealized loss constitutes up to 20% of their amortized cost.
(4) Investments which their unrealized loss constitutes between 20% to 40% of their amortized cost.
(5) 30.9.18 and 31.12.18 Amortized cost of bonds held for redemption amounts to NIS 491 million and NIS 623 million, respectively.

## **NOTE 5 - SECURITIES** (CON'T)

(NIS million)

F. On September 7, 2017, the Court approved an arrangement plan, submitted by the Tel Aviv Stock Exchange Ltd. (hereinafter - "TASE"), in terms of a process in accordance with Section 350 of the Companies Act. According to the arrangement plan, shares in the TASE were allotted to the present TASE members, the share of the Bank Group amounting to 20.3%.

On December 29, 2017, the TASE applied to its shareholders requesting offers for the sale of the shares held by them to the TASE or to a third party, to whom, at its sole discretion, (hereinafter - "the Purchaser") the TASE shall assign its rights, at a price reflecting the value of NIS 500 million, for all the shares in the TASE.

On January 18, 2018, The Bank Group concurred with the request of the TASE, offering to sell shares held by the Bank Group amounting to 15.4% of the share capital of the TASE.

On August 27, 2018, the transaction for the sale of the Group's holdings amounting to 15.4% of the share capital of the TASE was consummated, in consideration for an amount of approximately NIS 77 million, reflecting, as stated, a value of NIS 500 million for all the share capital of the TASE.

In respect of this transaction, the Bank recorded in the third quarter of 2018, a net after tax profit in the amount of NIS 65 million.

Following the consummation of the transaction, the Bank remained holding 4.9% of the share capital of the TASE, which according to the Securities Act (Amendment 63), 2017 (hereinafter - "Amendment 63 to the Securities Act"), the Bank may continue to hold without a time limit. On August 1, 2019, the TASE shares were listed for trade on the Tel Aviv Stock Exchange.

In view of Amended 63 to the Securities Act, the remaining TASE shares held by the Bank are stated in the balance sheet in accordance with the equity value of the TASE as stated in its financial statements for the year 2015, which amounted to NIS 508 million, and not according to their fair value.

Following the listing for trade of the TASE shares, as stated above, the Bank recorded in the third quarter of 2019 a profit in the amount of NIS 16 milliohm, net after tax.

To the extent that the Bank would decide in the future to realize the remaining TASE shares held by it, the Bank shall examine the conditions applying to such realization in accordance with the law and with the chosen manner of realization.

It is clarified, that as of date of publication of these financial statements, a decision as above has not been made.

# NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

## 1. Debts(1), credit to the public and provision for credit losses

| | September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | **35,691** | **-** | **320** | **36,011** | **2,190** | **38,201** |
| Debts examined on a collective basis | **5,579** | **25,198** | **21,430** | **52,207** | **-** | **52,207** |
| Of which: according to the extent of arrears | **252** | **25,184** | **-** | **25,436** | **-** | **25,436** |
| Total | **41,270** | **25,198** | **21,750** | **88,218** | **2,190** | **90,408** |
| Of which: | | | | | | |
| Debts restructuring | **140** | **-** | **99** | **239** | **-** | **239** |
| Other impaired debts | **395** | **7** | **13** | **415** | **-** | **415** |
| Total impaired debts | **535** | **7** | **112** | **654** | **-** | **654** |
| Debts in arrears of 90 days or more | **36** | **190** | **24** | **250** | **-** | **250** |
| Other problematic debts | **515** | **16** | **209** | **740** | **-** | **740** |
| Total problematic debts | **1,086** | **213** | **345** | **1,644** | **-** | **1,644** |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | **462** | **-** | **34** | **496** | **-** | **496** |
| In respect of debts examined on a collective basis | **62** | **120** | **230** | **412** | **-** | **412** |
| Of which: according to the extent of arrears | **2** | **120** | **-** | **122** | **-** | **122** |
| Total | **524** | **120** | **264** | **908** | **-** | **908** |
| Of which: in respect of impaired debts | **155** | **-** | **27** | **182** | **-** | **182** |

| | September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | 36,676 | - | 294 | 36,970 | 2,569 | 39,539 |
| Debts examined on a collective basis | 5,076 | 24,033 | 20,288 | 49,397 | - | 49,397 |
| Of which: according to the extent of arrears | 302 | 24,033 | - | 24,335 | - | 24,335 |
| Total | 41,752 | 24,033 | 20,582 | 86,367 | 2,569 | 88,936 |
| Of which: | | | | | | |
| Debts restructuring | 154 | - | 77 | 231 | - | 231 |
| Other impaired debts | 251 | 7 | 11 | 269 | - | 269 |
| Total impaired debts | 405 | 7 | 88 | 500 | - | 500 |
| Debts in arrears of 90 days or more | 32 | 172 | 28 | 232 | - | 232 |
| Other problematic debts | 587 | 20 | 235 | 842 | - | 842 |
| Total problematic debts | 1,024 | 199 | 351 | 1,574 | - | 1,574 |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | 450 | - | 28 | 478 | - | 478 |
| In respect of debts examined on a collective basis | 63 | 118 | 224 | 405 | - | 405 |
| Of which: according to the extent of arrears | 1 | 118 | - | 119 | - | 119 |
| Total | 513 | 118 | 252 | 883 | - | 883 |
| Of which: in respect of impaired debts | 148 | - | 17 | 165 | - | 165 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

## NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONTD)

(NIS million)

| | December 31, 2018 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded balance:** | | | | | | |
| Debts examined on an individual basis | 34,961 | - | 306 | 35,267 | 3,616 | 38,883 |
| Debts examined on a collective basis | 5,098 | 24,319 | 20,476 | 49,893 | - | 49,893 |
| Of which: according to the extent of arrears | 309 | 24,312 | - | 24,621 | - | 24,621 |
| Total | 40,059 | 24,319 | 20,782 | 85,160 | 3,616 | 88,776 |
| Of which: | | | | | | |
| Debts restructuring | 150 | - | 83 | 233 | - | 233 |
| Other impaired debts | 217 | 6 | 11 | 234 | - | 234 |
| Total impaired debts | 367 | 6 | 94 | 467 | - | 467 |
| Debts in arrears of 90 days or more | 28 | 185 | 30 | 243 | - | 243 |
| Other problematic debts | 652 | 7 | 237 | 896 | - | 896 |
| Total problematic debts | 1,047 | 198 | 361 | 1,606 | - | 1,606 |
| **Provision for credit losses:** | | | | | | |
| In respect of debts examined on an individual basis | 420 | - | 30 | 450 | - | 450 |
| In respect of debts examined on a collective basis | 69 | 119 | 230 | 418 | - | 418 |
| Of which: according to the extent of arrears | 2 | 119 | - | 121 | - | 121 |
| Total | 489 | 119 | 260 | 868 | - | 868 |
| Of which: in respect of impaired debts | 121 | - | 23 | 144 | - | 144 |

## NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### 2. Change in provision for credit losses

| | For the three months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the period | **501** | **121** | **265** | **887** | **-** | **887** |
| Expenses in respect of credit losses | **28** | **-** | **10** | **38** | **-** | **38** |
| Accounting write-offs | **(45)** | **(1)** | **(27)** | **(73)** | **-** | **(73)** |
| Collection of debts written off in accounting in previous years | **40** | **-** | **16** | **56** | **-** | **56** |
| Net accounting write-offs | **(5)** | **(1)** | **(11)** | **(17)** | **-** | **(17)** |
| Provision for credit losses at end of the period | **524** | **120** | **264** | **908** | **-** | **908** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | **54** | **-** | **11** | **65** | **-** | **65** |
| Decrease in the provision | **(5)** | **-** | **-** | **(5)** | **-** | **(5)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **49** | **-** | **11** | **60** | **-** | **60** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **573** | **120** | **275** | **968** | **-** | **968** |

| | For the three months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the period | 491 | 117 | 252 | 860 | - | 860 |
| Expenses in respect of credit losses | 43 | - | 12 | 55 | - | 55 |
| Accounting write-offs | (51) | - | (32) | (83) | - | (83) |
| Collection of debts written off in accounting in previous years | 30 | 1 | 20 | 51 | - | 51 |
| Net accounting write-offs | (21) | 1 | (12) | (32) | - | (32) |
| Provision for credit losses at end of the period | 513 | 118 | 252 | 883 | - | 883 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | 63 | - | 11 | 74 | - | 74 |
| Decrease in the provision | (6) | - | - | (6) | - | (6) |
| Provision in respect of off-balance sheet credit instruments at end of the period | 57 | - | 11 | 68 | - | 68 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 570 | 118 | 263 | 951 | - | 951 |

## NOTE 6 - CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONTD)
(NIS million)

### 2. Change in provision for credit losses

| | For the nine months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the year (audited) | **489** | **119** | **260** | **868** | **-** | **868** |
| Expenses in respect of credit losses | **47** | **2** | **47** | **96** | **-** | **96** |
| Accounting write-offs | **(146)** | **(2)** | **(96)** | **(244)** | **-** | **(244)** |
| Collection of debts written off in accounting in previous years | **134** | **1** | **53** | **188** | **-** | **188** |
| Net accounting write-offs | **(12)** | **(1)** | **(43)** | **(56)** | **-** | **(56)** |
| Provision for credit losses at end of the period | **524** | **120** | **264** | **908** | **-** | **908** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year (audited) | **53** | **-** | **11** | **64** | **-** | **64** |
| Decrease in the provision | **(4)** | **-** | **-** | **(4)** | **-** | **(4)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **49** | **-** | **11** | **60** | **-** | **60** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **573** | **120** | **275** | **968** | **-** | **968** |

| | For the nine months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the year (audited) | 471 | 115 | 252 | 838 | - | 838 |
| Expenses in respect of credit losses | 79 | 4 | 40 | 123 | - | 123 |
| Accounting write-offs | (122) | (2) | (94) | (218) | - | (218) |
| Collection of debts written off in accounting in previous years | 85 | 1 | 54 | 140 | - | 140 |
| Net accounting write-offs | (37) | (1) | (40) | (78) | - | (78) |
| Provision for credit losses at end of the period | 513 | 118 | 252 | 883 | - | 883 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year (audited) | 48 | - | 13 | 61 | - | 61 |
| Increase (decrease) in the provision | 9 | - | (2) | 7 | - | 7 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 57 | - | 11 | 68 | - | 68 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 570 | 118 | 263 | 951 | - | 951 |

## NOTE 7 - DEPOSITS FROM THE PUBLIC

(NIS million)

### A. Classes of deposits by place of origin and type of depositor In Israel

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| | | (unaudited) | (audited) |
| Demand | | | |
| - Non- bearing interest | **46,125** | 49,398 | 48,901 |
| - Bearing interest | **17,436** | 17,203 | 16,217 |
| Total demand | **63,561** | 66,601 | 65,118 |
| Fixed-term | **52,731** | 47,203 | 46,579 |
| Total deposits in Israel* | **116,292** | 113,804 | 111,697 |
| * Of which: | | | |
| Deposits of private individuals | **59,232** | 56,138 | 58,329 |
| Deposits of institutional entities | **22,904** | 25,934 | 21,187 |
| Deposits of corporates and others | **34,156** | 31,732 | 32,181 |

### B. Deposits of the public by size

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| **Maximum amount of deposit** | | (unaudited) | (audited) |
| Up to 1 | **46,263** | 43,713 | 44,859 |
| From 1 to 10 | **27,777** | 25,977 | 27,755 |
| From 10 to 100 | **14,744** | 15,149 | 14,498 |
| From 100 to 500 | **5,951** | 5,518 | 6,221 |
| Over 500 | **21,557** | 23,447 | 18,364 |
| Total | **116,292** | 113,804 | 111,697 |

## NOTE 7A - EMPLOTYEE RIGHTS
(NIS million)

### A. SIGNIFICANT BENEFITS

**1. Pension and Severance Pay**

A part of the Group's liabilities for severance pay and pensions is covered by current deposits, in the name of the employees, with provident and pension funds or by the purchase of insurance policies. The liability for severance pay and pension included in the balance sheet represents the portion of the liabilities which is not covered by deposits and/or insurance policies, as stated above. This liability is measured on an actuarial basis, using actuarial and other assumptions, including the discounting rate, the rate of increase in wages, increased severance pay, mortality and retirement rates. Additional provision for severance pay in respect of additional efficiency measures (such as organizational structural changes) were recorded as an expense on non-actuarial basis.

**2. Staff Long-Service Awards**

Part of the employees in the Group are entitled to a special seniority award ("jubilee award") after having completed a defined period of employment at the Group. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

**3. Benefit in respect of nonutilized sick leave**

Employees of the Bank are entitled to a benefit in respect of nonutilized accumulated sick leave. Towards the retirement date, this benefit is convertible into vacation days to be actually utilized, based on a determined convertion formula. This liability is measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, the rate of increase in salaries, mortality and retirements rates.

**4. Other post-employment benefits**

Certain senior officers are entitled upon their retirement for a non-competition award.

**5. Other post-retirement benefits**

Employees of the group are entitled to certain post-retirement benefits. These benefits include: holiday gifts, newspapers, vacations, etc. Employees of a consolidated subsidiary are entiltled to an award upon reaching retirement age in respect of unutilized sick leave. These liabilities are measured on an actuarial basis using actuarial and other assumptions, including the discounting rate, mortality and retirement rates.

**6. Vacation pay**

Employees of the Bank are entitled by law and by labor agreements to paid annual vacation. The provision for vacation pay is calculated on the basis of the most recent salary amounts of employees and the vacation days accumulated in their favor, with the addition of the required related expenses.

**B.** See note 33.F. to the annual financial statements for 2018 as to the employment agreements of the Bank's CEO and the Chairman of the Board of Directors.

# NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

## C. Defined benefits severance pay and pension schemes

### (1) Commitment and financing situation

| | For the three months ended September 30, | | For the nine months ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | | (NIS million) | | (NIS million) | (NIS million) |
| | | (unaudited) | | (unaudited) | (audited) |
| **A. Change in liability regarding anticipated benefits** | | | | | |
| Liability regarding anticipated benefit at beginning of period | **936** | 1,099 | **1,109** | 1,166 | 1,166 |
| Cost of service | **5** | 6 | **15** | 19 | 24 |
| Cost of interest | **6** | 9 | **20** | 26 | 34 |
| Actuarial (profit) loss | **54** | - | **90** | (56) | (11) |
| Benefits paid | **(78)** | (37) | **(316)** | (112) | (182) |
| Other, including loss from reduction and structural changes | **-** | 48 | **5** | 82 | 78 |
| Liability regarding anticipated benefit at end of period | **923** | 1,125 | **923** | 1,125 | 1,109 |
| Liability regarding accumulated benefit at end of period | **833** | 1,064 | **833** | 1,064 | 1,051 |
| **B. Change in fair value of assets of the scheme and the financing situation of the scheme** | | | | | |
| Fair value of assets of the scheme at beginning of period | **452** | 703 | **655** | 732 | 732 |
| Actual return on assets of the scheme | **8** | 14 | **41** | 16 | (8) |
| Deposits in the scheme by the Bank | **2** | 3 | **7** | 8 | 10 |
| Benefits paid | **(44)** | (22) | **(285)** | (58) | (79) |
| Fair value of assets of the scheme at end of period | **418** | 698 | **418** | 698 | 655 |
| Financing situation - net liability recognized at end of period* | **505** | 427 | **505** | 427 | 454 |

* Included in the item "other liabilities".

| | September 30, | September 30, | December 31, |
|---|---|---|---|
| | 2019 | 2018 | 2018 |
| | | (unaudited) | (audited) |
| | | | (NIS million) |
| **C. Amounts recognized in the consolidated balance sheet** | | | |
| Amounts recognized in the item "other liabilities" | **505** | 427 | 454 |
| Net liability recognized at end of period | **505** | 427 | 454 |
| **D. Amounts recognized in other cumulative comprehensive loss, before the tax effect** | | | |
| Actuarial loss, net | **190** | 117 | 181 |
| Liability net, in respect of transition* | **-** | 8 | - |
| Closing balance in other cumulative comprehensive profit | **190** | 125 | 181 |

* Actuarial loss deriving from the gap between the discounting rates as of January 1, 2013 deducted by actuarial profits deriving from current changes in discounting rates offsetting the said loss.

## NOTE 7A - EMPLOTYEE RIGHTS (CON'T)
(NIS million)

### (2) Expense for the period

| | | For the three months ended September 30, | | For the nine months ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 | 2018 |
| | | | (NIS million) | | (NIS million) | (NIS million) |
| | | | (unaudited) | | (unaudited) | (audited) |
| A. | **Cost components of net benefit recognized in profit and loss** | | | | | |
| | Cost of service | **5** | 6 | **15** | 19 | 24 |
| | Cost of interest | **6** | 9 | **20** | 26 | 34 |
| | Anticipated return on assets of the scheme | **(3)** | (5) | **(11)** | (15) | (21) |
| | Amortization of non-recognized amounts: | | | | | |
| | Net actuarial loss | **2** | 2 | **10** | 8 | 10 |
| | Other, including loss from reduction or dismissal and structural changes | **10** | 52 | **46** | 100 | 113 |
| | Capitalization of software costs | **(1)** | (1) | **(2)** | (2) | (3) |
| | Total cost of benefits, net | **19** | 63 | **78** | 136 | 157 |
| B. | **Changes in assets of the scheme and in liability for benefits recognized in other comprehensive (profit) loss, before the tax effect** | | | | | |
| | Net actuarial loss ( profit) for the period | **49** | (9) | **60** | (57) | 18 |
| | Amortization of actuarial loss | **(2)** | (2) | **(10)** | (8) | (10) |
| | Dismissal | **(10)** | (4) | **(41)** | (18) | (35) |
| | Total recognized in other comprehensive profit | **37** | (15) | **9** | (83) | (27) |
| | Total net cost of benefit | **19** | 63 | **78** | 136 | 157 |
| | Total net cost of benefit for the period recognized in other comprehensive profit | **56** | 48 | **87** | 53 | 130 |

| | | |
|---|---|---|
| | | (NIS million) |
| C. | **Assessment of amounts included in other cumulative comprehensive profit expected to be amortized from other cumulative comprehensive profit to the statement of profit and loss as an expense in 2019, before the tax effect** | |
| | Net actuarial loss | **60** |
| | Total amount expected to be amortized from other cumulative comprehensive profit | **60** |

## NOTE 7A - EMPLOTYEE RIGHTS (CON'T)

(NIS million)

### (3) Assumptions

**A. Assumptions on the basis of weighted average used to determine the Commitment in respect of the benefits and for the measurement of the net cost of benefits**

| | | September 30, | December 31, |
|---|---|---|---|
| | **2019** | **2018** | **2018** |
| | | (unaudited) | (audited) |
| | | | percent |
| 1. Principal guidelines used to determine the liability for benefits | | | |
| Discounting rate | **0.6** | 1.4 | 1.9 |

| | For the nine months ended September 30, | | For the year ended December 31, |
|---|---|---|---|
| | **2019** | **2018** | **2018** |
| | | (unaudited) | (audited) |
| | | | percent |
| 2. Principal guidelines used to measure the net cost of benefits for the period | | | |
| Discounting rate | **1.2-1.9** | 1.1-1.5 | 1.1-1.5 |

**B. Effect of a one percentage point change on the Commitment in respect of the anticipated benefit, before the tax effect**

| | One percentage point growth | | | One percentage point decline | | |
|---|---|---|---|---|---|---|
| | September 30, | | December 31, | September 30, | | December 31, |
| | **2019** | **2018** | **2018** | **2019** | **2018** | **2018** |
| | | (unaudited) | (audited) | | (unaudited) | (audited) |
| | | | (NIS million) | | | (NIS million) |
| Discounting rate | **(67)** | **(57)** | **(53)** | 81 | 68 | 64 |

**C. Cash flows**

(1) Deposits

| | Forecast | Actual deposits | | | | |
|---|---|---|---|---|---|---|
| | | For the three months ended September 30, | | For the nine months ended September 30, | | For the year ended December 31, |
| | ***2019** | **2019** | **2018** | **2019** | **2018** | **2018** |
| | (unaudited) | | (unaudited) | | (unaudited) | (audited) |
| | (NIS million) | | (NIS million) | | (NIS million) | (NIS million) |
| Deposits | 10 | **2** | 3 | **7** | 8 | 10 |

* Assessment of amounts which the Bank expects to deposit with a defined benefit pension scheme during 2019.

# NOTE 8 - CAPITAL ADEQUACY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS

## A. Basel 3 guidelines

The bank implements Proper Banking Management Directives Nos. 201-211 in the matter of measurement and capital adequacy, as reported by the Supervision of Banks and within the framework of the file of questions and answers.

Basel 3 instructions were implemented in a gradual manner, in accordance with the transitional instructions stated in Proper Banking Management Directive No, 299 in the matter of measurement and capital adequacy - regulatory capital - transitional instructions. According to the transitional instructions, the capital instruments no longer qualified as regulatory capital shall be recognized up to a maximum of 80% (from their balance in the supervisory capital as of December 31, 2013) on January 1, 2014, this maximum level being reduced by an additional 10% until January 1, 2022. Accordingly, in 2018, the maximum rate of instruments qualified as regulatory capital amounts to 40% and in 2019 the maximum rate of instruments qualified as regulatory capital amounts to 30%.

### (1) Capital adequacy goals

In accordance with Proper Banking Management Directives regarding the minimum capital ratios, the Bank, the total assets of which on a consolidated basis is up to 20% of total assets of the banking sector in Israel, is required to attain a minimum Tier I equity capital ratio of 9%, and a minimum comprehensive capital ratio of 12.5%, and this as from January 1, 2017. In addition, as from January 1, 2015, a new capital demand was added to the minimum capital ratios, at a rate reflecting 1% of the outstanding balance of residential loans at date of reporting.

In consequence thereof, the minimum Tier I equity capital ratio and the minimum comprehensive capital ratio required on a consolidated basis by the Supervisor of Banks, based on data as of the reporting date, are 9.31% and 12.81%, respectively.

For the outstanding balance of residential loans, see Note 12.B.3.

The Group has capital targets approved by the Board of Director and reflect suitable capital level when taking into consideration the risk profile and risk apetite.

The internal capital goals, as determined by the Board of Directors, and which are not lower than the regulatory requirements, are as follows:

- In the ordinary course of business - Tier I equity capital ratio of not lower than 9.31% and comprehensive capital ratio of not lower than 12.81%.
- In stress situations - Tier I equity capital ratio of not lower than 6.50% and comprehensive capital ratio of not lower than 9.00%.

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

**(2)** Following are details regarding risk assets, the regulatory capital and capital ratios calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, regarding "measurement and capital adequacy", and in accordance with Directive 299 regarding the "regulatory capital - transitional instructions":

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **a. Consolidated** | | | |
| **1. Capital for calculation of capital ratio** | | | |
| Tier 1 capital, after supervisory adjustments and deductions | **8,683** | 8,275 | 8,321 |
| Tier 2 capital after deductions | **2,350** | 2,713 | 2,713 |
| Total comprehensive capital | **11,033** | 10,988 | 11,034 |
| **2. Weighted balances of risk assets** | | | |
| Credit risk | (2)**73,438** | (2)72,599 | (2)71,847 |
| Market risk | **640** | 845 | 889 |
| Operational risk | **6,399** | 6,207 | 6,401 |
| Total weighted balances of risk assets | **80,477** | 79,651 | 79,137 |
| | | | percent |
| **3. Ratio of capital to risk assets** | | | |
| Ratio of tier 1 capital to risk assets | **10.79%** | 10.39% | 10.51% |
| Comprehensive ratio of capital to risk assets | **13.71%** | 13.80% | 13.94% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | (1)**9.31%** | (1)9.30% | (1)9.31% |
| Minimal ratio of capital required by the Supervisor of Banks | (1)**12.81%** | (1)12.80% | (1)12.81% |
| | | | percent |
| **B. Significant Subsidiaries** | | | |
| **Bank Massad Ltd.** | | | |
| Ratio of tier 1 capital to risk assets | **13.43%** | 13.10% | 13.04% |
| Comprehensive ratio of capital to risk assets | **14.47%** | 14.17% | 14.12% |
| Minimal ratio of equity capital tier 1 required by the Supervisor of banks | **9.00%** | 9.00% | 9.00% |
| Minimal ratio of capital required by the Supervisor of Banks | **12.50%** | 12.50% | 12.50% |

(1) Minimal capital ratio requested according to the Supervisor of Banks' directives are 9.0% and 12.5%, respectively. To these relations was added capital requirement of 1% of housing loans balance for the reporting date.

(2) An amount of NIS 133 million were deducted from the average balances of risk assets in respect of adjustments regarding the efficiency measures (30.9.18 - NIS 111 million, 31.12.18 - NIS 102 million).

* The data in this Note are presented in accordance with Proper Conduct of Banking Business Directives No. 202 regarding "measurement and capital adequacy" and in accordance with the transitional instructions stated in Proper Conduct of Banking Business Directives No. 299. In addition, the said data include adjustments in respect of efficiency measures, as stated in the letter of the Supervisor of Banks dated January 12, 2016, in the matter of "operational efficiency of the banking sector in Israel" (hereinafter - "adjustments in respect of efficiency measures"), which are being reduced gradually over 5 years period.
For additional details in respect of the effect of the transitional directives and the adjustment regarding efficiency measures see 4 below.

# NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

(NIS million)

## (3) Capital components for computation of capital ratio (consolidated)

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **A. Equity capital tier 1** | | | |
| Capital attributed to shareholders | **8,461** | 8,096 | 8,093 |
| **Differences between capital attributed to shareholders and equity capital tier 1** | | | |
| Minority interests | **230** | 204 | 211 |
| Total equity capital tier 1 before regulatory adjustments and deductions | **8,691** | 8,300 | 8,304 |
| **Regulatory adjustments and deductions:** | | | |
| Intangible assets | **(101)** | (99) | (104) |
| Regulatory adjustments and other deductions- equity capital tier 1 | **(5)** | (6) | (5) |
| Total regulatory adjustments and deductions before adjustments in respect of efficiency measures - equity capital tier 1 | **(106)** | (105) | (109) |
| Total adjustments in respect of efficiency measures- Tier 1 equity capital | **98** | 80 | 126 |
| Total equity capital tier 1 after regulatory adjustments and deductions | **8,683** | 8,275 | 8,321 |
| **B. Tier 2 capital** | | | |
| Tier 2 capital: instruments before deductions | **1,567** | 1,933 | 1,931 |
| Tier 2 capital: provisions before deductions | **783** | 780 | 782 |
| Total tier 2 capital before deductions | **2,350** | 2,713 | 2,713 |
| **Deductions:** | | | |
| Total deductions- tier 2 capital | **-** | - | - |
| Total tier 2 capital | **2,350** | 2,713 | 2,713 |

| | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (audited) |
| **(4) Effect of transitional instructions on equity capital tier 1** | | | |
| **Ratio of capital to risk assets** | | | |
| Ratio of tier 1 equity capital to risk assets before effect of adjustments in respect of efficiency measures | **10.65%** | 10.28% | 10.34% |
| Effect of adjustments in respect of efficiency measures | **0.14%** | 0.11% | 0.17% |
| Ratio of tier 1 equity capital to risk assets | **10.79%** | 10.39% | 10.51% |

## NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

**(5) Factors that might materially affect the capital adequacy of the Bank and of its significant subsidiaries**

**(5a.) Capital components subject to fluctuations**

The Bank manages the capital adequacy ratio with the aim of adhering to the minimal capital requirements of the Supervisor of Banks. The capital of the Bank is subject to changes, inter alia, in respect of the factors detailed below:

- Actuarial changes due to changes in the interest rate used to compute the liabilities of the Bank or in other actuarial assumptions, such as: mortality rates, retirement etc.
- The effect of changes in interest rate and interest spread on the adjustments to fair value of available for sale securities.

Following is an analysis of the impact of such changes on the Tier I equity capital as of September 30, 2019:

| | Effect of a change of NIS 100 million in Tier I equity capital | Effect of a change of NIS 1 billion in total risk assets |
|---|---|---|
| | | percent |
| The Bank (consolidated data) | **0.12** | **0.13** |
| Massad Bank | **1.89** | **2.14** |

### B. Leverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Banking Management Directive No. 218 in the matter of leverage ratio. The Directive states a simple and transparent leverage ratio that is not risk based, which would serve as a supplementary and reliable measurement of the risk based capital requirements, and which is intended to restrict the accumulation of leverage at a banking corporation.

The leverage ratio is expressed in percentages, and is defined as the ratio between the measurement of capital and the measurement of exposure. Capital for the purpose of measuring leverage is the Tier I capital as defined in Proper Banking Management Directive No. 202, taking into consideration the determined transitional arrangements. The total measurement of exposure of the Bank is the total of the balance sheet exposures, exposure to derivatives and to transactions financing the purchase of securities and off-balance sheet items.

In accordance with the Directive, a banking corporation shall maintain a leverage ratio of not less than 5% on a consolidated basis, for a banking corporation, the total stated consolidated assets of which comprises up to 20% of the total stated assets of the banking industry, including the Bank.

| | September 30, 2019 (unaudited) | September 30, 2018 (unaudited) | December 31, 2018 (audited) |
|---|---|---|---|
| | NIS million | | |
| **A. Consolidated** | | | |
| Tier 1 capital* | **8,683** | 8,275 | 8,321 |
| Total exposures | **146,882** | 146,901 | 144,433 |
| | | | percent |
| Leverage ratio | **5.91%** | 5.63% | 5.76% |
| **B. Significant Subsidiary** | | | |
| **Bank Massad Ltd.** | | | |
| Leverage ratio | **7.65%** | 7.20% | 7.25% |
| Minimal Leverage ratio required by the Supervisor of banks | **5.00%** | 5.00% | 5.00% |

* For the effect of the transition directive and the effect of adjustments in respect of the efficiency program, see note A(4) above.

# NOTE 8 - CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY ACCORDING TO DIRECTIVE OF THE SUPERVISOR OF BANKS (CONT'D)

### C. Reporting the liquidity coverage ratio in accordance with instructions of the Supervisor of Banks

The Bank implements Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio". The Directive adopts the recommendations of the Basel Committee in the matter of liquidity coverage ratio as regards the banking industry in Israel. The liquidity coverage ratio examines a range of thirty days in a stress test, and is intended to ensure that a banking corporation shall have an inventory of high quality liquid assets serving the liquidity needs of the corporation within that period of time, as well as the anticipated cash outflows in the stress test, as defined in the Directive for the thirty calendar days.

| | For the three months ended | | |
|---|---|---|---|
| | September 30, | September 30, | December 31 |
| | 2019 | 2018 | 2018 |
| | (unaudited) | (unaudited) | (audited) |
| | | | percent |
| **A. Consolidated*** | | | |
| Liquidity coverage ratio | **124%** | 123% | 122% |
| **B. The bank*** | | | |
| Liquidity coverage ratio | **123%** | 123% | 122% |
| **C. Significant Subsidiary*** | | | |
| **Bank Massad Ltd.** | | | |
| Liquidity coverage ratio | **204%** | 176% | 180% |
| Minimal liquidity coverage ratio required by the Supervisor of banks*** | **100%** | 100% | 100% |

* In terms of simple averages of daily observations during the reported quarter.

### D. Dividends

On March 12, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 105 million. The determining date for the payment of the dividend was March 20, 2019, and the payment date was March 31, 2019.

On May 28, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 85 million. The determining date for the payment of the dividend was June 6, 2019, and the payment date was June 17, 2019.

On August 13, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 110 million. The determining date for the payment of the dividend was August 21, 2019, and the payment date was August 29, 2019.

Subsequent to balance sheet date, on November 26, 2019, the Board of Directors of the Bank resolved on a cash dividend distribution to the shareholders of the Bank in a total amount of NIS 110 million. The determining date for the payment of the dividend is December 4, 2019, and the payment date is December 12, 2019. The amount of the dividend is prior to any tax, including the tax that the Bank has to withhold under the law.

| | For the three months ended September 30, | | For the nine months ended September 30, | | For the year ended December 31, |
|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2018 |
| | | (unaudited) | | (unaudited) | (audited) |
| | | NIS million | | NIS million | NIS million |
| Dividend declared and paid by the Bank | **110** | 100 | **300** | 255 | 355 |

# NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

(NIS million)

### Other contingent liabilities and special commitments

| | | September 30, 2019 (unaudited) | September 30, 2018 (unaudited) | December 31 2018 (audited) |
|---|---|---|---|---|
| A. | Improvements to premises and acquisition of new premises, equipment and software | **8** | 14 | 18 |
| | Commitments to invest in private investment funds | **53** | 38 | 37 |

B. The Bank and its subsidiary have leased premises and equipment on a long-term basis. The rentals payable in the future subject to linkage terms (partly to the CPI and partly to foreign currency), are as follows:

| | September 30, 2019 (unaudited) | September 30, 2018 (unaudited) | December 31 2018 (audited) |
|---|---|---|---|
| First year | ***18** | *19 | 76 |
| Second year | **72** | 74 | 69 |
| Third year | **65** | 67 | 64 |
| Fourth year | **57** | 61 | 57 |
| Fifth year | **50** | 55 | 50 |
| Sixth year and thereafter | **250** | 298 | 251 |
| Total | **512** | 574 | 567 |

* For the period until the end of the calendar year

C. The Bank Group (the Bank and its subsidiary companies) is a party to legal proceedings, including pleas for approval of class actions. In the opinion of the Management of the Bank and the Managements of its subsidiaries, based on legal opinions, as to the prospects of these actions, including the pleas for approval of class actions as detailed in this Section, adequate provisions have been included in the financial statements, where required, to cover losses which might be sustained as a result of these actions.

As regards the legal actions, including motions for approval of class actions see Note 25G to the financial statements for 2018.

Following are details of changes made to actions that had been filed against the Bank and against a subsidiary company, in relation to that stated in the financial statements for 2018:

1. - In September, 2013, the Bank was served with a claim together with a motion for approval of the claim as a class action suit in an amount of not less than NIS 10.5 billion (hereinafter - "the claim and motion"). The claim and motion were served against the Bank, additional banks as well as against the General Manager of each of these banks, though at a later stage, a motion was filed to cross out the claims against the latter defendants. The amount of the claim relates to all the defendant banks together. The Plaintiffs claim that the said banks do not provide proper disclosure and even mislead their customers with respect to the costs involved in currency conversion services provided by them, upon selling foreign currency to the customer at a rate higher than the buying rate. The difference between the buying rate and the selling rate to the customer (named in the claim as - "mark-up commission") constitutes, as alleged by the Plaintiffs, a "brokerage commission" charged with no disclosure of it in any of the pricelists published by the banks. The Plaintiffs further claim that the Banks act in unison in this respect in order to hide the mark-up commission and that a binding agreement exists among them. In January 2014, the Court approved the motion of the Plaintiffs for withdrawal from the claim against the general managers. On March 1, 2018, the motion was rejected and the action was not approved as a class action. The Plaintiffs appealed this decision on March 18, 2018, and on April 1, 2019, the Court rejected the appeal.

- In March 2014, a motion for the approval of an action as a class action suit, of approximately NIS 2 billion, was filed against a subsidiary, which since has been merged with and into the Bank, and against four additional banks, the cause of action being identical to that alleged against the Bank in an action filed in September 2013, as stated above. On March 1, 2018, the motion was rejected and the claim was not approved as a class action. The Plaintiffs appealed this decision on March 18, 2018 and on April 1, 2019, the Court rejected the appeal.

2. On December 17, 2017, a subsidiary, which since has been merged with and into the Bank, received notice of a motion for approval of an action as a class action suit in the amount of NIS 177 million. This motion was filed against four banks, which extend credit within the framework of the fund for the encouragement of small businesses guaranteed by the State.

   The cause of action is the subjecting of one service to another.

   The Plaintiffs claim that the defendant banks demand a monetary deposit from customers who receive loans by means of the fund for the encouragement of small businesses guaranteed by the State. As alleged by the Plaintiffs, the said monetary deposit is a "fictitious" deposit, due to the fact that the source of the funds so deposited is the loan itself.

   On March 24, 2019, the motion for approval of a class action was deleted.

3. On January 7, 2016, the Bank received notice of an action brief together with a motion for approval of the action as a class action suit. The Plaintiff claims that the Bank had provided to customers investment advisory services with respect to the purchase and/or sale of ETF certificates, without having the ability to provide such service in the required professional manner, due to the absence of computer systems that support such investment decision, resulting in the alleged violation of the fiduciary, trust and care duties applying to the Bank. In addition, the Plaintiff claims that the Bank caused damage resulting from providing advice to purchase/sell ETF certificates not at their proper fair value. The Plaintiff estimates the damage caused to the whole class amounts to at least NIS 30 million, and alternatively to not less than NIS 143 million. On May 26, 2019, the motion for approval of a class action was rejected.

4. On February 18, 2016, The Bank received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Tel Aviv District Court against the Bank and four additional banks (hereinafter altogether - "the Respondents").

   According to the Plaintiff, the Respondents discriminate on grounds of age between "young students" and "not-so-young" students, in a way which deprives "not-so-young" students from benefits and/or discounts offered to "young students" only.

   The Plaintiff has defined the class as follows: "… all students discriminated against due to age in comparison with younger students, thus depriving them from benefits granted to students during the past seven years and at least as from July 15, 2014…".

   The Plaintiff claims that the conduct of the banks caused monetary and nonmonetary damages to the class, and requests the charging of the banks, jointly and severally, with a payment to the class of NIS 219 million.

   On September 26, 2019, the Court rejected the motion for approval of the action as a class action. On November 4, 2019, the Plaintiff filed an appeal against the said decision.

D. Also pending against the Bank is a motion for approval of a lawsuit as a class action suit, the amount claimed therein is material, as detailed hereunder. In the opinion of the Bank's Management based on Counsel's opinion, it is not possible at this stage to assess the prospects of this claim, and no provision has been included in respect thereof.

On September 9, 2019, the Bank received notice of a lawsuit together with a motion for its approval as a class action suit, in which it is argued that within the framework of the procedures for the granting of a mortgage loan by the Bank, customers deliver to the Bank considerable information, which the Bank passes on to insurance companies for its own commercial needs, without obtaining the consent of the customer. The Plaintiff claims that such transfer of information constitutes violation of the agreement with the Bank, lack of good faith, impairment of privacy, violation by the Bank of care and trust duties, etc.

The Plaintiff claims that at this stage he is unable to assess the amount of the lawsuit.

The additional exposure of the Bank and of the subsidiary companies as of September 30, 2019, to pending claims, which in the opinion of Management of the Bank the probability of their realization, in full or in part, is not remote, and in respect of which no provisions have been included, amounts to NIS 53 million.

**E.** 1. Following are details of lawsuits, together with motions for their approval as class action suits, filed against an affiliated company, Israel Credit Cards Ltd. ("ICC"), the amounts claimed therein are material. In the opinion of the Management of ICC, which inter alia is based upon Counsels' opinions, the financial statements include adequate provisions, where required.

(a) On June 8, 2016, an amended motion for approval of an action as a class action against three credit card companies, including ICC (hereinafter - "the amended motion") was filed with the District Court, Central District. The amended motion replaces an earlier motion filed on April 28, 2014.

The subject matter of the motion is two binding arrangements with respect to immediate debit cards ("debit cards") and to "prepaid" cards. As alleged by the Plaintiffs, the first binding arrangement is an arrangement for the charging of a cross-commission in respect of transactions made by use of "debit cards" and "prepaid cards". The second binding arrangement, as claimed by the Plaintiffs, is the illegal delay in payment of amounts due to trading houses for a period of approximately twenty days following the collection of such amounts by the credit card companies.

A review of the economic opinion, to which the amended motion refers, shows that the amount of the claim is composed of the following main types of damage: an amount of NIS 13.5 million per year for the years 2007-2015 in respect of the damage stemming from the existence of an alleged binding arrangement regarding the amount of the cross commission payable in immediate debit card transactions; an amount of NIS 5.3 million per year, for the years 2007-2015, in respect of the damage stemming from the existence of an alleged binding arrangement regarding the date for the transfer of funds to trading houses in respect of immediate debit card transactions; an amount of between NIS 418 million and NIS 683 million per year for the years 2007-2015, in respect of the damage stemming from underuse of immediate debit cards due to the alleged two binding arrangements, as above.

On March 12, 2017, a preliminary hearing of the motion was held. In its decision, the Court stated that the matter of the cross-commission in respect of the "debit" and the "pre-paid" cards, is apparently included in a verdict given by the Competition Tribunal (formerly known as "the Antitrust Tribunal") and therefore any claim raised against the determination of the cross-commission, should be raised using procedures relating to the said verdict. In view of this, the Court deferred the hearing of the motion for a class action until after the matter is settled by the Competition Tribunal.

An action requesting declaratory relief was filed with the Competition Tribunal on October 16, 2017. Within the framework of this action, the Tribunal is requested to state that when giving the verdict which approved the cross-commission arrangement, such arrangement did not include immediate debit cards and prepaid cards. The credit card companies, including ICC, have filed a motion for the in limine dismissal of the action, and on October 16, 2018, the Court ruled that the motion for in limine dismissal and the action requesting a declaratory relief are to be admitted.

An appeal to the Supreme Court against the verdict of the Competition Tribunal was filed on November 29, 2018.

On December 23, 2018, the Plaintiffs submitted to the Supreme Court, sitting as a High Court of Justice, a Plea against the Competition Commissioner (formerly known as the Antitrust Commissioner). In the Plea, the Court is petitioned to instruct the Competition Commissioner to act in order to clarify, or cancel, or change the verdict of the Competition Tribunal. The State submitted on May 22, 2019, its response to the Plea and a hearing of the Plea was fixed for March 19, 2020.

(b) On October 19, 2017, Diners received notice of a lawsuit together with a motion for its approval as a class action suit filed with the Haifa District Court against Diners and against another company (hereinafter - "the lawsuit and motion").

The subject matter of the motion is a claim that Diners and the other Respondent company had restricted the accumulation of flight points in respect of use of credit cards of the Diners Fly Card class (hereinafter - "the card"), so that the accumulation in respect of use of the card for payments made to Government agencies would be restricted to an amount of NIS 30,000 per month. As claimed, this decision limits the number of flight points which club members may accumulate upon use of the card when making payments to Government agencies (hereinafter - "change in policy"). It is further argued that the change in policy was made in contradiction to the law, and that following this change in policy, Diners and the other Respondent company do not disclose it in their publications.

The Plaintiffs stated their claim for all members of the class at approximately NIS 66 million and alternatively at NIS 300 million. On March 20, 2018, Diners filed its response to the motion for approval, in which it totally rejects the claim of the Plaintiff. On February 10, 2019, the Plaintiff filed a motion for the amendment of the motion for approval in which he requested to add a cause of action to the motion for approval, according to which the Respondents had violated the duty of "bank confidentiality" applying to them in that the practice of Diners is to deliver consolidated statements of account to customers holding a joint bank account.

On February 13, 2019, the Respondents filed a motion for the in limine dismissal of the motion for approval. The Court admitted on May 6, 2019, the motion of the Respondents, and ruled for the dismissal of the claim.

(c) On May 2, 2018, ICC received notice of an action and a motion for its approval as a class action suit, filed with the Tel Aviv-Yaffo District Court.

It is alleged in the action that ICC had illegally increased the amounts of clearing commission charged to trading houses. The motion for approval relies, inter alia, on the decision of the Tel Aviv District Court, wherein, in a similar case, a motion for approval of an action as a class action, filed against another company, had been approved.

The Plaintiffs assess their personal damage at NIS 4,036. They did not state an amount regarding the damage to the group, but assessed it at "tens of millions of NIS". ICC had responded to the motion for approval, and the plaintiffs responded to the response of ICC. A preliminary hearing of the case is fixed for January 15, 2020.

(d) On May 6, 2018, ICC received notice of an action together with a motion for approval of the action as a class action suit, filed with the Tel Aviv-Yaffo District Court. It is claimed in the action, filed against ICC and against another company and the bank owning it, that ICC did not provide proper disclosure of the interest charged by it.

The Plaintiff assesses his personal damage at NIS 38.54, and the amount of the class action at NIS 181 million.

ICC responded on March 5, 2019, to the motion for approval.

(e) Notice was received by ICC on July 26, 2018, of a lawsuit filed with the Tel Aviv District Court together with a motion for its approval as a class action suit, against ICC and against two additional credit card companies. The subject matter of the action is transactions considered "no document transactions" (mainly transactions effected by telephone) made by members of the class with trading houses operating in the "direct marketing" field. It is claimed in the motion that such trading houses utilized the weakness of the senior citizen population, unlawfully charging their credit cards in respect of many transactions, as well as charging them with additional amounts that had not been approved by them. The Appellant argues that the credit card companies are engaged in clearing agreements with the "direct marketing" trading houses, thus enabling them to operate. The Appellant states the amount of the damage for the whole class, which he purports to represent, at NIS 900 million.

On March 24, 2019, the Respondent companies submitted their response to the motion for approval. A preliminary hearing of the case was fixed for January 7, 2020.

2. The amount of exposure in respect of legal actions filed against ICC, the probability of their realization, in full or in part, is reasonably possible, totals NIS 454 million.

3. Pending against ICC is a motion for approval of an action as class action suit, as detailed below. ICC states in its reports that in the opinion of Management of ICC, based on opinions of its legal counsels, it is not possible at this stage to assess their prospects, and accordingly, no provisions have been recorded in respect thereof:
   A Plea was filed on December 9, 2018, with the Supreme Court sitting as a High Court of Justice, against Bank of Israel, the Competition Commissioner and the three credit card companies, including ICC, in which the Appellants seek relief through the cancellation of the Banking Order (Customer service)(Supervision over cross-clearing service for transactions made by use of a charge card and of an immediate debit card), 2018. The Appellants argue that the Order should be abolished and that it should be determined that the credit card companies may not earn profits from the cross-commission, which is intended to cover only the costs of the issuer. ICC submitted its response on August 19, 2019.

4. On December 14, 2016, the Director of Value Added Tax (hereinafter - "the VAT Director") issued VAT assessments for charge periods from January 2012 to August 2016. The sum charged in the assessments, including interest and linkage increments, amounts to NIS 48 million. ICC disputes the position of the VAT Director, and is of the opinion that it has good arguments supporting its position. On March 9, 2017, ICC filed an appeal against these assessments. To the best knowledge of ICC, assessments in this matter have also been received by its competitors.
   On March 8, 2018, ICC received the decision of the VAT Director rejecting the appeal and also increasing the amount charged in the assessments to NIS 75 million (including interest and linkage increments). On January 31, 2019, ICC filed an appeal against this decision with the Lod District Court. On November 3, 2019, the Supreme Court approved an agreed request for combining the hearing of the appeal with the hearing of the appeals filed by the competitors of ICC. A preliminary hearing of the case was fixed for January 20, 2020. In the case that the position of ICC would not be admitted by the Court, ICC might be liable with respect to the issues raised in the assessment also in the periods succeeding the period covered by the assessment.

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES

(NIS million)

### A. Face value of derivative instruments

| | September 30, 2019 (unaudited) | | | September 30, 2018 (unaudited) | | | December 31, 2018 (audited) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| **Interest contracts** | | | | | | | | | |
| Forward and Futures Contracts | **-** | **3,073** | **3,073** | 28 | 4,712 | 4,740 | 15 | 9,757 | 9,772 |
| SWAPS(1) | **3,788** | **13,510** | **17,298** | 3,998 | 13,763 | 17,761 | 4,094 | 15,244 | 19,338 |
| Total(2) | **3,788** | **16,583** | **20,371** | 4,026 | 18,475 | 22,501 | 4,109 | 25,001 | 29,110 |
| Of which: Hedging derivatives(3) | **2,859** | **-** | **2,859** | 3,118 | - | 3,118 | 3,209 | - | 3,209 |
| **Foreign currency contracts** | | | | | | | | | |
| Forward and Futures Contracts(4) | **12,670** | **29,198** | **41,868** | 8,861 | 25,434 | 34,295 | 8,420 | 28,641 | 37,061 |
| Options written | **118** | **14,991** | **15,109** | 390 | 14,886 | 15,276 | 88 | 11,109 | 11,197 |
| Options purchased | **118** | **15,737** | **15,855** | 390 | 14,887 | 15,277 | 88 | 11,500 | 11,588 |
| SWAPS | **224** | **-** | **224** | 260 | - | 260 | 255 | - | 255 |
| Total | **13,130** | **59,926** | **73,056** | 9,901 | 55,207 | 65,108 | 8,851 | 51,250 | 60,101 |
| **Contracts on shares** | | | | | | | | | |
| Forward and Futures Contracts | **-** | **10,029** | **10,029** | - | 9,523 | 9,523 | - | 10,108 | 10,108 |
| Options written | **-** | **14,170** | **14,170** | - | 17,009 | 17,009 | - | 17,607 | 17,607 |
| Options purchased(5) | **-** | **14,076** | **14,076** | - | 17,014 | 17,014 | - | 17,512 | 17,512 |
| Total | **-** | **38,275** | **38,275** | - | 43,546 | 43,546 | - | 45,227 | 45,227 |
| **Commodities and other contracts** | | | | | | | | | |
| Forward and Futures Contracts | **-** | **66** | **66** | - | 50 | 50 | - | 63 | 63 |
| Total | **-** | **66** | **66** | - | 50 | 50 | - | 63 | 63 |
| **Credit contracts** | | | | | | | | | |
| The Bank is a guarantor | **-** | **-** | **-** | 37 | - | 37 | 37 | - | 37 |
| Total | **-** | **-** | **-** | 37 | - | 37 | 37 | - | 37 |
| Total face value | **16,918** | **114,850** | **131,768** | 13,964 | 117,278 | 131,242 | 12,997 | 121,541 | 134,538 |

(1) Of which: SWAPS the Bank is paying fixed interest in an amount of NIS 10,374 million (30.9.18 - NIS 10,994 million, 31.12.18 - NIS 12,047 million).

(2) Of which: NIS-CPI swap contracts in an amount of NIS 686 million (30.9.18 - NIS 960 million, 31.12.18 - NIS 682 million).

(3) The Bank performs protection transactions by IRS derivatives in order to hedge the accounting fair value of bonds. These transactions hedge the interest risk imbedded in foreign currency bonds having fixed interest and long duration.

(4) Of which: foreign currency swap spot contracts in an amount of NIS 1,054 million (30.9.18 - NIS 1,062 million, 31.12.18 - NIS 2,285 million).

(5) Of which: Traded on the Stock Exchange in an amount of NIS 13,988 million (30.9.18 - NIS 16,813 million, 31.12.18 - NIS 17,336 million).

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

## B. Gross fair value of derivative instruments

| | September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of assets in respect of derivative instruments | | | Gross amount of liabilities in respect of derivative instruments | | |
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| Interest contracts | **2** | **267** | **269** | **184** | **256** | **440** |
| Of which: Hedging derivatives | **-** | **-** | **-** | **162** | **-** | **162** |
| Foreign currency contracts | **65** | **463** | **528** | **39** | **540** | **579** |
| Contracts on shares | **-** | **280** | **280** | **-** | **280** | **280** |
| Commodities and other contracts | **-** | **1** | **1** | **-** | **1** | **1** |
| Total assets/liabilities in respect of derivatives gross(1) | **67** | **1,011** | **1,078** | **223** | **1,077** | **1,300** |
| Amounts offset in the balance sheet | **-** | **-** | **-** | **-** | **-** | **-** |
| Balance sheet balance | **67** | **1,011** | **1,078** | **223** | **1,075** | **1,298** |
| Of which: not subject to net settlement arrangement or similar arrangements | **-** | **-** | **-** | **-** | **-** | **-** |

| | September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of assets in respect of derivative instruments | | | Gross amount of liabilities in respect of derivative instruments | | |
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| Interest contracts | 79 | 186 | 265 | 13 | 171 | 184 |
| Of which: Hedging derivatives | 75 | - | 75 | 11 | - | 11 |
| Foreign currency contracts | 73 | 371 | 444 | 31 | 430 | 461 |
| Contracts on shares | - | 300 | 300 | - | 300 | 300 |
| Total assets/liabilities in respect of derivatives gross(1) | 152 | 857 | 1,009 | 44 | 901 | 945 |
| Amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance | 152 | 857 | 1,009 | 44 | 898 | 942 |
| Of which: not subject to net settlement arrangement or similar arrangements | - | - | - | - | - | - |

| | December 31, 2018 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount of assets in respect of derivative instruments | | | Gross amount of liabilities in respect of derivative instruments | | |
| | Not trading derivatives | Trading derivatives | Total | Not trading derivatives | Trading derivatives | Total |
| Interest contracts | 31 | 176 | 207 | 41 | 183 | 224 |
| Of which: Hedging | 28 | - | 28 | 36 | - | 36 |
| Foreign currency contracts | 57 | 484 | 541 | 19 | 403 | 422 |
| Contracts on shares | - | 650 | 650 | - | 650 | 650 |
| Commodities and other contracts | - | 1 | 1 | - | 1 | 1 |
| Total assets/liabilities in respect of derivatives gross(1) | 88 | 1,311 | 1,399 | 60 | 1,237 | 1,297 |
| Amounts offset in the balance sheet | - | - | - | - | - | - |
| Balance sheet balance | 88 | 1,311 | 1,399 | 60 | 1,234 | 1,294 |
| Of which: not subject to net settlement arrangement or similar arrangements | - | - | - | - | - | - |

(1) Of which: Gross fair value of liabilities in respect of embedded derivatives in an amount of NIS 2 million (30.9.18 - NIS 3 million, 31.12.18 - NIS 3 million).

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

## C. Accounting Hedge

| | For the three months ended September 30, 2019 (unaudited) | For the nine months ended September 30, 2019 (unaudited) |
|---|---|---|
| | Interest income (expenses) | Interest income (expenses) |
| **1. Effect of accounting of fair value Hedge** | | |
| **Profit from fair value Hedge** | | |
| Interest contracts | | |
| - Hedging items | **35** | **153** |
| - Hedging derivatives | **(37)** | **(158)** |

| | September 30, 2019 (unaudited) | |
|---|---|---|
| | | Cumulative fair value adjustments increasing the book value |
| | Book value | Existing hedge relation |
| **2. Items Hedged by fair value Hedge** | | |
| Securities- debt instruments classified as available for sale | **3,149** | **154** |

| | For the three months ended September 30, 2019 (unaudited) | For the nine months ended September 30, 2019 (unaudited) |
|---|---|---|
| | Loss recognized in income (expenses) from activity in derivative instruments(1) | Loss recognized in income (expenses) from activity in derivative instruments(1) |
| **3. Effect of derivatives which were not designated as hedging instruments on statement of income** | | |
| **Derivatives which were not designated as hedging instruments** | | |
| - Interest contracts | **(2)** | **(14)** |
| - Foreign currency contracts | **(203)** | **(445)** |

(1) Included in the item non-interest financing income (expenses).

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### D. Credit risk in respect of derivatives instruments, according to transaction counterparty

| | September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Exchanges | Banks | Dealers/ brokers | Government and central banks | Others | Total |
| Balance sheet balance of assets in respect of derivative instruments | **112** | **417** | **86** | **-** | **463** | **1,078** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments[1] | **-** | **(330)** | **(20)** | **-** | **(133)** | **(483)** |
| Credit risk mitigation in respect of cash collateral received | **-** | **(28)** | **(2)** | **-** | **(94)** | **(124)** |
| Net amount of assets in respect of derivative instruments | **112** | **59** | **64** | **-** | **236** | **471** |
| Off balance sheet credit risk in respect of derivative instruments[2] | **-** | **306** | **37** | **-** | **950** | **1,293** |
| Off balance sheet credit risk mitigation | **-** | **(156)** | **(6)** | **-** | **(573)** | **(735)** |
| Net off balance sheet credit risk in respect of derivative instruments | **-** | **150** | **31** | **-** | **377** | **558** |
| Total credit risk in respect of derivative instruments | **112** | **209** | **95** | **-** | **613** | **1,029** |
| Balance sheet balance of liabilities in respect of derivative instruments | **85** | **504** | **225** | **-** | **486** | **1,300** |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | **-** | **(330)** | **(20)** | **-** | **(52)** | **(402)** |
| Cash collateral which was attached by a lien | **-** | **(70)** | **(2)** | **-** | **-** | **(72)** |
| Net amount of liabilities in respect of derivative instruments | **85** | **104** | **203** | **-** | **434** | **826** |

| | September 30, 2018 (unaudited)* | | | | | |
|---|---|---|---|---|---|---|
| | Exchanges | Banks | Dealers/ brokers | Government and central banks | Others | Total |
| Balance sheet balance of assets in respect of derivative instruments | 98 | 335 | 137 | - | 439 | 1,009 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments[1] | - | (182) | (10) | - | (159) | (351) |
| Credit risk mitigation in respect of cash collateral received | - | (69) | (31) | - | (95) | (195) |
| Net amount of assets in respect of derivative instruments | 98 | 84 | 96 | - | 185 | 463 |
| Off balance sheet credit risk in respect of derivative instruments[2] | - | 257 | 43 | 1 | 926 | 1,227 |
| Off balance sheet credit risk mitigation | - | (118) | (5) | - | (659) | (782) |
| Net off balance sheet credit risk in respect of derivative instruments | - | 139 | 38 | 1 | 267 | 445 |
| Total credit risk in respect of derivative instruments | 98 | 223 | 134 | 1 | 452 | 908 |
| Balance sheet balance of liabilities in respect of derivative instruments | 121 | 286 | 112 | 4 | 422 | 945 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | - | (182) | (10) | - | (43) | (235) |
| Cash collateral which was attached by a lien | - | (52) | - | - | - | (52) |
| Net amount of liabilities in respect of derivative instruments | 121 | 52 | 102 | 4 | 379 | 658 |

# NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

## C. Credit risk in respect of derivatives instruments, according to transaction counterparty (cont'd)

| | December 31, 2018 (audited)* | | | | | |
|---|---|---|---|---|---|---|
| | Exchanges | Banks | Dealers/ brokers | Government and central banks | Others | Total |
| Balance sheet balance of assets in respect of derivative instruments | 189 | 318 | 104 | - | 788 | 1,399 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Credit risk mitigation in respect of financial instruments(1) | - | (223) | (10) | - | (335) | (568) |
| Credit risk mitigation in respect of cash collateral received | - | (59) | (22) | - | (144) | (225) |
| Net amount of assets in respect of derivative instruments | 189 | 36 | 72 | - | 309 | 606 |
| Off balance sheet credit risk in respect of derivative instruments (2) | - | 292 | 45 | 1 | 913 | 1,251 |
| Off balance sheet credit risk mitigation | - | (147) | (3) | - | (421) | (571) |
| Net off balance sheet credit risk in respect of derivative instruments | - | 145 | 42 | 1 | 492 | 680 |
| Total credit risk in respect of derivative instruments | 189 | 181 | 114 | 1 | 801 | 1,286 |
| Balance sheet balance of liabilities in respect of derivative instruments (1) | 209 | 483 | 204 | 10 | 391 | 1,297 |
| **Gross amounts not offset in the balance sheet:** | | | | | | |
| Financial instruments | - | (223) | (10) | - | (38) | (271) |
| Cash collateral which was attached by a lien | - | (65) | - | - | - | (65) |
| Net amount of liabilities in respect of derivative instruments | 209 | 195 | 194 | 10 | 353 | 961 |

* Reclassified.

(1) The fair value of derivative instruments subject to netting agreements, as well as derivative instruments received as collateral in government bonds and shares amounts to NIS 402 million, NIS 78 million and NIS 2 million, respectively (30.9.18- derivative instruments subject to netting agreements NIS 235 million, derivative instruments received as collateral in government bonds NIS 68 million, in shares NIS 47 million and corporate bonds NIS 1 million. 31.12.18- derivative instruments subject to netting agreements NIS 271 million, derivative instruments received as collateral in government bonds NIS 146 million and in shares NIS 151 million).

(2) The difference, if positive, between total amounts in respect of derivative instruments (including in respect of derivative instruments having a negative fair value) as computed for the purpose of limitations on indebtedness of a single borrower, according to credit risk mitigation, to the total balance of assets in respect of derivative instrument of the borrower.

## NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS - VOLUME, CREDIT RISKS AND MATURITY DATES (CONT'D)

(NIS million)

### E. Maturity dates (stated value amounts): Balance on consolidated basis

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Interest rate contracts - | | | | | |
| - NIS - CPI | **-** | **-** | **676** | **-** | **676** |
| - Other | **3,223** | **2,013** | **11,126** | **3,333** | **19,695** |
| Foreign currency contracts | **57,075** | **14,943** | **1,023** | **15** | **73,056** |
| Contracts of shares | **33,937** | **3,895** | **443** | **-** | **38,275** |
| Commodities and other contracts | **66** | **-** | **-** | **-** | **66** |
| Total | **94,301** | **20,851** | **13,268** | **3,348** | **131,768** |

| | September 30, 2018 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Total | 99,297 | 16,395 | 11,014 | 4,536 | 131,242 |

| | December 31, 2018 (audited) | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | from 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
| Total | 86,807 | 26,732 | 16,264 | 4,735 | 134,538 |

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION

A. **Assignment of customers to the supervisory activity segments** - The reporting is in accordance with the format and classifications established in the Public Reporting Directives of the Banking Supervision Department, as detailed in the Annual Financial Statements for 2018.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

### B. Operational supervision segment information

| | For the three months ended September 30, 2019 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 314 | 110 | 4 | - | 175 | 47 | 99 | 5 | 59 | 699 |
| Interest expense from external | 10 | - | - | 9 | 14 | 4 | 11 | 12 | (3) | 57 |
| Net interest income | | | | | | | | | | |
| - From external | 304 | 110 | 4 | (9) | 161 | 43 | 88 | (7) | 62 | 642 |
| - Inter - segment | 6 | (29) | (1) | 19 | (2) | (1) | (16) | 24 | (30) | - |
| Total net interest income | 310 | 81 | 3 | 10 | 159 | 42 | 72 | 17 | 32 | 642 |
| Non-interest income | 138 | 3 | 21 | 17 | 77 | 20 | 29 | 48 | 62 | 391 |
| Total income | 448 | 84 | 24 | 27 | 236 | 62 | 101 | 65 | 94 | 1,033 |
| Expenses (income) from credit losses | 10 | - | - | - | 11 | (33) | 43 | 2 | - | 33 |
| Operating and other expenses | 350 | 42 | 14 | 15 | 153 | 28 | 36 | 49 | 18 | 649 |
| Operating profit before taxes | 88 | 42 | 10 | 12 | 72 | 67 | 22 | 14 | 76 | 351 |
| Provision for taxes on operating profit | 30 | 15 | 3 | 3 | 24 | 26 | 6 | 5 | 25 | 119 |
| Operating profit after taxes | 58 | 27 | 7 | 9 | 48 | 41 | 16 | 9 | 51 | 232 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 15 | 15 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 58 | 27 | 7 | 9 | 48 | 41 | 16 | 9 | 66 | 247 |
| Attributed to non-controlling interests | (7) | - | - | - | (2) | - | - | - | (2) | (11) |
| Net profit attributed to shareholders of the Bank | 51 | 27 | 7 | 9 | 46 | 41 | 16 | 9 | 64 | 236 |
| Average balance of assets(1) | 45,884 | 25,085 | 2,966 | 55 | 15,836 | 5,849 | 16,926 | 1,042 | 49,329 | 134,921 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 607 | 607 |
| of which: Average balance of credit to the public(1) | 45,884 | 25,085 | 2,966 | 55 | 15,836 | 5,849 | 16,926 | 1,042 | - | 85,592 |
| Balance of credit to the public | 47,140 | 25,198 | 3,796 | 60 | 16,290 | 5,927 | 17,732 | 1,069 | - | 88,218 |
| Balance of impaired debts | 119 | 7 | - | - | 193 | 32 | 310 | - | - | 654 |
| Balance in arrears over 90 days | 214 | 190 | - | - | 36 | - | - | - | - | 250 |
| Average balance of liabilities(1) | 52,368 | 486 | 120 | 7,499 | 19,032 | 4,997 | 13,022 | 23,599 | 5,678 | 126,195 |
| of which: Average balance of deposits from the public(1) | 51,440 | - | - | 7,490 | 18,522 | 4,771 | 12,439 | 20,996 | - | 115,658 |
| Balance of deposits from the public | 51,706 | - | - | 7,526 | 18,612 | 5,057 | 10,487 | 22,904 | - | 116,292 |
| Average balance of risk assets(1)(2) | 31,720 | 14,122 | 3,190 | 210 | 15,258 | 6,866 | 17,112 | 1,082 | 7,985 | 80,233 |
| Balance of risk assets(2) | 31,572 | 13,642 | 3,893 | 220 | 15,680 | 6,864 | 17,034 | 1,405 | 7,719 | 80,494 |
| Average balance of assets under management(1)(3) | 35,708 | - | - | 18,083 | 15,654 | 3,947 | 13,454 | 237,960 | - | 324,806 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 262 | 83 | 3 | - | 141 | 38 | 69 | 3 | - | 513 |
| - Earnings from deposits - taking activity | 53 | - | - | 10 | 21 | 5 | 6 | 15 | - | 110 |
| - Other | (5) | (2) | - | - | (3) | (1) | (3) | (1) | 32 | 19 |
| Total net interest income | 310 | 81 | 3 | 10 | 159 | 42 | 72 | 17 | 32 | 642 |

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

# NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

## B. Operational supervision segment information (CON'T)

| | For the three months ended September 30, 2018 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 381 | 163 | 3 | - | 159 | 46 | 106 | 3 | 61 | 756 |
| Interest expense from external | 51 | - | - | 14 | 18 | 9 | 16 | 2 | 12 | 122 |
| Net interest income | | | | | | | | | | |
| - From external | 330 | 163 | 3 | (14) | 141 | 37 | 90 | 1 | 49 | 634 |
| - Inter - segment | (37) | (88) | - | 22 | 19 | 8 | (9) | 15 | (18) | - |
| Total net interest income | 293 | 75 | 3 | 8 | 160 | 45 | 81 | 16 | 31 | 634 |
| Non-interest income | 146 | 4 | 23 | 16 | 73 | 20 | 26 | 48 | 103 | 432 |
| Total income | 439 | 79 | 26 | 24 | 233 | 65 | 107 | 64 | 134 | 1,066 |
| Expenses (income) from credit losses | 12 | - | (1) | - | 15 | 7 | 15 | - | - | 49 |
| Operating and other expenses | 379 | 33 | 22 | 22 | 163 | 30 | 49 | 38 | 20 | 701 |
| Operating profit before taxes | 48 | 46 | 5 | 2 | 55 | 28 | 43 | 26 | 114 | 316 |
| Provision for taxes on operating profit | 18 | 18 | 3 | 1 | 21 | 11 | 17 | 10 | 25 | 103 |
| Operating profit after taxes | 30 | 28 | 2 | 1 | 34 | 17 | 26 | 16 | 89 | 213 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 9 | 9 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 30 | 28 | 2 | 1 | 34 | 17 | 26 | 16 | 98 | 222 |
| Attributed to non-controlling interests | (5) | - | - | - | (2) | (2) | - | - | (1) | (10) |
| Net profit attributed to shareholders of the Bank | 25 | 28 | 2 | 1 | 32 | 15 | 26 | 16 | 97 | 212 |
| Average balance of assets(1) | 44,297 | 23,960 | 3,050 | 49 | 15,661 | 5,694 | 17,986 | 863 | 51,416 | 135,966 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 589 | 589 |
| of which: Average balance of credit to the public(1) | 44,297 | 23,960 | 3,050 | 49 | 15,661 | 5,694 | 17,986 | 863 | - | 84,550 |
| Balance of credit to the public | 44,866 | 24,033 | 3,360 | 51 | 15,932 | 5,857 | 18,688 | 973 | - | 86,367 |
| Balance of impaired debts | 95 | 7 | - | - | 235 | 41 | 129 | - | - | 500 |
| Balance in arrears over 90 days | 200 | 172 | - | - | 30 | 2 | - | - | - | 232 |
| Average balance of liabilities(1) | 49,417 | 763 | 161 | 7,674 | 18,350 | 5,228 | 10,755 | 26,787 | 10,081 | 128,292 |
| of which: Average balance of deposits from the public(1) | 48,193 | - | - | 7,666 | 17,630 | 4,861 | 9,578 | 26,730 | - | 114,658 |
| Balance of deposits from the public | 48,343 | - | - | 7,795 | 16,951 | 4,902 | 9,879 | 25,934 | - | 113,804 |
| Average balance of risk assets(1)(2) | 30,506 | 13,488 | 3,268 | 185 | 15,588 | 6,925 | 17,989 | 966 | 8,546 | 80,705 |
| Balance of risk assets(2) | 30,251 | 13,013 | 3,536 | 185 | 15,939 | 7,088 | 17,688 | 866 | 7,634 | 79,651 |
| Average balance of assets under management(1)(3) | 36,705 | - | - | 16,078 | 14,008 | 4,037 | 13,818 | 241,163 | - | 325,809 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 256 | 77 | 3 | - | 143 | 41 | 78 | 2 | - | 520 |
| - Earnings from deposits - taking activity | 40 | - | - | 8 | 19 | 4 | 5 | 15 | - | 91 |
| - Other | (3) | (2) | - | - | (2) | - | (2) | (1) | 31 | 23 |
| Total net interest income | 293 | 75 | 3 | 8 | 160 | 45 | 81 | 16 | 31 | 634 |

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)
(NIS million)

### B. Operational supervision segment information

| | For the nine months ended September 30, 2019 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 1,129 | 518 | 11 | - | 513 | 142 | 317 | 12 | 224 | 2,337 |
| Interest expense from external | 143 | - | - | 41 | 68 | 15 | 53 | 65 | 10 | 395 |
| Net interest income | | | | | | | | | | |
| - From external | 986 | 518 | 11 | (41) | 445 | 127 | 264 | (53) | 214 | 1,942 |
| - Inter - segment | (58) | (281) | (2) | 71 | 37 | 2 | (51) | 112 | (113) | - |
| Total net interest income | 928 | 237 | 9 | 30 | 482 | 129 | 213 | 59 | 101 | 1,942 |
| Non-interest income | 410 | 10 | 62 | 50 | 229 | 58 | 88 | 139 | 166 | 1,140 |
| Total income | 1,338 | 247 | 71 | 80 | 711 | 187 | 301 | 198 | 267 | 3,082 |
| Expenses (income) from credit losses | 49 | 2 | - | - | 38 | (6) | 9 | 2 | - | 92 |
| Operating and other expenses | 1,085 | 116 | 41 | 48 | 471 | 88 | 123 | 140 | 45 | 2,000 |
| Operating profit before taxes | 204 | 129 | 30 | 32 | 202 | 105 | 169 | 56 | 222 | 990 |
| Provision for taxes on operating profit | 72 | 46 | 10 | 11 | 72 | 40 | 64 | 20 | 78 | 357 |
| Operating profit after taxes | 132 | 83 | 20 | 21 | 130 | 65 | 105 | 36 | 144 | 633 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 39 | 39 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 132 | 83 | 20 | 21 | 130 | 65 | 105 | 36 | 183 | 672 |
| Attributed to non-controlling interests | (18) | - | (1) | - | (5) | (1) | - | - | (5) | (29) |
| Net profit attributed to shareholders of the Bank | 114 | 83 | 19 | 21 | 125 | 64 | 105 | 36 | 178 | 643 |
| Average balance of assets(1) | 45,258 | 24,729 | 2,766 | 49 | 15,852 | 5,687 | 17,438 | 1,000 | 50,225 | 135,509 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 605 | 605 |
| of which: Average balance of credit to the public(1) | 45,258 | 24,729 | 2,766 | 49 | 15,852 | 5,687 | 17,438 | 1,000 | - | 85,284 |
| Balance of credit to the public | 47,140 | 25,198 | 3,796 | 60 | 16,290 | 5,927 | 17,732 | 1,069 | - | 88,218 |
| Balance of impaired debts | 119 | 7 | - | - | 193 | 32 | 310 | - | - | 654 |
| Balance in arrears over 90 days | 214 | 190 | - | - | 36 | - | - | - | - | 250 |
| Average balance of liabilities(1) | 52,042 | 574 | 120 | 7,657 | 18,770 | 5,157 | 10,388 | 23,737 | 9,160 | 126,911 |
| of which: Average balance of deposits from the public(1) | 50,884 | - | - | 7,648 | 18,148 | 4,877 | 9,667 | 22,802 | - | 114,026 |
| Balance of deposits from the public | 51,706 | - | - | 7,526 | 18,612 | 5,057 | 10,487 | 22,904 | - | 116,292 |
| Average balance of risk assets(1)(2) | 31,490 | 13,694 | 3,136 | 208 | 15,282 | 6,924 | 17,212 | 1,066 | 7,529 | 79,711 |
| Balance of risk assets(2) | 31,572 | 13,642 | 3,893 | 220 | 15,680 | 6,864 | 17,034 | 1,405 | 7,719 | 80,494 |
| Average balance of assets under management(1)(3) | 35,310 | - | - | 16,813 | 15,614 | 3,903 | 13,464 | 232,048 | - | 317,152 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 778 | 243 | 9 | - | 422 | 116 | 204 | 8 | - | 1,528 |
| - Earnings from deposits - taking activity | 163 | - | - | 30 | 67 | 16 | 17 | 52 | - | 345 |
| - Other | (13) | (6) | - | - | (7) | (3) | (8) | (1) | 101 | 69 |
| Total net interest income | 928 | 237 | 9 | 30 | 482 | 129 | 213 | 59 | 101 | 1,942 |

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

### B. Operational supervision segment information (CON'T)

| | For the nine months ended September 30, 2018 (Unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 1,128 | 522 | 12 | 1 | 477 | 131 | 322 | 7 | 163 | 2,229 |
| Interest expense from external | 151 | - | - | 35 | 52 | 19 | 61 | 55 | 23 | 396 |
| Net interest income | | | | | | | | | | |
| - From external | 977 | 522 | 12 | (34) | 425 | 112 | 261 | (48) | 140 | 1,833 |
| - Inter - segment | (130) | (310) | (3) | 58 | 37 | 15 | (34) | 87 | (33) | - |
| Total net interest income | 847 | 212 | 9 | 24 | 462 | 127 | 227 | 39 | 107 | 1,833 |
| Non-interest income | 434 | 11 | 66 | 47 | 235 | 60 | 87 | 143 | 251 | 1,257 |
| Total income | 1,281 | 223 | 75 | 71 | 697 | 187 | 314 | 182 | 358 | 3,090 |
| Expenses (income) from credit losses | 42 | 4 | (1) | - | 59 | 6 | 23 | - | - | 130 |
| Operating and other expenses | 1,140 | 104 | 47 | 53 | 489 | 86 | 146 | 122 | 57 | 2,093 |
| Operating profit before taxes | 99 | 115 | 29 | 18 | 149 | 95 | 145 | 60 | 301 | 867 |
| Provision for taxes on operating profit | 36 | 42 | 11 | 7 | 55 | 35 | 54 | 22 | 93 | 302 |
| Operating profit after taxes | 63 | 73 | 18 | 11 | 94 | 60 | 91 | 38 | 208 | 565 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 28 | 28 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 63 | 73 | 18 | 11 | 94 | 60 | 91 | 38 | 236 | 593 |
| Attributed to non-controlling interests | (15) | - | (1) | - | (4) | (3) | - | - | (3) | (25) |
| Net profit attributed to shareholders of the Bank | 48 | 73 | 17 | 11 | 90 | 57 | 91 | 38 | 233 | 568 |
| Average balance of assets(1) | 43,349 | 23,436 | 2,898 | 51 | 15,297 | 5,708 | 17,634 | 683 | 52,372 | 135,094 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 579 | 579 |
| of which: Average balance of credit to the public(1) | 43,349 | 23,436 | 2,898 | 51 | 15,297 | 5,708 | 17,634 | 683 | - | 82,722 |
| Balance of credit to the public | 44,866 | 24,033 | 3,360 | 51 | 15,932 | 5,857 | 18,688 | 973 | - | 86,367 |
| Balance of impaired debts | 95 | 7 | - | - | 235 | 41 | 129 | - | - | 500 |
| Balance in arrears over 90 days | 200 | 172 | - | - | 30 | 2 | - | - | - | 232 |
| Average balance of liabilities(1) | 48,469 | 685 | 137 | 7,708 | 17,780 | 5,188 | 11,007 | 26,661 | 10,193 | 127,006 |
| of which: Average balance of deposits from the public(1) | 47,365 | - | - | 7,700 | 17,076 | 4,865 | 9,954 | 26,610 | - | 113,570 |
| Balance of deposits from the public | 48,343 | - | - | 7,795 | 16,951 | 4,902 | 9,879 | 25,934 | - | 113,804 |
| Average balance of risk assets(1)(2) | 29,982 | 12,700 | 3,104 | 187 | 15,278 | 6,907 | 18,159 | 946 | 8,142 | 79,601 |
| Balance of risk assets(2) | 30,251 | 13,013 | 3,536 | 185 | 15,939 | 7,088 | 17,688 | 866 | 7,634 | 79,651 |
| Average balance of assets under management(1)(3) | 36,323 | - | - | 15,696 | 13,590 | 3,919 | 15,512 | 240,569 | - | 325,609 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 749 | 221 | 9 | - | 420 | 118 | 223 | 6 | - | 1,516 |
| - Earnings from deposits - taking activity | 113 | - | - | 24 | 51 | 13 | 16 | 34 | - | 251 |
| - Other | (15) | (9) | - | - | (9) | (4) | (12) | (1) | 107 | 66 |
| Total net interest income | 847 | 212 | 9 | 24 | 462 | 127 | 227 | 39 | 107 | 1,833 |

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

## NOTE 11 - SUPERVISORY SEGMENTS OF OPERATION (CON'T)

(NIS million)

## B. Operational supervision segment information (CON'T)

| | For the year ended December 31, 2018 (audited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Activity in Israel | | | | | | | | | |
| | Households | | | | | | | | | |
| | Total | Of which: Housing loans | Of which: credit cards | Private banking | Small and minute businesses | Medium businesses | Large businesses | Institutional entities | Financial Management | Total |
| | | | | | | | | | | (NIS million) |
| Interest income from external | 1,524 | 685 | 16 | 1 | 677 | 191 | 358 | 14 | 236 | 3,001 |
| Interest expense from external | 183 | - | - | 34 | 106 | 34 | 65 | 59 | 34 | 515 |
| Net interest income | | | | | | | | | | |
| - From external | 1,341 | 685 | 16 | (33) | 571 | 157 | 293 | (45) | 202 | 2,486 |
| - Inter - segment | (196) | (400) | (3) | 66 | 48 | 20 | 4 | 107 | (49) | - |
| Total net interest income | 1,145 | 285 | 13 | 33 | 619 | 177 | 297 | 62 | 153 | 2,486 |
| Non-interest income | 577 | 15 | 89 | 62 | 321 | 81 | 119 | 194 | 283 | 1,637 |
| Total income | 1,722 | 300 | 102 | 95 | 940 | 258 | 416 | 256 | 436 | 4,123 |
| Expenses from credit losses | 67 | 4 | - | - | 55 | 8 | 35 | 1 | - | 166 |
| Operating and other expenses | 1,545 | 140 | 60 | 63 | 653 | 120 | 188 | 178 | 72 | 2,819 |
| Operating profit before taxes | 110 | 156 | 42 | 32 | 232 | 130 | 193 | 77 | 364 | 1,138 |
| Provision for taxes on operating profit | 41 | 58 | 15 | 12 | 87 | 49 | 72 | 29 | 118 | 408 |
| Operating profit after taxes | 69 | 98 | 27 | 20 | 145 | 81 | 121 | 48 | 246 | 730 |
| Bank's share in operating profit of investee company after tax effect | - | - | - | - | - | - | - | - | 37 | 37 |
| Net profit: | | | | | | | | | | |
| Before attribution to non-controlling interests | 69 | 98 | 27 | 20 | 145 | 81 | 121 | 48 | 283 | 767 |
| Attributed to non-controlling interests | (20) | - | (2) | - | (5) | (4) | - | - | (5) | (34) |
| Net profit attributed to shareholders of the Bank | 49 | 98 | 25 | 20 | 140 | 77 | 121 | 48 | 278 | 733 |
| Average balance of assets(1) | 43,802 | 23,625 | 2,921 | 51 | 15,426 | 5,739 | 17,855 | 764 | 51,675 | 135,312 |
| of which: Investee Company(1) | - | - | - | - | - | - | - | - | 585 | 585 |
| of which: Average balance of credit to the public(1) | 43,802 | 23,625 | 2,921 | 51 | 15,426 | 5,739 | 17,855 | 764 | - | 83,637 |
| Balance of credit to the public | 45,359 | 24,319 | 3,320 | 51 | 15,948 | 5,816 | 17,052 | 934 | - | 85,160 |
| Balance of impaired debts | 100 | 6 | - | - | 218 | 35 | 114 | - | - | 467 |
| Balance in arrears over 90 days | 215 | 185 | - | - | 23 | 5 | - | - | - | 243 |
| Average balance of liabilities(1) | 48,806 | 695 | 70 | 7,676 | 17,848 | 5,230 | 11,042 | 26,042 | 10,415 | 127,059 |
| of which: Average balance of deposits from the public(1) | 47,682 | - | - | 7,667 | 17,127 | 4,907 | 9,981 | 25,984 | - | 113,348 |
| Balance of deposits from the public | 50,300 | - | - | 8,029 | 17,802 | 5,167 | 9,212 | 21,187 | - | 111,697 |
| Average balance of risk assets(1)(2) | 30,202 | 12,811 | 3,401 | 189 | 15,474 | 6,958 | 17,925 | 1,079 | 7,490 | 79,317 |
| Balance of risk assets(2) | 30,602 | 13,202 | 3,528 | 190 | 16,136 | 7,089 | 16,395 | 1,554 | 7,171 | 79,137 |
| Average balance of assets under management(1)(3) | 36,170 | - | - | 15,501 | 13,444 | 3,922 | 15,054 | 243,650 | - | 327,741 |
| Segmentation of net interest income: | | | | | | | | | | |
| - Earnings from credit - granting activity | 1,007 | 298 | 13 | - | 560 | 164 | 292 | 12 | - | 2,035 |
| - Earnings from deposits - taking activity | 159 | - | - | 33 | 72 | 19 | 21 | 51 | - | 355 |
| - Other | (21) | (13) | - | - | (13) | (6) | (16) | (1) | 153 | 96 |
| Total net interest income | 1,145 | 285 | 13 | 33 | 619 | 177 | 297 | 62 | 153 | 2,486 |

(1) Average balances computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.
(2) Risk assets - as computed for the purpose of capital adequacy.
(3) Managed assets - including assets of provident funds, further education funds, mutual funds and securities of customers.

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH

The division into segments of activity according to the management approach is based on types of products and services or on types of customers. The chief operating decision maker of the Bank uses this division to make decisions and to analyze the Group's business results. For details regarding the assignment of customers to segments based on the management approach and rules for the distribution of results of operations among the segments, see Note 28A to the Annual Financial Statements for 2018.

As from 2019, additional segement was added- banking devision- private customers, which includes all operations of private banking customers and households in the banking division's branches. Also, the segment includes the customers of PAGI sub-division with similar characteristics.
As from 2019, the segment of subsidiaries companies includes the result of operation of the subsidiary Massad (in 2018 and in the same period last year- also includes Otsar Hahayal).

| | For the three months ended September 30, 2019 (unaudited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Banking Division | | | Corporate Division | | | | | | | |
| | Housing loans | Private customers | Other | Corporate customers | Commercial customers | Other | Customer Asset Division | Financial management | Subsidiary companies | Adjustments | Total |
| Net interest income | 85 | 199 | 118 | 103 | 73 | 8 | 113 | 24 | 62 | (143) | 642 |
| Non-interest income | 4 | 142 | 56 | 50 | 23 | 8 | 191 | 63 | 22 | (168) | 391 |
| Total income | 89 | 341 | 174 | 153 | 96 | 16 | 304 | 87 | 84 | (311) | 1,033 |
| Expenses in respect of credit losses | - | 8 | 19 | 20 | 6 | - | 2 | - | 1 | (23) | 33 |
| Operating and other expenses | 43 | 319 | 114 | 59 | 44 | 13 | 169 | 17 | 49 | (178) | 649 |
| Operating profit before taxes | 46 | 14 | 41 | 74 | 46 | 3 | 133 | 70 | 34 | (110) | 351 |
| Provision for taxes on operating profit | 14 | 5 | 13 | 30 | 15 | 1 | 42 | 21 | 12 | (34) | 119 |
| Operating profit after taxes | 32 | 9 | 28 | 44 | 31 | 2 | 91 | 49 | 22 | (76) | 232 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | - | 15 | - | - | 15 |
| **Net profit** | | | | | | | | | | | |
| Before attribution to non-controlling interests | 32 | 9 | 28 | 44 | 31 | 2 | 91 | 64 | 22 | (76) | 247 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - | - | (11) | - | (11) |
| Attributed to shareholders of the Bank | 32 | 9 | 28 | 44 | 31 | 2 | 91 | 64 | 11 | (76) | 236 |
| Average balance of assets[1] | 24,971 | 18,311 | 10,019 | 21,511 | 9,287 | 500 | 5,434 | 47,416 | 6,731 | (9,259) | 134,921 |
| Balance of credit to the public at the end of the reported period | 25,069 | 19,411 | 9,976 | 22,209 | 9,455 | 507 | 5,954 | - | 5,064 | (9,427) | 88,218 |
| Balance of deposits from the public at the end of the reported period | - | 56,889 | 15,603 | 17,297 | 5,008 | 3,976 | 110,379 | - | 6,874 | (99,734) | 116,292 |

(1) Average balance computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

| | For the three months ended September 30, 2018 (unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Banking Division | | Corporate Division | | | | | | | |
| | Housing loans | Other | Corporate customers | Commercial customers | Other | Customer Asset Division | Financial management | Subsidiary companies | Adjustments | Total |
| Net interest income | 78 | 213 | 102 | 60 | 11 | 79 | 28 | 174 | (111) | 634 |
| Non-interest income | 4 | 162 | 47 | 18 | 6 | 161 | 95 | 90 | (151) | 432 |
| Total income | 82 | 375 | 149 | 78 | 17 | 240 | 123 | 264 | (262) | 1,066 |
| Expenses (income) in respect of credit losses | (1) | 22 | 4 | 9 | - | 3 | - | 9 | 3 | 49 |
| Operating and other expenses | 30 | 332 | 58 | 40 | 11 | 181 | 12 | 218 | (181) | 701 |
| Operating profit before taxes | 53 | 21 | 87 | 29 | 6 | 56 | 111 | 37 | (84) | 316 |
| Provision for taxes on operating profit | 20 | 8 | 33 | 12 | 2 | 22 | 25 | 13 | (32) | 103 |
| Operating profit after taxes | 33 | 13 | 54 | 17 | 4 | 34 | 86 | 24 | (52) | 213 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | 9 | - | - | 9 |
| **Net profit** | | | | | | | | | | |
| Before attribution to non-controlling interests | 33 | 13 | 54 | 17 | 4 | 34 | 95 | 24 | (52) | 222 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - | (10) | - | (10) |
| Attributed to shareholders of the Bank | 33 | 13 | 54 | 17 | 4 | 34 | 95 | 14 | (52) | 212 |
| Average balance of assets(1) | 23,934 | 17,119 | 21,277 | 7,813 | 534 | 5,414 | 43,078 | 26,297 | (9,500) | 135,966 |
| Balance of credit to the public at the end of the reported period | 24,057 | 17,233 | 22,275 | 7,952 | 552 | 6,350 | - | 18,457 | (10,509) | 86,367 |
| Balance of deposits from the public at the end of the reported period | - | 50,966 | 21,197 | 4,717 | 2,316 | 90,225 | - | 25,179 | (80,796) | 113,804 |

(1) Average balance computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

For the nine months ended September 30, 2019 (unaudited)

| | Banking Division | | | Corporate Division | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Housing loans | Private customers | Other | Corporate customers | Commercial customers | Other | Customer Asset Division | Financial management | Subsidiary companies | Adjustments | Total |
| Net interest income | 245 | 610 | 338 | 317 | 215 | 25 | 351 | 86 | 183 | (428) | 1,942 |
| Non-interest income | 11 | 442 | 156 | 146 | 62 | 21 | 563 | 168 | 67 | (496) | 1,140 |
| Total income | 256 | 1,052 | 494 | 463 | 277 | 46 | 914 | 254 | 250 | (924) | 3,082 |
| Expenses (income) in respect of credit losses | 1 | 49 | 49 | (9) | 33 | 5 | - | - | 6 | (42) | 92 |
| Operating and other expenses | 122 | 969 | 349 | 195 | 137 | 36 | 568 | 43 | 148 | (567) | 2,000 |
| Operating profit before taxes | 133 | 34 | 96 | 277 | 107 | 5 | 346 | 211 | 96 | (315) | 990 |
| Provision for taxes on operating profit | 46 | 12 | 33 | 108 | 37 | 2 | 120 | 73 | 34 | (108) | 357 |
| Operating profit after taxes | 87 | 22 | 63 | 169 | 70 | 3 | 226 | 138 | 62 | (207) | 633 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | - | 39 | - | - | 39 |
| **Net profit** | | | | | | | | | | | |
| Before attribution to non-controlling interests | 87 | 22 | 63 | 169 | 70 | 3 | 226 | 177 | 62 | (207) | 672 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - | - | (29) | - | (29) |
| Attributed to shareholders of the Bank | 87 | 22 | 63 | 169 | 70 | 3 | 226 | 177 | 33 | (207) | 643 |
| Average balance of assets[(1)] | 24,627 | 18,197 | 9,799 | 22,103 | 9,213 | 496 | 5,812 | 48,112 | 6,861 | (9,711) | 135,509 |
| Balance of credit to the public at the end of the reported period | 25,069 | 19,411 | 9,976 | 22,209 | 9,455 | 507 | 5,954 | - | 5,064 | (9,427) | 88,218 |
| Balance of deposits from the public at the end of the reported period | - | 56,889 | 15,603 | 17,297 | 5,008 | 3,976 | 110,379 | - | 6,874 | (99,734) | 116,292 |

(1) Average balance computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

## NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH (CON'T)

(NIS million)

| | For the nine months ended September 30, 2018 (unaudited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Banking Division | | Corporate Division | | | | | | | |
| | Housing loans | Other | Corporate customers | Commercial customers | Other | Customer Asset Division | Financial management | Subsidiary companies | Adjustments | Total |
| Net interest income | 221 | 629 | 291 | 180 | 25 | 222 | 71 | 508 | (314) | 1,833 |
| Non-interest income | 11 | 484 | 154 | 57 | 22 | 498 | 170 | 326 | (465) | 1,257 |
| Total income | 232 | 1,113 | 445 | 237 | 47 | 720 | 241 | 834 | (779) | 3,090 |
| Expenses in respect of credit losses | 3 | 67 | 4 | 27 | - | - | - | 31 | (2) | 130 |
| Operating and other expenses | 92 | 1,015 | 198 | 122 | 34 | 538 | 34 | 607 | (547) | 2,093 |
| Operating profit before taxes | 137 | 31 | 243 | 88 | 13 | 182 | 207 | 196 | (230) | 867 |
| Provision for taxes on operating profit | 52 | 12 | 93 | 34 | 5 | 70 | 62 | 71 | (97) | 302 |
| Operating profit after taxes | 85 | 19 | 150 | 54 | 8 | 112 | 145 | 125 | (133) | 565 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | 28 | - | - | 28 |
| **Net profit** | | | | | | | | | | |
| Before attribution to non-controlling interests | 85 | 19 | 150 | 54 | 8 | 112 | 173 | 125 | (133) | 593 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - | (25) | - | (25) |
| Attributed to shareholders of the Bank | 85 | 19 | 150 | 54 | 8 | 112 | 173 | 100 | (133) | 568 |
| Average balance of assets(1) | 23,498 | 16,701 | 20,723 | 7,703 | 504 | 5,392 | 44,312 | 25,783 | (9,522) | 135,094 |
| Balance of credit to the public at the end of the reported period | 24,057 | 17,233 | 22,275 | 7,952 | 552 | 6,350 | - | 18,457 | (10,509) | 86,367 |
| Balance of deposits from the public at the end of the reported period | - | 50,966 | 21,197 | 4,717 | 2,316 | 90,225 | - | 25,179 | (80,796) | 113,804 |

(1) Average balance computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

## **NOTE 11A - ACTIVITY SEGMENTS BASED ON MANAGEMENT'S APROACH** (CON'T)

(NIS million)

| | For the year ended December 31, 2018 (audited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Banking Division | | Corporate Division | | | | | | | |
| | Housing loans | Other | Corporate customers | Commercial customers | Other | Customer Asset Division | Financial management | Subsidiary companies | Adjustments | Total |
| Net interest income | 295 | 849 | 396 | 243 | 31 | 318 | 100 | 685 | (431) | 2,486 |
| Non-interest income | 15 | 650 | 211 | 77 | 31 | 673 | 195 | 416 | (631) | 1,637 |
| Total income | 310 | 1,499 | 607 | 320 | 62 | 991 | 295 | 1,101 | (1,062) | 4,123 |
| Expenses (income) in respect of credit losses | 1 | 102 | 4 | 24 | - | (1) | - | 49 | (13) | 166 |
| Operating and other expenses | 125 | 1,382 | 260 | 166 | 47 | 728 | 49 | 808 | (746) | 2,819 |
| Operating profit before taxes | 184 | 15 | 343 | 130 | 15 | 264 | 246 | 244 | (303) | 1,138 |
| Provision for taxes on operating profit | 72 | 6 | 134 | 51 | 6 | 103 | 79 | 84 | (127) | 408 |
| Operating profit after taxes | 112 | 9 | 209 | 79 | 9 | 161 | 167 | 160 | (176) | 730 |
| Bank's share in operating profit of investee company after taxes | - | - | - | - | - | - | 37 | - | - | 37 |
| **Net profit** | | | | | | | | | | |
| Before attribution to non-controlling interests | 112 | 9 | 209 | 79 | 9 | 161 | 204 | 160 | (176) | 767 |
| Attributed to non-controlling interests | - | - | - | - | - | - | - | (34) | - | (34) |
| Attributed to shareholders of the Bank | 112 | 9 | 209 | 79 | 9 | 161 | 204 | 126 | (176) | 733 |
| Average balance of assets(1) | 23,674 | 16,795 | 21,014 | 7,802 | 512 | 5,725 | 43,598 | 25,933 | (9,741) | 135,312 |
| Balance of credit to the public at the end of the reported period | 24,301 | 17,285 | 20,905 | 8,060 | 516 | 6,121 | - | 18,316 | (10,344) | 85,160 |
| Balance of deposits from the public at the end of the reported period | - | 53,436 | 18,818 | 5,088 | 2,341 | 87,150 | - | 26,139 | (81,275) | 111,697 |

(1) Average balance computed on the basis of balances at the beginning of the quarter or as at the beginning of the month.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES

(NIS million)

## A. Debts(1) and off-balance sheet credit instruments

### Provision for credit losses

### 1. Change in provision for credit losses

| | For the three months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the period | **501** | **121** | **265** | **887** | **-** | **887** |
| Expenses in respect of credit losses | **28** | **-** | **10** | **38** | **-** | **38** |
| - Accounting write-offs | **(45)** | **(1)** | **(27)** | **(73)** | **-** | **(73)** |
| - Collection of debts written off in accounting in previous years | **40** | **-** | **16** | **56** | **-** | **56** |
| Net accounting write-offs | **(5)** | **(1)** | **(11)** | **(17)** | **-** | **(17)** |
| Provision for credit losses at end of the period | **524** | **120** | **264** | **908** | **-** | **908** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | **54** | **-** | **11** | **65** | **-** | **65** |
| Decrease in the provision | **(5)** | **-** | **-** | **(5)** | **-** | **(5)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **49** | **-** | **11** | **60** | **-** | **60** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **573** | **120** | **275** | **968** | **-** | **968** |

| | For the three months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the period | 491 | 117 | 252 | 860 | - | 860 |
| Expenses in respect of credit losses | 43 | - | 12 | 55 | - | 55 |
| - Accounting write-offs | (51) | - | (32) | (83) | - | (83) |
| - Collection of debts written off in accounting in previous years | 30 | 1 | 20 | 51 | - | 51 |
| Net accounting write-offs | (21) | 1 | (12) | (32) | - | (32) |
| Provision for credit losses at end of the period | 513 | 118 | 252 | 883 | - | 883 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the period | 63 | - | 11 | 74 | - | 74 |
| Decrease in the provision | (6) | - | - | (6) | - | (6) |
| Provision in respect of off-balance sheet credit instruments at end of the period | 57 | - | 11 | 68 | - | 68 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 570 | 118 | 263 | 951 | - | 951 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## A. Debts(1) and off-balance sheet credit instruments (Cont'd)

### Provision for credit losses (Cont'd)

### 1. Change in provision for credit losses (Cont'd)

| | For the nine months ended September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the year | **489** | **119** | **260** | **868** | **-** | **868** |
| Expenses in respect of credit losses | **47** | **2** | **47** | **96** | **-** | **96** |
| Accounting write-offs | **(146)** | **(2)** | **(96)** | **(244)** | **-** | **(244)** |
| Collection of debts written off in accounting in previous years | **134** | **1** | **53** | **188** | **-** | **188** |
| Net accounting write-offs | **(12)** | **(1)** | **(43)** | **(56)** | **-** | **(56)** |
| Provision for credit losses at end of the period | **524** | **120** | **264** | **908** | **-** | **908** |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year | **53** | **-** | **11** | **64** | **-** | **64** |
| Decrease in the provision | **(4)** | **-** | **-** | **(4)** | **-** | **(4)** |
| Provision in respect of off-balance sheet credit instruments at end of the period | **49** | **-** | **11** | **60** | **-** | **60** |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | **573** | **120** | **275** | **968** | **-** | **968** |

| | For the nine months ended September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial | Housing | Other private | Total | Banks and Governments | Total |
| **Change in provision for credit losses - Debts** | | | | | | |
| Provision for credit losses at beginning of the year | 471 | 115 | 252 | 838 | - | 838 |
| Expenses in respect of credit losses | 79 | 4 | 40 | 123 | - | 123 |
| Accounting write-offs | (122) | (2) | (94) | (218) | - | (218) |
| Collection of debts written off in accounting in previous years | 85 | 1 | 54 | 140 | - | 140 |
| Net accounting write-offs | (37) | (1) | (40) | (78) | - | (78) |
| Provision for credit losses at end of the period | 513 | 118 | 252 | 883 | - | 883 |
| **Changes in provision in respect of off-balance sheet credit instruments** | | | | | | |
| Provision at beginning of the year | 48 | - | 13 | 61 | - | 61 |
| Increase (decrease) in the provision | 9 | - | (2) | 7 | - | 7 |
| Provision in respect of off-balance sheet credit instruments at end of the period | 57 | - | 11 | 68 | - | 68 |
| **Total provision for credit losses - debts and off-balance sheet credit instruments** | 570 | 118 | 263 | 951 | - | 951 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### A. Debts* and off-balance sheet credit instruments (Cont'd)

2. Additional information regarding the method of calculating the provision for credit losses in respect of debts(1) and the underlying debts(1)

| | September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt balance of debts(1)** | | | | | | |
| Examined on an individual basis | **35,691** | **-** | **320** | **36,011** | **2,190** | **38,201** |
| Examined on a collective basis | **5,579** | **25,198** | **21,430** | **52,207** | **-** | **52,207** |
| Of which: provision for which was calculated according to the extent of arrears | **252** | **25,184** | **-** | **25,436** | **-** | **25,436** |
| Total debts | **41,270** | **25,198** | **21,750** | **88,218** | **2,190** | **90,408** |
| **Provision for credit losses in respect of debts(1)** | | | | | | |
| Examined on an individual basis | **462** | **-** | **34** | **496** | **-** | **496** |
| Examined on a collective basis | **62** | **120** | **230** | **412** | **-** | **412** |
| Of which: provision for which was calculated according to the extent of arrears | **2** | (2)**120** | **-** | **122** | **-** | **122** |
| Total provision for credit losses | **524** | **120** | **264** | **908** | **-** | **908** |

| | September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial (3) | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt balance of debts(1)** | | | | | | |
| Examined on an individual basis | 36,676 | - | 294 | 36,970 | 2,569 | 39,539 |
| Examined on a collective basis | 5,076 | 24,033 | 20,288 | 49,397 | - | 49,397 |
| Of which: provision for which was calculated according to the extent of arrears | 302 | 24,033 | - | 24,335 | - | 24,335 |
| Total debts | 41,752 | 24,033 | 20,582 | 86,367 | 2,569 | 88,936 |
| **Provision for credit losses in respect of debts(1)** | | | | | | |
| Examined on an individual basis | 450 | - | 28 | 478 | - | 478 |
| Examined on a collective basis | 63 | 118 | 224 | 405 | - | 405 |
| Of which: provision for which was calculated according to the extent of arrears | 1 | (2)118 | - | 119 | - | 119 |
| Total provision for credit losses | 513 | 118 | 252 | 883 | - | 883 |

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### A. Debts* and off-balance sheet credit instruments (Cont'd)

### 2. Additional information regarding the method of calculating the provision for credit losses in respect of debts[(1)] and the underlying debts[(1)] (Cont'd)

| | December 31, 2018 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | | |
| | Commercial [(3)] | Housing | Other private | Total | Banks and Governments | Total |
| **Recorded debt balance of debts[(1)]** | | | | | | |
| Examined on an individual basis | 34,961 | - | 306 | 35,267 | 3,616 | 38,883 |
| Examined on a collective basis | 5,098 | 24,319 | 20,476 | 49,893 | - | 49,893 |
| Of which: provision for which was calculated according to the extent of arrears | 309 | 24,312 | - | 24,621 | - | 24,621 |
| Total debts | 40,059 | 24,319 | 20,782 | 85,160 | 3,616 | 88,776 |
| **Provision for credit losses in respect of debts[(1)]** | | | | | | |
| Examined on an individual basis | 420 | - | 30 | 450 | - | 450 |
| Examined on a collective basis | 69 | 119 | 230 | 418 | - | 418 |
| Of which: provision for which was calculated according to the extent of arrears | 2 | [(2)]119 | - | 121 | - | 121 |
| Total provision for credit losses | 489 | 119 | 260 | 868 | - | 868 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Includes the provision exceeding the amount required according to the method of the extent of arrears, calculated on a collective basis in the amount of approximately NIS 88 million (30.9.18 - NIS 85 million, 31.12.18 - NIS 85 million).

(3) The balance of commercial debts includes housing loans in the amount of NIS 2,806 million, combined in the framework of transaction and collateral of the commercial borrowers or that have been granted to purchase groups at construction stages (30.9.18 - NIS 2,826 million, 31.12.18 - NIS 2,875 million).

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1]

### 1. Credit quality and arrears

| | September 30, 2019 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic[2] | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired [3] | Total | In arrears of 90 days or more[4] | In arrears of 30 to 89 days[5] |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **4,983** | **37** | **37** | **5,057** | **14** | **9** |
| Construction and real estate - real estate activities | **5,130** | **10** | **19** | **5,159** | **1** | **1** |
| Financial services | **7,959** | **16** | **2** | **7,977** | **-** | **6** |
| Commercial - other | **21,776** | **488** | **469** | **22,733** | **21** | **45** |
| **Total commercial** | **39,848** | **551** | **527** | **40,926** | **36** | **61** |
| Private individuals - housing loans | **24,985** | [6]**206** | **7** | **25,198** | **190** | **209** |
| Private individuals - others | **21,405** | **233** | **112** | **21,750** | **24** | **57** |
| **Total public - activity in Israel** | **86,238** | **990** | **646** | **87,874** | **250** | **327** |
| Banks in Israel | **343** | **-** | **-** | **343** | **-** | **-** |
| Israeli government | **680** | **-** | **-** | **680** | **-** | **-** |
| **Total activity in Israel** | **87,261** | **990** | **646** | **88,897** | **250** | **327** |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | **-** | **-** | **-** |
| Other commercial | **336** | **-** | **8** | **344** | **-** | **-** |
| **Total commercial** | **336** | **-** | **8** | **344** | **-** | **-** |
| Private individuals | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total public - activity abroad** | **336** | **-** | **8** | **344** | **-** | **-** |
| Banks abroad | **1,167** | **-** | **-** | **1,167** | **-** | **-** |
| Governments abroad | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total activity abroad** | **1,503** | **-** | **8** | **1,511** | **-** | **-** |
| **Total public** | **86,574** | **990** | **654** | **88,218** | **250** | **327** |
| **Total banks** | **1,510** | **-** | **-** | **1,510** | **-** | **-** |
| **Total governments** | **680** | **-** | **-** | **680** | **-** | **-** |
| **Total** | **88,764** | **990** | **654** | **90,408** | **250** | **327** |

(1) Credit to the public, credit to government, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which a provision based on the extent of arrears exists, and housing loans for which a provision based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(3) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 12.B.2.c. below.
(4) Classified as unimpaired problematic debts, accruing interest income.
(5) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 118 million (30.9.18 - NIS 145 million, 31.12.18 - NIS 160 million) were classified as unimpaired problematic debts.
(6) Includes a balance of housing loans, in the amount of approximately NIS 20 million (30.9.18 - NIS 3 million, 31.12.18 - NIS 6 million) with provision based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment, schedule with regard to the balance of the loan not yet due for repayment.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts[1] (Cont'd)

### 1. Credit quality and arrears (Cont'd)

| | September 30, 2018 (unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic[2] | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired [3] | Total | In arrears of 90 days or more[4] | In arrears of 30 to 89 days[5] |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | 4,523 | 33 | 47 | 4,603 | 6 | 12 |
| Construction and real estate - real estate activities | 5,068 | 17 | 32 | 5,117 | 1 | 12 |
| Financial services | 8,424 | 14 | 2 | 8,440 | 1 | 3 |
| Commercial - other | 21,884 | 555 | 316 | 22,755 | 24 | 62 |
| **Total commercial** | 39,899 | 619 | 397 | 40,915 | 32 | 89 |
| Private individuals - housing loans | 23,834 | [6]192 | 7 | 24,033 | 172 | 237 |
| Private individuals - others | 20,231 | 263 | 88 | 20,582 | 28 | 56 |
| **Total public - activity in Israel** | 83,964 | 1,074 | 492 | 85,530 | 232 | 382 |
| Banks in Israel | 671 | - | - | 671 | - | - |
| Israeli government | 672 | - | - | 672 | - | - |
| **Total activity in Israel** | 85,307 | 1,074 | 492 | 86,873 | 232 | 382 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | - | - | - | - | - | - |
| Other commercial | 829 | - | 8 | 837 | - | - |
| **Total commercial** | 829 | - | 8 | 837 | - | - |
| Private individuals | - | - | - | - | - | - |
| **Total public - activity abroad** | 829 | - | 8 | 837 | - | - |
| Banks abroad | 1,226 | - | - | 1,226 | - | - |
| Governments abroad | - | - | - | - | - | - |
| **Total activity abroad** | 2,055 | - | 8 | 2,063 | - | - |
| **Total public** | 84,793 | 1,074 | 500 | 86,367 | 232 | 382 |
| **Total banks** | 1,897 | - | - | 1,897 | - | - |
| **Total governments** | 672 | - | - | 672 | - | - |
| **Total** | 87,362 | 1,074 | 500 | 88,936 | 232 | 382 |

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B.Debts(1) (Cont'd)

### 1. Credit quality and arrears (Cont'd)

| | December 31, 2018 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problematic(2) | | | Unimpaired debts - additional information | |
| | Non-problematic | Unimpaired | Impaired (3) | Total | In arrears of 90 days or more(4) | In arrears of 30 to 89 days(5) |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | 4,491 | 30 | 38 | 4,559 | 5 | 12 |
| Construction and real estate - real estate activities | 5,058 | 3 | 23 | 5,084 | 1 | - |
| Financial services | 8,505 | 21 | 1 | 8,527 | - | 8 |
| Commercial - other | 20,766 | 626 | 297 | 21,689 | 22 | 80 |
| **Total commercial** | 38,820 | 680 | 359 | 39,859 | 28 | 100 |
| Private individuals - housing loans | 24,121 | (6)192 | 6 | 24,319 | 185 | 235 |
| Private individuals - others | 20,421 | 267 | 94 | 20,782 | 30 | 60 |
| **Total public - activity in Israel** | 83,362 | 1,139 | 459 | 84,960 | 243 | 395 |
| Banks in Israel | 1,206 | - | - | 1,206 | - | - |
| Israeli government | 700 | - | - | 700 | - | - |
| **Total activity in Israel** | 85,268 | 1,139 | 459 | 86,866 | 243 | 395 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | - | - | - | - | - | - |
| Other commercial | 192 | - | 8 | 200 | - | - |
| **Total commercial** | 192 | - | 8 | 200 | - | - |
| Private individuals | - | - | - | - | - | - |
| **Total public - activity abroad** | 192 | - | 8 | 200 | - | - |
| Banks abroad | 1,710 | - | - | 1,710 | - | - |
| Governments abroad | - | - | - | - | - | - |
| **Total activity abroad** | 1,902 | - | 8 | 1,910 | - | - |
| **Total public** | 83,554 | 1,139 | 467 | 85,160 | 243 | 395 |
| **Total banks** | 2,916 | - | - | 2,916 | - | - |
| **Total governments** | 700 | - | - | 700 | - | - |
| **Total** | 87,170 | 1,139 | 467 | 88,776 | 243 | 395 |

### Credit quailty - the status of debts in arrears

The credit risk policy of the Bank defines principal indicators for the examination of credit quality, among which are the default situation, rating of the customer, status of the collateral etc. The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts which are evaluated on an individual basis, are treated as nonperforming debts (debts not accruing interest income) after 90 days of arrears. In addition, debts restructuring of problematic debts, are treated as impaired debts. With regard to debts evaluated on a collective basis, the status of arrears effects the classification of the debt (the classification is more severe for more extensive arrears) and mostly after 150 days of arrears, the Bank performs an accounting write-off of the debt up to the extent of the collateral. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts [1](Cont'd)

### 2. Additional information regarding impaired debts

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance[2] of impaired debts for which an individual provision exists[3] | Individual provision[3] | Balance[2] of impaired debts for which no individual provision exists[3] | Total Balance[2] of impaired debts | Balance of contractual principal of impaired debts |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 26 | 8 | 11 | 37 | 867 |
| Construction and real estate - real estate activities | 6 | 1 | 13 | 19 | 780 |
| Financial services | 2 | 1 | - | 2 | 998 |
| Commercial - other | 435 | 145 | 34 | 469 | 2,052 |
| **Total commercial** | 469 | 155 | 58 | 527 | 4,697 |
| Private individuals - housing loans | - | - | 7 | 7 | 8 |
| Private individuals - others | 100 | 27 | 12 | 112 | 214 |
| **Total public - activity in Israel** | 569 | 182 | 77 | 646 | 4,919 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 569 | 182 | 77 | 646 | 4,919 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | 8 | 8 | 23 |
| **Total commercial** | - | - | 8 | 8 | 23 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | 8 | 8 | 23 |
| Banks abroad | - | - | - | - | - |
| Government abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | 8 | 8 | 23 |
| **Total public** | 569 | 182 | 85 | 654 | 4,942 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total(*)** | 569 | 182 | 85 | 654 | 4,942 |
| (*) Of which: | | | | | |
| Measured at the present value of cash flows | 569 | 182 | 42 | 611 | |
| Debts in troubled debt restructuring | 214 | 68 | 25 | 239 | |

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Recorded debt balance.
(3) Individual provision for credit losses.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | | | | | September 30, 2018 (unaudited) |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance[2] of impaired debts for which an individual provision exists[3] | Individual provision[3] | Balance[2] of impaired debts for which no individual provision exists[3] | Total Balance[2] of impaired debts | Balance of contractual principal of impaired debts |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 32 | 13 | 15 | 47 | 906 |
| Construction and real estate - real estate activities | 13 | 2 | 19 | 32 | 684 |
| Financial services | 2 | 1 | - | 2 | 863 |
| Commercial - other | 284 | 132 | 32 | 316 | 1,698 |
| **Total commercial** | 331 | 148 | 66 | 397 | 4,151 |
| Private individuals - housing loans | - | - | 7 | 7 | 7 |
| Private individuals - others | 80 | 17 | 8 | 88 | 190 |
| **Total public - activity in Israel** | 411 | 165 | 81 | 492 | 4,348 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 411 | 165 | 81 | 492 | 4,348 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | 8 | 8 | 68 |
| **Total commercial** | - | - | 8 | 8 | 68 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | 8 | 8 | 68 |
| Banks abroad | - | - | - | - | - |
| Government abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | 8 | 8 | 68 |
| **Total public** | 411 | 165 | 89 | 500 | 4,416 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total(*)** | 411 | 165 | 89 | 500 | 4,416 |
| (*) Of which: | | | | | |
| Measured at the present value of cash flows | 396 | 164 | 32 | 428 | |
| Debts in troubled debt restructuring | 196 | 56 | 35 | 231 | |

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | | | | | December 31, 2018 (audited) |
|---|---|---|---|---|---|
| A. Impaired debts and the individual provision | Balance(2) of impaired debts for which an individual provision exists(3) | Individual provision(3) | Balance(2) of impaired debts for which no individual provision exists(3) | Total Balance(2) of impaired debts | Balance of contractual principal of impaired debts |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 25 | 10 | 13 | 38 | 869 |
| Construction and real estate - real estate activities | 5 | 1 | 18 | 23 | 700 |
| Financial services | 1 | - | - | 1 | 896 |
| Commercial - other | 273 | 110 | 24 | 297 | 1,700 |
| **Total commercial** | 304 | 121 | 55 | 359 | 4,165 |
| Private individuals - housing loans | - | - | 6 | 6 | 6 |
| Private individuals - others | 86 | 23 | 8 | 94 | 192 |
| **Total public - activity in Israel** | 390 | 144 | 69 | 459 | 4,363 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 390 | 144 | 69 | 459 | 4,363 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | - | - | 8 | 8 | 70 |
| **Total commercial** | - | - | 8 | 8 | 70 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | - | - | 8 | 8 | 70 |
| Banks abroad | - | - | - | - | - |
| Government abroad | - | - | - | - | - |
| **Total activity abroad** | - | - | 8 | 8 | 70 |
| **Total public** | 390 | 144 | 77 | 467 | 4,433 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total(*)** | 390 | 144 | 77 | 467 | 4,433 |
| (*) Of which: | | | | | |
| Measured at the present value of cash flows | 379 | 144 | 27 | 406 | |
| Debts in troubled debt restructuring | 200 | 68 | 33 | 233 | |

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | For the three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | | | 2019 | | | 2018 |
| | | | (unaudited) | | | (unaudited) |
| B. Average balance and interest income | Average balance of impaired debts[2] | Interest income recorded[3] | Of which: recorded on a cash basis | Average balance of impaired debts[2] | Interest income recorded[3] | Of which: recorded on a cash basis |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **34** | **-** | **-** | 48 | - | - |
| Construction and real estate - real estate activities | **20** | **-** | **-** | 26 | 1 | 1 |
| Financial services | **4** | **-** | **-** | 2 | - | - |
| Commercial - other | **434** | **-** | **-** | 310 | - | - |
| **Total commercial** | **492** | **-** | **-** | 386 | 1 | 1 |
| Private individuals - housing loans | **6** | **-** | **-** | 10 | - | - |
| Private individuals - others | **110** | **-** | **-** | 88 | 1 | - |
| **Total public - activity in Israel** | **608** | **-** | **-** | 484 | 2 | 1 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **608** | **-** | **-** | 484 | 2 | 1 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | - | - | - |
| Other commercial | **8** | **-** | **-** | 8 | - | - |
| **Total commercial** | **8** | **-** | **-** | 8 | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **8** | **-** | **-** | 8 | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Government abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **8** | **-** | **-** | 8 | - | - |
| **Total public** | **616** | **-** | **-** | 492 | 2 | 1 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **616** | [4]**-** | **-** | 492 | [4]2 | 1 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.
(2) Average recorded debt balance of impaired debts to the public in the reported period
(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.
(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 8 million was recorded in three months ended September 30, 2019 (for three months ended September 30, 2018 - NIS 10 million).

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | For the nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | | | 2019 | | | 2018 |
| | | | (unaudited) | | | (unaudited) |
| B. Average balance and interest income | Average balance of impaired debts(2) | Interest income recorded(3) | Of which: recorded on a cash basis | Average balance of impaired debts(2) | Interest income recorded(3) | Of which: recorded on a cash basis |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **36** | **-** | **-** | 48 | - | - |
| Construction and real estate - real estate activities | **22** | **-** | **-** | 36 | 1 | 1 |
| Financial services | **2** | **-** | **-** | 2 | - | - |
| Commercial - other | **374** | **1** | **-** | 326 | 1 | - |
| **Total commercial** | **434** | **1** | **-** | 412 | 2 | 1 |
| Private individuals - housing loans | **8** | **-** | **-** | 8 | - | - |
| Private individuals - others | **104** | **1** | **-** | 88 | 2 | 1 |
| **Total public - activity in Israel** | **546** | **2** | **-** | 508 | 4 | 2 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **546** | **2** | **-** | 508 | 4 | 2 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | - | - | - |
| Other commercial | **8** | **-** | **-** | 8 | - | - |
| **Total commercial** | **8** | **-** | **-** | 8 | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **8** | **-** | **-** | 8 | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Government abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **8** | **-** | **-** | 8 | - | - |
| **Total public** | **554** | **2** | **-** | 516 | 4 | 2 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **554** | (4)**2** | **-** | 516 | (4)4 | 2 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities borrowed.

(2) Average recorded debt balance of impaired debts to the public in the reported period

(3) Interest income recognized in the reported period in respect of the average balance of impaired debts, during the period of time in which the debts have been classified as impaired.

(4) If the impaired debts were accruing interest in respect of the original terms, an interest income in the amount of NIS 21 million was recorded in nine months ended September 30, 2019 (for nine months ended September 30, 2018 - NIS 28 million).

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| C. Troubled debt restructuring | Not accruing interest income | accruing(2) in arrears of 90 days or more | accruing (2) in arrears of 30 to 89 days | Accruing(2), not in arrears | Total(3) |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 4 | - | - | 5 | 9 |
| Construction and real estate - real estate activities | 1 | - | - | 4 | 5 |
| Financial services | 2 | - | - | - | 2 |
| Commercial - other | 95 | - | - | 21 | 116 |
| **Total commercial** | 102 | - | - | 30 | 132 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - others | 71 | - | - | 28 | 99 |
| **Total public - activity in Israel** | 173 | - | - | 58 | 231 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 173 | - | - | 58 | 231 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | 8 | - | - | - | 8 |
| **Total commercial** | 8 | - | - | - | 8 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | 8 | - | - | - | 8 |
| Banks abroad | - | - | - | - | - |
| Governments abroad | - | - | - | - | - |
| **Total activity abroad** | 8 | - | - | - | 8 |
| **Total public** | 181 | - | - | 58 | 239 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 181 | - | - | 58 | 239 |

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | September 30, 2018 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| **C. Troubled debt restructuring** | Not accruing interest income | accruing [2] in arrears of 90 days or more | accruing [2] in arrears of 30 to 89 days | Accruing[2], not in arrears | Total[3] |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 2 | - | - | 7 | 9 |
| Construction and real estate - real estate activities | 2 | - | - | 6 | 8 |
| Financial services | 2 | - | - | - | 2 |
| Commercial - other | 112 | - | - | 15 | 127 |
| **Total commercial** | 118 | - | - | 28 | 146 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - others | 55 | - | - | 22 | 77 |
| **Total public - activity in Israel** | 173 | - | - | 50 | 223 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 173 | - | - | 50 | 223 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | 8 | - | - | - | 8 |
| **Total commercial** | 8 | - | - | - | 8 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | 8 | - | - | - | 8 |
| Banks abroad | - | - | - | - | - |
| Governments abroad | - | - | - | - | - |
| **Total activity abroad** | 8 | - | - | - | 8 |
| **Total public** | 181 | - | - | 50 | 231 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 181 | - | - | 50 | 231 |

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts(1) (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | December 31, 2018 (audited) | | | | |
|---|---|---|---|---|---|
| | Recorded debt balance | | | | |
| **C. Troubled debt restructuring** (Cont'd) | Not accruing interest income | accruing (2) in arrears of 90 days or more | accruing (2) in arrears of 30 to 89 days | Accruing(2), not in arrears | Total(3) |
| **Borrower activity in Israel** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate - construction | 6 | - | - | 5 | 11 |
| Construction and real estate - real estate activities | 2 | - | - | 4 | 6 |
| Financial services | 1 | - | - | - | 1 |
| Commercial - other | 108 | - | - | 16 | 124 |
| **Total commercial** | 117 | - | - | 25 | 142 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - others | 59 | - | - | 24 | 83 |
| **Total public - activity in Israel** | 176 | - | - | 49 | 225 |
| Banks in Israel | - | - | - | - | - |
| Israeli government | - | - | - | - | - |
| **Total activity in Israel** | 176 | - | - | 49 | 225 |
| **Borrower activity abroad** | | | | | |
| **Public - commercial** | | | | | |
| Construction and real estate | - | - | - | - | - |
| Other commercial | 8 | - | - | - | 8 |
| **Total commercial** | 8 | - | - | - | 8 |
| Private individuals | - | - | - | - | - |
| **Total public - activity abroad** | 8 | - | - | - | 8 |
| Banks abroad | - | - | - | - | - |
| Governments abroad | - | - | - | - | - |
| **Total activity abroad** | 8 | - | - | - | 8 |
| **Total public** | 184 | - | - | 49 | 233 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 184 | - | - | 49 | 233 |

(1) Credit to the public, credit to governments, deposits with banks, and other debts, excluding bonds and securities borrowed.
(2) Accruing interest income.
(3) Included in impaired debts.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| C. Troubled debt restructuring (Cont'd) | Restructuring made — For the three months ended September 30, 2019: Number of contracts | Debt balance before restructuring | Debt balance after restructuring | 2018 (unaudited): Number of contracts | Debt balance before restructuring | Debt balance after restructuring |
|---|---|---|---|---|---|---|
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **9** | **2** | **2** | 6 | 1 | 1 |
| Construction and real estate - real estate activities | **-** | **-** | **-** | - | - | - |
| Financial services | **2** | **-** | **-** | 4 | - | - |
| Commercial - other | **76** | **14** | **14** | 69 | 14 | 14 |
| **Total commercial** | **87** | **16** | **16** | 79 | 15 | 15 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - others | **363** | **17** | **17** | 278 | 13 | 12 |
| **Total public - activity in Israel** | **450** | **33** | **33** | 357 | 28 | 27 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **450** | **33** | **33** | 357 | 28 | 27 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | **-** | **-** | **-** |
| Other commercial | **-** | **-** | **-** | - | - | - |
| **Total commercial** | **-** | **-** | **-** | - | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **-** | **-** | **-** | - | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Governments abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **-** | **-** | **-** | - | - | - |
| **Total public** | **450** | **33** | **33** | 357 | 28 | 27 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **450** | **33** | **33** | 357 | 28 | 27 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | Restructuring made | | | | | |
|---|---|---|---|---|---|---|
| | For the nine months ended September 30, | | | | | |
| | 2019 | | | 2018 | | |
| | | | | (unaudited) | | |
| **C. Troubled debt restructuring** (Cont'd) | **Number of contracts** | **Debt balance before restructuring** | **Debt balance after restructuring** | **Number of contracts** | **Debt balance before restructuring** | **Debt balance after restructuring** |
| **Borrower activity in Israel** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate - construction | **24** | **4** | **4** | 14 | 2 | 2 |
| Construction and real estate - real estate activities | **3** | **1** | **1** | 1 | 1 | 1 |
| Financial services | **-** | **-** | **-** | 6 | 1 | 1 |
| Commercial - other | **258** | **53** | **53** | 198 | 52 | 52 |
| **Total commercial** | **285** | **58** | **58** | 219 | 56 | 56 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - others | **1,075** | **51** | **51** | 835 | 38 | 37 |
| **Total public - activity in Israel** | **1,360** | **109** | **109** | 1,054 | 94 | 93 |
| Banks in Israel | **-** | **-** | **-** | - | - | - |
| Israeli government | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **1,360** | **109** | **109** | 1,054 | 94 | 93 |
| **Borrower activity abroad** | | | | | | |
| **Public - commercial** | | | | | | |
| Construction and real estate | **-** | **-** | **-** | **-** | **-** | **-** |
| Other commercial | **-** | **-** | **-** | - | - | - |
| **Total commercial** | **-** | **-** | **-** | - | - | - |
| Private individuals | **-** | **-** | **-** | - | - | - |
| **Total public - activity abroad** | **-** | **-** | **-** | - | - | - |
| Banks abroad | **-** | **-** | **-** | - | - | - |
| Governments abroad | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **-** | **-** | **-** | - | - | - |
| **Total public** | **1,360** | **109** | **109** | 1,054 | 94 | 93 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **1,360** | **109** | **109** | 1,054 | 94 | 93 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | Restructuring made and failed [2] | | | |
|---|---|---|---|---|
| | For the three months ended September 30, | | | |
| | 2019 | | 2018 | |
| | | | (unaudited) | |
| **c. Troubled debt restructuring** (Cont'd) | **Number of contracts** | **Balance of debt recorded** | **Number of contracts** | **Balance of debt recorded** |
| **Borrower activity in Israel** | | | | |
| **Public - commercial** | | | | |
| Construction and real estate - construction | **4** | **-** | 7 | - |
| Construction and real estate - real estate activities | **-** | **-** | 1 | - |
| Financial services | **-** | **-** | - | - |
| Commercial - other | **57** | **9** | 52 | 8 |
| **Total commercial** | **61** | **9** | 60 | 8 |
| Private individuals - housing loans | **-** | **-** | - | - |
| Private individuals - others | **190** | **6** | 175 | 4 |
| **Total public - activity in Israel** | **251** | **15** | 235 | 12 |
| Banks in Israel | **-** | **-** | - | - |
| Israeli government | **-** | **-** | - | - |
| **Total activity in Israel** | **251** | **15** | 235 | 12 |
| **Borrower activity abroad** | | | | |
| **Public - commercial** | | | | |
| Construction and real estate | **-** | **-** | - | - |
| Other commercial | **-** | **-** | - | - |
| **Total commercial** | **-** | **-** | - | - |
| Private individuals | **-** | **-** | - | - |
| **Total public - activity abroad** | **-** | **-** | - | - |
| Banks abroad | **-** | **-** | - | - |
| Governments abroad | **-** | **-** | - | - |
| **Total activity abroad** | **-** | **-** | - | - |
| **Total public** | **251** | **15** | 235 | 12 |
| **Total banks** | **-** | **-** | - | - |
| **Total governments** | **-** | **-** | - | - |
| **Total** | **251** | **15** | 235 | 12 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as problematic debts during the 12 months that preceded the date in which they became debts in arrears.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## B. Debts[1] (Cont'd)

### 2. Additional information regarding impaired debts (Cont'd)

| | Restructuring made and failed [2] | | | |
|---|---|---|---|---|
| | For the nine months ended September 30, | | | |
| | 2019 | | 2018 | |
| | | | (unaudited) | |
| **c. Troubled debt restructuring** (Cont'd) | **Number of contracts** | **Balance of debt recorded** | **Number of contracts** | **Balance of debt recorded** |
| **Borrower activity in Israel** | | | | |
| **Public - commercial** | | | | |
| Construction and real estate - construction | **13** | **2** | 16 | - |
| Construction and real estate - real estate activities | **-** | **-** | 3 | - |
| Financial services | **2** | **-** | 1 | 1 |
| Commercial - other | **125** | **17** | 110 | 13 |
| **Total commercial** | **140** | **19** | 130 | 14 |
| Private individuals - housing loans | **-** | **-** | - | - |
| Private individuals - others | **411** | **12** | 408 | 10 |
| **Total public - activity in Israel** | **551** | **31** | 538 | 24 |
| Banks in Israel | **-** | **-** | - | - |
| Israeli government | **-** | **-** | - | - |
| **Total activity in Israel** | **551** | **31** | 538 | 24 |
| **Borrower activity abroad** | | | | |
| **Public - commercial** | | | | |
| Construction and real estate | **-** | **-** | - | - |
| Other commercial | **-** | **-** | - | - |
| **Total commercial** | **-** | **-** | - | - |
| Private individuals | **-** | **-** | - | - |
| **Total public - activity abroad** | **-** | **-** | - | - |
| Banks abroad | **-** | **-** | - | - |
| Governments abroad | **-** | **-** | - | - |
| **Total activity abroad** | **-** | **-** | - | - |
| **Total public** | **551** | **31** | 538 | 24 |
| **Total banks** | **-** | **-** | - | - |
| **Total governments** | **-** | **-** | - | - |
| **Total** | **551** | **31** | 538 | 24 |

(1) Credit to the public, credit to governments, deposits with banks and other debts, excluding bonds and securities that were borrowed.

(2) Debts that became debts in arrears of 30 days or more during the reported period which were restructured as problematic debts during the 12 months that preceded the date in which they became debts in arrears.

## NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

### B. Debts[(1)] (Cont'd)

### 3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)(*), repayment type, and interest type

| | September 30, 2019 (unaudited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | **17,365** | **259** | **10,441** | **1,123** |
| - Over 60% | **7,382** | **60** | **4,620** | **566** |
| Secondary lien or no lien | **451** | **122** | **349** | **-** |
| Total | **25,198** | **441** | **15,410** | **1,689** |

| | September 30, 2018 (unaudited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | 16,732 | 325 | 10,056 | 762 |
| - Over 60% | 6,952 | 70 | 4,431 | 350 |
| Secondary lien or no lien | 349 | 80 | 328 | - |
| Total | 24,033 | 475 | 14,815 | 1,112 |

| | December 31, 2018 (audited) | | | |
|---|---|---|---|---|
| | Balance of housing loans | | | Total Off-balance sheet credit risk |
| | Total | Of which: bullet and balloon | OF which: floating interest rate | |
| First lien financing rate | | | | |
| - Up to 60% | 16,859 | 287 | 10,126 | 899 |
| - Over 60% | 7,078 | 71 | 4,487 | 411 |
| Secondary lien or no lien | 382 | 108 | 362 | - |
| Total | 24,319 | 466 | 14,975 | 1,310 |

* Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.

# NOTE 12 - ADDITIONAL INFORMATION ABOUT CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES (CONT'D)

(NIS million)

## C. Off-balance sheet financial instruments

| | Balance of contracts(1) | | | Balance of provision for credit losses | | |
|---|---|---|---|---|---|---|
| | **30.9.19** | **30.9.18** | **31.12.18** | **30.9.19** | **30.9.18** | **31.12.18** |
| | (unaudited) | (unaudited) | (audited) | (unaudited) | (unaudited) | (audited) |
| **Transactions the balance of which represents credit risk:** | | | | | | |
| Documentary credit | **290** | 134 | 281 | **-** | - | 1 |
| Guarantees securing credit | **878** | 818 | 881 | **9** | 8 | 8 |
| Guarantees to home purchasers | **2,547** | 2,726 | 2,716 | **5** | 9 | 5 |
| Guarantees and other liabilities | **4,178** | 4,019 | 4,020 | **21** | 24 | 23 |
| Unutilized credit lines for derivatives instruments | **2,303** | 2,187 | 2,405 | **-** | - | - |
| Unutilized revolving credit and other on-call credit facilities | **9,100** | 8,882 | 9,568 | **13** | 13 | 11 |
| Irrevocable commitments to grant credit, not yet executed | **4,571** | 4,726 | 5,273 | **4** | 4 | 7 |
| Unutilized credit lines for credit card facilities | **7,639** | 7,546 | 7,478 | **4** | 4 | 4 |
| Facilities for the lending of securities | **270** | 222 | 248 | **-** | - | - |
| Required guarantees and collateral in respect of the Stock Exchange and Maof Clearing Houses | **162** | 132 | 143 | **-** | - | - |
| Commitments to issue guarantees | **1,148** | 1,523 | 1,406 | **4** | 6 | 5 |
| **Transactions the stated amount of which does not represents credit risk:** | | | | | | |
| Guarantees (including guarantees to the courts for claims which may arise upon the occurrence of certain events) and letters of indemnity(2) | **93** | 74 | 80 | **-** | - | - |

(1) Balance of contracts or their stated amounts at the end of the period, before provision for credit losses.

(2) In addition, the Bank provided the courts with letters of self-undertaking unlimited in amounts, given in connection with legal proceedings, in order to secure compensation for the damage to the defendants in the event that the action against them is dismissed or the legal proceedings terminated because of any other reason.

## NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES
(NIS million)

| | September 30, 2019 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | | |
| | Non-linked | Linked to the consumer price index | U.S. dollar | Euro | Other | Non-monetary items[2] | Total |
| **Assets** | | | | | | | |
| Cash and deposits with banks | **33,140** | **-** | **1,055** | **165** | **156** | **-** | **34,516** |
| Securities | **3,401** | **335** | **4,724** | **1,683** | **-** | **310** | **10,453** |
| Securities which were borrowed | **126** | **-** | **-** | **-** | **-** | **-** | **126** |
| Credit to the public, net[3] | **72,466** | **9,774** | **3,419** | **892** | **137** | **622** | **87,310** |
| Credit to the government | **54** | **626** | **-** | **-** | **-** | **-** | **680** |
| Investee company | **-** | **-** | **-** | **-** | **-** | **607** | **607** |
| Premises and equipment | **-** | **-** | **-** | **-** | **-** | **988** | **988** |
| Intangible assets and goodwill | **-** | **-** | **-** | **-** | **-** | **227** | **227** |
| Assets in respect of derivative instruments | **556** | **52** | **154** | **29** | **6** | **281** | **1,078** |
| Other assets | **812** | **2** | **24** | **12** | **114** | **39** | **1,003** |
| Total assets | **110,555** | **10,789** | **9,376** | **2,781** | **413** | **3,074** | **136,988** |
| **Liabilities** | | | | | | | |
| Deposits from the public | **91,598** | **5,369** | **14,744** | **2,952** | **1,005** | **624** | **116,292** |
| Deposits from banks | **269** | **-** | **144** | **34** | **17** | **-** | **464** |
| Deposits from the Government | **318** | **1** | **46** | **2** | **1** | **-** | **368** |
| Bonds and subordinated capital notes | **474** | **3,216** | **-** | **-** | **-** | **-** | **3,690** |
| Liabilities in respect of derivative instruments | **652** | **14** | **238** | **112** | **4** | **278** | **1,298** |
| Other liabilities | **5,707** | **88** | **177** | **9** | **4** | **81** | **6,066** |
| Total liabilities | **99,018** | **8,688** | **15,349** | **3,109** | **1,031** | **983** | **128,178** |
| Difference | **11,537** | **2,101** | **(5,973)** | **(328)** | **(618)** | **2,091** | **8,810** |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | **(7,216)** | **83** | **5,985** | **477** | **671** | **-** | **-** |
| Options in the money, net (in terms of underlying asset) | **170** | **-** | **(50)** | **(117)** | **(3)** | **-** | **-** |
| Options out of the money, net (in terms of underlying asset) | **110** | **-** | **(81)** | **(29)** | **-** | **-** | **-** |
| Total | **4,601** | **2,184** | **(119)** | **3** | **50** | **2,091** | **8,810** |
| Options in the money, net (present value of stated amount) | **212** | **-** | **(95)** | **(114)** | **(3)** | **-** | **-** |
| Options out of the money, net (present value of stated amount) | **(138)** | **-** | **(211)** | **350** | **(1)** | **-** | **-** |

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

## NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| | September 30, 2018 (unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency[1] | | | | |
| | Non-linked | Linked to the consumer price index | U.S. dollar | Euro | Other | Non-monetary items[2] | Total |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 31,352 | 1 | 1,117 | 169 | 196 | - | 32,835 |
| Securities | 3,860 | 704 | 5,359 | 1,704 | 13 | 240 | 11,880 |
| Securities which were borrowed | 904 | - | - | - | - | - | 904 |
| Credit to the public, net[3] | 70,010 | 9,946 | 4,024 | 934 | 100 | 470 | 85,484 |
| Credit to the government | 43 | 622 | 7 | - | - | - | 672 |
| Investee company | - | - | - | - | - | 596 | 596 |
| Premises and equipment | - | - | - | - | - | 1,025 | 1,025 |
| Intangible assets and goodwill | - | - | - | - | - | 223 | 223 |
| Assets in respect of derivative instruments | 201 | 57 | 388 | 40 | 23 | 300 | 1,009 |
| Other assets | 620 | 7 | 194 | 2 | 1 | 399 | 1,223 |
| Total assets | 106,990 | 11,337 | 11,089 | 2,849 | 333 | 3,253 | 135,851 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 88,691 | 6,189 | 14,259 | 2,979 | 1,213 | 473 | 113,804 |
| Deposits from banks | 549 | - | 246 | 48 | 14 | - | 857 |
| Deposits from the Government | 795 | 75 | 75 | 2 | 1 | - | 948 |
| Bonds and subordinated capital notes | 708 | 4,447 | - | - | - | - | 5,155 |
| Liabilities in respect of derivative instruments | 226 | 16 | 346 | 42 | 15 | 297 | 942 |
| Other liabilities | 4,998 | 133 | 147 | 21 | 9 | 427 | 5,735 |
| Total liabilities | 95,967 | 10,860 | 15,073 | 3,092 | 1,252 | 1,197 | 127,441 |
| Difference | 11,023 | 477 | (3,984) | (243) | (919) | 2,056 | 8,410 |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | (4,848) | (78) | 3,753 | 223 | 950 | - | - |
| Options in the money, net (in terms of underlying asset) | 78 | - | 1 | (79) | - | - | - |
| Options out of the money, net (in terms of underlying asset) | (256) | - | 187 | 67 | 2 | - | - |
| Total | 5,997 | 399 | (43) | (32) | 33 | 2,056 | 8,410 |
| Options in the money, net (present value of stated amount) | 120 | - | 32 | (152) | - | - | - |
| Options out of the money, net (present value of stated amount) | (917) | - | 1,021 | (110) | 6 | - | - |

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

## NOTE 13 - ASSETS AND LIABILITIES ACCORDING TO LINKAGE BASES (CONT'D)

(NIS million)

| | December 31, 2018 (audited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency(1) | | | | |
| | Non-linked | Linked to the consumer price index | U.S. dollar | Euro | Other | Non-monetary items(2) | Total |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 29,326 | - | 1,570 | 216 | 191 | - | 31,303 |
| Securities | 4,250 | 712 | 5,632 | 1,761 | 13 | 227 | 12,595 |
| Securities which were borrowed | 863 | - | - | - | - | - | 863 |
| Credit to the public, net(3) | 69,600 | 10,073 | 3,161 | 808 | 96 | 554 | 84,292 |
| Credit to the government | 71 | 622 | 7 | - | - | - | 700 |
| Investee company | - | - | - | - | - | 606 | 606 |
| Premises and equipment | - | - | - | - | - | 1,023 | 1,023 |
| Intangible assets and goodwill | - | - | - | - | - | 239 | 239 |
| Assets in respect of derivative instruments | 135 | 47 | 477 | 58 | 30 | 652 | 1,399 |
| Other assets | 653 | 5 | 13 | 3 | 1 | 425 | 1,100 |
| Total assets | 104,898 | 11,459 | 10,860 | 2,846 | 331 | 3,726 | 134,120 |
| **Liabilities** | | | | | | | |
| Deposits from the public | 86,317 | 5,858 | 14,845 | 3,004 | 1,119 | 554 | 111,697 |
| Deposits from banks | 1,003 | - | 121 | 23 | 3 | - | 1,150 |
| Deposits from the Government | 705 | 225 | 49 | 2 | 1 | - | 982 |
| Bonds and subordinated capital notes | 712 | 4,277 | - | - | - | - | 4,989 |
| Liabilities in respect of derivative instruments | 151 | 13 | 410 | 61 | 8 | 651 | 1,294 |
| Other liabilities | 4,918 | 137 | 64 | 12 | 6 | 458 | 5,595 |
| Total liabilities | 93,806 | 10,510 | 15,489 | 3,102 | 1,137 | 1,663 | 125,707 |
| Difference | 11,092 | 949 | (4,629) | (256) | (806) | 2,063 | 8,413 |
| **Non-hedging derivatives** | | | | | | | |
| Derivative instruments (not including options) | (5,198) | 96 | 4,151 | 96 | 855 | - | - |
| Options in the money, net (in terms of underlying asset) | (139) | - | 36 | 99 | 4 | - | - |
| Options out of the money, net (in terms of underlying asset) | (251) | - | 245 | 5 | 1 | - | - |
| Total | 5,504 | 1,045 | (197) | (56) | 54 | 2,063 | 8,413 |
| Options in the money, net (present value of stated amount) | (254) | - | 106 | 142 | 6 | - | - |
| Options out of the money, net (present value of stated amount) | (876) | - | 551 | 327 | (2) | - | - |

(1) Including linked to foreign currency.
(2) Including derivatives instruments which their underlying assets represent non-monetary item.
(3) After deduction of provisions for credit losses attributed to the linkage base.

# NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

(NIS million)

| | | | | September 30, 2019 (unaudited) | |
|---|---|---|---|---|---|
| | Stated in the | | | | Fair value[1] |
| | Balance Sheet | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 34,516 | 667 | 33,841 | 9 | 34,517 |
| Securities[2] | 10,453 | 3,980 | 6,495 | 106 | 10,581 |
| Securities which were borrowed | 126 | - | 126 | - | 126 |
| Credit to the public, net | 87,310 | 2,526 | 353 | 85,350 | 88,229 |
| Credit to the government | 680 | - | 54 | 625 | 679 |
| Assets in respect of derivative instruments | 1,078 | 396 | 425 | 257 | 1,078 |
| Other financial assets | 475 | 49 | - | 426 | 475 |
| Total financial assets | [3]134,638 | 7,618 | 41,294 | 86,773 | 135,685 |
| **Financial liabilities** | | | | | |
| Deposits from the public | 116,292 | 3,816 | 81,823 | 30,428 | 116,067 |
| Deposits from Banks | 464 | - | 453 | 15 | 468 |
| Deposits from the Government | 368 | 5 | 313 | 58 | 376 |
| Bonds and non-convertible subordinated capital notes | 3,690 | 3,602 | - | 170 | 3,772 |
| Liabilities in respect of derivative instruments | 1,298 | 398 | 887 | 13 | 1,298 |
| Other financing liabilities | 4,778 | 170 | 380 | 4,226 | 4,776 |
| Total financial liabilities | [3]126,890 | 7,991 | 83,856 | 34,910 | 126,757 |
| **Off balance sheet financial instruments** | | | | | |
| Transaction were the balance represents credit risk | 32 | - | - | 32 | 32 |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay[4]** | 923 | - | - | 923 | 923 |

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 12,106 million and liabilities of NIS 5,291 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability is shown gross, without considering the plan assets managed against it.

## NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

| | | | | | September 30, 2018 (unaudited) |
|---|---|---|---|---|---|
| | Stated in the Balance Sheet | | | | Fair value[1] |
| | | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 32,835 | 698 | 32,149 | 7 | 32,854 |
| Securities[2] | 11,880 | 4,586 | 7,214 | 126 | 11,926 |
| Securities which were borrowed | 904 | - | 904 | - | 904 |
| Credit to the public, net | 85,484 | 3,630 | 1,210 | 80,851 | 85,691 |
| Credit to the government | 672 | - | 44 | 627 | 671 |
| Assets in respect of derivative instruments | 1,009 | 442 | 354 | 213 | 1,009 |
| Other financial assets | 729 | 392 | - | 337 | 729 |
| Total financial assets | [3]133,513 | 9,748 | 41,875 | 82,161 | 133,784 |
| **Financial liabilities** | | | | | |
| Deposits from the public | 113,804 | 2,767 | *80,972 | *29,441 | 113,180 |
| Deposits from Banks | 857 | - | 853 | 19 | 872 |
| Deposits from the Government | 948 | 575 | 315 | 65 | 955 |
| Bonds and non-convertible subordinated capital notes | 5,155 | 4,617 | - | 694 | 5,311 |
| Liabilities held for sale | 942 | 443 | 483 | 16 | 942 |
| Other financing liabilities | 4,560 | 720 | 1,210 | 2,628 | 4,558 |
| Total financial liabilities | [3]126,266 | 9,122 | 83,833 | 32,863 | 125,818 |
| **Off balance sheet financial instruments** | | | | | |
| Transaction were the balance represents credit risk | 31 | - | - | 31 | 31 |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay[4]** | 1,125 | - | - | 1,125 | 1,125 |

* Reclassified. Presented after distribution of demand deposit to terms of maturity.

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 14,988 million and liabilities of NIS 5,212 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability is shown gross, without considering the plan assets managed against it.

# NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

| | December 31, 2018 (audited) | | | | |
|---|---|---|---|---|---|
| | Stated in the Balance Sheet | Fair value(1) | | | |
| | | (1) | (2) | (3) | Total |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 31,303 | 680 | 30,634 | 8 | 31,322 |
| Securities(2) | 12,595 | 4,917 | 7,575 | 135 | 12,627 |
| Securities which were borrowed | 863 | - | 863 | - | 863 |
| Credit to the public, net | 84,292 | 3,400 | 1,167 | 79,543 | 84,110 |
| Credit to the government | 700 | - | 76 | 623 | 699 |
| Assets in respect of derivative instruments | 1,399 | 805 | 342 | 252 | 1,399 |
| Other financial assets | 591 | 426 | - | 165 | 591 |
| Total financial assets | (3)131,743 | 10,228 | 40,657 | 80,726 | 131,611 |
| **Financial liabilities** | | | | | |
| Deposits from the public | 111,697 | 3,431 | 78,059 | 29,416 | 110,906 |
| Deposits from Banks | 1,150 | - | 1,146 | 14 | 1,160 |
| Deposits from the Government | 982 | 671 | 253 | 66 | 990 |
| Bonds and non-convertible subordinated capital notes | 4,989 | 4,574 | - | 495 | 5,069 |
| Liabilities in respect of derivative instruments | 1,294 | 804 | 477 | 13 | 1,294 |
| Other financing liabilities | 4,355 | 586 | 1,166 | 2,600 | 4,352 |
| Total financial liabilities | (3)124,467 | 10,066 | 81,101 | 32,604 | 123,771 |
| **Off balance sheet financial instruments** | | | | | |
| Transaction were the balance represents credit risk | 32 | - | - | 32 | 32 |
| **In addition, the liability in respect of employee rights, gross - pension and severance pay (4)** | 1,109 | - | - | 1,109 | 1,109 |

(1) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(2) For further details of the stated balance and the fair value of securities, see Note 5, "Securities".

(3) Of which: assets of NIS 15,886 million and liabilities of NIS 5,986 million, the stated balance of which is identical to their fair value (instruments reflected in the balance sheet at fair value). For further information regarding instruments measured at fair value on a recurring basis and on a non-recurring basis, see note 14B-14D.

(4) The liability in shown gross, without considering the plan assets managed against it.

## NOTE 14A - BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONT'D)

(NIS million)

### A. Fair value of financial instruments.

The Note includes information regarding the fair value of financial instruments. There is no quotable "market value" for most of the financial instruments of the Bank since they are not traded in an active market. Therefore, the fair value is derived by accepted pricing models, such as discounting future cash flows at interest rates reflecting the credit risk inherent in the financial instrument.

Determination of fair value, estimated by discounting future cash flows and determining the relative interest rates is subjective. Furthermore, the fair value estimations for most of the financial instruments does not necessarily indicate the realizable value on the reporting date. The estimated fair value was calculated according to interest rates prevailing on balance sheet date and does not consider interest rate fluctuations. Given other interest rate assumptions fair value estimates may differ materially. This is mainly the case where financial instruments have fixed interest rates or do not bear interest.

In addition, in determining fair value, commissions to be received or paid as a result of the said transactions and tax effects, in respect of the gap between the fair value and the balances at the balance sheet, were not taken into consideration.

Furthermore, the difference between the balance sheet and the fair value amounts may not be realized as the Bank may hold the instruments until maturity. As a result of all of these it is necessary to emphasize that the data included in this note does not reflect the net worth of the Bank as a going concern. Also, as a result of the wide range of possible estimation techniques and methods, care should be taken when comparing fair value of different banks.

(NIS million)

## B. Principal methods and assumptions used for the calculation of the fair value estimates of financial instruments

**Marketable securities** - According to their value in the principal market. Where there are several markets on which the instrument is traded, the assessment is made according to the most beneficial market.

**Credit to the public** - The fair value of the credit to the public balance was estimated according to discounting the future cash flows in an appropriate discount rate. The balance was separated into homogenous categories. The receipts in each category were discounted at a discount rate which reflects the risk inherent in the category. In general, this discount rate is determined according to the interest at which the Bank transacts similar business at the reporting date.

The fair value of impaired debts is assessed using discount rates that reflect the high credit risk inherent in such debts. In any event, such discount rates are not lower than the highest interest rate used by the Bank in transacting business at the reporting date.

Anticipated future cash flows in respect of impaired debts and other debts have been assessed after deducting the effect of accounting write-offs and of provisions for credit losses in respect of the debts.

Accounting write-offs and provisions for credit losses are attributed, where possible, to periods in which these debts had been classified (example: where the provision was assessed on a specific basis, by the present value of future cash flows). In the absence of such data, accounting write-offs and provisions for credit losses are attributed proportionally to the outstanding balance of credit according to maturity periods at end of the period.

Cash flows in respect of mortgages have been assessed according to the premature repayment forecast, which is based on a statistical model.

**Deposits and subordinate capital notes** - By discounting future cash flows according to interest rates used by the Group in raising similar deposits (if a quoted price on an active market is not available), or issuing similar capital notes, at reporting date. As regards bonds and subordinate debt notes that are traded as an asset on an active market, fair value is based upon quoted market prices or dealers' quotations for identical liability traded as an asset on an active market.

Cash flows in respect of demand deposits (current accounts balances) were spread based on statistical model for forecasting stable balances.

**Derivative financial instruments** - Derivative financial instruments for which an active market exists have been estimated at market value, and where several active markets exist, have been estimated according to the most beneficial market.

Derivative financial instruments for which no active market exists have been calculated according to models which are used by the Group in current activity and take into account the inherent risks of the financial instrument (market risk, credit risk, etc.).

**Off-balance sheet financial instruments and transactions the balance of which represents credit risk** - the fair value has been assessed in accordance with commission earned in similar transactions at the reporting date, adjusted in respect of the remaining period of the transaction and the credit quality of the counterparty.

## NOTE 14B - ITEMS MEASURED AT FAIR VALUE

(NIS million)

### A. Items measured at fair value on a recurrent basis

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Fair-value measurements using - | | | | |
| | Prices quoted in an active market (level 1) | Other significant observable inputs (level 2) | Significant unobservable inputs (level 3) | Effect of netting agreements | Balance sheet balance |
| **Assets** | | | | | |
| Bonds available for sale | **2,014** | **6,187** | **-** | **-** | **8,201** |
| Shares not for trading | **176** | **-** | **-** | **-** | **176** |
| Trading Securities | **76** | **-** | **-** | **-** | **76** |
| Assets in respect of derivative instruments | **396** | **425** | **257** | **-** | **1,078** |
| Others | **2,575** | **-** | **-** | **-** | **2,575** |
| Total assets | **5,237** | **6,612** | **257** | **-** | **12,106** |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | **398** | **889** | **13** | **-** | **1,300** |
| Others | **3,991** | **-** | **-** | **-** | **3,991** |
| Total liabilities | **4,389** | **889** | **13** | **-** | **5,291** |

| | September 30, 2018 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Fair-value measurements using - | | | | |
| | Prices quoted in an active market (level 1) | Other significant observable inputs (level 2) | Significant unobservable inputs (level 3) | Effect of netting agreements | Balance sheet balance |
| **Assets** | | | | | |
| Securities available for sale | 2,679 | 6,907 | - | - | 9,586 |
| Trading Securities | 324 | 47 | - | - | 371 |
| Assets in respect of derivative instruments | 442 | 354 | 213 | - | 1,009 |
| Others | 4,022 | - | - | - | 4,022 |
| Total assets | 7,467 | 7,308 | 213 | - | 14,988 |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | 443 | 486 | 16 | - | 945 |
| Others | 4,062 | - | - | - | 4,062 |
| Total liabilities | 4,505 | 486 | 16 | - | 5,007 |

| | December 31, 2018 (audited) | | | | |
|---|---|---|---|---|---|
| | Fair-value measurements using - | | | | |
| | Prices quoted in an active market (level 1) | Other significant observable inputs (level 2) | Significant unobservable inputs (level 3) | Effect of netting agreements | Balance sheet balance |
| **Assets** | | | | | |
| Securities available for sale | 2,873 | 7,250 | 1 | - | 10,124 |
| Trading Securities | 482 | 55 | - | - | 537 |
| Assets in respect of derivative instruments | 805 | 342 | 252 | - | 1,399 |
| Others | 3,826 | - | - | - | 3,826 |
| Total assets | 7,986 | 7,647 | 253 | - | 15,886 |
| **Liabilities** | | | | | |
| Liabilities in respect of derivative instruments | 804 | 480 | 13 | - | 1,297 |
| Others | 4,689 | - | - | - | 4,689 |
| Total liabilities | 5,493 | 480 | 13 | - | 5,986 |

## NOTE 14B - ITEMS MEASURED AT FAIR VALUE (CONT'D)
(NIS million)

### B. Items measured at fair value on a non-recurrent basis

| | September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total income (loss) for the nine months ended September 30, 2019 |
| Investment in shares | **-** | **26** | **-** | **26** | **2** |
| Impaired credit the collection of which is contingent on collateral | **-** | **-** | **37** | **37** | **(11)** |

| | September 30, 2018 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total loss for the nine months ended September 30, 2018 |
| Impaired credit the collection of which is contingent on collateral | - | - | 47 | 47 | (5) |

| | December 31, 2018 (audited) | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Total loss for the year ended December 31, 2018 |
| Impaired credit the collection of which is contingent on collateral | - | - | 48 | 48 | (4) |

# NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3

(NIS million)

| | For the three months ended September 30, 2019 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at June 30, 2019 | Profits (losses) realized and unrealized Included in the profit and loss statement (1) | Purchases | Payments | Transfers to level 3, gross | Transfer from level 3, gross | Fair value as at September 30, 2019 | Unrealized profits in respect of instruments held as at September 30, 2019 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | **153** | **318** | **19** | **(233)** | **-** | **-** | **257** | **147** |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | **17** | **4** | **-** | **-** | **-** | **-** | **13** | **3** |

| | For the three months ended September 30, 2018 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at June 30, 2018 | Profits (losses) realized and unrealized Included in the profit and loss statement (1) | Purchases | Payments | Transfers to level 3, gross | Transfer from level 3, gross | Fair value as at September 30, 2018 | Unrealized profits in respect of instruments held as at September 30, 2018 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 359 | 345 | 17 | (508) | - | - | 213 | 43 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 17 | 1 | - | - | - | - | 16 | 1 |

| | For the nine months ended September 30, 2019 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at December 31, 2018 | Profits (losses) realized and unrealized Included in the profit and loss statement (1) | Purchases | Payments | Transfers to level 3, gross | Transfer from level 3, gross | Fair value as at September 30, 2019 | Unrealized profits (losses) in respect of instruments held as at September 30, 2019 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | **252** | **590** | **48** | **(633)** | **-** | **-** | **257** | **153** |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | **13** | **(1)** | **-** | **(1)** | **-** | **-** | **13** | **(2)** |

| | For the nine months ended September 30, 2018 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at December 31, 2017 | Profits (losses) realized and unrealized Included in the profit and loss statement (1) | Purchases | Payments | Transfers to level 3, gross | Transfer from level 3, gross | Fair value as at September 30, 2018 | Unrealized profits in respect of instruments held as at September 30, 2018 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 276 | 1,456 | 51 | (1,570) | - | - | 213 | 62 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 42 | - | - | (26) | - | - | 16 | - |

## NOTE 14C - CHANGES IN ITEMS MEASURED AT FAIR VALUE ON A RECURRENT BASIS INCLUDED IN LEVEL 3 (CONT'D)

(NIS million)

| | For the year ended December 31, 2018 (unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value as at December 31, 2017 | Profits (losses) realized and unrealized Included in the profit and loss statement (1) | Purchases | Payments | Transfers to level 3, gross | Transfer from level 3, gross | Fair value as at December 31, 2018 | Unrealized profits in respect of instruments held as at December 31, 2018 |
| **Assets** | | | | | | | | |
| Assets in respect of derivative instruments | 276 | 2,011 | 66 | (2,101) | - | - | 252 | 118 |
| **Liabilities** | | | | | | | | |
| Liabilities in respect of derivative instruments | 42 | 2 | - | (27) | - | - | 13 | 2 |

(1) Realized profits (losses) are included in the profit and loss statement in the item non interest financing income.

# NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3

| | As of September 30, 2019 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
| | | | (NIS million) | | in % |
| **A. Items measured at fair value on a recurrent basis** | | | | | |
| Assets | | | | | |
| Assets in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI linked interest | **1** | **(0.81)** | **(0.89)-(0.76)** |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | **16** | **1.44** | **1.30-1.75** |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | **51** | **(1.22)** | **(1.34)-0.69** |
| | | 2. Counter-party credit risk | **189** | **1.33** | **0.90-4.97** |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | **-** | **(0.76)** | **(0.76)** |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | **13** | **(1.23)** | **(1.34)-(0.70)** |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | **37** | | |

| | As of September 30, 2018 (unaudited) | | | | |
|---|---|---|---|---|---|
| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
| | | | (NIS million) | | in % |
| **A. Items measured at fair value on a recurrent basis** | | | | | |
| Assets | | | | | |
| Assets in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI linked interest | 23 | (1.01) | (1.22)-0.00 |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | 11 | 1.47 | 1.10-1.75 |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | 52 | (0.76) | (1.23)-(0.05) |
| | | 2. Counter-party credit risk | 127 | 1.36 | 0.90-4.76 |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | 4 | 0.01 | (0.53)-0.10 |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | 12 | (0.65) | (1.23)-(0.05) |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | 47 | | |

## NOTE 14D - QUANTITATIVE INFORMATION ON ITEMS MEASURED AT FAIR VALUE INCLUDED IN LEVEL 3 (CONT'D)

| | Value Assessment technique | Unobservable inputs | Fair value | Average | Range |
|---|---|---|---|---|---|
| | | | As of December 31, 2018 (audited) | | |
| | | | (NIS million) | | in % |
| **A. Items measured at fair value on a recurrent basis** | | | | | |
| Assets | | | | | |
| Assets in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI linked interest | 3 | (0.32) | (1.01)-(0.01) |
| Interest rate contract: other | Discounted cash flow | Counter-party credit risk | 9 | 1.49 | 1.10-1.55 |
| Foreign currency contracts | Discounted cash flow | 1. CPI-linked interest | 44 | (0.67) | (1.40)-0.04 |
| | | 2. Counter-party credit risk | 196 | 1.30 | 0.90-4.76 |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments: | | | | | |
| Interest rate contract: NIS-CPI | Discounted cash flow | CPI-linked interest | 3 | (0.31) | (0.40)-(0.01) |
| Foreign currency contracts | Discounted cash flow | CPI-linked interest | 10 | (0.57) | (1.40)-0.04 |
| **B. Items measured at fair value on a non-recurrent basis** | | | | | |
| Impaired credit the collection of which is contingent on collateral | Collaterals value | | 48 | | |

Qualitative information in respect of items measured at fair value included in level 3

- Interest linked to the CPI- a change in the forecasted inflation rate will affect the fair value of CPI transaction, so an Increase (decrease) in the forecasted inflation rate will lead to an increase (decrease) in the fair value in accordance to the Bank's CPI position.
- Counter-party credit risk- a change in the credit risk of the counter-party to the transaction, so when the credit risk of the counter-party will be high/low, the value of the transaction will be high/low.

## NOTE 15 -UPDATE REGARDING COLLECTIVE LABOR AGREEMENTS

Collective labor agreements are in effect at the Bank, which link certain employment terms of Bank employees to agreements signed by the Management of Bank Leumi of Israel LTD (hereinafter - "BLL") with the union of BLL employees.
On July 29, 2019, BLL announced the signing of a special collective labor agreement with the union of BLL employees for the years 2019-2022.
For conservative reasons and subject to the outcome of the negotiations regarding the implementation by the Bank of the said agreement, a provision is included in this quarter with respect to the nine months of the year.

## NOTE 16 - TAXES ON INCOME

With respect of the years 2013-2017 a subsidiary company of the Bank received final tax assessments. As a result, the Bank recorded in the third quarter of the year income from tax of prevoius years in the amount of NIS 15 million.

## LIST OF TABLES -CORPORATE GOVERNANCE

# Corporate Governance, Additional Information and Appendices to the Annual Report

## CORPORATE GOVERNANCE

## DISCLOSURE OF THE INTERNAL AUDITOR

Details regarding the Internal Auditor of the Bank (which also serves as the Internal Auditor in Massad Bank), including the working plan of the internal auditor department, conduct of the audit and the internal audit reports, were published in the annual financial statements for 2018.
The report of the internal audit for the year 2018 was discussed in the audit committee of the Bank on April 16, 2019.
The report of the internal audit for the first half of 2019 was discussed in the audit committee of the Bank on September 24, 2019.

## MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

During January-September 2019, the Bank's Board of Directors held 21 meetings in plenary session and 38 meetings of its various Board Committees.

## APPOINTMENTS AND RETIREMENTS

On July 30, 2019, the Board of Directors of the Bank approved appointments and changes in the organizational structure of the Bank, which will come into effect at dates to be determined, as follows:

A. Bentzi Adiri, CPA, member of Management, served until November 15, 2019 as the head of Risk Management Division and CRO, will pass to serve as the head of Resources division, as from January 1, 2020, instead of Mr. Yossi Levi, which will retire.
B. Eli Cohen, CPA, which served as the manager of the planning and efficiency department in the Bank, was appointed as member of Management, and serves as head of Risk Management Division and CRO, as from November 15, 2019 and replaced Bentzi Adiri, CPA.
C. The financial sub-division at the Bank will be eliminated, and its operations will be integrated as a department within the Resources division, headed by Bentzi Adiri, CPA and the number of members of Management will be reduced to nine. Accordingly, Mr. Aviel Sternshous retired from its office as member of Management and head of the financial sub-division on November 15, 2019.

In the Board of Directors meeting on October 29, 2019, the Chairman of the Board of Directors, Mrs. Irit Izason, that she intends to complete her office as the Chairman of the Board and director in the Bank at the end of the term for which she was elected, that is until February 23, 2020.

## TRANSACTIONS WITH INTERESTED PARTIES

**a. Amendments to the Securities Regulations (Periodic and immediate reports), 1970 - Reporting of transactions with controling interests**

No changes occurred during the reported period in the rules regarding the reporting of transactions with controlling interests, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

**b. Determination of criteria regarding transactions of the Bank with interested parties**

No changes occurred during the reported period in the said criteria, as detailed in the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018.

**c. Transactions with controlling interests or where the controlling interests have a personal interest therein, which were approved during the reported year in accordance with Section 270(4) and/or 267A of the Companies Act (including framework transactions that are still in effect at date of reporting and transactions approved under the Companies Regulations (Relief for transactions with interested parties), 2000 (hereinafter - "the Relief Regulations"):**

For details of the transactions see the Chapter on corporate governance, transactions with interested parties, contained in the financial statements for the year 2018. It should be noted, in respect of item c.2. in this chapter, that On August 1, 2019, Mrs. Dagan retired, who is related to controlling shareholder at the Bank, and she is no longer employed by the Bank.

**d. Additional information on transactions with interested parties**

Set out below is a collation of data concerning banking transactions that were conducted by the Bank and companies under its control with the controlling owners at the Bank (including their relatives and companies in which controlling owners at the Bank are interested parties), including data concerning transactions conforming to the criteria that were determined with respect to negligible transactions, contained in the financial statements for the year 2018 (NIS thousand):

| Indebtedness | Credit | Investment in bonds | Fair value of derivatives | Total balance-sheet monetary indebtedness | Unutilized credit balance | Guarantees granted by Bank for securing credit to a controlling owner or to a party related thereto | Guarantees granted to Bank by controlling owner in favor of third party | Indebtedness of controlling owner in respect of transactions in derivatives | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | NIS thousand |
| Indebtedness of others(1) | | | | | | | | | |
| September 30, 2019 | **170** | **-** | **-** | **170** | **505** | **-** | **-** | **-** | **675** |
| December 31, 2018 | 112 | - | - | 112 | 317 | - | - | - | 429 |

| Deposits | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Balance on balance-sheet date | Highest balance during period(3) | Balance on balance-sheet date | Highest balance during period(3) |
| | | NIS thousand | | NIS thousand |
| Deposits of others(1) | **4,055** | **22,157** | 10,928 | 27,461 |

(1) Relatives of controlling shareholders of the Bank. As the term relative is defined in the Banking Law (licensing) -1981.

(2) On the basis of balances at the end of each day.

## DETAILS OF THE OWNERS OF CONTROL IN THE BANK

FIBI Holdings Ltd. owns 48.34% of the issued share capital and voting rights in the Bank (a rate comprising the control core in accordance with the control permit granted by Bank of Israel). The controlling shareholders of FIBI are Mr. Zadik Bino and his children, Nessrs. Gil Bino, Hadar Bino-Shmueli and Daphna Bino-Or (hereinafter - "the Bino Family), Messrs. Michael and Helen Abeles and Messrs. Barry Lieberman, Casey Lieberman-Harris, Lee Lieberman and Joshua Lieberman (each of the said groups through corporations under their full control: Binohon Ltd., Instanz No. 2 Ltd. and Dolphin Energies Ltd.). The controlling shareholders are party to various arrangements concerning their holdings in FIBI, and indirectly, at the Bank, as detailed in the Chapter "Details regarding the stakeholders in the Bank" in the financial report for 2018.

During the first quarter of 2019 FIBI reported that Instanz No. 2 sold part of its holding in FIBI. In accordance with FIBI's reports as of March 31, 2019, the holdings of the controlling stakeholders in FIBI (in equity and voting) are as follows: Binohon - 28.54%, Instanz No. 2 Ltd. - 11.68% and Dolphin Energies Ltd - 11.68%.

# ADDITIONAL INFORMATION

## LABOR RELATIONS AT THE BANK

Two labor organizations exist at the Bank: the union of managers and signatories the clerks union.
Collective labor agreement are in effect at the Bank, which link to a certain extent, the employment terms of the clerks, managers and signatories to those agreed upon by the Management of Bank Leumi and the unions of its employees.
Furthermore, in accordance with a verdict given on November 5, 2019, by the Regional Labor Tribunal, the employees of Otsar Hahayal continue to be represented by the Representative Committee of Otsar Hahayal Employees until such time when a new collective labor agreement, regulating the integration of Otsar Hahayal employees into the Bank, is signed. The verdict further states that upon the signing of the collective labor agreement, as stated, the duties of the Representative Committee of Otsar Hahayal Employees would become redundant and the Committee will have to be dissolved.

A. The managers and signatories submitted on March 14, 2017, a party motion in the collective dispute, in which they request temporary and permanent relief against the continuing efficiency measures at the Bank, while requesting the Tribunal to instruct the Bank to enter into negotiations with them towards the signing of a collective agreement as regards everything relating to the implications of the efficiency measures on the managers and signatories. Two sessions for the hearing of evidence had been held and a timetable was fixed for submission of the summing-up briefs which ended in November 2018. The hearing of this case was stayed within the framework of an agreement dated September 5, 2018, as long as negotiations between the parties continue. The hearing of the case was stayed until October 30, 2019. The union of the managers and signatories and the Bank submitted a request for the continuance of the delay until December 31, 2019.

B. On January 8, 2019, the representative committee of Otsar Hahayal employees together with the Federation of Labor filed a party motion regarding the collective dispute as well as a plea for urgent relief in the matter of the placement of Otsar Hahayal managers at the Bank. The Tribunal denied the issue of an Order and instructed the parties to enter negotiations, which had taken place but did not reach conclusion. Following the request of the representative committee of Otsar Hahayal and the Federation of Labor for the renewal of the hearing of the party motion regarding everything relating to the definition of the status of "managers" at Otsar Hahayal as "managers" at the Bank, and as regards everything relating to the separate and independent status of the representative committee, the case moved to the summing-up stage. Summing-up briefs have been submitted on behalf of the Bank and of the employees. On November 5, 2019, the Court ruled that the status of 119 employees who had officiated as "managers" at Otsar Hahayal, and have not been defined as such at the Bank, cannot be automatically imported to the Bank, and that the parties have to conduct negotiations in order to find an appropriate employment solution or any other agreed solution.

C. Bank Leumi announced on July 29, 2019, the signing of a special collective labor agreement with the union of Bank Leumi employees for the years from 2019 to 2022. Negotiations are being conducted with the two Unions with respect to the manner of implementation of the agreement at the Bank.
For additional details, see Note 15 to the financial statements.

D. The General Federation of Labor announced on September 4, 2019, a labor dispute at MATAF, arguing impairment of the employment terms and employment security of the employees, in view of the outsourcing of core activities while the employee committee is being disregarded, lack of transparency with respect to the committee, and the attempt to turn irrelevant its activity. In accordance with the announcement, employees of MATAF are entitled to adopt organizational measures as from September 22, 2019, and thereafter.

## LEGISLATION REGARDING LIMITATIONS, STANDARDS AND SPECIAL CONSTRAINTS APPLYING THE BANK GROUP

Set out below are brief details of the principal legislative changes and legislative initiatives relevant to the period of the report, which have an effect on or are likely to have a material effect on the Bank's activity.

### BANKING

**Banking Rules (Customer service) (Commission fees) (Amendment), 2019**

The Rules, which were published on May 1, 2019, include several amendments, the essence of which is the duty, at the initiative of the bank, to attach a customer being a small business or an "authorized dealer" to the commission fee channel most suitable for him, where, in accordance with the test determined in the rules, the customer may benefit from savings in commission fee charges as a result of joining the channel; the duty, at the initiative of the bank, of updating the test stated in the Rules for the attachment of a senior citizen or a handicapped customer to the basic commission fee channel; the addition of commission fees to the pricelist in respect of new special services, as well as the updating of the rules regarding the presentation of the pricelist (including with respect to the manner of obtaining the pricelist - either at the branch office or by way of the communication channels offered by the Bank and through a link appearing on the home page of the Internet website of the Bank) and presentation of information regarding commission fees. The implementation of the amendment is not likely to materially affect the result of operations of the Bank.

**Consumer Protection Act (Amendment No. 57), 2018**

The Act, which was published on July 25, 2018, includes an amendment to the Banking Act (Customer service), 1981, according to which, a banking corporation that operates a telephonic service, which includes an automatic call routing service, shall provide professional human response to the customer with respect to at least the following types of service: treatment of a failure, information regarding an account, termination of engagement.

In addition, the amendment requires that the waiting time for obtaining a professional human response in respect of the said services, shall not exceed six minutes from beginning of the call, and that the customer shall not be referred to a "leave a message" service unless he chooses to do so. The Supervisor of Banks is authorized to instruct that a banking corporation may deviate from the above stated waiting time, by a ratio of the total approaches made during a period determined by it, or by a period of time stated by it. The Act takes effect one year following its date of publication.

Under the power invested in it by the Act, Bank of Israel published on June 12, 2019, Proper Conduct of Banking Business Directive No. 426 in the matter of providing professional human telepone response, according to which, banking corporations would be allowed to deviate from the waiting time stated in the Act by a ratio of the telephone calls as stated in the Directive. Furthermore, the Directive gives effect to the duty of granting preference in the line for service to a senior citizen, and defines requirements for the monitoring and control over the format of response by the telephone call center, as well as with respect to the publication of details on the Internet website of the banking corporation.

The Bank is preparing for the implementation of the Act.

**Payment Services Act, 2019**

The Act was published on January 9, 2019. It follows the recommendations contained in the report of the interministerial committee for the promotion of use of advanced means of payment, and establishes a comprehensive and uniform regulation of the use of payment services and means of payment and also replaces the Charge Cards Act, 1986. The Act is adapted to the technological developments in the field of payment services, and is also based on the European regulations in accordance with the principles stated in the Payment Service Directive (PSD).

The Act regulates two principal contractual systems:

- Between "the provider of payment services" (an issuer of payments means or a manager of a payment account) and the payer.
- Between "the provider of payment services" (a clearing agent or manager of a payment account) and "the beneficiary" (receiver of the payment).

The payment services to which the Act applies are the issuance of means of payment, settlement of a payment transaction and the management of a payment account. It has a wide application as regards the Bank, which includes also payment services within the framework of certain operations performed in current accounts.

The Act relates to the material instructions and to consumer protection in the field of payment services, and determines instructions with respect to the following principal subjects: payment services contract (the manner of entering into agreement, its contents, validity and termination), proper disclosure and prevention of misrepresentation, payment operation (performance, termination thereof and responsibility for) stopping the use of means of payment, misuse of the means of payment, authorization to charge an account or payment means, manner of execution of a payment order, determination of criminal proceedings and monetary sanctions in respect of certain violations of the provisions of the Act.

The Act prohibits the subjecting of its provisions to conditions, unless they are in favor of the customer, except in the case of a customer conducting a business, the annual sales turnover of which exceeds NIS 30 million.

The Act shall apply also to means of payment issued prior to its effective date and to charging authorizations made prior to the effective date, subject to the transitional instructions determined in this matter. In addition, the Act requires that until the effective date, certain items contained in existing payment services contracts should be amended. The Act shall enter into effect one year following its date of publication ("the effective date"), and the Minister of Justice has the authority to order the deferment of the effective date for one additional year at the most. A draft Payment Services Order (Deferment of the effective date of the Act) was published for public comment on September 15, 2019, in which it is requested to defer the effective date of the Act by six months. The approval of the Economic Committee of the Knesset would, inter alia, be required for the purpose of completion and approval of the deferment process. At this stage it is not possible to estimate when and if at all an approval would be given for the deferment of the effective date.

At this stage it is not possible to quantify the impact of the Act on the Bank Group.

**Proper Conduct of Banking Business Directive No. 470 in the matter of charge cards**

In accordance with amendments to the Directive published on July 2, 2018:

- an issuer being a banking corporation shall deliver to the operator of the issue the proceeds in respect of all the transactions made through use of the charge card that had been issued by it, in accordance with the date/dates determined in the cross-settlement agreement, irrespective of the charge date of the customer or the identity of the clearing agent, to whom the operator of the issue delivers the proceeds. The effective date of the Directive with respect to the proceeds that the operator of the issue is required to deliver to the clearing agent, is fixed for February 1, 2019.
- All banks and issue operators are required to submit to the Supervisor of Banks the new operating agreements (including renewal of an existing agreement, which in the opinion of the bank or the issue operator had been materially amended) which would be signed until January 31, 2022. A bank having a wide scope of operations is required to obtain the approval of the Supervisor of Banks to a new agreement (this requirement does not apply to the Bank). This Directive takes effect on date of publication.

In accordance with amendnemts to the Directive published on November 21, 2018:

- An arrangement has been determined with respect to the implementation of the provisions of the Increase in Competition and Reduction in Concentration in the Banking Market in Israel (Legislation amendments), 2017 in the matter of the presentation of information by a bank with respect to all charge cards held by the customer, payment in respect of which is made by way of charging the account of the customer (including off-banking cards).
- With respect to the above amendment, the Banking Regulations (Customer service) (Transfer of information from the issuer to the banking corporation), 2018, were published on February 3, 2019, which regulate the details of information that the issuer has to provide to the banking corporation, the dates on which such information has to be transferred and the manner of transfer. The Regulations take effect on January 31, 2020.
- The duty of the issuer to provide the customer with information has been updated and expanded with respect to transactions made by the customer by use of a charge card. The information is to be provided via the communication channels made available to the customers, and at least through the issuer's Internet website and through the cellular application.
- The permit granted to credit card companies to send the charge card agreement to the customer using any means of delivery in practice by the company, and not only by regular mail, has been expanded.

The effective date of these amendments is January 31, 2020.
Application of the Directive is not expected to have a material effect on the results of operations of the Bank.

**Proper Conduct of Banking Business Directive No. 367 - online banking**

An amendment to the Directive was published on May 7, 2019, the essence of which is the application of the provisions of the Directive to banking services provided by facsimilie and mitigation in the requirements regarding identification means and verification upon the transfer of funds to beneficieries.

**Proper Conduct of Banking Business Directive No. 359A - Outsourcing**

The Directive was published by Bank of Israel on October 8, 2018, with the aim of determining principles for the outsourcing of different operations while minimizing exposure to potential risks inherent in outsourcing.
The Directive applies where a banking corporation engages a third party on a continuous basis, to perform material operations included in the line of business of the banking corporation in accordance with the Banking Act (Licensing), in its name and on its behalf. The definition of an operation as "material" shall be determined by the banking corporation in accordance with considerations as detailed in the Directive. The application of the Directive by a banking group shall be based on the risk assessment of the banking corporation.
In accordance with the Directive, outsourcing is not permitted with respect to the duties of the board of directors and senior management, as well as decisions requiring discretion as regards matters that include, inter alia, the opening or closing of customer accounts and underwriting activity regarding loans, unless the terms stated in the Directive are in effect. Moreover, terms are stated for the outsourcing of an initiated approach to households offering credit and the posibilities of banking corporations to engage brokers have been enlarged.
The Directive imposes duties on the board of directors, general management and the internal audit, and, inter alia, requires due diligence review of the provider of the service, regularizing the outsourcing by way of a written agreement and formation of a comprehensive program for the management of outsourcing risks as well as a business continuity plan.
The Directive is to take effect on March 31, 2020, with the possibility of earlier application.
The Bank is preparing accordingly.

**Draft amendment to Proper Conduct of Banking Business Directive No. 325 - Management of credit facilities**

An updated draft for the amendment of the Directive was published on October 28, 2018, the essence of which is the expansion of the application of the Directive also to credit facilities extended by means of credit cards. In addition to the expansion of the application, several requirements contained in the Directive relating to the credit agreement and to deviations from the credit facility, were also updated, as well as the addition of requirements relating to the providing of notices regarding the manner of utilizing the credit facilities through current accounts and credit cards.

## CREDIT AND COLLATERAL

The Act and the Bill discussed below offer a significant reform in collateral and insolvency laws, and includes, inter alia, possible impairment in the rights of secured creditors and in the ability to collect debts.

### The Insolvency and Economic Recovery Act, 2018

The Act, which entered into effect on September 15, 2019, includes transitional instructions regarding different issues, including with respect to floating pledges. The Act consolidated under one cover (fundamental and organizational) the different insolvency statutes, which are at present found in a number of different Acts. The Act comprises a wide scope reform, which includes many changes regarding many issues found in the existing statutes, and imposes on the Bank, as a secured creditor, various restrictions, including in respect of the realization of collateral securing credit extended prior to the publication of the Act. While in the past, the principal aim of the legislation as regards repayment statutes was to achieve the repayment of the debt to the different creditors, the principal aim of the new Act has been materially changed to that of the financial recovery of the debtor. This aim is reflected throughuot the provisions of the new Act.
Among other things, the Act includes the following innovations: the definition of insolvency would be based on the cash flow test instead of the assets and liabilities test in practice today; a debt secured by a floating charge shall be collected from the pledged assets up to a maximum of 75% of their value. The balance of the debt secured by a floating charge shall turn into a regular debt of a status equal to that of all the other regular debts; payments received on account of a debt shall be credited according to the following order: the principal of the debt, contractual interest subject to the provisions of the Act, under certain conditions, and finally also interest in arrears; interest in arrears accumulated in favor of a secured creditor after the date of the insolvency Order, shall not be considered a secured debt, and shall be paid only after repayment of the debt of the regular creditors; A regular creditor is not entitled to the payment of interest in arrears accumulated in his favor after the date of the insolvensy Order; the list of preferential debts has been changed; the threshold of entry into insolvency proceedings has also been changed; A plan for the economic recovery of an individual would be determined for a period of three years, at the end of which, an individual complying with the conditions of the plan would obtain an exemption, and cases may occur in which an individual may receive an immediate exemption; the creditor no longer has the right to determine the type of proceedings to be taken against the debtor, these being now decided by the Court on the merits of the case; the influence of the secured creditor over the appointment of the office holder, even in the case of realization of an asset pledged in his favor, is negligible, if at all; as a general rule, a future creditor shall not have the right to apply for the institution of insolvency proceedings, and more.
The Bank is preparing accordingly.

### The Pledge Bill, 2015

On July 17, 2015, the Pledge Bill passed its first reading by the Knesset, and on May 29, 2018, the Constitution, Law and Justice Committee of the Knesset began discussion of the Bill. The Bill includes material changes regarding the pledge statutes, inter alia, as detailed below: the right of an individual to pledge an asset not yet in his possession or even an asset that has not yet come into existence; revocation of the concept of a "floating pledge" - the borrower company would be able to create a fixed pledge upon its future assets, and the status of such pledge would not be automatically inferior to specific pledges; cancellation of the possibility of a creditor to limit the power of the debtor to effect transactions regarding the pledged asset, and more.

**Proper Conduct of Banking Business Directive No. 313 - Restrictions on liabilities of a single borrower and of a group of borrowers**

An amendment to the Directive was published on October 27, 2019, which intensifies the restrictions on a single borroer and on a group of borrowers engaged in speculative activity (a borrower classified to the financial services segment who is a customer engaged in speculative activity, as stated in Proper Conduct of Banking Business Directive No. 330 "Management of the credit risk inherent in derivative instrument trading activity of customers"), who are not supervised borrowers. A uniform restriction has been applied to borroewrs and groups of borrowers according to which their net indebtedness shall not exceed a rate of 10% of the equity of the banking corporation.

The new restriction takes effect on July 1, 2020, notwithstanding which:

- A banking corporation which on date of publication of the Amendment complies with the new restriction shall not deviate there from;
- A banking corporation which on date of publication of the Amendment exceeded the new restriction is required to reduce the excess by equal quarterly installments until July 1, 2020.

## COMPETITION

**Credit Data Act, 2016**

This Act was published on April 12, 2016 and entered into effect on April 12, 2019. In accordance with the Act, Bank of Israel has established and is managing a credit data base, which includes data gathered by Bank of Israel, inter alia, from information sources that have the duty under the Act to provide such information, including banking corporations. This data is transferred to credit offices, which, at the request of credit providers, including requests from banking corporations, may provide a comprehensive credit report regarding the customer, or indication as to whether the credit provider should enter into a credit transaction with the customer. The credit offices also monitor the financial condition of the borrower throughout the life of the credit transaction, subject to the terms stated in the Act.

The Act also regulates the right of the customer not to be included at his request in the credit data base, or to request that data applying to him shall not be provided for the purpose of the preparation of a credit report in his respect. It also grants him the right to receive a summary statement of the data in his respect existing in the data base.The act determines criminal sanctions in respect of the violation of a part of its provisions, as well as imposes personal responsibility on company officers in respect of the violation of the said provisions. The Act also authorizes the officer in charge of credit data sharing, appointed by the Governor of Bank of Israel, to impose monetary sanctions in respect of violation of his instructions, as stated in the Act.

**Regulation of Off-banking Loans Act (Amendment No. 5), 2017**

Amendment No. 5 of this Act was published on August 9, 2017. Inter alia, the Amendment changed also the name of the Act to the Fair Credit Act, 1993 (hereinafter - "the Act").

The Amendment to the Act was passed on background of the recommendations of the team examining the increase of competition in the banking sector, with the aim of equalizing the norms applying to non-institutional lenders to those applying to institutional lenders, including banks. The Amendment states maximum amounts with respect to the cost of credit and maximum rates of interest appling to credit in arrears, and in addition, all the provisions of the Act, including instructions relating to the granting and collection of credit, apply now to the institutional bodies including the banks. The Amendment to the Act imposes criminal and administrative sanctions in respect of the different violations of the Act. The Act applies to individual borrowers only, though the Minister of Finance has the authority to expand its application also to corporations of a class to be determined. The Amendment entered into effect on August 25, 2019 and it applies to contracts signed as from this date onwards.

The Bank is preparing for the implementation of the Act.

In addition, the Regulation of Off-Banking Loans Regulations, 2018, were published on February 25, 2019, whereby certain classes of credit transactions were excepted from the Fair Credit Act, due to the fact that such transactions do not fulfill the purpose of the Act, and certain classes and amounts of expenses incurred in order to extend loans are not to be included in the computation of the actual cost.

**Proper Conduct of Banking Business Directive No. 449 - Simplifying agreements with customers**

The Directive, which was published on July 10, 2018, is aimed at determining a structure and rules for the simplification of bank agreements for the granting of loans, forming the implementation of Section 3(d) to the Fair Credit Act discussed above. The Directive states that a banking corporation has to present to the customer, in a summarized and concised form on the first page of the agreement, the variable and material terms applying to the specific engagement with the customer. The date on which the Directive takes effect was fixed for the date on which the said Fair Credit Act takes effect. The Bank is preparing for the implementation of the Directive.

**The Economic Program Act (Legislation amendments for the implementation of the economic policy for the 2019 budget year), 2018 (hereinafter - "the Act")**

**Chapter "B": Banking - transfer of accounts between banks**

The Act, which was published on March 22, 2018, amends, inter alia, the Banking Act (Customer service), 1981, with the aim of reducing the existing barriers in the banking market, which make difficult the movement of customers between banks. The Act requires banks to enable customers to transfer, in an online, convenient, reliable and secured manner, their financial operations from the bank in which it is conducted to the accepting bank, without charging the customer a fee for such process and within seven business days from the date on which the first bank had received notice from the accepting bank approving the customer's request.

The Governor of Bank of Israel, with the consent of the Minister of Finance, may determine that the said instructions shall not apply to certain banks (a bank having a low volume of operations, the value of its assets not exceeding 5% of the total assets of all banks, and also an online bank), or determine that the instructions shall apply at the end of a period to be determined by the Governor, or that they shall apply to such banks only as an accepting bank or as an original bank.

The Act states a monetary sanction in respect of certain violations of its provisions (which would become effective at the end of four years from date of publication of the Act).

The Act takes effect at the end of three years from date of publication thereof (with the possibility of deferment for two additional periods of six months each).

During the months of September and October 2019, the Union of Banks applied to the Minister of Finance and to the Governor of Bank of Israel with a request to act under the authority conferred upon them by the Act and postpone the date of entry of the Act into effect by one year.

The Bank is preparing for the implementation of the Act on the due date.

On November 25, 2018, the Banking Rules (Customer service) (Transfer between banks of the financial activity of a customer), 2018 (hereinafter - "the Rules") were published, stating that the provisions of the said Amendment shall apply where the following terms cumulatively exist:

1. The accounts both at the original bank and at the accepting bank are current accounts;
2. Absolute identity exists between the holders of the accounts at the original bank and at the accepting bank, or alternatively, all owners of the account at the original bank are also owners of the account at the accepting bank (it is possible to have additional owners);
3. The account at the original bank is not subject to certain restrictions stated in the Rules, such as: the account is not classified as a trust account, the account is not conducted by a custodian, the account is not owned by a customer under bankruptcy proceedings, and more.

Several draft amendments to the Rules was published in the period from April to July, 2019, which include the types of financial operations to which the Act applies and which would be included in the framework of the transfer of accounts, and also drafts Proper Conduct of Banking business Directive in the matter of the transfer of financial activity of a customer between banks in an online fashion, which, inter alia, details the duties of the transferring bank and of the accepting bank, upon the transfer of the account.

On February 14, 2019, the Competition Commissioner announced his decision regarding exemption from approval of a binding arrangement between the Bank Clearing Center Ltd. (hereinafter - "MSB"), Bank Hapoalim Ltd., Bank Leumi leIsrael Ltd., Israel Discount Bank Ltd. Mizrahi Tfachot Bank Ltd and the Bank. This decision amends the exemption decision given on September 20, 2018, (hereinafter - "the 2018 exemption"), in which it was clarified that the activity of MSB in the field of movement of accounts between banks had not been examined, and accordingly it would not be included within the framework of the activities in which MSB may engage. MSB has submitted a request for the amendment of the terms of the exemption, as determined in the 2018 exemption, so that MSB would be able to establish a new system to be integrated as part of its system for the clearing of debits and credits, and would assist customers interested in transferring their activity from one bank to another. The decision states that the 2018 exemption shall be amended so as to apply also to the activity of MSB in the establishment of the system for the mobility of bank accounts.

### Antitrust Act (Amendment No. 21), 2019

This Amendment, which was published on January 10, 2019, changed, inter alia, the name of the Act to "Economic Competition Act" and the name of the Antitrust Commissioner to "Competition Commissioner". Other material amendments contained in the Act are: increasing the responsibility of officers of a corporation by imposing supervisory duties and the duty of preventing violation of the law by the corporation or its employees; expanding the definition of "owner of a monopoly" so that such an owner would also be one who exercises a significant market power even if he does not hold a market share in excess of 50%; increasing the maximum amount of the monetary sanctions, which the Commissioner is authorized to impose on a corporation that had violated the law, in a manner that the maximum monetary sanction would amount to 8% of the sales turnover of the corporation but not more than NIS 100 million; and stricter maximum criminal punishment regarding binding arrangement offences.

Following the widening of the definition for "owner of a monopoly", contained in Amendment No. 21, as stated, The Supervisor of Banks issued a letter to all banking corporations requiring them to manage the risks stemming from this Amendment - compliance risks, legal risks, regulatory risks and reputation risks. Banking corporations are required to focus especially on the risk from the aspect of possible damage that might be caused to retail customers. A bank is required to verify the existence of an administrative framework that coordinates the actions taken by the bank to identify, monitor, control and manage the risks stemming from the said Amendment; to verify the existence at the bank of appropriate knowledge regarding competition laws; update the policy and work procedures of the bank and integrate them so as to ensure that absence of misuse of significant market power; to hold discussions in this matter by Management and the Board of Directors at frequencies determined by the bank.

## THE CAPITAL MARKET

### Terms of the General Permit under Section 49A of the Securities Act

Section 49A(b) of the Securities Act, 1968 (hereinafter - "The Securities Act"), which took effect on July 6, 2017, states that alongside the prohibition on the offer of securities trading services by means of a securities trading system that does not have a Stock Exchange license in Israel, the Chairman of the Securities Authority may permit a person to make such an offer by means of a securities trading system conducted by a stock exchange outside Israel, under the terms to be determined by the Chairman, if he finds that no harm shall be caused by it to the interests of the investor public in Israel.

On December 27, 2018, the Securities Authority published the terms of a general permit according to Section 49A of the Securities Act. On June 6, 2019, the Securities Authority published an updated version of the permit.
A factor applying for a permit under Section 49A(b) of the Securities Act, is required to declare to the Securities Authority, once in every three years, that all conditions relevant to him are fulfilled for the purpose of obtaining the permit of the Authority to offer services as mentioned above.
The holder of a permit has to disclose it in a prominent manner in accordance with version attached to the terms of the general permit.
As from July 30, 2019, it is forbidden to operate without a permit. However, an entitiy, which had submitted a request for the issue of a permit prior to May 30, 2019, may continue to operate until a decision is taken regarding the request.
Prior to the above mentioned date, the Bank had applied to the Securities Authority for the issue of a permit, as stated, in accordance with Section 49A(b) of the Securities Act. The requested permit has not yet been received

**Proper Conduct of Banking Business Directive No. 332 - Acquisition by banking corporations of own shares**
Bank of Israel published on February 28, 2019, an amendment to the Directive, dealing with two principal issues:

- Removal of the prohibition on the self-acquisition of shares issued by the banking corporation and details of the conditions in which banking corporations would be able to purchase their own shares, namely: conforming to the provisions of Section 302 of the Companies Act, 1999, and the provisions of Proper Conduct of Banking Business Directive No. 331; the amount of the share acquisition in each acquisition plan, shall not exceed 3% of the issued and paid share capital of the banking corporation; the purchase offer shall not be addressed to a certain group of shareholders; the acquisition should be made in accordance with the "safe harbor" mechanism published by the Securities Authority; the acquisition plan should be approved by the Board of Directors of the banking corporation and by the Supervisor of Banks.
- Update of the restrictions applying to the granting of finance collateralized by securities issued by the banking corporation - the Amendment permits: (a) the granting of finance to a borrower (or a group of borrowers) collateralized by the said securities, provided that the amount of the collateral shall not exceed 0.5% of the issued and paid share capital of the banking corporation; and (b) the financing of transactions in share indices units that include the shares of the banking corporation, including investment funds, the holdings of which include securities issued by the banking corporation, and everything on condition that the total amount of the collateral provided to the banking corporation in accordance with items (a) and (b) above, shall not exceed 5% of its issued and paid share capital.

## FOREIGN RESIDENTS

**Income Tax Regulations (Application of a uniform standard for reporting and examining the appropriateness of information regarding financial acounts), 2019**
The Regulations, which were published on February 6, 2019, enacted in accordance with the provisions of the Income Tax Ordinance Amentment Act (No. 227), 2016, adopt the international standard regarding the exchange of information ("the CRS standard") dealing with the automatic exchange of information on an annual basis, for the purpose of the mutual assistance in tax enforcement for countries with which agreements have been signed, according to which obligation exists for the delivery of the said information ("reportable states").
In accordance with the Regulations, financial institutes, including banks, are to conduct appropriateness examinations regarding accounts of individuals and entities, classifiy accounts of foreign residents according to the tax laws applying in their countries of residence and deliver the required information to the Israeli Tax Authorities, for delivery to the states of tax residence of the account holders, being reportable states.
The list of reportable states is published by the tax authority from time to time.

The Bank's Group prepared for the application of the said legislation.

## PROHIBITION OF MONEY LAUNDERING

### Reducing the Use of Cash Act

The Act, which was formally published on March 18, 2018, restricts cash transactions to the amounts stated therein, as well as prohibits the cashing of a check that does not state the name of the beneficiary, and the cashing of an endorsed check in an amount exceeding NIS 10,000, if the names of the endorser and endorsee are not stated therein together with the ID number of the endorser, or if it had been endorsed more than once (or more than twice if the second endorsement is in favor of a supervised financial body).

The Act states the rates of monetary sanctions that might be imposed upon a trader and penalties imposed on those who are not traders, in case of violation of the provisions of the Act. The Act also states a criminal offense in respect of a fraud committed in trying to evade the bans stated in the Act, which carries a punishment of imprisonment for three years.

The Act entered into effect on January 1, 2019 ("the effective date") excluding the ban on the cashing of checks and the monetary sanctions imposed in respect of the violation thereof, which took effect on July 1, 2019 ("the later effective date"). It is further stated that no monetary sanctions and/or penalties shall be imposed in the period of nine months as from the effective date or the later effective date, as the case may be, unless the person violating the Act had received a warning in writing regarding the violation and has repeated once more the violation of that same instruction.

The Bank is preparing for the implementation of the Act, as required.

## PRIVACY PROTECTION

### Privacy Protection Bill (Amendment No. 13), 2018

The Bill was published on February 27, 2018, and passed its first reading by the Knesset. The aim of the Bill is to improve enforcement tools and the supervisory mechanism as regards compliance with the provisions of the Privacy Protection Act, 1981, relating to data base privacy. The Bills comes to strengthen to a large extent the enforcement ability of the Data Base Registrar unit, and in this framework grant it alternative administrative authority for instituting criminal proceedings, including imposition of monetary sanctions (in amounts not lower than those stated in the Act, in accordance with the severity of the violation and additional parameters), issuance of an administrative warning and demanding a commitment to refrain from further violation, accompanied by a guarantee in the amount of the monetary sanction that the Commissioner may impose in respect of such violation. The Bill also aims at supplementing the tools existing in the hands of the Authority with criminal investigation tools, and determining a list of felonies relating to the gathering of information for keeping in a data base, for the management of a data base and for the use of information stored in a data base.

## LEGAL PROCEEDINGS

Note 9 to the financial statements includes details of material claims pending against the Bank and its subsidiary companies.

## THE RATING OF THE BANK BY RATING AGENCIES

Set out below is the Bank's rating as determined by rating agencies in Israel and by an international rating agency:

- On July 11, 2019, S&P Maalot raised the issuer rating of the Bank to ilAAA/Stable and its subordinate notes to ilAA+ and ratified the rating of the subordinate notes with a loss absorption mechanism at ilAA-.
- On June 26, 2019, Midrug raised the evaluation Bank's internal financial stability to aa2.il/stable outlook, the Bank's long-term deposits and the senior debt to Aa1.il/stable outlook and its subordinate capital notes to Aa2.il(hyb)/stable outlook rating, and its subordinate debt notes with a loss absorption mechanism to AA3il (hyb)/stable outlook rating. The Bank's short-term deposits remained at the rating of P-1.il
- The international rating agency Moody's rates the Bank as follows: long and short-term foreign-currency and local currency deposits "A3/Prime-2". On October 16, 2018, the international rating agency "Moody's" ratified the long and short-term foreign-currency and local currency deposits at "A3/Prime-2" and raised the rating outlook from "stable" to "positive".

## EMPLOYEES COMPENSATION POLICY

For disclosure in the matter of employees' compensation policy, see the document "Disclosure according to Pillar III of Basel and additional information regarding risk" for the year 2018, available for perusal on the Internet.

## CONTRIBUTION TO THE COMMUNITY

The social-community project of the Bank - in cooperation with MATAN - Investing in the Community Organization - is in operation already for over a decade. In its early years, the project focused on young persons that were expeled from different frameworks, with the aim of giving these young persons the oportunity to change their lives and live a normative life within the Israeli society. Within the framework of the program the young persons were integrated into business initiatives and different programs combining studies with work and grooming business enterpenuership by development of skills.

In continuance and in recent years the Bank approached additional populations, within the new project "believing in you", in order to expand the voluntiring activity among its employees, while creating social involvement with additional value such as Business entrepreneurship for woman, "Unistream", "Fidel", "fathers and sons on the field" and cooperations with populations of childrens at risk.

The Bank continues these projects in the framework of "believing in you" with a focus on children and youth in risk situations concentrating on enriching and providing tools in various subjects, such as: financial awarness, business enterprenuership, management and exellence skills, and with personal support, tutoring and adoption of groups in various frames.

In addition, the Bank is active in assisting populations from social and geographic peripheral areas by cooperation of joint learning, volunteer work, packaging food baskets, language learning, social rehabilitive activity, etc.

The Bank encourages and supports the volunteers from among employees of the Bank, who are interested in taking part in the project and in contributing their time, experience and skills in favor of these young persons and additioal populations. In addition to these projects, the Bank and its subsidiaries donate to various foundations and organizations.

## PRINCIPAL DEVELOPMENTS IN ISRAEL AND GLOBALLY

### Nonfinancial developments

The published indicators for nonfinancial activity continue to be positive, indicating that the economy continued to grow also in the first nine months of 2019, with the labor market continuing to demonstrate vigor, with relatively low unemployment rates, and with a trend of increasing growth over a period of time being envisaged. In accordance with assessments published during November 2019 by the Central Bureau of Statistics (hereinafter - "the CBS"), the economy grew in the third quarter of 2019 by 4.1% (in annualized terms) following a growth of 0.8% in the second quarter and a growth of 4.5% in the first quarter of 2019. The growth in the product in the third quarter of 2019, reflects increases in the private consumption expenditure and in public consumption expenditure, with a decline in investments in fixed assets and in the export of goods and services. In addition, an increase was recorded in the import of goods and services. Bank of Israel's Composite State-of-the-Economy Index rose during the first eight months of 2019 by 1.9%, in comparison with with a rise of 2.2% in the corresponding period last year.

In October 2019, the Research Division of Bank of Israel left unchanged the product growth forecast for 2019 at a level of 3.1%. The growth forecast for 2020 dropped to a level of 3.0%, in comparison with the previous growth forecast of 3.5%. The forecast for 2020 is lower than the previous one due to the assumption that the new Government to be elected, would adopt measures aimed at reducing the deficit, measures intended to increase Government revenues and a reduction in the global trading forecast. Private consumption is expected to grow in 2019 at a pace of 3% and in 2020 at a pace of 2%, and investments in fixed assets are expected to grow by 2% in 2019, though in 2020 it is expected to shrink by 2% due to the completion of a number of large investments in the economy, being import abundant.

According to a forecast of the International Monetary Fund (IMF) published in October 2019, growth in Israel would amount to 3.1% in the years 2019 and 2020, in comparison with a growth forecast of 3.5% for the year 2019, presented in April 2019.

### Credit risk of the Israeli economy

The risk level of the Israeli economy, as reflected in the ratings allotted by the credit rating agencies and by the capital markets, is low.

The global credit rating agency Fitch ratified in March 2019 the credit rating of the State of Israel at a level of A+ with a stable outlook. The credit rating of the State of Israel is marked with sound macro-economic performance, institutional solidity, and a ratio of Government spending to the GDP, which is still high in relation to the reference states as well as political and security risks.

The global credit rating agency S&P ratified in March 2019 the credit rating of the State of Israel at a level of AA- with a stable outlook. The credit rating agency emphasized the core strengths of Israel credit rating, such as: diversified and thriving economy, strong external accounts and a flexible monetary framework.

The ratification of the credit rating reflects the confidence that the credit rating agencies have in the Israeli economy and emphasizes the importance of a continuing responsible and growth encouraging fiscal policy.

### State budget

In accordance with a preliminary assessment by the Ministry of Finance, a deficit of NIS 30.9 billion was measured in the budgetary activity of the Government in the first nine months of 2019, as compared with a deficit of NIS 23.8 billion in the corresponding period last year.

The planned deficit for 2019 amounts to NIS 40.2 billion comprising 2.9% of the GDP. In the past twelve months (October 2018 to September 2019) the budget deficit amounted to 3.3% of the GDP. The expenditure of the civilian Government offices increased by 9.7%, while the expenditure of the Defense Ministry decreased by 0.4%, in comparison with the corresponding period last year.

Tax revenues in the first nine months of 2019 amounted to NIS 239.9 billion, an increase of 5.3% in nominal terms, as compared with the corresponding period last year.

### Inflation

The Consumer Price Index (CPI) rose in the first nine months of 2019 by 0.6% (Index "for the month"). The "known Index" rose by 0.5%. In the past twelve months (September 2019 as compared with September 2018) the CPI rose by 0.3%.

According to estimates of the Research Division of Bank of Israel dated October 2019, the inflation would reach a level of 0.6% in 2019, as compared with an estimate of 1.6% in the previous forecast, while in 2020, the inflation would be 1.2%, in comparison with the estimate of 1.6% in the previous foreast. The decline in inflation expected for 2019 in relation to the previous forecast, stems mainly from the unexpected negative indiced for June and July. The decline in Inflation expected during 2020 stems mainly from the appreciation of the shekel occurring since the publication of the previous forecast, which is expected to moderate the pace of price increases of traded products.

The inflationary forecast reflects an assessment that the tight labor market would continue to support wage increases and the rise in inflation. According to assessments, the rise in inflation is expected to continue to be gradual, on backgroung of the appreciation of the shekel taking place, the continuing growth in competition and the development of trade on the Internet, processes which seem not yet fully utilized.

As of September 2019, inflationary expectations for the coming twelve months, derived from the capital market, amount to a rate of 1.1%, being within the targeted price stability range of the Government.

### Housing market

Recent publications reflect an increase in housing prices and an increase in the volume of transactions. In accordance with the housing price index of the CBS published in October 2019, housing prices increased by 0.1% in July-August 2019, in comparison with transaction prices in the months of June-July 2019. Prices of transactions made in July-August 2019 were 1.3% higher than those of the corresponding months last year.

The construction of 51,890 new apartments began in the period of twelve months between July 2018 and June 2019 an increase of 6.4% in comparison with their number in the period July 2017 to June 2018, and construction of 50,380 apartments was completed in that period, an increase of 2.1% in comparison with the corresponding period last year.

8,160 new apartments were sold in the period June-August 2019, an increase of 11.6% in comparison to the number of new apartments sold in the months from March to May 2019 (net of seasonal factors).

### Labor market

Unemployment rates continue to be low. The rate of unemployment in August of 2019 (for ages 15 and above) amounted to 3.8%, in comparison with a rate of 3.7% in July 2019. With respect to the main employable ages (ages 25-64), the rate of unemployed is low amounting to 3.5% in August of 2019, in comparison with a rate of 3.3% in July of 2019. According to the Research Division of Bank of Israel, the tight labor market is expected to support wage increases, thus contributing to the rise in inflation.

### Exchange rate

The exchange rate of the shekel as against the US dollar dropped by 7.1% in the first nine months of 2019, while the exchange rate of the shekel as against the Euro dropped by 11.3%.

In November 2018, Bank of Israel announced the termination of the plan to purchase foreign currency, intended to offset the effect of gas production on the exchange rate. Nonetheless, Bank of Israel stressed that it will continue to act in the foreign currency market in case of exceptional fluctuations in the exchange rate, that are not compatible with the basic economic conditions, or in the event that the foreign currency market does not perform properly.

During the first nine months of 2019, Bank of Israel purchased an amount of US$88 million.

| | | Exchange rate as of | | Rate of change | |
|---|---|---|---|---|---|
| | 30.9.19 | 31.12.18 | 30.9.18 | Nine months 2019 | Nine months 2018 |
| US dollar | **3.48** | 3.75 | 3.63 | (7.1%) | 4.6% |
| Euro | **3.81** | 4.29 | 4.22 | (11.3%) | 1.5% |

**Bank of Israel interest rate**

In November 2018, Bank of Israel raised the interest rate for the first time since February 2015, by 0.15 percentage points to a level of 0.25%. Bank of Israel estimates that in view of the inflationary environment in Israel, the monetary policy of the principal central banks, the moderation in the global economy and the continuing appreciation of the shekel, it would be necessary to leave the interest rate at its present level for a long period of time, or to lower it in order to endure the process at the end of which the inflation would settle in the center of the target range, and the economy would continue to grow at a fair pace.

According to an assessment of the Research Division of Bank of Israel of October 2019, the interest rate in 2020 is expected to settle in the range of 0.25% to 0.1%.

**The global environment**

The negative sentiment regarding the global economy continues, and growth forecasts have been lowered for most of the economic zones. International trade stopped growing and the impact of the "trade war" might even become more serious. The uncertainty regarding the Brexit accompanies us for a number of years, however, recent assessments published with respect to the possible effect of the lack of an arrangement on economic growth in Britain and in Europe are rather significant. Up to now, the global slowdown has not penetrated economic activity in Israel, though this might change relatively quickly, in case the slowdown reaches the capital markets and the technology industry. Inflation in most of the economies is still lower than the guiding the central banks, and certain of them, the FED and the ECB in particular, have changed the direction of their monetary policies reverting back to an expansionary outline. At this stage, it is unclear whether additional expansionary measures would be adopted.

The risks envisaged for the global economy have increased, mainly in view of the "trade war" and the uncertainty regarding the Brexit. The OECD has updated downwards the forecast for growth and global trade for the years 2019 and 2020. The growth forecast for the US for the year 2019 has been lowered to 2.4%, as compared with 2.8% in the previous forecast, and the growth forecast for 2020 has been lowered to 2%, as compared with 2.3% in the previous forecast. The global growth forecast for 2019 stands at 2.9%, and for the year 2020 stands at 3%. The deterioration in global trade is worsening. A rise in the equities indices was recorded in the financial markets, on background of the intensified monetary expansion in the different economies.

In the USA, the FED has lowered three times the interest rate by 0.25 percentage point, the last of which at the end of October 2019. The inflation rate has risen slightly, though it is still slightly lower than the targeted level, and growth in the third quarter of the year is expected to be moderate, in addition to the slowdown recorded in the second quarter.

In Europe, economic growth has slowed down with shrinking industrial production, which mostly clouds the industry inclined German economy.

Inflation in the Eurozone remained at a low level, and the ECB lowered the interest rate, adopting additional significant expansionary measures.

In Japan, economic growth declined in the second quarter of the year, on background of weakness in exports and in investments.

Economic growth in China continued to slow down, and the implications of the trade war and the slow down in the growth pace led the Authorities to continue implementing monetary expansion measures.

In the middle of September 2019, the price of oil increased steeply following the attack on the Saudi oil installation, though afterwards it dropped back to the level that marked it all along the third quarter of the year.

### Capital markets

During the first nine months of 2019, the local capital market recorded increases in the principal equities indices: the TA 35 Index rose by 10.4% and TA 125 Index rose by 15.0%, while the General Bond Index rose by 7.7%.

A downward trend in volume was recorded in the trade turnover in equities on the local Stock Exchange. The average daily trade turnover of the TA 35 shares recorded a decline of 12%, while that of the TA 125 shares recorded a decline of 9%. A decline of 3% was recorded in the trade turnover of bonds.

| | Rate of change | | Average daily trade turnover | |
|---|---|---|---|---|
| | % | | NIS millions | |
| | January - September | | January - September | |
| | **2019** | **2018** | **2019** | **2018** |
| TA 35 Index* | **10.4%** | 8.8% | **726** | 829 |
| TA 125 Index* | **15.0%** | 8.8% | **930** | 1,020 |
| General bond Index | **7.7%** | 0.1% | **3,559** | 3,678 |

The total amount of capital raised during the first nine months of 2019 (both in shares and bonds) recorded an increase of 26.1%, in comparison with the corresponding period last year. This increase stems from the increase in the issuance of government bonds and in the issuance of shares and convertibles. Issuance of corporate bonds recorded a decrease.

| | Amount of capital raised | | |
|---|---|---|---|
| | NIS millions | | |
| | **January - September 2019** | **January - September 2018** | **Rate of change** |
| Shares and convertibles | **8,945** | 7,601 | 17.7% |
| Government bonds | **57,615** | 33,969 | 69.6% |
| Corporate bonds (incl. institutional) | **48,319** | 49,557 | (2.5%) |
| Total | **114,879** | 91,127 | 26.1% |

The S&P 500 Index rose in the first nine months of 2019 by 18.7%. In Europe, the Eurostocks 600 Index rose by 16.4% and the developing countries index (the MSCI_EM Index) rose by 3.7%.

# APPENDIX

## APPENDIX 1 -
## RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES

### A. Average balances and interest rates - assets

| | For the three months ended September 30, 2019 | | | For the three months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance[1] | Interest income (expense) | Rate of income (expense) | Average balance[1] | Interest income | Rate of income |
| | | NIS million | % | | NIS million | % |
| **Assets bearing interest** | | | | | | |
| Credit to the public[2][5] | | | | | | |
| - In Israel | **80,657** | **635** | **3.19** | 77,764 | 694 | 3.62 |
| Total | **80,657** | **635** | **3.19** | 77,764 | 694 | 3.62 |
| Credit to the Government | | | | | | |
| - In Israel | **670** | **(4)** | **(2.37)** | 668 | 1 | 0.60 |
| Total | **670** | **(4)** | **(2.37)** | 668 | 1 | 0.60 |
| Deposits with banks | | | | | | |
| - In Israel | **2,186** | **6** | **1.10** | 2,656 | 4 | 0.60 |
| - Outside Israel | **14** | **-** | **-** | 16 | - | - |
| Total | **2,200** | **6** | **1.10** | 2,672 | 4 | 0.60 |
| Deposits with central banks | | | | | | |
| - In Israel | **27,960** | **18** | **0.25** | 27,713 | 7 | 0.10 |
| Total | **27,960** | **18** | **0.25** | 27,713 | 7 | 0.10 |
| Securities borrowed or repurchased | | | | | | |
| - In Israel | **328** | **-** | **-** | 853 | - | - |
| Total | **328** | **-** | **-** | 853 | - | - |
| Held to maturity and available for sale bonds[3] | | | | | | |
| - In Israel | **10,109** | **44** | **1.75** | 11,421 | 49 | 1.73 |
| Total | **10,109** | **44** | **1.75** | 11,421 | 49 | 1.73 |
| Trading bonds | | | | | | |
| - In Israel | **140** | **-** | **-** | 340 | 1 | 1.18 |
| Total | **140** | **-** | **-** | 340 | 1 | 1.18 |
| **Total assets bearing interest** | **122,064** | **699** | **2.31** | 121,431 | 756 | 2.51 |
| Debtors regarding credit cards non-bearing interest | **2,906** | | | 2,740 | | |
| Other assets non-bearing interest[4] | **9,894** | | | 11,788 | | |
| **Total assets** | **134,864** | | | 135,959 | | |
| Total assets bearing interest attributed to activity outside Israel | **14** | **-** | **-** | 16 | - | - |

# APPENDIX 1 -
# RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

## B. Average balances and interest rates - liabilities and capital

| | For the three months ended September 30, 2019 | | | For the three months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance (1) | Interest expense | Rate of expense | Average balance (1) | Interest expense | Rate of expense |
| | | NIS million | % | | NIS million | % |
| **Liabilities bearing interest** | | | | | | |
| Deposits from the public | | | | | | |
| - In Israel | | | | | | |
| Demand | **17,212** | **7** | **0.16** | 17,990 | 1 | 0.02 |
| Fixed-term | **48,458** | **46** | **0.38** | 46,522 | 77 | 0.66 |
| Total | **65,670** | **53** | **0.32** | 64,512 | 78 | 0.48 |
| Deposits from the Government | | | | | | |
| - In Israel | **239** | **1** | **1.68** | 233 | 1 | 1.73 |
| Total | **239** | **1** | **1.68** | 233 | 1 | 1.73 |
| Deposits from banks | | | | | | |
| - In Israel | **1,030** | **1** | **0.39** | 1,274 | 1 | 0.31 |
| Total | **1,030** | **1** | **0.39** | 1,274 | 1 | 0.31 |
| Bonds | | | | | | |
| - In Israel | **3,475** | **2** | **0.23** | 5,133 | 42 | 3.31 |
| Total | **3,475** | **2** | **0.23** | 5,133 | 42 | 3.31 |
| Other liabilities | | | | | | |
| - In Israel | **231** | **-** | **0.00** | 287 | - | - |
| Total | **231** | **-** | **0.00** | 287 | - | - |
| **Total liabilities bearing interest** | **70,645** | **57** | **0.32** | 71,439 | 122 | 0.68 |
| Deposits from the public non-bearing interest | **49,988** | | | 50,287 | | |
| Creditors in respect of credit cards non-bearing interest | **2,703** | | | 2,740 | | |
| Other liabilities non-bearing interest (6) | **2,859** | | | 3,826 | | |
| **Total liabilities** | **126,195** | | | 128,292 | | |
| **Total capital resources** | **8,669** | | | 7,667 | | |
| **Total liabilities and capital resources** | **134,864** | | | 135,959 | | |
| **Interest spread** | | | **1.99** | | | 1.83 |
| **Net return on assets bearing interest (7)** | | | | | | |
| - In Israel | **122,050** | **642** | **2.12** | 121,415 | 634 | 2.11 |
| - Outside Israel | **14** | **-** | **-** | 16 | - | - |
| Total | **122,064** | **642** | **2.12** | 121,431 | 634 | 2.10 |
| Total liabilities bearing interest attributed to activity outside Israel | **-** | **-** | **-** | - | - | - |

# APPENDIX 1 -
# RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

## A. Average balances and interest rates - assets

| | For the nine months ended September 30, 2019 | | | For the nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance(1) | Interest income | Rate of income | Average balance(1) | Interest income | Rate of income |
| | | NIS million | % | | NIS million | % |
| **Assets bearing interest** | | | | | | |
| Credit to the public(2)(5) | | | | | | |
| - In Israel | **79,805** | **2,113** | **3.55** | 76,348 | 2,059 | 3.61 |
| Total | **79,805** | **2,113** | **3.55** | 76,348 | 2,059 | 3.61 |
| Credit to the Government | | | | | | |
| - In Israel | **670** | **3** | **0.60** | 660 | 4 | 0.81 |
| Total | **670** | **3** | **0.60** | 660 | 4 | 0.81 |
| Deposits with banks | | | | | | |
| - In Israel | **2,308** | **19** | **1.10** | 2,442 | 10 | 0.55 |
| - Outside Israel | **14** | **-** | **-** | 14 | - | - |
| Total | **2,322** | **19** | **1.09** | 2,456 | 10 | 0.54 |
| Deposits with central banks | | | | | | |
| - In Israel | **26,382** | **50** | **0.25** | 28,843 | 22 | 0.10 |
| Total | **26,382** | **50** | **0.25** | 28,843 | 22 | 0.10 |
| Securities borrowed or repurchased | | | | | | |
| - In Israel | **558** | **1** | **0.24** | 717 | - | - |
| Total | **558** | **1** | **0.24** | 717 | - | - |
| Held to maturity and available for sale bonds(3) | | | | | | |
| - In Israel | **10,655** | **150** | **1.88** | 10,605 | 132 | 1.66 |
| Total | **10,655** | **150** | **1.88** | 10,605 | 132 | 1.66 |
| Trading bonds | | | | | | |
| - In Israel | **252** | **1** | **0.53** | 364 | 2 | 0.73 |
| Total | **252** | **1** | **0.53** | 364 | 2 | 0.73 |
| **Total assets bearing interest** | **120,644** | **2,337** | **2.59** | 119,993 | 2,229 | 2.48 |
| Debtors regarding credit cards non-bearing interest | **2,760** | | | 2,622 | | |
| Other assets non-bearing interest(4) | **12,066** | | | 12,454 | | |
| **Total assets** | **135,470** | | | 135,069 | | |
| Total assets bearing interest attributed to activity outside Israel | **14** | **-** | **-** | 14 | - | - |

## APPENDIX 1 -
## RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

### B. Average balances and interest rates - liabilities and capital

| | For the nine months ended September 30, 2019 | | | For the nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance (1) | Interest expense | Rate of expense | Average balance (1) | Interest expense | Rate of expense |
| | | NIS million | % | | NIS million | % |
| **Liabilities bearing interest** | | | | | | |
| Deposits from the public | | | | | | |
| - In Israel | | | | | | |
| Demand | **17,293** | **21** | **0.16** | 17,305 | 2 | 0.02 |
| Fixed-term | **46,467** | **268** | **0.77** | 47,439 | 240 | 0.68 |
| Total | **63,760** | **289** | **0.60** | 64,744 | 242 | 0.50 |
| Deposits from the Government | | | | | | |
| - In Israel | **247** | **3** | **1.62** | 239 | 3 | 1.68 |
| Total | **247** | **3** | **1.62** | 239 | 3 | 1.68 |
| Deposits from banks | | | | | | |
| - In Israel | **992** | **3** | **0.40** | 1,036 | 3 | 0.39 |
| Total | **992** | **3** | **0.40** | 1,036 | 3 | 0.39 |
| Bonds | | | | | | |
| - In Israel | **4,079** | **96** | **3.15** | 5,069 | 146 | 3.86 |
| Total | **4,079** | **96** | **3.15** | 5,069 | 146 | 3.86 |
| Other liabilities | | | | | | |
| - In Israel | **249** | **4** | **2.15** | 269 | 2 | 0.99 |
| Total | **249** | **4** | **2.15** | 269 | 2 | 0.99 |
| **Total liabilities bearing interest** | **69,327** | **395** | **0.76** | 71,357 | 396 | 0.74 |
| Deposits from the public non-bearing interest | **50,266** | | | 48,855 | | |
| Creditors in respect of credit cards non-bearing interest | **2,647** | | | 2,622 | | |
| Other liabilities non-bearing interest (6) | **4,671** | | | 4,172 | | |
| **Total liabilities** | **126,911** | | | 127,006 | | |
| **Total capital resources** | **8,559** | | | 8,063 | | |
| **Total liabilities and capital resources** | **135,470** | | | 135,069 | | |
| **Interest spread** | | | **1.83** | | | 1.74 |
| **Net return on assets bearing interest (7)** | | | | | | |
| - In Israel | **120,630** | **1,942** | **2.15** | 119,979 | 1,833 | 2.04 |
| - Outside Israel | **14** | **-** | **-** | 14 | - | - |
| Total | **120,644** | **1,942** | **2.15** | 119,993 | 1,833 | 2.04 |
| Total liabilities bearing interest attributed to activity outside Israel | **-** | **-** | **-** | - | - | - |

# APPENDIX 1 - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

## C. Average balances and income rates - additional information on interest bearing assets and liabilities attributed to activity in Israel

| | For the three months ended September 30, 2019 | | | For the three months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance[1] | Income (expense) interest | Income (expense) ratio | Average balance [1] | Income (expense) interest | Income (expense) ratio |
| | | NIS million | % | | NIS million | % |
| **Non-linked Israeli currency** | | | | | | |
| Total assets bearing interest | **99,634** | **615** | **2.49** | 97,435 | 575 | 2.38 |
| Total liabilities bearing interest | **54,375** | **(42)** | **(0.31)** | 54,085 | (28) | (0.21) |
| Interest spread | | | **2.18** | | | 2.17 |
| **Israeli currency linked to the CPI** | | | | | | |
| Total assets bearing interest | **10,615** | **7** | **0.26** | 10,716 | 97 | 3.67 |
| Total liabilities bearing interest | **8,235** | **20** | **0.97** | 10,159 | (67) | (2.66) |
| Interest spread | | | **1.23** | | | 1.01 |
| **Foreign currency (including linked to f-c)** | | | | | | |
| Total assets bearing interest | **11,801** | **77** | **2.64** | 13,264 | 84 | 2.56 |
| Total liabilities bearing interest | **8,035** | **(35)** | **(1.75)** | 7,195 | (27) | (1.51) |
| Interest spread | | | **0.89** | | | 1.05 |
| **Total activity in Israel** | | | | | | |
| Total assets bearing interest | **122,050** | **699** | **2.31** | 121,415 | 756 | 2.51 |
| Total liabilities bearing interest | **70,645** | **(57)** | **(0.32)** | 71,439 | (122) | (0.68) |
| Interest spread | | | **1.99** | | | 1.83 |

| | For the nine months ended September 30, 2019 | | | For the nine months ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Average balance[1] | Income (expense) interest | Income (expense) ratio | Average balance [1] | Income (expense) interest | Income (expense) ratio |
| | | NIS million | % | | NIS million | % |
| **Non-linked Israeli currency** | | | | | | |
| Total assets bearing interest | **97,794** | **1,821** | **2.49** | 96,387 | 1,671 | 2.32 |
| Total liabilities bearing interest | **52,189** | **(116)** | **(0.30)** | 53,701 | (78) | (0.19) |
| Interest spread | | | **2.19** | | | 2.13 |
| **Israeli currency linked to the CPI** | | | | | | |
| Total assets bearing interest | **10,627** | **278** | **3.50** | 10,736 | 336 | 4.19 |
| Total liabilities bearing interest | **8,847** | **(165)** | **(2.49)** | 10,065 | (242) | (3.22) |
| Interest spread | | | **1.01** | | | 0.97 |
| **Foreign currency (including linked to f-c)** | | | | | | |
| Total assets bearing interest | **12,209** | **238** | **2.61** | 12,856 | 222 | 2.31 |
| Total liabilities bearing interest | **8,291** | **(114)** | **(1.84)** | 7,591 | (76) | (1.34) |
| Interest spread | | | **0.77** | | | 0.97 |
| **Total activity in Israel** | | | | | | |
| Total assets bearing interest | **120,630** | **2,337** | **2.59** | 119,979 | 2,229 | 2.48 |
| Total liabilities bearing interest | **69,327** | **(395)** | **(0.76)** | 71,357 | (396) | (0.74) |
| Interest spread | | | **1.83** | | | 1.74 |

## APPENDIX 1 -
## RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES (CONT'D)

### D. Analysis of changes in interest income and expenses

| | For the three months ended September 30, 2019 compared with the same period last year | | | For the nine months ended September 30, 2019 compared with the same period last year | | |
|---|---|---|---|---|---|---|
| | Increase (decrease) due to the change | | Net | Increase (decrease) due to the change | | Net |
| | Quantity | Price | change | Quantity | Price | change |
| | | | NIS million | | | NIS million |
| Interest bearing assets | | | | | | |
| Credit to the public | | | | | | |
| In Israel | **23** | **(82)** | **(59)** | **92** | **(38)** | **54** |
| Total | **23** | **(82)** | **(59)** | **92** | **(38)** | **54** |
| Other interest-bearing assets | | | | | | |
| In Israel | **(3)** | **5** | **2** | **(15)** | **69** | **54** |
| Outside Israel | **(3)** | **5** | **2** | **(15)** | **69** | **54** |
| Total | **20** | **(77)** | **(57)** | **77** | **31** | **108** |
| Total interest income | | | | | | |
| Interest bearing liabilities | | | | | | |
| Deposits from the public | | | | | | |
| In Israel | **-** | **6** | **6** | **-** | **19** | **19** |
| Fixed-term | **2** | **(33)** | **(31)** | **(6)** | **34** | **28** |
| Total | **2** | **(27)** | **(25)** | **(6)** | **53** | **47** |
| Other interest-bearing liabilities | | | | | | |
| In Israel | **(2)** | **(38)** | **(40)** | **(20)** | **(28)** | **(48)** |
| Total | **(2)** | **(38)** | **(40)** | **(20)** | **(28)** | **(48)** |
| Total interest expenses | **-** | **(65)** | **(65)** | **(26)** | **25** | **(1)** |
| Total interest income less interest expenses | **20** | **(12)** | **8** | **103** | **6** | **109** |

(1) On the basis of monthly opening balances, excluding the non-linked Shekel segment in which calculated on daily balances.
(2) Before deduction of the average balance of provisions for credit losses including impaired debts which are non-bearing interest income.
(3) From the average balance of available for sale bonds was deducted the average balance of unrealized gains from adjustments to fair value of bonds, included in other comprehensive profit in the item "adjustments to fair value of available for sale securities" for the three and nine months ended on September 30, 2019 in the amount of NIS 57 million and NIS 39 million, respectively (for the three and nine months ended September 30, 2018 balance of NIS 7 million and NIS 25 million, respectively).
(4) Including derivative instruments, other non-bearing interest assets and after deduction of provision for credit losses.
(5) Fees in the amount of NIS 48 million and NIS 53 million were included in interest income for the three months ended September 30, 2019 and September 30, 2018, respectively and amount of NIS 136 million and NIS 141 million were included in interest income for the nine months ended September 30, 2019 and September 30, 2018, respectively.
(6) Including derivative instruments.
(7) Net return- net interest income to total interest-bearing assets.
(8) Change attributed to quantity was calculated by multiplying the price in the reported period by the change in the quantity in the compared periods.
Change attributed to price was calculated by multiplying the quantity in the previous period by the change in the price in the compared periods.